

Base Metals cjsc

**Financial Statements
for the year ended 31 December 2009**

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Independent Auditors' Report

To the Board of Directors of Base Metals cjsc

We have audited the accompanying financial statements of Base Metals cjsc (the "Company"), which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

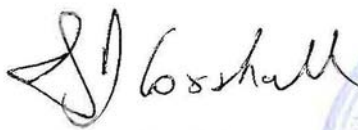
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 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 the fact that the corresponding figures presented, excluding the adjustments described in note 3(n), are based on the financial statements of the Company as at and for the year ended 31 December 2008, which were audited by other auditors whose report dated 17 December 2009 expressed an unmodified opinion on those statements. We have audited the adjustments described in note 3(n) that were applied to restate the 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.



Andrew Coxshall
Director



Tigran Gasparyan
Head of Audit Department

KPMG Armenia
26 April 2011



'000 AMD	Note	2009	2008 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	13	8,919,017	8,954,865
Intangible assets		53,672	34,222
Exploration and evaluation assets	14	708,544	452,807
Available-for-sale investments	15	106,145	100,895
Investment in subsidiary		28,927	28,927
Total non-current assets		9,816,305	9,571,716
Current assets			
Inventories	17	2,255,944	1,870,820
Loans to related parties	18	7,577,702	3,368,843
Trade and other receivables	19	1,548,489	443,564
Prepayments for current assets		158,129	399,600
Cash and cash equivalents	20	28,909	8,762
Total current assets		11,569,173	6,091,589
Total assets		21,385,478	15,663,305
EQUITY AND LIABILITIES			
Equity			
Share capital	21	358,500	358,500
Retained earnings		7,805,424	3,054,206
Total equity		8,163,924	3,412,706
Non-current liabilities			
Loans and borrowings	22	-	18,714
Deferred tax liabilities	16	65,363	9,355
Total non-current liabilities		65,363	28,069
Current liabilities			
Loans and borrowings	22	10,315,796	8,587,899
Advances received for provisionally priced sales		-	1,134,827
Trade and other payables	23	1,463,691	1,295,639
Payables to ordinary shareholders		248,165	248,165
Payables to preference shareholders	24	1,032,480	956,000
Income tax payable		96,059	-
Total current liabilities		13,156,191	12,222,530
Total liabilities		13,221,554	12,250,599
Total equity and liabilities		21,385,478	15,663,305

Base Metals cjsc
Statement of Changes in Equity for the year ended 31 December 2009

'000 AMD	Share capital	Retained earnings	Total
Balance at 1 January 2008	358,500	10,859,213	11,217,713
Total comprehensive income for the year			
Profit for the year (restated)	-	682,460	682,460
Total comprehensive income for the year	-	682,460	682,460
Transactions with owners, recorded directly in equity			
Distributions to owners			
Dividends to equity holders	-	(8,487,467)	(8,487,467)
Balance at 31 December 2008 (restated)	358,500	3,054,206	3,412,706
Balance at 1 January 2009 (restated)	358,500	3,054,206	3,412,706
Total comprehensive income for the year			
Profit for the year	-	4,751,218	4,751,218
Total comprehensive income for the year	-	4,751,218	4,751,218
Balance at 31 December 2009	358,500	7,805,424	8,163,924

'000 AMD	2009	2008
OPERATING ACTIVITIES		
Receipts from sales, inclusive of VAT	14,294,004	13,209,348
Payments to suppliers	(3,441,539)	(4,351,108)
Payments to employees	(1,766,636)	(1,914,292)
Payments for income tax	(199,500)	(118,272)
Payments for taxes other than on income	(2,708,787)	(2,348,234)
Donations to social programs	(245,342)	(123,298)
Other receipts	3,729	18,367
Other payments	(31,303)	(24,085)
Cash flows from operating activities	5,904,626	4,348,426
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(1,361,391)	(2,536,554)
Acquisition of exploration and evaluation assets	(279,542)	(168,953)
Acquisition of intangible assets	(22,133)	(7,000)
Disposal of property, plant and equipment	10,532	30,112
Acquisition of available-for-sale investments	(5,250)	(99,492)
Loans to related parties	(6,308,205)	(6,749,237)
Repayment of loans to related parties	2,266,575	6,619,197
Interest received	23,460	29,648
Cash flows utilised by investing activities	(5,675,954)	(2,882,279)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	1,148,832	11,935,151
Repayments of loans and borrowings	(1,274,548)	(4,868,810)
Dividends to ordinary shareholders	-	(8,550,368)
Dividends to preference shareholders	(43,020)	-
Interest paid	(20,739)	(47,371)
Cash flows utilised by financing activities	(189,475)	(1,531,398)
Net increase/(decrease) in cash and cash equivalents	39,197	(65,251)
Cash and cash equivalents at beginning of year	8,762	70,487
Effect of exchange rate fluctuations on cash and cash equivalents	(19,050)	3,526
Cash and cash equivalents at end of year (note 20)	28,909	8,762

1 Background

(a) Organisation and operations

Base Metals cjsc (the “Company”) is a Nagorno-Karabakh closed joint stock company as defined in the Civil Code of the Republic of Nagorno-Karabakh. Base Metals Co. Ltd was established in accordance with the legislation of the Republic of Nagorno-Karabakh in July 2002 as a limited liability company. In September 2006 it was reorganised into Base Metals cjsc.

