Teghout CJSC

Financial Statements,

prepared in accordance with International Financial Reporting Standards

As at 31 December 2012

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Independent auditors' report to the shareholders and management of Closed Joint-Stock Company «Teghout»

We have audited the accompanying financial statements of CJSC Teghout (the "Company"), which comprise the statement of financial position as at 31 December, 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young CJSC

Partner

Ruslan Khoroshvili

On behalf of the General Director M. Alexandarian
(by procuration dated 1 September 2011)

Eric Hayrapetyan

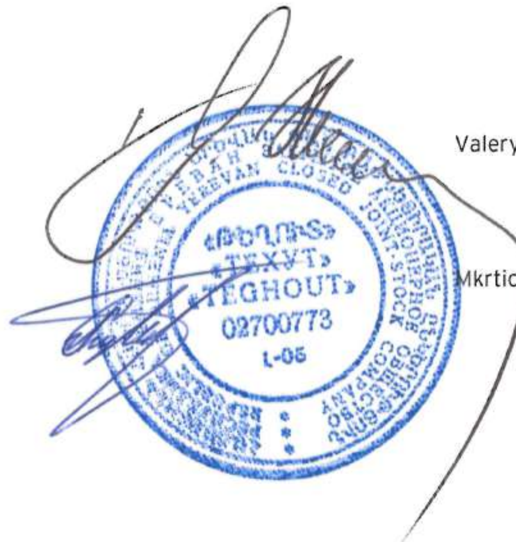
26 July 2013

Statement of comprehensive income for the year ended 31 December 2012

(in thousands drams)

	Notes	*2012*	*2011*
Other income	5	205,803	70,453
Administrative expenses	6	(210,204)	(127,051)
Other expenses	7	(257,721)	(93,930)
Operating loss		**(262,122)**	**(150,528)**
Finance income		438	2,364
Finance expenses	8	(77,705)	–
Loss before income tax		**(339,389)**	**(148,164)**
Income tax benefit	9	22,144	237,484
(Loss)/Profit for the year		**(317,245)**	**89,320**
Other comprehensive income		–	–
Total comprehensive (loss)/income for the year		**(317,245)**	**89,320**

General Director Valery Mejlumyan



Chief Accountant Mkrtich Petrosyan

26 July 2013

The accompanying notes on pages 5-27 are an integral part of these financial statements

Statement of financial position as at 31 December 2012

(in thousands drams)

	Notes	*2012*	*2011*
Assets			
Property, plant and equipment	10	67,720,703	27,054,095
Intangible assets	11	136,048	118,388
Advances for non-current assets		10,313,392	11,659,240
Deferred tax asset		–	–
VAT recoverable		5,798,641	3,298,663
Non-current assets		83,968,784	42,130,386
Inventories		247,748	432,663
Trade and other receivables	12	227,991	76,122
Advances		395,355	199,658
Prepaid finance costs		–	154,130
Cash and cash equivalents	13	1,795,549	14,165
Current assets		2,666,643	876,738
Total assets		86,635,427	43,007,124
Equity			
Share capital	14	3,100,100	3,100,100
Additional paid-in capital	15	14,535,822	12,998,663
Accumulated loss		(430,740)	(113,495)
Total equity		17,205,182	15,985,268
Liabilities			
VAT payable		2,660,002	1,595,788
Deferred tax liability	9	3,413,411	3,051,265
Loans and borrowings	15	62,315,488	21,313,670
Site restoration provision	17	228,488	–
Total non-current liabilities		68,617,389	25,960,723
Loans and borrowings	15	–	255,018
Site restoration provision	17	120,791	89,423
Trade and other payables	16	692,065	716,692
Total current liabilities		812,856	1,061,133
Total liabilities		69,430,245	27,021,856
Total equity and liabilities		86,635,427	43,007,124

The accompanying notes on pages 5-27 are an integral part of these financial statements

Statement of changes in equity
for the year ended 31 December 2012
(in thousands drams)

	Share capital	*Additional paid-in capital*	*Accumulated loss*	*Total equity*
At 1 January 2011	3,100,100	–	(202,815)	2,897,285
Total comprehensive income	–	–	89,320	89,320
Additional paid-in capital resulting from a loan received from the Ultimate parent at below market interest rate, net of deferred tax of 3,288,749		12,998,663	-	12,998,663
At 31 December 2011	3,100,100	12,998,663	(113,495)	15,985,268
Total comprehensive loss	–	-	(317,245)	(317,245)
Additional paid-in capital resulting from a loan received from the Ultimate parent at below market interest rate, net of deferred tax of 384,290	–	1,537,159	–	1,537,159
At 31 December 2012	3,100,100	14,535,822	(430,740)	17,205,182

