

Base Metals cjsc

Financial Statements
for the year ended 31 December 2010

Contents

Independent Auditors' Report	3
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8



KPMG Armenia cjsc
8th floor, Erebuni Plaza Business Center,
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia

Telephone + 374 (10) 566 762
Fax + 374 (10) 566 762
Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors of 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 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Andrew Coxshall
Director

KPMG Armenia
17 October 2011




Tigran Gasparyan
Head of Audit Department

'000 AMD	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	13	10,343,720	8,919,017
Intangible assets		57,324	53,672
Exploration and evaluation assets	14	1,442,473	708,544
Prepayments for non-current assets		674,222	-
Available-for-sale investments	15	106,145	106,145
Investment in subsidiary		28,927	28,927
Loans given	18	28,306	-
Total non-current assets		12,681,117	9,816,305
Current assets			
Inventories	17	2,469,350	2,255,944
Loans given	18	14,546,706	7,577,702
Trade and other receivables	19	2,610,698	1,548,489
Prepayments for current assets		1,106,612	158,129
Cash and cash equivalents	20	24,997	28,909
Total current assets		20,758,363	11,569,173
Total assets		33,439,480	21,385,478
EQUITY AND LIABILITIES			
Equity			
	21		
Share capital		358,500	358,500
Retained earnings		17,528,893	7,805,424
Total equity		17,887,393	8,163,924
Non-current liabilities			
Deferred tax liabilities	16	49,239	65,363
Total non-current liabilities		49,239	65,363
Current liabilities			
Loans and borrowings	22	10,774,259	10,315,796
Trade and other payables	23	1,968,125	1,463,691
Payables to ordinary shareholders		248,165	248,165
Payables to preference shareholders	24	2,026,720	1,032,480
Income tax payable		485,579	96,059
Total current liabilities		15,502,848	13,156,191
Total liabilities		15,552,087	13,221,554
Total equity and liabilities		33,439,480	21,385,478

Base Metals cjsc
Statement of Comprehensive Income for the year ended 31 December 2010

'000 AMD	Note	2010	2009
Revenue	5	19,482,754	14,146,622
Cost of sales	6	(6,441,527)	(5,355,016)
Gross profit		13,041,227	8,791,606
Other income		187,694	84,901
Distribution expenses	7	(724,433)	(638,495)
Administrative expenses	8	(527,049)	(505,339)
Donations to social programs		(311,981)	(87,729)
Other expenses	9	(770,496)	(791,857)
Results from operating activities		10,894,962	6,853,087
Finance income	11	614,508	185,436
Finance costs	11	(1,254,351)	(1,903,676)
Profit before income tax		10,255,119	5,134,847
Income tax expense	12	(531,650)	(383,629)
Profit and total comprehensive income for the year		9,723,469	4,751,218

These financial statements were approved by management on 17 October and were signed on its behalf by:

Artur Mkrtumyan
General Director

Nairi Muradyan
Chief Accountant

Base Metals cjsc
Statement of Changes in Equity for the year ended 31 December 2010

'000 AMD	Share capital	Retained earnings	Total
Balance at 1 January 2009	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
Balance at 1 January 2010	358,500	7,805,424	8,163,924
Total comprehensive income for the year			
Profit for the year	-	9,723,469	9,723,469
Total comprehensive income for the year	-	9,723,469	9,723,469
Balance at 31 December 2010	358,500	17,528,893	17,887,393