The Company’s registered office is 35a Azatamartikneri Street, Stepanakert, Republic of Nagorno-Karabakh.

The Company’s principal activity is the extraction of copper-gold ore and production of concentrate. The only buyer of concentrate is Armenian Copper Programme cjsc, registered in the Republic of Armenia – related party. The Company operates Drmbon mine under the License Agreement on Provision and Exploration of Mineral resources signed on 13 July 2004 and based on the Special Exploitation License No 20 granted on 08 August 2002 for 25 years.

As of 31 December 2009 the Company was owned by VALLEX F.M. Establishment – 99.65% of total shares (2008: 99.65%) and Mr. Valery Medzhlumyan – 0.35% of total shares (2008: 0.35%). The Company is economically dependent upon its shareholders. Related party transactions are disclosed in note 28.

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 the Company.

(b) Business environment

The Republic of Nagorno-Karabakh has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. The Republic of Nagorno-Karabakh, which was involved in a war with Azerbaijan during 1990-1994, is in a state of ceasefire with Azerbaijan. Consequently, operations in the Republic of Nagorno-Karabakh involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets and its impact on the economy of the Republic of Nagorno-Karabakh has further increased the level of economic uncertainty in the environment. These financial statements reflect management’s assessment of the impact of the Republic of Nagorno-Karabakh business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

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 except that financial investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

The national currency of the Republic of Nagorno-Karabakh 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) 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 critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following note:

- Note 14, *Exploration and evaluation assets* – classification of exploration and evaluation assets.

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(e), *Ore reserves* – valuation of mineral reserves that are the basis for future cash flow estimates
- Note 13, *Property, plant and equipment* – determination of units of production depreciation calculations
- Note 13, *Property, plant and equipment* – useful lives of property, plant and equipment; and
- Note 26, *Contingencies* – environmental and asset retirement obligations.

(e) Ore reserves

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 mineralisation 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.

The Company operates the Drmbon copper mine under a License Agreement on Provision and Exploration of Mineral resources signed on 13 July 2004, which is based on the Special Exploitation License No 20 granted on 8 May 2002 for 25 years.

The Company uses the above estimates in evaluating the impairment and useful lives of mining property and the timing of site restoration costs.

(f) Changes in accounting policies and presentation

With effect from 1 January 2009, the Company changed its accounting policy of accounting for borrowing costs and presentation of financial statements.

(i) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Company immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 *Borrowing Costs* (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated.

(ii) 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. Since the change in accounting policy only impacts presentation aspects, there is no impact on profit or loss.

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(f), which addresses changes in accounting policies.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD 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

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise available-for-sale investments, investments in subsidiary, loans to related parties, trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables, payables to ordinary shareholders, payables to preference shareholders.

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets 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 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.

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.

The Company classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are 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 category comprise the following classes of assets: loans to related parties as presented in note 18, trade and other receivables as presented in note 19 and cash and cash equivalents as presented in note 20.

Cash and cash equivalents

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities.

(ii) *Non-derivative financial liabilities*

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.

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.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method.

Non-derivative financial liabilities comprise loans and borrowings, and trade and other payables.

(iii) *Derivative financial instruments*

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

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

(iv) *Share capital*

Ordinary shares

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

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

(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. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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/other expenses 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) Revaluation of property, plant and equipment

As part adoption of IFRSs on 1 January 2005 the Company has determined deemed cost of its property, plant and equipment. On 31 December 2005 Company performed revaluation of its property, plant and equipment and recorded results of the revaluation. Subsequent to 31 December 2005 no revaluation was done and in prior year financial statements, the Company disclosed that property, plant and equipment are measured at fair value. Refer to note 13(a) for details of the revaluation.

In preparation of these financial statements, considering that only one revaluation has been performed subsequent to determination of deemed cost of property, plant and equipment and that effect of that revaluation is not material to the financial statements, the Company believes that its accounting policy with respect of the measurement of property, plant and equipment is cost.

(iv) Depreciation

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

For all property, plant and equipment items, except for costs capitalised on open mine, 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. Costs capitalised on open mine are depreciated based on the units of production method using the total estimated ore reserves and the actual extracted and treated ore.