The accompanying notes on pages 5-27 are an integral part of these financial statements

Statement of cash flows
for the year ended 31 December 2012

(in thousands drams)

	Notes	*2012*	*2011*
Operating activities			
Cash received from customers		262,248	126,010
Cash paid to suppliers and employees		(1,301,065)	(233,410)
VAT paid		(319,629)	(401,130)
Other taxes paid		(217,318)	(23,377)
Net cash flows used in operating activities		(1,575,764)	(531,907)
Investing activities			
Proceeds from sale of property, plant and equipment		–	36,480
Acquisition and construction of property, plant and equipment		(30,782,210)	(19,041,540)
Net cash flows used in investing activities		(30,782,210)	(19,005,060)
Financing activities			
Proceeds from loans and borrowings		52,990,323	21,621,827
Repayment of loans and borrowings		(18,837,620)	–
Interest paid		(9,339)	(2,074,860)
Net cash flows from financing activities		34,143,364	19,546,967
Net increase in cash and cash equivalents		1,785,390	10,000
Effect of exchange rate changes on cash and cash equivalents		(4,006)	–
Cash and cash equivalents at 1 January		14,165	4,165
Cash and cash equivalents at 31 December	13	1,795,549	14,165

The accompanying notes on pages 5-27 are an integral part of these financial statements

1. Corporate information

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 address 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 (Note 17). Currently, the Company is involved in development of mining property and construction of a processing plant in the deposit area.

Since establishment the Company was wholly owned by Armenian Copper Programme CJSC (the "Ultimate parent").

In November 2011, 100% of the shares of the Company were transferred to Teghout Investments Limited (the "Parent"), subsidiary of the Ultimate parent.

The Company is ultimately controlled by a single individual, Mr. Valery Mejlumyan, who has the power to direct the Company's at his own discretion and for his own benefit. He also holds interest in other businesses not related to the Company. Related party transactions are detailed in Note 18.

2.1 Basis of preparation

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis. The financial statements are presented in Armenian drams and all values are rounded to the nearest thousand except where otherwise indicated.

2.2 Summary of significant accounting policies

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured irrespective of the date of payment. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractual payment terms, less any taxes or duties. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from services rendered is recognized by reference to the stage of completion. Stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

2.2 Summary of significant accounting policies (continued)

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

Taxes

Current tax expense

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change.

2.2 Summary of significant accounting policies (continued)

Value added tax

Output value added tax arising on the sale of goods is payable to the tax authorities upon delivery of goods and services to customers. Input VAT is generally recoverable against output VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT amounts related to sales and purchases are recognized in the balance sheet on a net basis and disclosed separately as an asset or liability. Where provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Property, plant and equipment

Recognition and measurement

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

Cost includes expenses attributable directly to acquisition of the respective assets. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Where items of property, plant and equipment comprise separate components having different useful lives, each of the components is accounted for as a separate item (major component) of property, plant and equipment.

Any 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 recognized net within other income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognized 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 derecognized. The costs of current repairs and maintenance of property, plant and equipment are recognized in profit or loss as incurred.

Mining property

Mining property is presented as a separate class of property, plant and equipment. The cost of mining property represents expenses directly attributable to the mine area and includes expenses related to exploratory works, site restoration, stripping and preparation for extraction.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of an asset are assessed individually and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component 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.

2.2 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The estimated useful lives of significant items of property, plant and equipment 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, estimated useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Operating lease

Where the Company is a lessee in a lease, which does not transfer substantially all the risks and benefits incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Intangible assets

Recognition and measurement

Intangible assets acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent costs

Subsequent costs are capitalized only if they increase the future economic benefits embodied in the specific asset to which they relate. All other costs, including costs incurred on internally generated brands and goodwill, are recognized in profit or loss as incurred.

Amortization

Amortization is calculated over the cost of the asset or any other substituting amount, less the residual value of the asset.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

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

- Licenses license term
- Other intangible assets 5-10 years

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

2.2 Summary of significant accounting policies (continued)

Financial assets

Key measurement terms

Financial assets within the scope of IAS 39 *Financial instruments: Recognition and measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e. the date when the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, loans issued and trade and other receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The effective interest rate amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income as finance costs.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Company’s financial liabilities include trade and other payables.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Impairment

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults on an individual financial asset or collectively on financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.2 Summary of significant accounting policies (continued)

Impairment (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

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 are impaired can include default or delinquency by borrowers, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of the Company's borrowers or issuers, or economic conditions that correlate with defaults.