'000 AMD	2010	2009
OPERATING ACTIVITIES		
Receipts from sales, inclusive of VAT	21,971,157	14,294,004
Payments to suppliers	(4,563,757)	(3,441,539)
Payments to employees	(2,315,724)	(1,766,636)
Payments for income tax	(158,254)	(199,500)
Payments for taxes other than on income	(4,021,307)	(2,708,787)
Donations to social programs	(169,880)	(245,342)
Other receipts	12,616	3,729
Other payments	(165,971)	(31,303)
Net cash from operating activities	10,588,880	5,904,626
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(3,718,775)	(1,361,391)
Acquisition of exploration and evaluation assets	(844,267)	(279,542)
Acquisition of intangible assets	(6,869)	(22,133)
Disposal of property, plant and equipment	1,779	10,532
Acquisition of available-for-sale investments	-	(5,250)
Loans given	(7,902,729)	(6,308,205)
Repayment of loans given	952,455	2,266,575
Interest received	366,571	23,460
Net cash used in investing activities	(11,151,835)	(5,675,954)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	803,700	1,148,832
Repayments of loans and borrowings	(17,100)	(1,274,548)
Dividends to preference shareholders	(200,760)	(43,020)
Interest paid	(37,664)	(20,739)
Net cash from/(used in) financing activities	548,176	(189,475)
Net (decrease)/increase in cash and cash equivalents	(14,779)	39,197
Cash and cash equivalents at 1 January	28,909	8,762
Effect of exchange rate fluctuations on cash and cash equivalents	10,867	(19,050)
Cash and cash equivalents at 31 December (note 20)	24,997	28,909

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 8 August 2002 for 25 years.

The Company’s single shareholder and ultimate controlling party is Mr. Valery Medzhlumyan (2009: VALLEX F.M. Establishment – 99.65% of total shares; Mr. Valery Medzhlumyan – 0.35% of total shares), 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. Related party transactions are disclosed in note 28.

(b) Business environment

The Company’s operations are primarily located in the Republic of Nagorno-Karabakh. 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, the Company is exposed to the economic and financial markets of the Republic of Nagorno-Karabakh which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Nagorno-Karabakh. The 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 August 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.

3 Significant accounting policies

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

(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 in a foreign currency that are measured in terms of historical cost 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 given, trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables, payables to ordinary shareholders, and payables to preference shareholders.

The Company initially recognises loans and receivables and deposits 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 given 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.

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

Other 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.

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

(ii) Subsequent costs

The cost of replacing a component 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 component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

For all property, plant and equipment items, 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 |
| • others | 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) *Non-derivative financial assets*

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

Objective evidence that financial assets (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, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or 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.

Loans and receivables

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

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to 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 application of the effective interest method 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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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 customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. 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 sales agreement. 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 loans and receivables, dividend income and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on 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 as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(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) 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 2010, 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. The Company has not yet analysed the likely impact of the new Standard on its financial position or performance.

- 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 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	2010	2009
Revenue from sale of copper-gold concentrate	19,248,470	14,062,495
Revenue from sale of other products	234,284	84,127
Total revenues	19,482,754	14,146,622

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

6 Cost of sales

'000 AMD	2010	2009
Cost of sales of copper-gold concentrate	6,278,629	5,277,423
Cost of other sales	162,898	77,593
	6,441,527	5,355,016

Cost of sales of copper-gold concentrate:

'000 AMD	2010	2009
Materials	2,165,764	1,991,685
Wages and salaries	2,029,084	1,708,352
Depreciation and amortization	965,751	836,332
Environmental fee	388,166	281,984
Other	729,864	459,070
	6,278,629	5,277,423

7 Distribution expenses

'000 AMD	2010	2009
Transportation expenses	511,932	474,234
Road tax	188,356	134,327
Other	24,145	29,934
	724,433	638,495

8 Administrative expenses

'000 AMD	2010	2009
Wages and salaries	282,433	263,947
Depreciation, amortization and maintenance expenses	43,660	62,622
Purchased services	41,105	15,938
Representative and business trip expenses	26,251	19,329
Transportation expenses	22,629	26,276
Utility and communication expenses	21,678	26,402
Fuel expenses	16,443	14,732
Rent	9,467	10,246
Security expenses	7,989	8,744
Bank charges	1,507	2,177
Other administrative expenses	53,887	54,926
	527,049	505,339

