



Grant Thornton

Project Financial Statements and  
Independent Auditor's Report

Renewable Resources and Energy Efficiency Fund

Geothermal exploratory drilling project  
SCF-SREP Grant No. TF0A0544

As of December 31, 2015 and for the period from July  
1, 2015 to December 31, 2015

## Contents

	<b>Page</b>
Independent auditor's report.....	1
Statement of cash receipts and payments .....	3
Statement of uses of funds by Project activities .....	5
Notes to the project financial statements.....	8

## Independent auditor's report

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To the board of trustees of the Renewable Resources and Energy Efficiency Fund,

We have audited the accompanying project financial statements of the Geothermal exploratory drilling project (the “Project”), financed by the International Bank for Reconstruction and Development (the “IBRD”) acting as an implementing agency of the Scaling-up Renewable Energy Program (the “SREP”) under the Strategic Climate Fund (the “SCF”) Grant Agreement SCF-SREP Grant No. TF0A0544, which comprise the statement of financial position as of December 31, 2015, the statement of the Project sources and uses of funds, the statement of uses of funds by Project activities, the designated account statement as of December 31, 2015 and for the period from July 1, 2015 to December 31, 2015, as well as the statement of expenditures (“SOE”) submitted to the World Bank for the period from July 1, 2015 to December 31, 2015 in support of the Grant Agreement SCF-SREP Grant No. TF0A0544 withdrawals, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Project Financial Statements*

Management of the Renewable Resources and Energy Efficiency Fund is responsible for the preparation and fair presentation of these project financial statements in accordance with the accounting policies described in note 2 to the project financial statements, the World Bank guidelines, and the relevant points of the Grant Agreement SCF-SREP Grant No. TF0A0544, and for such internal control as management determines is necessary to enable the preparation of these project financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these project 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 project 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 project 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 project financial statements give a true and fair view of the financial position of the Geothermal exploratory drilling project as of December 31, 2015, and of the funds received and expenses incurred for the period from July 1, 2015 to December 31, 2015, in accordance with the accounting policies described in the note 2 to the project financial statements, the World Bank guidelines, and the relevant points of the Grant Agreement TF016604.

In addition, in our opinion, the SOEs submitted together with the internal controls and procedures involved in their preparation can be relied upon to support the applications for the Grant Agreement SCF-SREP Grant No. TF0A0544 withdrawals.

*Basis of Accounting*

Without modifying our opinion, we draw attention to note 2 to the project financial statements, which describes the basis of accounting. The project financial statements are prepared to assist the management of the Renewable Resources and Energy Efficiency Fund to meet the requirements of the financial reporting of the World Bank. As a result, the project financial statements may not be suitable for another purpose.

June 10, 2016

Gagik Gyulbudaghyan

Managing Partner



Emil Vassilyan, FCCA

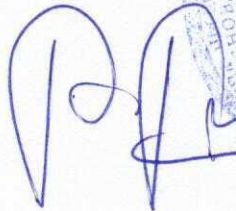
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## Statement of financial position

US dollar	Note	As of December 31, 2015
<b>Assets</b>		
<i>Current assets</i>		
Balances in bank accounts		
Designated account		252,974
		252,974
<i>Non-current assets</i>		
Accumulated Project expenses		1,390,614
		1,390,614
<b>Total assets</b>		1,643,588
<b>Funds and liabilities</b>		
Accumulated Project financing		1,564,166
Exchange rate difference		81
		1,564,247
<i>Current liabilities</i>		
Accounts payable	4	79,341
<b>Total funds and liabilities</b>		1,643,588

The project financial statements were approved on June 10, 2016 by:

Tamara Babayan  
 Executive Director




Siranush Gorgyan  
 Financial Manager



This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 8 to 12.