Loans and receivables

The Company considers evidence of impairment for loans and receivables both at the level of individual assets, and an asset portfolio. All individually significant assets are assessed for impairment on an individual basis. Where individually significant loans and receivables show no indication of being individually impaired, they are included in a portfolio and 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 evidence of collective impairment, the Company reviews historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that 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 amortized 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 recognized in profit or loss for the period and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized 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.

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 recognized 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 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 or cash-generating unit. 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 cash-generating units.

Corporate assets are allocated to cash-generating units on a reasonable and consistent basis and tested for impairment as part of the testing of the cash-generating unit to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed 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.

2.2 Summary of significant accounting policies (continued)

Impairment (continued)

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, less accumulated depreciation or amortization, if no impairment loss had been recognized.

Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventory is determined on the first-in, first-out basis and includes expenses incurred in acquiring inventories and bringing them to their existing location and condition.

Advances

Advances carried at amortized cost less provision for impairment. An advance is classified as non-current when the goods or services relating to the advance are expected to be obtained after one year, or when the advance relates to an asset which will itself be classified as non-current upon initial recognition. Advances to acquire assets are included in the carrying amount of the asset once the Company has obtained control over the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other advances are written off to profit or loss when the goods or services relating to the advances are received. If there is an indication that the asset, goods or services relating to the advances will not be received, the carrying value of advance is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on call deposits with banks, and other short-term highly liquid investments with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Employee benefits

Wages, salaries, contributions to the state pension fund and social insurance funds of the Republic of Armenia, paid annual leave and sick leave, bonuses and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations. Contributions are made by the Company to the Government's Pension fund at the statutory rates in force during the year.

Contingent assets and liabilities

Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which the Company operates. The functional currency of the Company is the national currency of the Republic of Armenia - the Armenian Dram (AMD).

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of Armenia (CBA) at respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBA are recognized in profit and loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2012, the principal rates of exchange used for translating foreign currency balances were 403.58 AMD/US dollar (USD) (2011: 385.77 AMD/USD), 532.24 AMD/Euro (EUR) (2011: 498.72 AMD/EUR), 13.27 AMD/Russian Ruble (RUB) (2011: 11.98 AMD/RUB).

2.3 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous reporting year except for the voluntary change in the accounting policy for the recognition of actuarial gains and losses on defined benefit oblogations and the adoption of the following new and amended IFRS and IFRIC Interpretations effective from 1 January 2012.

- IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- Amendment to IFRS 7 *Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements*

The impact of the adoption of these standards is described below:

Amendment to* IAS 12 *Income Taxes: Deferred Taxes: Recovery of Underlying Assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. The amendment had no effect on the Company's financial position, performance or disclosures.

Amendment to IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the users of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company has no assets with such characteristics, therefore, the amendment has no impact on its financial statements.

3. Significant accounting judgments, estimates and assumptions

Estimates, assumptions and judgments

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on experience with similar assets. Future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Impairment of assets and accounting for provisions

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If any indication of impairment exists, the carrying value of the asset is written down to its recoverable amount. The impairment loss is recorded in the statement of comprehensive income for the period when the impairment took place.

If the situation changes, and management considers that the value if assets has increased, the allowance for impairment is fully or partially reversed.

3. Significant accounting judgments, estimates and assumptions (continued)

Impairment of assets and accounting for provisions (continued)

Accounting for impairment includes allowance against property, plant and equipment, intangible assets, trade and other receivables, other non-current assets and inventory obsolescence.

The provisions for liabilities and charges primarily include provisions for tax liabilities and legal proceedings. The Company records an impairment charge or accrues these provisions when its assessments indicate that it is probable that a liability will arise or an asset will not be recovered and the amount can be reasonably estimated. The impairment provision for accounts receivable is based on the management's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates.

If management determines that no objective evidence exists that impairment has occurred for any specific accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of accounts receivable that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts.

Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Provision for site restoration

The Company analyzes the site restoration provision at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC Interpretation **IFRIC 1** ***Changes in Decommissioning, Restoration and Similar Liabilities***. The amount of provision reflects the best estimate of the expenditure required to settle the present obligation at the balance sheet date. In determining the best estimate of the provision the risks and uncertainties that inevitably surround many events and circumstances are being taken into account. Assessment of the future costs of site restoration requires the significant amount of management judgment. Future events that may affect the amount required to settle an obligation are being reflected in the amount of the provision if there is an objective evidence that those event might occur.

More detailed information on site restoration provision assessment is contained in Note 17.