9 Other expenses

'000 AMD	2010	2009
Royalties	409,744	251,621
Write-off of property, plant and equipment	192,876	232,560
Maintenance expenses	47,919	41,061
Fines and penalties	170	65,721
Unrecoverable VAT	-	52,291
Loss from transportation of finished goods	-	26,933
Impairment loss on exploration and evaluation assets	-	23,805
Other	119,787	97,865
	770,496	791,857

10 Personnel costs

'000 AMD	2010	2009
Wages and salaries	2,563,774	2,163,040
Contributions to State pension fund	417,015	340,115
	2,980,789	2,503,155

11 Finance income and finance costs

'000 AMD	2010	2009
Recognised in profit or loss		
Interest income on loans and receivables	450,475	185,436
Net foreign exchange gain	164,033	-
Finance income	<u>614,508</u>	<u>185,436</u>
Net foreign exchange loss	-	(1,741,256)
Dividends to preference shareholders	(1,195,000)	(119,500)
Interest expense on loans and borrowings	(59,351)	(42,920)
Finance costs	<u>(1,254,351)</u>	<u>(1,903,676)</u>
Net finance costs recognised in profit or loss	<u>(639,843)</u>	<u>(1,718,240)</u>

12 Income tax expense

The Company's applicable tax rate is the income tax rate of 5% (2009: 5%).

'000 AMD	2010	2009
Current tax expense		
Current year	547,774	327,621
Deferred tax expense		
Origination and reversal of temporary differences	(16,124)	56,008
	<u>531,650</u>	<u>383,629</u>

Reconciliation of effective tax rate:

	2010		2009	
	'000 AMD	%	'000 AMD	%
Profit excluding income tax	<u>10,255,119</u>	<u>100</u>	<u>5,134,847</u>	<u>100</u>
Income tax at applicable tax rate	512,756	5.0	256,742	5.0
Non-deductible expenses	55,138	0.5	157,275	3.1
Non-taxable income	(36,244)	(0.4)	(30,388)	(0.6)
	<u>531,650</u>	<u>5.1</u>	<u>383,629</u>	<u>7.5</u>

13 Property, plant and equipment

'000 AMD	Land and buildings	Mining property	Structures	Machinery and equipment	Motor vehicles	Fixtures and fittings	Others	Under construction	Total
Cost									
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>
Balance at 1 January 2010	2,321,417	2,060,677	1,429,753	3,459,091	558,708	412,142	1,135,554	945,329	12,322,671
Additions	19,274	614,253	123,139	346,763	69,891	53,029	240,114	1,476,672	2,943,135
Disposals	(316)	(149,475)	(6,064)	(111,875)	(26,047)	(14,379)	(25,021)	-	(333,177)
Transfers	1,397	-	298	1,153	-	1,580	1,244	(5,672)	-
Balance at 31 December 2010	<u>2,341,772</u>	<u>2,525,455</u>	<u>1,547,126</u>	<u>3,695,132</u>	<u>602,552</u>	<u>452,372</u>	<u>1,351,891</u>	<u>2,416,329</u>	<u>14,932,629</u>
Depreciation									
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>

'000 AMD	Land and buildings	Mining property	Structures	Machinery and equipment	Motor vehicles	Fixtures and fittings	Others	Under construction	Total
Balance at 1 January 2010	252,659	811,234	162,618	1,290,938	308,651	189,705	387,849	-	3,403,654
Depreciation for the year	107,860	313,224	90,337	497,957	70,178	61,168	185,684	-	1,326,408
Disposals	(53)	(45,871)	(1,859)	(59,850)	(14,908)	(11,249)	(7,363)	-	(141,153)
Transfers	(313)	-	206	(74)	-	(128)	309	-	-
Balance at 31 December 2010	<u>360,153</u>	<u>1,078,587</u>	<u>251,302</u>	<u>1,728,971</u>	<u>363,921</u>	<u>239,496</u>	<u>566,479</u>	<u>-</u>	<u>4,588,909</u>
<i>Carrying amounts</i>									
At 1 January 2009	2,064,175	1,488,011	1,051,376	2,229,556	326,352	219,062	820,264	756,069	8,954,865
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>
At 31 December 2010	<u>1,981,619</u>	<u>1,446,868</u>	<u>1,295,824</u>	<u>1,966,161</u>	<u>238,631</u>	<u>212,876</u>	<u>785,412</u>	<u>2,416,329</u>	<u>10,343,720</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 963,745 thousand (2009: AMD 834,627 thousand) has been charged to cost of goods sold, AMD 33,601 thousand (2009: AMD 41,395 thousand) to administrative expenses, AMD 286,632 thousand (2009: AMD 215,282 thousand) to property, plant and equipment and AMD 42,430 thousand (2009: AMD 46,584 thousand) to finished goods.