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

- | | |
|----------------------------------|----------------------------|
| • buildings | 20-40 years |
| • mining property | |
| – costs capitalized on open mine | units of production method |
| – other | 7-12 years |
| • structures | 6-17 years |
| • machinery and equipment | 2-7 years |
| • motor vehicles | 3-9 years |
| • fixtures and fittings | 4-9 years |
| • other | 2-11 years |

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

(d) Exploration and evaluation assets

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and includes costs such as costs of acquisition of mineral rights, geological and geophysical costs, exploratory drilling, sample testing, the costs of pre-feasibility studies, assembling and production equipment and overheads associated with exploration activities.

Exploration and evaluation expenditure for each area of interest is capitalised and carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recovered through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are in process or are planned for the future.

Exploration and evaluation assets are classified as tangible or intangible based on their nature. The exploration and evaluation assets are no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to mining property.

Activities prior to the acquisition of the mineral rights are pre-exploration. Pre-exploration costs are expensed and include costs such as initial technical and economical assessment of a project, geological model definition of minerals and its evaluation, and overheads associated with the pre-exploration activities.

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

Objective evidence that financial assets (including equity securities) 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. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment 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.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(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 reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

For exploration and evaluation assets the following facts and circumstances indicate that exploration and evaluation assets should be tested for impairment:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

The Company makes contributions for the benefit of employees to the pension fund of the Republic of Nagorno-Karabakh. The contributions are expensed as incurred.

(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. The unwinding of the discount is recognised as finance cost.

(i) Revenue

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.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Transfer usually occurs when the product is received at the customer's warehouse.

The Company's copper-gold concentrate sales contracts, in general, provide for a provisional payment as specified in individual contracts, which are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to four months after the month when the risk and rewards of ownership have been transferred to the buyer.

Price adjustment is accounted for as adjusting subsequent event based on the market prices, as agreed with the respective counterparties.

(j) Other expenses

(i) Donations to social programs

To the extent that the Company's contributions to social programs benefit the community at large and are not restricted to the Company's employees, they are recognised in the profit or loss as incurred.

(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 loans and borrowings, dividends on preference shares classified as liabilities and foreign currency losses.

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 a business combination, or 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, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. 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) Royalties

Royalties are the expected payables to the state budget calculated in accordance with guidelines and requirements in the applicable laws and regulations and are based on the profitability levels of licensed operations. Royalties are calculated using rates enacted or substantively enacted at the reporting date. Royalties are recognised in profit or loss annually based on the taxable income adjusted as per the guidelines and requirements in the applicable laws and regulations.

(n) Comparative information

In the course of the preparation of these financial statements, the Company identified an error in revenue reported in its financial statements for the year ended 31 December 2008. The error was a result of the incorrect cut-off adjustment for provisionally priced sales. This error was corrected by restatement of the comparative information in these financial statements.

The effect of the correction was to increase advances received for provisionally priced sales and to decrease revenue by AMD 1,108,053 thousand for the year ended 31 December 2008. The tax effect of the above correction was to decrease deferred tax liabilities and to decrease income tax expense by AMD 55,403 thousand.

The correction did not change the amounts reported in the statement of financial position of the Company as at 31 December 2007, therefore the management did not present a statement of financial position of the Company as at 31 December 2007 in these financial statements.

(o) 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* (2010) 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 phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. 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. The Company does not intend to adopt this standard early.
- 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 2011. 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) Property, plant and equipment

The fair value of property, plant and equipment determined at the date of transition to IFRSs and recognised as deemed cost is primarily determined using depreciated replacement cost, except for items for which the market for similar property, plant and equipment is active, whose fair value is estimated based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

(c) Trade and other receivables

The fair value of trade and other receivables 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.

(d) Non-derivative 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 Revenue

'000 AMD	2009	2008 Restated
Revenue from sale of copper-gold concentrate	14,062,495	9,043,999
Revenue from sale of other products	84,127	191,796
Total revenues	14,146,622	9,235,795

Revenue from sale of copper-gold concentrate was from a related party (note 28).

6 Cost of sales

'000 AMD	2009	2008
Cost of sales of copper-gold concentrate	5,277,423	5,635,418
Cost of other sales	77,593	112,539
	5,355,016	5,747,957

Cost of sales of copper-gold concentrate:

'000 AMD	2009	2008
Materials	1,991,685	2,460,297
Wages and salaries	1,708,352	1,672,529
Depreciation and amortization	836,332	776,797
Environmental fee	281,984	236,593
Other	459,070	489,202
	5,277,423	5,635,418

7 Distribution expenses

'000 AMD	2009	2008
Transportation expenses	474,234	619,910
Road tax	134,327	90,151
Other	29,934	23,217
	638,495	733,278

