ENVIRONMENTAL GOVERNANCE, INCLUSION AND TRANSPARENCY IN MINING SECTOR PROJECT

IDF GRANT No. TF013658

IMPLEMENTED BY ENVIRONMENTAL PROJECT IMPLEMENTATION UNIT STATE AGENCY UNDER THE MINISTRY OF NATURE PROTECTION OF THE REPUBLIC OF ARMENIA

Special Purpose Project Financial Statements
and
Independent Auditor's Report

For the period from 1 January 2016 to 15 August 2016

YEREVAN
August 2016
ENVIRONMENTAL GOVERNANCE, INCLUSION AND TRANSPARENCY IN MINING SECTOR PROJECT

IDF GRANT No. TF013658

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INDEPENDENT AUDITOR’S REPORT

On the special purpose financial statements of the
Environmental Governance, Inclusion and Transparency in Mining Sector Project
for the period from 1 January 2016 to 15 August 2016

To the Management of the Environmental Project Implementation Unit State Agency under the Ministry of Nature Protection of the Republic of Armenia (hereafter: the EPIU SA)

We have audited the accompanying special purpose financial statements of the “Environmental Governance, Inclusion and Transparency in Mining Sector” Project (hereafter: the Project) financed by IDF Grant No. TF013658, and implemented by the EPIU SA, which comprise the statement of cash receipts and payments, and the statement of uses of funds by Project activity for the period from 1 January 2016 to 15 August 2016, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Special Purpose Financial Statements

The management of EPIU SA is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting, (IPSAS-Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines), and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) within the IFAC. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain reasonable audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor’s judgment including the assessment of the risk of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the special purpose financial statement 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 the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion,

1. the special purpose financial statements present fairly in all material respects the cash receipts and payments of the Project for the period from 1 January 2016 to 15 August 2016 in accordance with IPSAS-Cash Basis and World Bank related guidelines;
2. funds have been used in accordance with the conditions of the Letter Agreement No. TF013658 dated 29 May 2013 between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the IDF Grant No. TF013658 dated 29 May 2013;
4. The Designated account used has been maintained in accordance with the provision of the IDF Grant No. TF013658 dated 29 May 2013, and World Bank related guidelines.

Emphasis of matters

Without qualifying our opinion we draw your attention to Note 9 of these special purpose financial statements which disclosed that the Project was completed as at the reporting date.

“SOS-Audit” LLC
24 August 2016

Manvel Ghazaryan
Auditor

Nazik Chitchyan
Audit
Environmental Governance, Inclusion and Transparency in Mining Sector Project
IDF Grant No. TF013658

Statement of cash receipts and payments
For the period from 1 January 2016 to 15 August 2016
(Amounts are shown in US dollars)

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
<th>PAD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reporting period</td>
<td>Cumulative as at 15 Aug 2016</td>
<td>Reporting period</td>
<td>Cumulative as at 15 Aug 2016</td>
</tr>
<tr>
<td>OPENING CASH BALANCE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated Account (IDF Grant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Account (GOA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL OPENING CASH</td>
<td>30,147.97</td>
<td>30,147.97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sources of Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDF Grant No. TF013658</td>
<td>8.1</td>
<td>79,225.80</td>
<td>385,000.00</td>
<td></td>
</tr>
<tr>
<td>Government of RoA</td>
<td>8.2</td>
<td>24,679.42</td>
<td>125,949.45</td>
<td></td>
</tr>
<tr>
<td>TOTAL FUNDS</td>
<td>103,905.22</td>
<td>510,949.45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency gain (loss)</td>
<td></td>
<td>10.85</td>
<td>(3,040.45)</td>
<td></td>
</tr>
<tr>
<td>Uses of funds</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Goods, consultant’s services including audit, training and workshop</td>
<td>114,285.93</td>
<td>488,130.89</td>
<td>136,155.04</td>
<td>510,000.00</td>
</tr>
<tr>
<td>TOTAL PROJECT EXPENDITURES</td>
<td>114,285.93</td>
<td>488,130.89</td>
<td>136,155.04</td>
<td>510,000.00</td>
</tr>
<tr>
<td>CLOSING CASH BALANCE</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated Account (IDF Grant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Account (GOA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL CLOSING CASH</td>
<td>19,778.11</td>
<td>19,778.11</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Gevorg Nersisyan
Director

Hakob Hakobyan
Chief Accountant

24 August 2016
The notes on pages 7-12 form an integral part of these special purpose project financial statements.
### Statement of uses of funds by Project activity

