Teghout cjsc

Financial Statements
for the year ended 31 December 2008

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Independent Auditors' Report

Board of Directors
Teghout cjsc

Report on the Financial Statements

We have audited the accompanying financial statements of Teghout cjsc (the "Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement 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 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Armenia, an Armenian closed joint stock company and a
member firm of the KPMG network of independent member firms
affiliated with KPMG International, a Swiss cooperative

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.

Without qualifying our opinion, we also draw attention to the fact that the corresponding figures as at and for the year ended 31 December 2007 are not audited.

Andrew Coxshall
Director

KPMG Armenia cjsc
6 July 2009

Tigran Gasparyan
Head of Audit Department

	Note	2008 '000 AMD	2007 '000 AMD Unaudited
Other income		11,089	23,243
Administrative expenses		(46,530)	(2,046)
Other expenses		(6,034)	(20,350)
Results from operating activities		**(41,475)**	**847**
Foreign exchange loss		(18,638)	-
Profit/(loss) before income tax		**(60,113)**	**847**
Income tax expense	5	(439)	(169)
Profit/(loss) for the year		**(60,552)**	**678**

These financial statements were approved by management on 6 July 2009 and were signed on its behalf by:

Valery Medzhlumyan
Chairman of the Executive Board

Mkrtich Petrosyan
Chief Accountant

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«TEGHOUT»
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The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 28.

	Note	2008 '000 AMD	2007 '000 AMD Unaudited
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,462,291	196,105
Intangible assets	7	83,094	277
Prepayments for non-current assets	8	2,847,259	1,500
Value added tax recoverable		472,012	332
		6,864,656	**198,214**
Current assets			
Inventories	9	108,468	-
Trade and other receivables		42,093	522
Prepayments for current assets and expenses	10	964,407	2,727
Prepaid finance cost	11	151,030	-
Cash and cash equivalents		894	3,249
		1,266,892	**6,498**
Total assets		**8,131,548**	**204,712**
EQUITY AND LIABILITIES			
Equity			
Share capital	12	3,100,100	100
(Accumulated losses)/retained earnings		(59,790)	762
		3,040,310	**862**
Non-current liabilities			
Other taxes payable		64,100	-
		64,100	**-**
Current liabilities			
Loans and borrowings	13	4,621,164	203,578
Other taxes payable		86,841	26
Income tax payable		439	49
Provisions	14	52,408	-
Trade and other payables	15	266,286	197
		5,027,138	**203,850**
Total liabilities		**5,091,238**	**203,850**
Total equity and liabilities		**8,131,548**	**204,712**

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 28.

	2008 '000 AMD	2007 '000 AMD Unaudited
OPERATING ACTIVITIES		
Cash receipts from customers	886	24,354
Cash paid to suppliers and employees	(1,017,970)	(24,699)
Value added tax paid	(331,425)	(332)
Other taxes paid	(977)	(307)
Prepayment of finance cost	(151,030)	-
Income tax paid	(49)	(141)
Cash flows used in operating activities	**(1,500,565)**	**(1,125)**
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	5,315	-
Acquisition of intangible assets	(82,817)	-
Acquisition and construction of property, plant and equipment	(5,771,725)	(50,338)
Cash flows used in investing activities	**(5,849,227)**	**(50,338)**
FINANCING ACTIVITIES		
Proceeds from issue of share capital	3,100,000	-
Proceeds from borrowings	5,332,718	53,425
Repayment of borrowings	(1,085,281)	-
Cash flows from financing activities	**7,347,437**	**53,425**
Net (decrease)/increase in cash and cash equivalents	**(2,355)**	**1,962**
Cash and cash equivalents at beginning of year	3,249	1,287
Cash and cash equivalents at end of year	**894**	**3,249**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 28.

’000 AMD	**Share capital**	**(Accumulated losses)/ retained earnings**	**Total**
Balance at 1 January 2007 (Unaudited)	**100**	**84**	**184**
Profit for the year (Unaudited)	-	678	678
Balance at 31 December 2007 (Unaudited)	**100**	**762**	**862**
Shares issued	3,100,000	-	3,100,000
Loss for the year	-	(60,552)	(60,552)
Balance at 31 December 2008	**3,100,100**	**(59,790)**	**3,040,310**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 28.