14 Exploration and evaluation assets

'000 AMD	Total
<i>Cost</i>	
Balance at 1 January 2009	452,807
Additions	279,542
Impairment loss	(23,805)
Balance at 31 December 2009	708,544
Balance at 1 January 2010	708,544
Additions	844,267
Transfer to mining property	(110,338)
Balance at 31 December 2010	1,442,473

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

15 Available-for-sale investments

'000 AMD	2010	2009
<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	5,250
	106,145	106,145

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	
	2010	2009	2010	2009	2010	2009
'000 AMD						
Property, plant and equipment	-	-	(21,656)	(31,399)	(21,656)	(31,399)
Trade and other receivables	-	-	(27,583)	(33,964)	(27,583)	(33,964)
Net tax assets/(liabilities)	-	-	(49,239)	(65,363)	(49,239)	(65,363)

(b) Movement in temporary differences during the year

'000 AMD	1 January 2010	Recognised in profit or loss	31 December 2010
Property, plant and equipment	(31,399)	9,743	(21,656)
Trade and other receivables	(33,964)	6,381	(27,583)
	(65,363)	16,124	(49,239)

'000 AMD	1 January 2009	Recognised in profit or loss	31 December 2009
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)

17 Inventories

'000 AMD	2010	2009
Spare parts	1,325,712	1,229,144
Raw materials	641,471	573,528
Finished goods	275,852	293,954
Work in progress	226,315	159,318
	2,469,350	2,255,944

In 2010 spare parts, raw materials, and changes in finished goods and work in progress recognised as cost of sales amounted to AMD 2,165,764 thousand (2009: AMD 1,991,685 thousand).

At 31 December 2010 and 31 December 2009 no inventories have been pledged to third parties as collateral.

18 Loans given

'000 AMD	2010	2009
<i>Non-current</i>		
Loans to other related parties	28,306	-
	28,306	-
<i>Current</i>		
Loans to shareholders	-	504,717
Loans to other related parties	14,146,706	7,072,985
Loans to other parties	400,000	-
	14,546,706	7,577,702

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 2010		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	USD	0%	On demand	1,516,403	1,516,403	-	-
Unsecured loans to other parties	AMD	0%	2011	400,000	400,000	-	-
Unsecured loans to other related parties	AMD	0%	2012	14,181	14,181	14,381	14,381
Unsecured loans to other related parties	AMD	5%	On demand	12,625,130	12,625,130	7,001,612	7,001,612
Unsecured loans to other related parties	AMD	5%	2012	13,546	13,546	39,675	39,675
Unsecured loans to other related parties	AMD	10%	2012	5,752	5,752	17,317	17,317
				14,575,012	14,575,012	7,577,702	7,577,702

19 Trade and other receivables

'000 AMD	2010	2009
Trade receivables due from related parties	2,524,503	1,488,789
Other trade receivables	35,646	17,245
Other financial receivables	3,983	3,348
Other receivables	46,566	39,107
	2,610,698	1,548,489

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	2010	2009
Bank balances	24,429	27,502
Petty cash	568	1,407
	24,997	28,909

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	
	2010	2009
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 2010 and 2009.