For the period from 1 January 2016 to 15 August 2016

*Amounts are shown in US dollars*

<table>
<thead>
<tr>
<th>Project Activities</th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
<th>PAD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reporting period</td>
<td>Cumulative as at 15 Aug 2016</td>
<td>Reporting period</td>
<td>Cumulative as at 15 Aug 2016</td>
</tr>
<tr>
<td>1. Strengthening the framework for implementation of the Mining Code</td>
<td>23,658.24</td>
<td>220,813.80</td>
<td>24,555.04</td>
<td>221,710.60</td>
</tr>
<tr>
<td>2. Environmental Oversight of Mining Operations at National &amp; Local Levels</td>
<td>33,155.08</td>
<td>144,810.70</td>
<td>51,500.00</td>
<td>163,155.62</td>
</tr>
<tr>
<td>3. Coordination, Administration, Monitoring, and Evaluation</td>
<td>57,472.61</td>
<td>122,506.39</td>
<td>60,100.00</td>
<td>125,133.78</td>
</tr>
<tr>
<td><strong>Total Project Expenditure</strong></td>
<td><strong>114,285.93</strong></td>
<td><strong>488,130.89</strong></td>
<td><strong>136,155.04</strong></td>
<td><strong>510,000.00</strong></td>
</tr>
</tbody>
</table>
1. General information

1.1. The Project

The Grant Agreement No.TF013658 was concluded on 29 May 2013 between the Republic of Armenia and the International Bank for Reconstruction and Development (IBRD), according to which IBRD provided a grant from the World Bank’s Institutional Development Fund (IDF) in an amount not to exceed 385,000 United States Dollars (USD), IDF Grant No.TF013658.

The grant is provided for the purpose of implementation of Environmental Governance, Inclusion and Transparency in Mining Sector Project (the Project).

The Closing Date of the financing under IDF Grant No.TF013658 is set on 29 May 2016. The Grace Period for submitting withdrawal applications for the expenditures incurred before the Closing date is four months following the Closing date.

1.2. The Project objectives

The objective of the Project is to improve the capacity of the key agencies to address institutional and implementation gap concerning environmental and social regulation in the mining sector.

The Project consists of the following parts:
- Part I. Strengthening the framework for implementation of the mining code,
- Part II. Environmental oversight of mining operations at national and local levels,
- Part III. Coordination, administration, monitoring and evaluation.

1.3. The Project Budget and Financing

The Project is being financed by the following sources:
- IDF Grant No.TF013658 – 100% exclusive of taxes,
- The Government of the Republic of Armenia (Government of RoA) - taxes.

<table>
<thead>
<tr>
<th>Category</th>
<th>IDF Grant No.TF013658</th>
<th>Government of the RA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>1. Goods, Consultant’s services including Audit, Training and Workshops</td>
<td>385,000.00</td>
<td>154,000.00</td>
<td>539,000.00</td>
</tr>
</tbody>
</table>

1.4. Project Implementation

The Project is executed by the Environmental Project Implementation Unit State Agency under the Ministry of Nature Protection of the Republic of Armenia (hereafter: the EPIU SA).

The EPIU address is: Armenakyan str. 129, Yerevan, Republic of Armenia.
2. Summary of significant accounting policies

2.1. Preparation and presentation of the special purpose financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2 Cash basis of accounting

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of project funds when the payments are made.

2.3 Reporting currency

The reporting currency of these special purpose financial statements is United States dollar (USD). The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into USD based at the exchange rate defined by the Central Bank of the Republic of Armenia (CBA) at the date of the transaction. The effect of exchange rate changes on cash held on local currency is reported as separate line item in the statement of cash receipts and payments.

The average exchange rate at currency market issued by the CBA as at 31 December 2015 is 1 USD =483.75 AMD

The average exchange rate at currency market issued by the CBA as at 15 August 2016 is 1 USD =475.79 AMD.

2.4. Taxes

Taxes are paid in accordance with the tax regulations of the Republic of Armenia.

2.5. Budget

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated procurement plans for the reporting period.
3. Summary of Summary Reports and SOEs

<table>
<thead>
<tr>
<th>Withdrawal No</th>
<th>Withdrawal application No</th>
<th>Payment categories</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6DA 10.02.2016</td>
<td>1. Goods, Consultant's services including audit, Training and Workshops</td>
<td>44,852.03</td>
</tr>
<tr>
<td></td>
<td>7DA 18.05.2016</td>
<td></td>
<td>38,498.06</td>
</tr>
<tr>
<td></td>
<td>8DA 17.06.2016</td>
<td></td>
<td>51,527.41</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>134,877.50</td>
</tr>
</tbody>
</table>

4. Statement of Designated Account

Bank account number: 900000927039
Bank: Central Treasury
Bank location: 4 Tigran Mets str., 1-st floor, Yerevan, 0010, Republic of Armenia
Currency: USD

IDF Grant No. TF013658
01.01.2016 - 15.08.2016

1. Opening balance as at 01.01.2016: 30,147.97
2. Add: opening discrepancy: -
3. IBRD advance/replenishment: 79,225.80
4. Less: Refund to IBRD from DA: -
5. Present outstanding amount advanced to DA: 109,373.77
6. DA closing balance as at 15.08.2016: 19,348.30
7. Add: Amount of eligible expenditures paid: 90,025.47
8. Less: interest earned (if credited to DA): -
9. Total advance accounted for: 109,373.77
10. Closing discrepancy (5)-(9): -
5. Statement of financial position