8 Administrative expenses

'000 AMD	2009	2008
Wages and salaries	263,947	242,101
Depreciation, amortization and maintenance expenses	62,622	57,919
Utility and communication expenses	26,402	33,314
Transportation expenses	26,276	35,235
Representative and business trip expenses	19,329	34,649
Purchased services	15,938	10,905
Fuel expenses	14,732	22,943
Consulting and other professional services	12,500	72,387
Rent	10,246	13,266
Security expenses	8,744	20,950
Bank charges	2,177	2,168
Other administrative expenses	42,426	53,938
	505,339	599,775

9 Other expenses

'000 AMD	2009	2008
Royalties	251,621	52,203
Write-off of property, plant and equipment	232,560	46,331
Fines and penalties	65,721	68
Unrecoverable VAT	52,291	49,176
Maintenance expenses	41,061	18,150
Loss from transportation of finished goods	26,933	14,319
Impairment loss on exploration and evaluation assets	23,805	28,423
Other	97,865	84,983
	791,857	293,653

10 Personnel costs

'000 AMD	2009	2008
Wages and salaries	2,163,040	2,118,468
Contributions to State pension fund	340,115	340,216
	2,503,155	2,458,684

11 Finance income and finance costs

'000 AMD	2009	2008
Recognised in profit or loss		
Interest income on loans and receivables	185,436	13,239
Net foreign exchange loss	(1,741,256)	(41,182)
Dividends to preference shareholders	(119,500)	(597,500)
Interest expense on loans and borrowings	(42,920)	(75,642)
Finance costs	(1,903,676)	(714,324)
Net finance costs recognised in profit or loss	(1,718,240)	(701,085)

12 Income tax expense

The Company's applicable tax rate is the income tax rate of 5% (2008: 5%).

The Company is liable for income tax at 50% of the ordinary rate from 2006 until the end of the financial year ended 31 December 2008.

'000 AMD	2009	2008 Restated
Current tax expense		
Current year	327,621	56,136
Deferred tax expense		
Origination and reversal of temporary differences	56,008	47,812
	383,629	103,948

Reconciliation of effective tax rate:

	2009		2008 Restated	
	'000 AMD	%	'000 AMD	%
Profit before income tax	5,134,847	100	786,408	100
Income tax at applicable tax rate	256,742	5.0	39,320	5.0
Non-deductible expenses	157,275	3.1	115,501	14.7
Non-taxable income	(30,388)	(0.6)	(31,213)	(4.0)
Effect of tax holidays	-	-	(19,660)	(2.5)
	383,629	7.5	103,948	13.2

13 Property, plant and equipment

'000 AMD	Land and buildings	Mining property	Structures	Machinery and equipment	Motor vehicles	Fixtures and fittings	Other	Construction in progress	Total
Cost									
Balance at 1 January 2008	2,141,333	1,515,477	976,656	2,526,388	496,081	225,696	654,427	451,644	8,987,702
Additions	63,503	681,926	32,040	807,502	37,575	155,553	105,752	652,703	2,536,554
Disposals	(6,264)	(25,396)	(53)	(137,463)	(10,111)	(1,143)	(5,745)	-	(186,175)
Transfers	23,506	(62,195)	140,818	(24,772)	9,501	(14,545)	275,965	(348,278)	-
Balance at 31 December 2008	<u>2,222,078</u>	<u>2,109,812</u>	<u>1,149,461</u>	<u>3,171,655</u>	<u>533,046</u>	<u>365,561</u>	<u>1,030,399</u>	<u>756,069</u>	<u>11,338,081</u>
Balance at 1 January 2009	2,222,078	2,109,812	1,149,461	3,171,655	533,046	365,561	1,030,399	756,069	11,338,081
Additions	36,999	124,634	70,749	383,989	19,580	29,169	133,369	562,902	1,361,391
Disposals	-	(181,365)	(2,146)	(145,306)	(14,059)	(3,865)	(30,060)	-	(376,801)
Transfers	62,340	7,596	211,689	48,753	20,141	21,277	1,846	(373,642)	-
Balance at 31 December 2009	<u>2,321,417</u>	<u>2,060,677</u>	<u>1,429,753</u>	<u>3,459,091</u>	<u>558,708</u>	<u>412,142</u>	<u>1,135,554</u>	<u>945,329</u>	<u>12,322,671</u>
Depreciation									
Balance at 1 January 2008	69,235	256,483	50,248	718,354	135,571	52,603	86,600	-	1,369,094
Depreciation for the year	88,390	288,508	58,960	360,849	84,552	88,850	134,644	-	1,104,753
Disposals	(230)	(12,711)	(30)	(72,720)	(2,994)	(745)	(1,201)	-	(90,631)
Transfers	508	89,521	(11,093)	(64,384)	(10,435)	5,791	(9,908)	-	-
Balance at 31 December 2008	<u>157,903</u>	<u>621,801</u>	<u>98,085</u>	<u>942,099</u>	<u>206,694</u>	<u>146,499</u>	<u>210,135</u>	<u>-</u>	<u>2,383,216</u>