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	2010	2009
<i>Current liabilities</i>		
Unsecured borrowings from shareholders	9,086,000	9,447,250
Unsecured borrowings from entities under common control	1,688,259	868,546
	10,774,259	10,315,796

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured borrowings from shareholders	USD	0%	On demand	9,086,000	9,086,000	9,447,250	9,447,250
Unsecured borrowings from entities under common control	AMD	5%	2011	775,636	775,636	-	-
Unsecured borrowings from entities under common control	AMD	5%	On demand	912,623	912,623	868,546	868,546
				10,774,259	10,774,259	10,315,796	10,315,796

23 Trade and other payables

'000 AMD	2010	2009
Royalty payable	378,031	149,806
Salaries and related taxes payable	357,099	467,095
VAT payable	272,743	226,645
Environmental fee payable	241,890	116,007
Donations payable	218,092	103,894
Personal income tax payable	196,985	170,357
Trade payables	195,717	104,554
Other financial payables	5,868	68,132
Other payables	101,700	57,201
	1,968,125	1,463,691

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	
	2010	2009
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 no decision is made for payment of preference dividends or a decision is made of not paying the preference dividends by the ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividends are paid.

Dividends declared and paid during the year were as follows:

'000 AMD	Total
Balance at 1 January 2009	956,000
Dividends accrued	119,500
Dividends paid	(43,020)
Balance at 31 December 2009	1,032,480
Balance at 1 January 2010	1,032,480
Dividends accrued	1,195,000
Dividends paid	(200,760)
Balance at 31 December 2010	2,026,720

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.

(i) **Trade and other receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 98% (2009: 99%) 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 given**

The Company does not require collateral in respect of loans given (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	
	2010	2009
Loans and receivables	17,139,144	9,087,084
Cash and cash equivalents	24,429	27,502
	17,163,573	9,114,586

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	
	2010	2009
Domestic customer for copper-gold concentrate	2,514,459	1,472,868
Domestic customer for other products	45,690	33,166
	2,560,149	1,506,034

The Company has one customer, a related party, which accounts for entire balance of the trade receivables from copper-gold concentrate at 31 December 2010 and 2009.

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.

2010

'000 AMD	Carrying amount	Contractual cash flows	0-6 months	6-12 months
Non-derivative financial liabilities				
Unsecured borrowings from shareholders	9,086,000	9,086,000	9,086,000	-
Unsecured borrowings from entities under common control	1,688,259	1,726,244	947,551	778,693
Total financial liabilities within trade and other payables	1,018,666	1,018,666	1,018,666	-
Payables to ordinary shareholders	248,165	248,165	248,165	-
Payables to preference shareholders	2,026,720	2,026,720	2,026,720	-
	14,067,810	14,105,795	13,327,102	778,693

2009

'000 AMD	Carrying amount	Contractual cash flows	0-6 months	6-12 months
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

(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 respective 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	
	2010	2009
Loans given	1,516,403	504,717
Trade receivables	2,516,359	1,472,868
Loans and borrowings	(9,086,000)	(9,447,250)
Net exposure	(5,053,238)	(7,469,665)

The following significant exchange rates applied during the year:

in AMD	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD 1	373.67	363.49	363.44	377.89

Sensitivity analysis

A strengthening of the AMD, as indicated below, against the USD 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 2009.

'000 AMD	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2010				
USD (10% movement)	-	505,324	-	(505,324)
31 December 2009				
USD (10% movement)	-	746,967	-	(746,967)

(ii) *Interest rate risk*

Changes in interest rates impact primarily loans given 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	
	2010	2009
Fixed rate instruments		
Financial assets	12,644,428	7,058,604
Financial liabilities	(1,688,259)	(868,546)
	10,956,169	6,190,058