Ore reserves

The first estimate of total ore reserves of the Teghout deposit was made in 1991 by the USSR State Committee for Reserves. Reserves were estimated at approximately 454 million tonnes with an average content of copper of 0.35% and molybdenum of 0.022%. Approximately 35% of total ore reserves were re-estimated, and in mid-2011 Strathcona Mineral Services Limited developed the first stage of the mine operation plan, in accordance to reporting standards of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), as required by the Canadian National Instrument 43-101 (NI 43-101) for publicly-traded companies. It produced the following results (in millions of tonnes of ore): 103.5 – measured, 31.9 – indicated, and 27.5 – inferred. The first stage of the evaluation and operation plan assumes extraction of 113.6 million tonnes of ore with an average content of copper of 0.34% and molybdenum of 0.010% by 2027. For the remaining reserves, further evaluation and operation plans must be drawn up when the first stage of operation nears its end.

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the Company's control. Ore reserve estimates are based on 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 low grades of mineralization uneconomic to mine. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's ore reserve estimates.

The Company uses the above estimates in evaluating the impairment and useful lives of its property, plant and equipment. Changes in the estimates of reserves or resources may affect the carrying value of assets related to exploration and evaluation sections, fixed assets, provision for site restoration, as well as the recognition of deferred tax assets and depreciation.

3. Significant accounting judgments, estimates and assumptions (continued)

Tax legislation

Compliance with tax legislation in the Republic of Armenia is subject to a significant degree of interpretation and can be routinely challenged by tax authorities. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective: The Company is currently assessing the impact that these standard will have on its financial position and performance.

IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012 and, consequently, will be applied in the Company's first financial statements prepared following the effective date.

IAS 19 Employee Benefits (revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company made a voluntary change in accounting policy to recognize actuarial gains and losses in other comprehensive income in the current reporting period. However, the amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Company is currently assessing the impact of the standard on it's financial position and financial performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance. The amendments become effective for annual periods beginning on or after 1 January 2014.

4. Standards issued but not yet effective (continued)

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment will have no impact on the Company's financial statements.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on classification and measurement of financial liabilities. The Company will quantify the effect of the adoption of this standard in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analysis performed, IFRS 10 will not have any impact on the currently held investments of the Company. The standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact on the financial position of the Company. The standard is effective for annual periods beginning on or after 1 January 2013. The standard is to be applied retrospectively to joint agreements that have taken place on the date of the first application.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosure requirements that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosure requirements that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required; however, the adoption of this standard will have no impact on the Company's financial position or performance. The standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on its financial position and performance, but based on the preliminary analysis, no material impact is expected. The standard is effective for annual periods beginning on or after 1 January 2013.

Annual improvements to IFRS (May 2012)

These improvements will not have an impact on the Company's financial statements, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to prepare its financial statements in accordance with IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

4. Standards issued but not yet effective (continued)

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

This amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements become effective for annual periods beginning on or after 1 January 2013.

5. Other income

	2012	*2011*
Income from stripping services to related party	170,422	53,321
Profit from the sale of inventories	32,344	16,372
Operating lease income	1,850	600
Other	1,187	160
	205,803	70,453

6. Administrative expenses

	2012	*2011*
Representative expenses and business travel	56,735	23,505
Audit and consulting	48,156	33,424
Maintenance and repair	38,060	29,552
Wages and salaries	27,012	17,984
Utilities and communications	15,140	4,742
Depreciation and amortization	11,831	11,439
Taxes other than income tax	4,851	2,176
Bank charges	4,847	2,152
Other	3,572	2,077
	210,204	127,051

7. Other expenses

	2012	*2011*
Cost of stripping services	153,008	46,359
Loss from disposal of property, plant and equipment	45,355	19,512
Employee benefits	31,112	20,385
Penalties and fines	19,587	7,527
Losses from foreign currency conversion	8,638	147
Other	21	–
	257,721	93,930

8. Finance expenses

In 2012 finance expenses in the amount of 77,705 are not eligible for capitalisation.

9. Income tax

The major components of income tax expense are as follows:

	2012	*2011*
Current income tax:		
Current income tax charge	–	–
Deferred income tax:		
Relating to origination and reversal of temporary differences	22,144	237,484
Income tax benefit reported in the statement of comprehensive income	22,144	237,484

	2012	*2011*
Accounting loss before income tax	339,389	148,164
At the income tax rate of 20% established by Armenian legislation (2011: 20%)	67,878	29,633
Non-deductible income/ (expenses)	3,115	(15,156)
Revaluation of advances for non-current assets	(48,849)	107,852
Change in value of unrecognized temporary differences	–	115,155
At effective income tax rate	22,144	237,484
Income tax benefit reported in the statement of comprehensive income	22,144	237,484

Deferred income tax

Deferred income tax relates to the following:

	1 January 2011	*Recognized in profit or loss*	*Recognized directly in equity*	*31 December 2011*	*Recognized in profit or loss*	*Recognized directly in equity*	*31 December 2012*
Property, plant and equipment	–		(31,267)	(31,267)	–	–	(31,267)
Loans and borrowings	–		(3,257,482)	(3,257,482)	–	(384,290)	(3,641,772)
Advances for non-current assets	–	208,483	–	208,483	(48,848)	–	159,635
Tax loss carried forward	–	29,001	–	29,001	70,992	–	99,993
	–	237,484	(3,288,749)	(3,051,265)	22,144	(384,290)	(3,413,411)

The Company offsets tax assets and liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same tax authority.