## Statement of the Project sources and uses of funds

Grant Agreement TF0A0544  
 As of December 31, 2015 and for the period from July 1, 2015 to December 31, 2015

In US dollars

	Actual		Planned		Variance		Life of Project
	For the period	As of December 31, 2015	For the period	As of December 31, 2015	For the period	As of December 31, 2015	
<i>Sources of funds</i>							
IBRD Grant Number TF0A0544 (note 5)	1,313,607	1,313,607					
Government co-financing	250,559	250,559					
<b>Total</b>	<b>1,564,166</b>	<b>1,564,166</b>					
Exchange rate difference	81	81					
<i>Less: Uses of funds</i>							
Goods, works, non-consulting services, consultants' services and operating costs under the Project (note 6)	1,390,614	1,390,614	1,491,452	1,491,452	(100,838)	(100,838)	10,687,500
<b>Total</b>	<b>1,390,614</b>	<b>1,390,614</b>	<b>1,491,452</b>	<b>1,491,452</b>	<b>(100,838)</b>	<b>(100,838)</b>	<b>10,687,500</b>
Net increase in working capital (note 7)	173,633	173,633					

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 12.

## Statement of uses of funds by Project activities

Grant Agreement TFOA0544

As of December 31, 2015 and for the period from July 1, 2015 to December 31, 2015

In US dollars

	Actual		Planned		Variance		Project life
	For the period	As of December 31, 2015	For the period	As of December 31, 2015	For the period	As of December 31, 2015	
A.1.1 Construction of access road and other associated infrastructure	1,365,573	1,365,573	1,445,422	1,445,422	(79,849)	(79,849)	775,000
A1.2. Drilling of slim exploratory wells	-	-	-	-	-	-	4,250,000
A.2.1. Well logging and well testing	-	-	-	-	-	-	187,500
A.2.2 Technical supervision and support	25,041	25,041	46,030	46,030	(20,989)	(20,989)	125,000
A. 2.3. Project audit and operating costs	-	-	-	-	-	-	37,500
B.1.1. Construction of water infrastructure and rig pad	-	-	-	-	-	-	312,500
B.1.2. Drilling of production-size exploratory well	-	-	-	-	-	-	3,862,500
B.2.1. Well logging, mud logging and well testing	-	-	-	-	-	-	187,500
B.2.2. Feasibility study for a potential geothermal power plant	-	-	-	-	-	-	375,000
B.2.3. Technical supervision and support consultant	-	-	-	-	-	-	250,000
B.2.4. Transaction advisory support	-	-	-	-	-	-	250,000
B. 2.5. Project audit and operating costs	-	-	-	-	-	-	75,000
<b>Total</b>	<b>1,390,614</b>	<b>1,390,614</b>	<b>1,491,452</b>	<b>1,491,452</b>	<b>(100,838)</b>	<b>(100,838)</b>	<b>10,687,500</b>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 12.

## SOE withdrawal schedule

*Grant Agreement TFOA0544  
For the period from July 1, 2015 to December 31, 2015*

*In US dollars*

Application No.	Category
DA-3	Goods, works, non-consulting services, consultants' services and operating costs under the Project
Total	1,694

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 12.



## Designated account statement

Grant Agreement TF0A0544  
As of December 31, 2015 and for the period from July 1, 2015 to December 31, 2015  
In US dollars

Opening balance as of July 1, 2015		-
Add:		
Grant replenishment during the period	1,097,153	
	<u>1,097,153</u>	<u>1,097,153</u>
Present outstanding amount advanced to the designated account (1)		<u>1,097,153</u>
Closing balance as of December 31, 2015		252,974
Add:		
Amount of eligible expenditures paid during the period	844,179	
Service charges (if applicable)	-	
	<u>844,179</u>	<u>844,179</u>
Total advance accounted for (2)		<u>1,097,153</u>
Discrepancy (1) – (2) to be explained		-

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 12.

# Notes to the project financial statements

## **1 Activity**

Renewable Resources and Energy Efficiency Fund (the “Fund”) has been established on November 21, 2005, in accordance with the decree N799 of the Government of the Republic of Armenia (“RA”) dated April 28, 2005.

The Fund implements the Geothermal exploratory drilling project (the “Project”), which is financed under the Grant Agreement SCF-SREP Grant No. TF0A0544 signed between the International Bank for Reconstruction and Development (the “IBRD”) acting as an implementing agency of the Scaling-up Renewable Energy Program (the “SREP”) under the Strategic Climate Fund (the “SCF”) and the Government of the Republic of Armenia on June 16, 2015.

The objective of the Project is to confirm whether the geothermal resource at the Project site is suitable for power generation and, if confirmed, to involve the private sector in the development of the geothermal power plant.