Fair value sensitivity analysis for fixed rate instruments

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

(e) **Accounting classifications and fair values**

(i) *Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

'000 AMD	<u>Loans and receivables</u>	<u>Available- for-sale</u>	<u>Other financial liabilities</u>	<u>Total carrying amount</u>	<u>Fair value</u>
31 December 2010					
Cash and cash equivalents	24,429	-	-	24,429	24,429
Loans and receivables	17,139,144	-	-	17,139,144	17,139,144
Equity securities	-	106,145	-	106,145	106,145
	17,163,573	106,145	-	17,269,718	17,269,718
Loans and borrowings	-	-	(10,774,259)	(10,774,259)	(10,774,259)
Trade and other payables	-	-	(1,018,666)	(1,018,666)	(1,018,666)
Payables to ordinary shareholders	-	-	(248,165)	(248,165)	(248,165)
Payables to preference shareholders	-	-	(2,026,720)	(2,026,720)	(2,026,720)
	-	-	(14,067,810)	(14,067,810)	(14,067,810)
31 December 2009					
Cash and cash equivalents	27,502	-	-	27,502	27,502
Loans and receivables	9,087,084	-	-	9,087,084	9,087,084
Equity securities	-	106,145	-	106,145	106,145
	9,114,586	106,145	-	9,220,731	9,220,731
Loans and borrowings	-	-	(10,315,796)	(10,315,796)	(10,315,796)
Trade and other payables	-	-	(859,682)	(859,682)	(859,682)
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)	(12,456,123)

(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.

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

'000 AMD	2010	2009
Total liabilities	15,552,087	13,221,554
Less: cash and cash equivalents	24,997	28,909
Net debt	<u>15,527,090</u>	<u>13,192,645</u>
Total equity	<u>17,887,393</u>	<u>8,163,924</u>
Debt to capital ratio at 31 December	<u>0.87</u>	<u>1.62</u>

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 2010 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 single shareholder and ultimate controlling party is Mr. Valery Medzhlumyan.

(b) Transactions with management and close family members

Key management owns 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	2010	2009
Salaries and bonuses	79,838	77,516
Contributions to State pension fund	14,371	13,679
Dividends to preference shareholders	71,700	7,170
Other short-term benefits	1,140	1,140
	167,049	99,505

(c) Transactions with other related parties

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

(i) *Revenue*

'000 AMD	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Sale of goods:				
Entities under common control	19,320,125	14,074,844	2,524,503	1,477,528
Fellow subsidiary	1,239	676	-	7,819
Services provided:				
Entities under common control	21,522	20,444	-	5,386

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 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Purchase of goods:				
Entities under common control	(1,076,235)	(858,448)	1,470,267	80,113
Fellow subsidiary	(47,911)	(49,628)	(203)	(1,237)
Purchase of property, plant and equipment:				
Entities under common control	-	(192,457)	-	-
Services received:				
Entities under common control	(90,622)	(749,045)	(88,986)	(42,885)

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 2010	Amount loaned 2009	Outstanding balance 2010	Outstanding balance 2009
Loans received:				
Shareholders	-	(125,499)	(9,086,000)	(9,447,250)
Entities under common control	(803,700)	(280,500)	(1,688,259)	(868,546)
Loans given:				
Shareholders	-	854,040	-	504,717
Entities under common control	7,502,729	5,724,660	14,160,831	7,058,604
Fellow subsidiary	-	-	14,181	14,381

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 either upon demand or in 2011.

The loans given bear interest at 0-10% per annum and are repayable either upon demand, in 2011 or in 2012.

(iv) Dividends

'000 AMD	Dividends declared 2010	Dividends declared 2009	Outstanding balance 2010	Outstanding balance 2009
Ordinary shareholders	-	-	248,165	248,165
Preference shareholders	1,123,300	112,330	2,012,380	1,010,970

29 Subsequent events

Subsequent to the reporting date the Company started construction of a new plant for processing tailing materials which will produce finished goods in the form of Gold Dore. According to the management estimate the volume of the tailing materials is approximately 3,000 thousand tons and the expected content of gold in the tailing materials is 0.8-1.0 gram/ton. The construction works are expected to be finished by the end of 2011.