10. Property, plant and equipment

	Production equipment	Construction in progress	Land and buildings	Vehicles	Mining property	Other	Total
Cost							
Balance at 1 January 2011	4,867,646	5,677,987	848,199	194,792	274,569	370,571	12,233,764
Additions	9,653,439	2,537,198	2,608,971	13,936	963,682	185,521	15,962,747
Disposals	(13,307)	(6,633)	–	–	–	(796)	(20,736)
Balance at 31 December 2011	**14,507,778**	**8,208,552**	**3,457,170**	**208,728**	**1,238,251**	**555,296**	**28,175,775**
Balance at 1 January 2012	**14,507,778**	**8,208,552**	**3,457,170**	**208,728**	**1,238,251**	**555,296**	**28,175,775**
Additions	20,657,213	12,449,954	1,627,230	388,829	7,248,273	7,411	42,378,910
Disposals	(55,234)	–	–	(9,792)	–	(400)	(65,426)
Balance at 31 December 2012	**35,109,757**	**20,658,506**	**5,084,400**	**587,765**	**8,486,524**	**562,307**	**70,489,259**
Depreciation							
Balance at 1 January 2011	373,511	–	11,026	35,536	–	63,979	484,052
Depreciation charge for the year	464,780	–	76,159	16,879	–	81,034	638,852
Disposals	(1,045)	–	(57)	–	–	(122)	(1,224)
Balance at 31 December 2011	**837,246**	**–**	**87,128**	**52,415**	**–**	**144,891**	**1,121,680**
Balance at 1 January 2012	837,246	–	87,128	52,415	–	144,891	1,121,680
Depreciation charge for the year	1,500,681	–	121,795	31,703	–	12,768	1,666,947
Disposals	(16,457)	–	(243)	(3,327)	–	(44)	(20,071)
Balance at 31 December 2012	**2,321,470**	**–**	**208,680**	**80,791**	**–**	**157,615**	**2,768,556**
Carrying value							
At 1 January 2011	4,494,135	5,677,987	837,173	159,256	274,569	306,592	11,749,712
At 31 December 2011	13,670,532	8,208,552	3,370,042	156,313	1,238,251	410,405	27,054,095
At 31 December 2012	32,788,287	20,658,506	4,875,720	506,974	8,486,524	404,692	67,720,703

All the borrowing costs of 8,591,974 incurred by the Company in 2012 were capitalized within property, plant and equipment (2011: 2,407,733). Depreciation charges of 1,658,880 were capitalized within property, plant and equipment in 2012 (2011: 628,716).

The Company pledged a plot of land and buildings with the carrying value of 805,972, as well as property, plant and equipment with the carrying value of 26,109,995, as collateral under credit line facilities (Note 15).

11. Intangible assets

	Licenses	Software	Patents	Other	Total
Cost					
Balance at 1 January 2011	70,000	7,892	4,340	-	82,232
Additions	-	-	-	38,080	38,080
Balance at 31 December 2011	70,000	7,892	4,340	38,080	120,312
Balance at 1 January 2012	70,000	7,892	4,340	38,080	120,312
Additions	-	25,179	-	-	25,179
Disposals	-	(320)	-	(3,435)	(3,755)
Balance at 31 December 2012	70,000	32,751	4,340	34,645	141,736
Depreciation					
Balance at 1 January 2011	-	439	182	-	621
Depreciation charge for the year	-	869	434	-	1,303
Balance at 31 December 2011	-	1,308	616	-	1,924
Balance at 1 January 2012	-	1,308	616	-	1,924
Depreciation charge for the year	-	2,635	434	695	3,764
Balance at 31 December 2012	-	3,943	1,050	695	5,688
Carrying value					
At 1 January 2011	70,000	7,453	4,158	-	81,611
At 31 December 2011	70,000	6,584	3,724	38,080	118,388
At 31 December 2012	70,000	28,808	3,290	33,950	136,048

In October 2007, the Ultimate parent signed a Licensing Agreement with the Ministry of Trade and Economic Development and the Ministry of Nature Protection of the Republic of Armenia (the "Authorities"). In accordance with the Licensing Agreement the Authorities transferred to the Ultimate parent the right to control and use the Teghout copper-molybdenum deposit's reserves of 105 million tons (7 million tons per year) till 2026.