1 Background

(a) 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 authorised 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.

(b) Operating 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 recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The accompanying 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.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and are the Company’s first complete set of IFRS financial statements. The Company has not previously prepared financial statements under another GGAP.

(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 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 three years from the balance sheet date and concentrate production will commence in the fourth year. Thus, the future operations of the Company and the recoverability of the Company's assets, including prepayments for non-current assets of AMD 2,724,021 thousand made by the Company as at 31 December 2008 (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 period ended 31 December 2008 of AMD 60,552 thousand, the Company's current liabilities exceed current assets by 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 = 306.73 AMD as at 31 December 2008). 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. At the date of signing of these financial statements the Company was in the process of negotiations for new principal terms of a new agreement which is going to replace the first agreement with VTB Bank ojsc.

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 or other lenders. In addition, the Company is in the process of formalizing a new loan agreement with its parent company to replace the existing loan, which formally expired 1 June 2009. Moreover, the ultimate controlling party of the Company has expressed its intention to provide necessary financial support and liquidity to the Company for it to maintain current spending and financial obligations, as and when required. During the first five months of 2009 the parent company provided AMD 538,850 thousand to the Company.

(e) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. 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.

In particular, information about significant areas of estimation uncertainty and 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 notes:

- Note 2(d) – going concern
- Note 2(f) – ore reserves
- Note 6 – impairment of property, plant and equipment
- Note 8 – recoverability of prepayments for non-current assets
- Note 14 – provisions

(f) Ore reserves

The total ore reserve estimates of the Teghout deposits were 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 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 uses its ore reserve estimates in evaluating property, plant and equipment impairments.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are described in note 3 (a) to 3 (n). These accounting policies have been consistently applied.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to AMD at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising in translation are recognised in the income statement.

(b) Financial instruments

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

Financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(c) Share capital

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

(d) 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. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that 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 its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. 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 recognised net in “other income” in the income statement.

(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 derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives 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 reporting date.

(e) 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 income statement as incurred.

(iii) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

- Licenses license term
- Other 5-10 years

(f) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Company's balance sheet.

(g) 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 cost 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.

(h) 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 considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(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 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 group 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 the income statement. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the 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.

(i) 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.

(j) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when 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.

(ii) Services

Revenue from services rendered is recognised in the income statement 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.

(k) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement 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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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.

(l) Finance income and expenses

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on initial recognition of borrowings, foreign currency losses and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

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

(m) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income 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 using the balance sheet method, providing for 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 temporary differences

that arise at the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. 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 to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

(n) 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 2008, and have not been applied in preparing these financial statements. On the basis of management initial analysis these pronouncements will not have significant impact on the Company’s operations.

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/or 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, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(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

	2008 '000 AMD	2007 '000 AMD
Current tax expense		
Current year	439	169
Deferred tax expense		
Origination and reversal of temporary differences	(7,104)	-
Change in unrecognised temporary differences	7,104	-
	439	169

Reconciliation of effective tax rate:

	2008 '000 AMD	%	2007 '000 AMD	%
Profit/(loss) before tax	(60,113)	100	847	100
Income tax at the applicable tax rate	(12,023)	20	169	20
Non-deductible expenses	5,358	(9)	-	0
Change in unrecognized deferred tax assets	7,104	(12)	-	0
	439	(1)	169	20

Unrecognised deferred tax assets

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

AMD'000	2008 '000 AMD	2007 '000 AMD
Property, plant and equipment	7,104	-

Deferred tax assets have not been recognised in respect of these items because of uncertainties in tax law with respect to items which give rise deferred tax assets and whether the Company can utilise deferred tax assets in the time frame prescribed in the tax law.

The Company's applicable tax rate for current and deferred tax is 20%.