The Statement of financial position discloses assets, liabilities and net assets of the Project as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>note</th>
<th>15.08.2016</th>
<th>01.01.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>6</td>
<td>19,348.30</td>
<td>30,147.97</td>
</tr>
<tr>
<td>Prepayments</td>
<td></td>
<td>429.81</td>
<td>-</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td>19,778.11</td>
<td>30,147.97</td>
</tr>
</tbody>
</table>

| LIABILITIES                                  |      | -          | -          |
| Payables                                     |      |            |            |
| Total liabilities                            |      | -          | -          |

| NET ASSETS                                   |      | -          | -          |
| Cumulative income                           | 8    | 385,000.00 | 305,774.20 |
| IDF Grant No.TFO13658                       |      |            |            |
| Government of RoA                           |      | 125,949.45 | 101,270.03 |
| Total                                       |      | 510,949.45 | 407,044.23 |

| Cumulative expenses                         |      | (488,130.89)| (373,844.96)|
| Project expenses                            |      |            |            |
| Foreign exchange loss                       |      | (3,040.45) | (3,051.30) |
| Total net assets                            |      | 19,778.11  | 30,147.97  |

6. Cash

| Designated account (IDF Grant No.TFO13658)  |      | USD        | USD        |
| Designated account (IDF Grant No.TFO13658)  |      | Treasury   | 19,348.30  | 30,147.97  |
| Designated account (Government of RoA)      |      | Treasury   | 429.81     | -          |
| Total                                       |      | 19,778.11  | 30,147.97  |

7. Project Expenditures

7.1. Project expenditures financing per funds

<table>
<thead>
<tr>
<th>Expenditure category</th>
<th>Reporting period</th>
<th>Cumulative As at 15 Aug 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IDF Grant</td>
<td>GoA</td>
</tr>
<tr>
<td>1. Goods, Consultant's services including Audit, Training and Workshops</td>
<td>90,025.47</td>
<td>24,260.46</td>
</tr>
<tr>
<td>Total</td>
<td>90,025.47</td>
<td>24,260.46</td>
</tr>
</tbody>
</table>
7.2. Project expenditure budget execution

<table>
<thead>
<tr>
<th>Category</th>
<th>Cumulative Expenditures as at 31 Dec 2015</th>
<th>Total Budget</th>
<th>Execution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>USD</td>
<td>%</td>
</tr>
<tr>
<td>1. Goods, Consultant’s services including Audit, Training and Workshops</td>
<td>488,130.89</td>
<td>539,000.00</td>
<td>91%</td>
</tr>
<tr>
<td>Total</td>
<td>488,130.89</td>
<td>539,000.00</td>
<td>91%</td>
</tr>
</tbody>
</table>

8. Financing

8.1. IDF Grant No.TF013658

<table>
<thead>
<tr>
<th>Reporting period</th>
<th>Cumulative as at 15 Aug 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>Advances/ (advance recovery)</td>
<td>(55,651.70)</td>
</tr>
<tr>
<td>SOE and Summary Report</td>
<td>134,877.50</td>
</tr>
<tr>
<td>Total</td>
<td>79,225.80</td>
</tr>
</tbody>
</table>

Total financing budget: 385,000.00

Percentage of finance provided as at 15 Aug 2016: 100%

8.2. Government of RoA

<table>
<thead>
<tr>
<th>Reporting period</th>
<th>Cumulative as at 15 Aug 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>Financed</td>
<td>24,679.42</td>
</tr>
</tbody>
</table>

Total financing budget: 154,000.00

Percentage of finance provided as at 15 Aug 2016: 82%

9. Project completion

The Project was completed as at May 29, 2016 (Closing Date), and the transactions were completed as at August 15, 2016 (the Reporting Date).

As at the date of signing these special purpose financial statements:

a. No expenses related to the Project were incurred after the Closing Date; the payments made during the Grace period related to expenses incurred before the Closing Date;

b. No withdrawals from IDF Grant No. TF013658 were made after Closing date;

c. No expenditures related to the Project were submitted to the WB after the Reporting date;
d. There were no uncovered prepayments or payables outstanding to contractors related to the Project as at the Reporting Date, except for the final audit fee payable;

e. The cash balance outstanding as at Reporting date consists:
   - Balance at Designated account at the amount of USD 19,348.30 to be refunded to WB after paying for final audit service;
   - Balance at GOA co financing account at the amount of USD 429.81 for paying taxes for final audit service;

f. We are not aware about any pending or existing litigations against the Project.
ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE EPIU SA AND DISBURSED BY THE WORLD BANK
For the period from 1 January 2016 to 15 August 2016
(Amounts are shown in US dollars)

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Appl.</th>
<th>EPIU SA</th>
<th>WB</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance (recovery)</td>
<td>7DA</td>
<td></td>
<td>(4,124.29)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8DA</td>
<td></td>
<td>(51,527.41)</td>
<td>(55,651.70)</td>
</tr>
<tr>
<td>1. Goods, Consultant’s services including Audit, Training and Workshops</td>
<td>6DA</td>
<td>44,852.03</td>
<td>44,852.03</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>7DA</td>
<td>38,498.06</td>
<td>38,498.06</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>8DA</td>
<td>51,527.41</td>
<td>51,527.41</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>134,877.50</td>
<td>134,877.50</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>134,877.50</td>
<td>79,225.80</td>
<td>-</td>
</tr>
</tbody>
</table>