'000 AMD	Land and buildings	Mining property	Structures	Machinery and equipment	Motor vehicles	Fixtures and fittings	Other	Construction in progress	Total
Balance at 1 January 2009	157,903	621,801	98,085	942,099	206,694	146,499	210,135	-	2,383,216
Depreciation for the year	94,985	217,272	66,507	417,283	112,985	42,759	186,097	-	1,137,888
Disposals	-	(27,839)	(2,041)	(69,393)	(7,542)	(2,105)	(8,530)	-	(117,450)
Transfers	(229)	-	67	949	(3,486)	2,552	147	-	-
Balance at 31 December 2009	<u>252,659</u>	<u>811,234</u>	<u>162,618</u>	<u>1,290,938</u>	<u>308,651</u>	<u>189,705</u>	<u>387,849</u>	<u>-</u>	<u>3,403,654</u>
 <i>Carrying amounts</i>									
At 1 January 2008	<u>2,072,098</u>	<u>1,258,994</u>	<u>926,408</u>	<u>1,808,034</u>	<u>360,510</u>	<u>173,093</u>	<u>567,827</u>	<u>451,644</u>	<u>7,618,608</u>
At 31 December 2008	<u>2,064,175</u>	<u>1,488,011</u>	<u>1,051,376</u>	<u>2,229,556</u>	<u>326,352</u>	<u>219,062</u>	<u>820,264</u>	<u>756,069</u>	<u>8,954,865</u>
At 31 December 2009	<u>2,068,758</u>	<u>1,249,443</u>	<u>1,267,135</u>	<u>2,168,153</u>	<u>250,057</u>	<u>222,437</u>	<u>747,705</u>	<u>945,329</u>	<u>8,919,017</u>

Mining property consists mainly of the open pit, mine shafts, railways used to service the mine and properties which may be used only in the mine due to their nature.

Depreciation expense of AMD 834,627 thousand (2008: AMD 776,715 thousand) has been charged to cost of goods sold, AMD 41,395 thousand (2008: 46,392 thousand) to administrative expenses, AMD 215,282 thousand (2008: AMD 255,498 thousand) to construction in progress and AMD 46,584 thousand (2008: AMD 26,148 thousand) to finished goods.

(a) Revaluation of property, plant and equipment

In 2006 management commissioned Artin Enterprises cjsc to independently appraise property, plant and equipment as at 1 January 2005 in order to determine cost on the date of the Company's adoption of IFRSs. The fair value of property, plant and equipment was determined to be AMD 3,785,032 thousand.

The majority of the Company's property, plant and equipment is specific in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Republic of Nagorno-Karabakh or the Republic of Armenia and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Depreciated replacement cost was estimated based on internal sources and analysis of the Armenian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Republic of Nagorno-Karabakh and abroad.

The revaluation of property, plant and equipment was performed as of 31 December 2005 by Artin Enterprise cjsc. The fair value of property, plant and equipment as of 31 December 2005 was determined using depreciation replacement cost method. As a result of the revaluation the carrying amount of property, plant and equipment decreased by AMD 221,192 thousand due to decrease in the property, plant and equipment functional usage factor and AMD appreciation. The net revaluation increase of AMD 262,830 thousand (net of deferred tax effect of AMD 13,833 thousand) was recognised in equity and a revaluation decrease of AMD 497,855 thousand was recognised in profit or loss.

Management has considered whether any indications were in place as of 31 December 2005 that the carrying value represented by the depreciated replacement cost might be lower than the recoverable amount. Management has concluded that no formal impairment testing was required to be carried out.

(b) Security

At 31 December 2009 and 31 December 2008 no property, plant and equipment item has been pledged to third parties as collateral for borrowings.

14 Exploration and evaluation assets

'000 AMD	<u>Total</u>
<i>Cost</i>	
Balance at 1 January 2008	445,056
Additions	168,953
Impairment loss	(28,423)
Transfer to property, plant and equipment	(132,779)
Balance at 31 December 2008	<u>452,807</u>
Balance at 1 January 2009	452,807
Additions	279,542
Impairment loss	(23,805)
Balance at 31 December 2009	<u>708,544</u>

Exploration and evaluation assets represent expenditures incurred on small mineral and limestone deposits in the Nagorno-Karabakh region.

15 Available-for-sale investments

'000 AMD	<u>2009</u>	<u>2008</u>
<i>Non-current</i>		
Equity securities:		
Measured at cost		
- "Mining and Metallurgy Institute" cjsc	100,895	100,895
Measured at fair value		
- "ARTSAKH HEK" ojsc	5,250	-
	<u>106,145</u>	<u>100,895</u>

Available-for-sale investments stated at cost comprise unquoted equity securities of "Mining and Metallurgy Institute" cjsc. There is no ready market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows in this industry. However, management believes that the fair value at the end of year is likely not to differ significantly from that carrying amount.