6 Property, plant and equipment

’000 AMD	Plant and equipment	Land, buildings and structures	Vehicles	Other	Total
Cost					
Balance at 1 January 2007 (unaudited)	-	139,067	-	-	139,067
Additions (unaudited)	-	56,090	-	948	57,038
Balance at 31 December 2007 (unaudited)	-	195,157	-	948	196,105
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
Depreciation					
Balance at 1 January 2007 (unaudited)	-	-	-	-	-
Depreciation charge (unaudited)	-	-	-	-	-
Balance at 31 December 2007 (unaudited)	-	-	-	-	-
Balance at 1 January 2008 (unaudited)	-	-	-	-	-
Depreciation charge	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
Net book value					
At 1 January 2007 (unaudited)	-	139,067	-	-	139,067
At 31 December 2007 (unaudited)	-	195,157	-	948	196,105
At 31 December 2008	1,789,214	1,425,791	157,818	89,468	3,462,291

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

Impairment

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. The Company estimated the recoverable amount of the property, plant and equipment based on its value in use. In assessing the value in use, the Company estimated the future cash flows and discounted them to their present value using a pre-tax discount rate that reflected current market assessment of the time value of money and the risks specific to the asset. The estimated recoverable amount did not result in an impairment loss being recognised in these financial statements.

The following key assumptions were used in estimating the recoverable amount:

- Cash flows were projected based on the approved investment and operating plan for the next twenty years and exclude the effect of inflation. Forecasted prices for copper in those cash flows were based on available forecasts in Metal Bulletin. Given the lack of available published information the Company has estimated the forecasted molybdenum prices based on past experience and internal models based on correlation of molybdenum prices with copper prices.
- Initial investments for mine preparation and plant and infrastructure construction are planned at approximately USD 250,000 thousand (AMD 76,682,500 thousand as at 31 December 2008). Concentrate production is planned to begin in 2012.
- Total production and processing at the plants was projected at 7,000 thousand tonnes of ore in all years of the business plan.
- Terminal value of expected cash flows after twenty years (based on forecasted cash flow) was estimated by discounting for perpetuity. It was assumed no growth rate of net cash flows when calculating the terminal value.
- A discount rate as of 31 December 2008 of 18.25% was applied, which excludes the effect of inflation. The discount rate was estimated based on the weighted average cost of capital, which was based on a debt financing of approximately 8.9% of the total invested capital, cost of equity of approximately 18.8% and a borrowing rate of approximately 18%.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

The above estimates are particularly sensitive in the following areas:

- An increase of two percentage points in the discount rate used would have resulted in impairment of AMD 1,144,638 thousand.
- A 5% decrease in the forecasted prices of copper and molybdenum would have resulted in impairment of AMD 1,373,338 thousand.

7 Intangible assets

In October 2007 the Company's parent, Armenian Copper Programme cjsc (the Parent) 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 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 2,724,021 thousand is included in prepayments for non-current assets. As a result of the delay of financing from VTB Bank ojsc (see note 2(d)) 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 payments of the contract price. 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 2008 no impairment is recognised for the prepayment as management expects to obtain financing from VTB Bank ojsc and continue performance of the purchase contract.

9 Inventories

	2008	2007
	’000 AMD	’000 AMD
		Unaudited
Spare parts	13,730	-
Fuel	11,600	-
Other materials	83,138	-
	108,468	-

10 Prepayments for current assets and expenses

	2008	2007
	’000 AMD	’000 AMD
		Unaudited
Prepayment to the parent company	947,518	-
Other prepayments	16,889	2,727
	964,407	2,727

The Company made a prepayment to the Parent Company for the purchase of materials and services for the mine development.

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 recognised as prepaid finance cost.

12 Equity

Share capital

Number of shares unless otherwise stated	**Ordinary shares 2008**	**Ordinary shares 2007 Unaudited**
Authorised shares		
Par value	AMD 1,000	AMD 1,000
On issue at beginning of year	100	100
Issued for cash	3,100,000	-
On issue at end of year, fully paid	3,100,100	100

13 Loans and borrowings

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

				2008		**2007 Unaudited**	
'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%	2009	4,621,164	4,621,164	-	-
Unsecured loan from a fellow subsidiary	AMD	10%	2008	-	-	203,578	203,578
				4,621,164	4,621,164	203,578	203,578

The Company is in the process of formalizing a new loan agreement with its parent company to replace the existing loan, which formally expired 1 June 2009.

14 Provisions

'000 AMD	**Forests restoration**
Balance at 1 January 2008	-
Provisions made during the year	52,408
Balance at 31 December 2008	52,408

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 to replace those to be cut during mine development and plant construction in other areas. In estimating the Company's liability as at 31 December 2008 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

	2008 '000 AMD	2007 '000 AMD Unaudited
Payable for purchases of services and assets	239,726	90
Salary payable	15,012	57
Other	11,548	50
	266,286	197

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

16 Financial 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.

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.