The Project consists of the following phases:

### **Phase 1**

#### **A.1. Construction of Access Road and First Phase of Exploratory Drilling**

##### **A.1.1. Construction of access road and other associated infrastructure**

Carrying out the following activities to facilitate the drilling activities under Phase 1 A.1.2 of the Project: (a) construction of a gravel road with sufficient length and width to allow for safe transportation of equipment and other materials to the Project Site; (b) preparation of rig pads for slim-size wells; and (c) installation of equipment and minor works at the water source.

##### **A.1.2. Drilling of slim exploratory wells**

Drilling of up to two slim-size wells.

#### **A.2. Technical Assistance and Supervision**

##### **A.2.1. Well logging and well testing**

Carrying out of the following activities: during the implementation, and at the completion of, activity under Phase 1 A.1.2. above, including, *inter-alia*: (i) analyses of the cuttings from the borehole, well temperature, and pressure measurements; and (ii) gathering of essential data such as drilling progress and changes in temperature during, and at the end of, each drilling stage.

##### **A.2.2. Technical supervision and support**

(i) Providing technical assistance for the supervision of the activity under Phase 1 A.1.2 above; (ii) providing technical support in the review of the information obtained from the completion of the activity under Phase 1 A.2.1 above; (iii) providing other technical advice and support during the implementation of this Phase 1, as required by the R2E2 Fund; and (iv) preparing the Technical Report.

##### **A.2.3. Project audit and Operating Costs**

Carrying out Project audits and financing Operating Costs for Phase 1 of the Project.

**Phase 2**

**B.1. Construction of Water Infrastructure, Rig Pads and Second Phase of Exploratory Drilling**

**B.1.1. Construction of Water Infrastructure and Rig Pad**

Carrying out the construction of (i) infrastructure to supply water for the drilling activities under Phase 2 B.1.2. below; and (ii) a rig pad(s) for production-size well(s).

**B.1.2. Drilling of production-size exploratory well**

Drilling of at least one production-size well.

**B.2. Technical Assistance and Supervision**

**B.2.1. Well logging, mud logging and well testing**

Carrying out the following activities during implementation, and at the completion of, the activity under Phase 2 B.1.2. above, including, *inter-alia*: (i) analysis of the cuttings from the borehole, well temperature and pressure measurements; and (ii) gathering of data such as drilling progress and changes in temperature during, and at the end of, each drilling stage.

**B.2.2. Feasibility study for a potential geothermal power plant**

Carrying out a feasibility study of a potential geothermal power plant (excluding construction), which will include, *inter-alia*: (i) a technical viability assessment of a potential geothermal power plant; and (ii) an assessment of the economic and financial viability of a potential geothermal power plant.

**B.2.3. Technical supervision and support**

(i) Providing technical assistance for the supervision of the activity under Phase 2 B.1.2 above; (ii) providing technical support in the review of the information obtained from the completion of the activity under Phase 2 B.2.1 above; and (iii) providing other technical advice and support during the implementation of this Phase 2 as required by the R2E2 Fund.

**B.2.4. Transaction advisory support**

Providing advisory services to the Recipient on the design and implementation of a public-private partnership (PPP) scheme in the construction and operation of a potential geothermal power plant.

**B.2.5. Project audit and operating costs**

Carrying out Project audits and financing Operating Costs for Phase 2 of the Project.

In accordance with the Grant Agreement the financing of the Project is implemented through the following category:

Category	Percentage of expenses to be financed	Amount of the grant allocated (in USD)
Goods, works, non-consulting services, consultants' services and operating costs under the Project	80 %	8,550,000
Total		8,550,000

The legal address of the Fund is Melik Adamyan 1, Yerevan, Armenia.

The average number of the Fund's staff in 2015 was 15.

## **2 Significant accounting policies**

### **2.1 Basis of preparation**

The project financial statements were prepared in accordance with the accrual basis of accounting as well as the World Bank guidelines and the relevant points of the Grant Agreement SCF-SREP Grant No. TF0A0544. Significant accounting policies are disclosed below.

### **2.2 Functional and presentation currency**

The national currency of the Republic of Armenia is Armenian dram. These project financial statements are presented in US dollars (presentation currency).