The fair value of available-for-sale equity investments with a carrying amount of AMD 5,250 thousand, was determined by reference to their quoted market prices; these investments are listed on the NASDAQ OMX Armenia.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009	2008 Restated	2009	2008 Restated	2009	2008 Restated
'000 AMD						
Property, plant and equipment	-	-	(31,399)	(37,841)	(31,399)	(37,841)
Trade and other receivables	-	-	(33,964)	-	(33,964)	-
Advances received for provisionally priced sales	-	28,486	-	-	-	28,486
Net tax assets/(liabilities)	-	28,486	(65,363)	(37,841)	(65,363)	(9,355)

(b) Movement in temporary differences during the year

	1 January 2009 Restated	Recognised in profit or loss	31 December 2009
'000 AMD			
Property, plant and equipment	(37,841)	6,442	(31,399)
Trade and other receivables	-	(33,964)	(33,964)
Advances received for provisionally priced sales	28,486	(28,486)	-
	(9,355)	(56,008)	(65,363)
	1 January 2008	Recognised in profit or loss Restated	31 December 2008 Restated
'000 AMD			
Property, plant and equipment	39,837	(77,678)	(37,841)
Trade and other receivables	(1,380)	1,380	-
Advances received for provisionally priced sales	-	28,486	28,486
	38,457	(47,812)	(9,355)

17 Inventories

'000 AMD	2009	2008
Spare parts	1,229,144	1,002,302
Raw materials	573,528	585,553
Finished goods	293,954	189,697
Work in progress	159,318	93,268
	2,255,944	1,870,820

In 2009 spare parts, raw materials, and changes in finished goods and work in progress recognised as cost of sales amounted to AMD 1,991,685 thousand (2008: AMD 2,460,297 thousand).

At 31 December 2009 no inventories have been pledged to third parties as collateral (2008: 1,800 tons of finished goods to the total value of AMD 972,000 thousand have been pledged as collateral to secure bank loans).

18 Loans to related parties

'000 AMD	2009	2008
<i>Current</i>		
Loans to shareholders	504,717	-
Loans to other related parties	7,072,985	3,368,843
	7,577,702	3,368,843

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2008		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured loans to shareholders	USD	0%	On demand	504,717	504,717	-	-
Unsecured loans to other related parties	AMD	0%	2010	14,381	14,381	14,381	14,381
Unsecured loans to other related parties	AMD	5%	On demand	6,885,512	6,885,512	3,217,513	3,217,513
Unsecured loans to other related parties	AMD	5%	2010	155,775	155,775	120,939	120,939
Unsecured loans to other related parties	AMD	10%	2010	17,317	17,317	16,010	16,010
				7,577,702	7,577,702	3,368,843	3,368,843

The loans were provided to finance working capital.

19 Trade and other receivables

'000 AMD	2009	2008
Trade receivables due from related parties	1,488,789	65,108
Other trade receivables	17,245	26,273
Other financial receivables	3,348	7,355
Other receivables*	39,107	344,828
	1,548,489	443,564

* As of 31 December 2008 out of AMD 344,828 thousand AMD 199,403 thousand and AMD 89,102 thousand represented VAT receivable and prepayment for royalty, respectively, which were set off during 2009.

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

20 Cash and cash equivalents

'000 AMD	2009	2008
Bank balances	27,502	8,444
Petty cash	1,407	318
	28,909	8,762

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

21 Capital and reserves

(a) Share capital

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	2009	2008
Authorised shares	750,000	750,000
Par value	AMD 1,000	AMD 1,000
On issue, fully paid	358,500	358,500

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 legislation of the Republic of Nagorno-Karabakh the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with accounting regulations of the Republic of Nagorno-Karabakh.

No dividends were declared to ordinary shareholders during 2009 (2008: AMD 8,487,467 thousand).

22 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 25.

'000 AMD	2009	2008
<i>Non-current liabilities</i>		
Secured bank loans	-	18,714
<i>Current liabilities</i>		
Unsecured borrowings from shareholders	9,447,250	7,865,886
Unsecured borrowings from entities under common control	868,546	722,013
	10,315,796	8,587,899

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2009		31 December 2008	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	USD	14.5%	2010	-	-	18,714	18,714
Unsecured borrowings from shareholders	USD	0%	On demand	9,447,250	9,447,250	7,865,886	7,865,886
Unsecured borrowings from entities under common control	AMD	5%	On demand	868,546	868,546	722,013	722,013
				10,315,796	10,315,796	8,606,613	8,606,613

23 Trade and other payables

'000 AMD	2009	2008
Trade payables	104,554	296,320
Salaries and related taxes payable	467,095	340,188
VAT payable	226,645	146,007
Personal income tax payable	170,357	165,470
Royalty payable	149,806	-
Environmental fee payable	116,007	62,544
Donations payable	103,894	270,324
Accrued fines and penalties	65,647	909
Other financial payables	2,485	6,308
Other payables	57,201	7,569
	1,463,691	1,295,639