(b) Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will not be able to pay amounts in full when due. 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 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. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the allowances already recorded.

Exposure to credit risk

The carrying amount of trade and other receivables and cash and cash equivalents, net of provision for impairment represents the maximum amount exposed to credit risk. The maximum exposure to credit risk at the reporting date was:

Not impaired or past due	**Carrying amount**	
'000 AMD	**2008**	**2007 Unaudited**
Trade and other receivables	42,093	522
Cash and cash equivalents	894	3,249
	42,987	3,771

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The majority of the Company's current liabilities (borrowings) are due to related parties and therefore management believe 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:

2008	**Average interest rate**				
'000 AMD	**Contractual**	**Effective**	**0-6 mths**	**6-12 mths**	**Total**
Financial liabilities					
Short term loans and borrowings	9%	9%	4,787,863	-	4,787,863
Trade and other payables	-	-	266,286	-	266,286
			5,054,149	-	5,054,149

2007 (Unaudited)	**Average interest rate**				
'000 AMD	**Contractual**	**Effective**	**0-6 mths**	**6-12 mths**	**Total**
Financial liabilities					
Short term loans and borrowings	10%	10%	-	215,968	215,968
Trade and other payables	-	-	197	-	197
			197	215,968	216,165

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 = 306.73 AMD as at 31 December 2008). The loan is primarily intended for development of the mine and production facilities, in addition small part of it could be used to refinance the loan from the parent company (see note 2(d)).

The ultimate controlling party of the Company has expressed its intention to provide necessary financial support and liquidity to the Company for it to maintain current spending and financial obligations, as and when required.

The loan from the parent company formally expired on 1 June 2009 and the Company is in the process of formalizing a new loan agreement with 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 2007 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:

'000 AMD	**Carrying amount**	
	2008	**2007**
		Unaudited
Fixed rate instruments		
Financial liabilities	4,621,164	203,578

(e) Capital management

The Board of Director's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence.

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.

(f) Fair values

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying amounts.

The basis for determining fair values is disclosed in note 4.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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 9,024 thousand and the purchase commitment at 31 December 2008 is USD 37,976 thousand (31 December 2007: nil). 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) 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 often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Armenia that are substantially 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.

(b) 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 recognised 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

(i) Management remuneration

Key management received the following remuneration during the year:

	2008 '000 AMD	2007 '000 AMD Unaudited
Salaries and bonuses	675	480

(c) Transactions with other related parties

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

(i) Other income

'000 AMD	Transaction value 2008	Transaction value 2007 Unaudited	Outstanding balance 2008	Outstanding balance 2007 Unaudited
Parent company	367	22,961	-	-
Fellow subsidiaries	9,169	-	6,869	-
	9,536	22,961	6,869	-

(ii) Purchases

'000 AMD	**Transaction value 2008**	**Transaction value 2007 Unaudited**	**Outstanding balance 2008**	**Outstanding balance 2007 Unaudited**
Purchase of property, plant and equipment				
Parent	391,604	-	-	-
Fellow subsidiaries	129,978	-	44,413	-
Purchase of intangible assets				
Parent	70,000	-	-	-
Purchase of materials				
Parent	343,573	-	(947,518)	-
Fellow subsidiaries	21,267	24,158	5,347	-
Purchase of services and operating lease				
Parent	37,744	-	-	-
Fellow subsidiaries	136,061	648	32,870	-

None of the balances with related parties are secured.

(iii) Loans

'000 AMD	**Amount loaned 2008**	**Amount loaned 2007 Unaudited**	**Outstanding balance 2008**	**Outstanding balance 2007 Unaudited**
Loans received:				
Parent	5,214,555	-	4,621,164	-
Fellow subsidiaries	118,163	53,425	-	203,578

'000 AMD	**2008**	**2007 Unaudited**
Interest accruals:		
Parent	176,766	-
Fellow subsidiaries	7,435	17,275

The loan agreement with VTB Bank ojsc concluded in June 2008 and the intended new agreement in the process of negotiations (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.