On 11 April 2008, the Ultimate parent transferred the right to control and use the Teghout copper-molybdenum deposit reserves as well as all other rights and obligations under the Licensing Agreement to the Company for 70,000.

12. Trade and other receivables

	2012	*2011*
Receivables for services rendered and work performed	204,090	63,572
Receivables from sale of inventories	19,850	11,250
Short-term import VAT receivables	1,391	240
Operating lease receivables	60	60
Other accounts receivable	2,600	1,000
	227,991	76,122

Trade and other receivables are primarily denominated in AMD and settled within 30 days. Accounts receivable are not impaired at the end of the reporting period.

13. Cash and cash equivalents

	2012	2011
Bank balances, USD	1,735,777	3,949
Bank balances, AMD	49,691	7,499
Bank balances, EUR	3,302	2,492
Bank balances, RUB	6,779	225
	1,795,549	14,165

14. Capital and reserves

Share capital

	Ordinary shares	
Number of shares unless otherwise stated	2012	2011
Authorized shares		
Par value	AMD 1,000	AMD 1,000
Outstanding as at 1 January	3,100,100	3,100,100
Outstanding as at 31 December, fully paid	3,100,100	3,100,100

Ordinary shares

All shares rank equally with regard to the Company's residual assets.

Holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at Company meetings.

All the ordinary shares are pledged as collateral under credit line facilities (Note 15).

Dividends

In accordance with Armenian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with IFRS.

15. Loans and borrowings

	Currency	*Interest rate*	*Maturity*	*2012*	*2011*
Non-current liabilities					
Secured loan from OJSC VTB Bank	USD	11%/13%	26 June 2023	56,978,820	–
Unsecured loan from the Ultimate parent	AMD	9%	30 June 2024	5,336,668	21,313,670
				62,315,488	21,313,670
Current liabilities					
Unsecured loan from the Ultimate parent				–	255,018
				–	255,018

Secured loan from OJSC VTB Bank

The general credit line agreement limited to USD 283,300 thousand was signed on 22 November 2011. The credit line consists of three sub-loans at the moment, namely N201, 202, and 203. The interest rate to be used under the sub-loan agreements N201 and N203 is the highest of 11% or LIBOR USD 3m + 6.02% and for the sub-loan agreement N202 – the highest of 13% or LIBOR USD 3m + 8.02%.

The loan from VTB Bank is collateralized by 100% of the Company's shares, 100% of shares in Armenian Copper Programme CJSC, 99.999% interest in Vallex F.M.Est held by CJSC KSMA. In addition, collateral for the loan comprises movable and immovable properties owned by the above companies.

The principal and accrued interests are to be repaid starting the year 2015.

15. Loans and borrowings (continued)

Unsecured loan from the Ultimate parent

On 30 June 2011, the terms of the unsecured short-term loan provided by the Ultimate parent were substantially modified; as a result, maturity of the original liability was extended from 31 December 2011 to 30 May 2024. The modifications in the terms of the loan agreement were accounted for as extinguishment of the original short-term financial liability and recognition of a new long-term financial liability.

Because the short-term loan from the Ultimate parent bears an interest rate below the market rate (9%), the loan was recognized at fair value using the market interest rate for similar instruments. The market interest rate was estimated at 19%, including the 3% credit risk spread to the yield on long-term government securities of the Republic of Armenia issued in the same currency. The difference between the fair value of the loan upon initial recognition and its nominal amount was recognized as additional-paid-in capital, net of deferred tax in the amounts of 14,535,822, and 12,998,663 as at December 31, 2012 and December 31, 2011 accordingly.

16. Trade and other payables

	2012	*2011*
Payables for services rendered and work accepted	285,856	118,125
Salaries and wages payable	138,431	93,476
VAT payable	106,284	81,183
Payables for materials received	67,765	281,659
Personal income tax payable	30,284	8,686
Operating lease payables	24,493	60,438
Compulsory social insurance payable	23,123	2,763
Payables for property, plant and equipment received	5,368	65,959
Trade union payables	4,144	3,752
Property tax payable	3,615	102
Environmental fees and charges payable	1,516	–
Payables for imported property, plant and equipment	1,107	–
Other payables	79	549
	692,065	716,692

Trade and other payables are primarily denominated in AMD and settled within 30 days.