In preparing the project financial statements, transactions in currencies other than US dollar are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 483.75 Armenian drams for 1 US dollar as of December 31, 2015. Any exchange rate differences are recognized in the statement of the Project sources and uses of funds and the accumulated figure of exchange rate difference is disclosed in the Statement of financial position under "Exchange rate differences".

### **2.3 Project financing**

The financing received in the framework of the Grant Agreement SCF-SREP Grant No. TF0A0544 is recorded in the statement of financial position as "Accumulated Project financing" and is recognized at each replenishment. In addition, the current period funds received are disclosed in the statement of Project sources and uses of funds, showing the sources of funds.

### **2.4 Project expenses**

The Project expenses are recognized on the accrual basis of accounting. The accumulated Project expenses are disclosed in the statement of financial position under non-current assets. In addition, current period expenses are disclosed in the statement of Project sources and uses of funds and statement of uses of funds by Project activity, both by category and by activities. Additionally, a further breakdown of expenses by categories is disclosed in note 6.

### **2.5 Accounts payable**

Payables comprise the amounts to be paid and are stated at nominal value.

#### **a The World Bank financing**

To finance eligible expenditures for the Grant Agreement SCF-SREP Grant No. TF0A0544, the World Bank disburses proceeds from the Credit account using one or more of the disbursement methods, which are stated below:

a. Reimbursement

The Bank may reimburse the borrower to finance eligible expenditures that the borrower has prefunded from its own resources.

b. Advance

The Bank may advance loan proceeds into a designated account of the borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.

c. Direct payment

The Bank may make payments, at the borrower's request, directly to a third party for eligible expenditures.

d. Special commitment

The Bank may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the borrower's request and on terms and conditions agreed between the Bank and the borrower.

**3. Closing date of the Project**

The closing date of the Project was defined as May 31, 2019.

**4. Accounts payable**

In US dollars

	As of December 31, 2015
Payable to the Fund	12,033
Payable to contractor	67,308
	<u>79,341</u>

Payable to the Fund include the amounts to be paid to the Fund, since the own resources of the Fund were used for the purposes of the Project in 2015.

**5. Grant TF0A0544**

In US dollars

	For the period from July 1, 2015 to December 31, 2015	As of December 31, 2015
SOE procedures	1,694	1,694
Designated account advances	600,000	600,000
Reimbursement	216,454	216,454
Other procedures	495,459	495,459
	<u>1,313,607</u>	<u>1,313,607</u>

Under the method of "SOE procedures" of financing, the Fund requests advance to and documentation of designated account accompanied by the statement of expenditure (SOE).

Under the method of "Other procedures" of financing, the Fund requests advance to and documentation of designated account accompanied by the records evidencing eligible expenditures for payments against contracts valued at more than the amounts in accordance with the Disbursement Letter and contracts that are subject to the World Bank's prior review.

**6. Uses of funds by category descriptions**

The statement of the Project sources and uses of funds discloses the expenses in one combined category, as depicted in the Grant Agreement SCF-SREP Grant No. TF0A0544. However, for the convenience of certain users, the breakdown of the uses of funds is disclosed in the table below.

In US dollars	For the period from July 1, 2015 to December 31, 2015
Works	1,365,573
Consultants' services	25,041
	<u>1,390,614</u>

**7. Net increase/(decrease) in working capital**

In US dollars	For the period from July 1, 2015 to December 31, 2015	As of December 31, 2015
Increase in bank balances	252,974	252,974
Increase in accounts payable	(79,341)	(79,341)
	<u>173,633</u>	<u>173,633</u>

**8. Reconciliation between the amounts received by the Fund and disbursed by the World Bank**

Grant Agreement TF0A0544  
 For the period from July 1, 2015 to December 31, 2015  
 In US dollars

Category	Appl.	Fund	The World Bank	Difference
Goods, works, non-consulting services, consultants' services and operating costs under the Project	2-RA	216,454	216,454	-
	3-DA	497,153	497,153	-
		<u>713,607</u>	<u>713,607</u>	-
Advance	1-DA	600,000	600,000	-
		<u>600,000</u>	<u>600,000</u>	-
Total		<u>1,313,607</u>	<u>1,313,607</u>	-