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

24 Payables to preference shareholders

<i>Number of shares unless otherwise stated</i>	Preference shares	
	2009	2008
Authorised shares	250,000	250,000
Par value	AMD 1,000	AMD 1,000
On issue, fully paid	119,500	119,500

The preference shares are redeemable upon demand of the holder and classified as current liabilities and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to reorganisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the right of preference shareholders are proposed. Holders of preference shares are entitled to an annual dividend equal to the minimum 100% p.a. of nominal value of preference shares and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

Dividends declared and paid during the year were as follows:

'000 AMD	Total
Balance at 1 January 2008	358,500
Dividends accrued	597,500
Dividends paid	-
Balance at 31 December 2008	956,000
Balance at 1 January 2009	956,000
Dividends accrued	119,500
Dividends paid	(43,020)
Balance at 31 December 2009	1,032,480

25 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 Management has overall responsibility for the establishment and oversight of the Company's risk management framework. The Management is responsible for developing and monitoring the Company's risk management and regularly reports to the Board of Directors on its activities.

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks 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. 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 and loans to related parties.

(i) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 99% (2008: 98%) of the Company's revenue is attributable to sales transactions with a single domestic customer.

The Company does not require collateral in respect of trade and other receivables.

No losses have occurred so far on the Company's trade receivables.

(ii) Loans to related parties

The Company does not require collateral in respect of loans to related parties (note 18).

(iii) 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:

'000 AMD	Carrying amount	
	2009	2008
Loans and receivables	9,087,084	3,467,579
Cash and cash equivalents	27,502	8,444
	9,114,586	3,476,023

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer and geographic region was:

'000 AMD	Carrying amount	
	2009	2008
Domestic customer for copper-gold concentrate	1,472,868	1,946
Domestic customer for other products	33,166	89,435
	1,506,034	91,381

The Company has one customer, a related party, which accounts for entire balance of the trade receivables from copper-gold concentrate at 31 December 2009 and 2008.

Impairment losses

All the financial assets of the Company are not impaired or past due. Cash and cash equivalents are held on top 5 Armenian banks. Based on historic default rates, the Company believes that no impairment allowance is necessary in respect of trade and other receivables.

(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.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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 mths	6-12 mths
Non-derivative financial liabilities				
Unsecured borrowings from shareholders	9,447,250	9,447,250	9,447,250	-
Unsecured borrowings from entities under common control	868,546	868,546	868,546	-
Total financial liabilities within trade and other payables	859,682	859,682	857,295	2,387
Payables to ordinary shareholders	248,165	248,165	248,165	-
Payables to preference shareholders	1,032,480	1,032,480	1,032,480	-
	12,456,123	12,456,123	12,453,736	2,387

2008

'000 AMD	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs
Non-derivative financial liabilities					
Secured bank loans	18,714	21,947	1,354	1,034	19,559
Unsecured borrowings from shareholders	7,865,886	7,865,886	7,865,886	-	-
Unsecured borrowings from entities under common control	722,013	733,297	733,297	-	-
Total financial liabilities within trade and other payables	976,593	976,593	976,593	-	-
Payables to ordinary shareholders	248,165	248,165	248,165	-	-
Payables to preference shareholders	956,000	956,000	956,000	-	-
Advances received from provisionally priced sales	1,134,827	1,134,827	1,134,827	-	-
	11,922,198	11,936,715	11,916,122	1,034	19,559

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the 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 sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, primarily U.S. Dollars (USD).

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily USD, but also AMD. This provides an economic hedge and no derivatives are entered into.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

'000 AMD	USD-denominated	USD-denominated
	2009	2008
Loans to related parties	504,717	-
Trade receivables	1,472,868	-
Loans and borrowings	(9,447,250)	(7,884,600)
Net exposure	(7,469,665)	(7,884,600)

The following significant exchange rates applied during the year:

in AMD	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
USD 1	363.49	305.58	377.89	306.73

Sensitivity analysis

A strengthening of the AMD, as indicated below, against the following currency at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

'000 AMD	Equity	Profit or loss
2009		
USD (10% strengthening)	-	746,967
2008		
USD (10% strengthening)	-	788,460

A weakening of the AMD against the above currency at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans to related parties and 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:

'000 AMD	Carrying amount	
	2009	2008
Fixed rate instruments		
Financial assets	7,058,604	3,354,462
Financial liabilities	(868,546)	(740,727)
	6,190,058	2,613,735

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

The management believes that the fair value of its financial assets and liabilities, except for unquoted equity securities available for sale with a carrying value of AMD 100,895 thousand (2008: AMD 100,895 thousand) approximate their carrying values.