17. Site restoration provision

In 2008, the Company agreed with the Government of the Republic of Armenia on an afforestation plan designed to recover the damage caused to the environment as a result of lumbering for mine development and plant construction purposes. In estimating the Company's liability at the reporting date the Company has considered the total area cut, the ratio of the cut area to the area to be planted according to the above plan, 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 with contractors for planting trees.

	Provision
At 1 January 2011	**33,738**
Accrued	88,792
Utilized	(33,107)
At 31 December 2011	**89,423**
Accrued	107,758
Utilized	(76,390)
At 31 December 2012	**120,791**

Apart from the provision mentioned above, the Company has formed site restoration provision after stripping services in the amount of 228.488 as at December 31, 2012

17. Site restoration provision (continued)

This provision is created as a result of assessment of the works needed to restore the environment after exploitation of mines by "Teghout". According to the initial plan, the main option of recultivation is the basic restoration of industrial zones (waste rock dumps and tailing) as well as other areas from toxic waste by covering them with ground. For this purpose now the Company accumulates and stores soil which is present on the territory of open mine and ore-dressing and processing enterprise. The Company plans to use this soil to cover the territories of the tailings and dumps with a layer of up to 15 cm. Evaluation of recultivation was done, respectively, based on the work required to cover the major industrial zones (tailings and dumps) with soil.

Recultivation works include the following five areas:

- Storage of soil and covering it with grass to prevent erosion;
- Preparatory work for the transportation of soil from the warehouse to the coverage area (loading and preparation);
- Work relating the transportation of soil (to the average distance equal to 3 km);
- Alignment of the coverage;
- Covering the territory with grass.

To evaluate the work in these areas, the Company used the actual costs that have taken place under the same or similar circumstances. According to the assessments mentioned above, recultivation works of Teghout mines will cost approximately 700,000. The provision for land recultivation was created based on the abovementioned assessment using inflation rate of 5% and risk-free interest rate for discounting (2012: 16.35%). The works will be implemented during 2022-2026 period.

18. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and such transactions may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Information about the Parent is disclosed in Note 1. Entities under common control represent entities under control of the Ultimate parent.

Other income

	Transaction value for the year ended 31 December		*Outstanding balance at 31 December*	
	2012	*2011*	*2012*	*2011*
Ultimate parent	160,854	4,383	2,267	3,541
Entities under common control	211,680	74,865	210,975	63,657

18. Related party transactions (continued)

Purchases

	Transaction value		*Outstanding balance*	
	2012	*2011*	*2012*	*2011*
Purchase of property, plant and equipment				
Ultimate parent	6,158	5,269	4,260	–
Entities under common control	297,165	36,269	514	–
Purchase of materials				
Ultimate parent	58,289	24,186	1,104	320
Entities under common control	891,460	157,668	12,133	42,060
Purchase of services and operating lease				
Ultimate parent	369,781	119,933	5,682	73,755
Entities under common control	383,625	177,541	17,357	9,732

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.

Loans

	Amount borrowed	*Amount borrowed*	*Outstanding balance*	*Outstanding balance*
	2012	*2011*	*2012*	*2011*
Loans received				
Ultimate parent (Note 15)	890,110	21,621,827	5,336,668	21,568,688

The loan from the Ultimate parent bears an interest rate of 9% p.a. and matures in 2024. Upon initial recognition the loan was discounted using a market rate of interest of 19%. The difference between the nominal amount of the loan and its fair value at initial recognition was recognized in additional paid-in capital, net of deferred tax.

In 2012 interest on the loan received from Ultimate parent company was accrued in the amount of 3,793,282 (2011: 2,407,733).

The credit line facilities from OJSC VTB Bank in the total amount of USD 283,300 thousand are fully secured by guarantees of the Parent and the Ultimate parent (Note 15).

Compensation to key management personnel

During 2012 compensation to key management personnel was paid in the amount of 17,215 (2011: 4,697)

19. Commitments and contingencies

Operating lease commitments – Company as lessee

The Company entered into agreements for lease of buildings and various equipment with the Parent. Leases for buildings have a life of one year with an automatic renewal option unless a decision is made to terminate a lease. Other leases have an average life of one year with a renewal option as agreed by the parties. There were no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2012	*2011*
Within one year	37,754	37,754
After one year but not more than five years	565	925
	38,319	38,679

Contingencies related to investing activities

Contingent liabilities related to investing activities include acquisition of fixed assets, installation of steel structures, construction of water pipelines, setting up electricity and accompanying construction work. The construction contracts are mainly concluded in 2012 for a period of up to one year in average. The contracts for the acquisition of property, plant and equipment are concluded for a long-term period.

Future minimum contingencies related to investment activities as at 31 December 2012 amount 22,113,485 (2011: 32,206,465).

For a number of contracts related to construction of metal structures in addition to the principal debt Company will have to pay fee for the cleaning of structures, which will be calculated after the implementation of mentioned works, at the price of AMD 610 (VAT included) per 1 sqr meter. The amount of actual liabilities for these works as at 31 December 2012 was 18,467.

Business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management of the Company believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Legislation

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

Insurance

While the insurance industry in Armenia is in a developing state, and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia, the Company has undertaken measures to insure its property, plant and equipment. As at the reporting date, the Company did not have full insurance coverage for its production facilities and business interruption losses. Until the Company obtained adequate insurance coverage, there was a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

In 2012, the Company insured its property, plant and equipment for USD 282,697,617.

Environmental matters

Environmental regulations in Armenia are evolving and the positions of government authorities are continually being reconsidered. The Company evaluates its environmental liabilities on a regular basis. Liabilities are recognized as they arise. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Under existing legislation, management believes that the Company has no significant unrecognized liabilities for environmental damage.

19. Commitments and contingencies (continued)

Taxation

Armenian tax, currency and customs legislation is subject to varying interpretations, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. The tax authorities may assume a tougher stance with regard to the interpretation of legislation and review of tax returns. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged by the tax authorities. As such, significant additional taxes, penalties and fines may be assessed. Tax audits may cover a period of three calendar years immediately preceding the audited year. Under certain circumstances, reviews may cover earlier periods.

As at 31 December 2012, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained by the relevant tax authorities of the Republic of Armenia.

20. Financial risk management objectives and policies

The Company's principal financial liabilities comprise trade and other payables which are essential for the Company's operations and functioning. The Company is exposed to such risks as market risk, credit risk and liquidity risk.

The Company's management oversees the management of these risks. Risk management policies are presented below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's cash.

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Sensitivity to changes in foreign exchange rates

2012

Currency	*Increase in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	5.49%	(2,044,133)
Euro	12.31%	(16,309)
Russian ruble	11.42%	14,254

Currency	*Decrease in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	-5.49%	2,044,133
Euro	-12.31%	16,309
Russian ruble	-11.42%	(14,254)

20. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

2011

Currency	*Increase in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	2.88%	41,200

Currency	*Decrease in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	-2.88%	(41,200)

Interest rate sensitivity analysis

Interest rate risk arising on loans and borrowings is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to changes in market interest rates relates primarily to the Company's long-term loans and borrowings with floating interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed and floating rate loans and borrowings. The Company is exposed to interest rate risk on loans and borrowings. The Company borrows on both a fixed and floating rate basis.

The Company's outstanding interest-bearing loans and borrowings are summarized in the table below:

	2012	*2011*
At 31 December:		
Fixed-rate debt	5,336,668	21,568,688
Floating-rate debt	56,978,820	–
	62,315,488	21,568,688

Cash flow sensitivity analysis for floating rate instruments

Based on the analysis of exposures for the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax by the amounts shown below. The analysis assumes that other variables (especially currency exchange rates) remain constant.

	2012	
	Change in interest rate in basis points	*Effect on profit before tax*
Liabilities denominated in USD		
Decrease in LIBOR	(2)	(11,396)
Increase in LIBOR	2	11,396

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial instruments and cash deposits

Surplus cash is placed with financial institutions which are considered at the time of deposit to have minimal risk of default.

20. Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company monitors its risk of a shortage of funds using a current liquidity planning tool. The table below summarizes the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

Year ended 31 December 2012	*On demand*	*Less than 1 year*	*1 to 2 years*	*2 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	–	–	–	14,821,298	124,510,775	139,332,073
Accounts payable and accrued liabilities	526,137	165,928	–	–	–	692,065

Year ended 31 December 2011	*On demand*	*Less than 1 year*	*1 to 2 years*	*2 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	–	3,625,045	3,370,027	10,110,082	62,439,116	79,544,270
Accounts payable and accrued liabilities	716,692	–	–	–	–	716,692

Capital management

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

No changes were made in the Company's approaches to managing capital during the reporting year. The Company is not subject to externally imposed capital requirements.

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

	2012	*2011*
Total liabilities	69,430,245	27,021,856
Less: cash and cash equivalents	(1,795,549)	(14,165)
Net debt	67,634,696	27,007,691
Total capital	17,205,182	15,985,268
Debt-to-capital ratio as at 31 December	3.9	1.7

Fair value of financial instruments

The fair value of the Company's financial instruments is not materially different from their carrying value.

21. Events after the reporting period

The Company has received funding in the amount of 33,144,957 from OJSC VTB Bank in 2013 under existing loan agreement (Note 15).