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. This is achieved with efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows, as well as loans and borrowings. With these measures the Company aims for steady profits growth.

There were no changes in the Company's approach to capital management during the year.

26 Contingencies

(a) Insurance

The insurance industry in the Republic of Nagorno-Karabakh 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

The Company does not have significant litigations that may have a material effect on the Company's financial position.

(c) Taxation contingencies

The taxation system in the Republic of Nagorno-Karabakh 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 the Republic of Nagorno-Karabakh that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable 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 contingencies

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

(e) Asset retirement obligations

The Company did not create any provision for obligations in relation to asset retirement and site restoration as the management does not believe that the present value of such obligations at 31 December 2009 will be material to these financial statements. The management's estimate is based on the assumption that such obligations will not become due in the foreseeable future.

27 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 price volatility

The Company's financial performance is 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 Company's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. During the three years ended 31 December 2010, LME daily closing spot prices ranged from USD 1.39 to USD 4.15 per pound for copper by reaching the maximum price of USD 4.15 per pound as of 31 December 2010.

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

(c) Gold price volatility

The Company's financial performance is heavily dependent on the price of gold, which is affected by many factors beyond the Company's control. Gold is a commodity traded on the London Bullion Market, Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX) and Zurich Gold Pool. The Company's gold is sold at prices based on those quoted on the London Bullion Market. The price of gold as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of gold demand and supply, (ii) rates of global economic growth, trends in jewellery production, all of which correlate with demand for gold, (iii) economic growth and political conditions in India and other Asian countries, which became the largest consumer of gold in the world, and other major developing economies, (iv) speculative investment positions in gold and gold futures, and (v) currency exchange fluctuations, including the relative strength of the USD. The gold market is volatile. During the three years ended 31 December 2010, London Bullion Market Association daily settlement prices ranged from USD 692.50 to USD 1,426.00 per ounce of gold.

A sustained period of low gold prices would adversely affect the Company's profits and cash flows.

28 Related party transactions

(a) Control relationships

The Company's parent company is Vallex F.M. Establishment, incorporated in Lichtenstein. The Company's ultimate controlling party is Mr. Valery Medzhlumyan.

No publicly available financial statements are produced by the Company's parent company.

(b) Transactions with management and close family members

Key management controls 2.87% of the authorized preference shares of the Company.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 10):

'000 AMD	2009	2008
Salaries and bonuses	77,516	49,708
Contributions to State pension fund	13,679	8,772
Dividends to preference shareholders	7,170	35,850
Other short-term benefits	1,140	1,140
	99,505	95,470

(c) Transactions with other related parties

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

(i) Revenue

'000 AMD	Transaction value 2009	Transaction value 2008	Outstanding balance 2009	Outstanding balance 2008
Sale of goods:				
Entities under common control	14,074,844	9,166,708	1,477,528	(1,103,287)
Fellow subsidiary	676	439	7,819	9,362
Services provided:				
Entities under common control	20,444	79,021	5,386	24,778
	14,095,964	9,246,168	1,490,733	(1,069,147)

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) *Expenses*

'000 AMD	Transaction value 2009	Transaction value 2008	Outstanding balance 2009	Outstanding balance 2008
Purchase of goods:				
Entities under common control	(858,448)	(1,341,862)	80,113	53,701
Fellow subsidiary	(49,628)	(52,685)	(1,237)	322
Purchase of property, plant and equipment:				
Entities under common control	(192,457)	(933,706)	-	-
Purchase of corporate shares:				
Entities under common control	-	(99,492)	100,895	100,895
Services received:				
Entities under common control	(749,045)	(716,051)	(42,885)	94,160
	(1,849,578)	(3,143,796)	136,886	249,078

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) *Loans*

'000 AMD	Amount loaned 2009	Amount loaned 2008	Outstanding balance 2009	Outstanding balance 2008
Loans received:				
Shareholders	(125,499)	(11,388,044)	(9,447,250)	(7,865,886)
Entities under common control	(280,500)	(344,500)	(868,546)	(722,013)
Loans to related parties:				
Shareholders	854,040	764,183	504,717	-
Entities under common control	5,724,660	6,083,111	7,058,604	3,354,462
Fellow subsidiary	-	-	14,381	14,381
	6,172,701	(4,885,250)	(2,738,094)	(5,219,056)

The loan from the Company's shareholder is interest free and is repayable upon demand. The loans from the entities under common control bear interest at 5% per annum and are repayable upon demand.

The loan to shareholder is interest free and is repayable upon demand. The loans to entities under common control bear interest at 0-10% per annum and are repayable either upon demand or in 2010.

(iv) *Dividends*

'000 AMD	Dividends declared	Dividends declared	Outstanding balance	Outstanding balance
	2009	2008	2009	2008
Ordinary shareholders	-	8,487,467	248,165	248,165
Preference shareholders	112,330	561,650	1,010,970	898,640