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Independent Auditor's Report and the Special Purp
Project Financial Statements

Renewable Resources and Energy Efficiency Fund

Geothermal Project IBRD

Grant TF 093653

For the year ended December 31, 2011

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Independent auditor's report

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44, Է ԵրբԼՍԻՍ 0012
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Կ.+374 10 260 964 4.+374 10 260
961

Grant Thornton CJSC
8/1 Vagharshyan Str. 0012
Yerevan, Armenia

T +374 10 260 964 F +374 10 260
961

www.granthornton.am

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

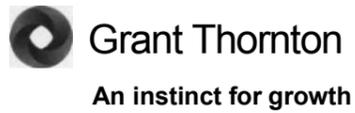
We have audited the accompanying special purpose project financial statements of the Geothermal Project (the "Project"), financed by the International Bank for Reconstruction and Development (the "IBRD") Grant Agreement TF 093653, which comprise the statement of financial position as of December 31, 2011, the statement of the Project sources and uses of funds, the statement of uses of funds by the Project activities, the designated account statement as of and for the year ended December 31, 2011, as well as the statement of expenditures ("SOE") submitted to the World Bank for the year ended December 31, 2011 in support of the Grant Agreement TF 093653 withdrawals, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Special Purpose Project Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the accounting polices described in the note 2 to the special purpose project financial statements, the World Bank guidelines and the relevant points of the Grant Agreement TF 093653, and for such internal control as management determines is necessary to enable the preparation of these special purpose 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 special purpose 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 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 special purpose project financial statements present fairly the financial position of the Geothermal Project as of December 31, 2011, and the funds received and expenses incurred for the year then ended, in accordance with the accounting policies described in the note 2, the World Bank guidelines, and the relevant points of the Grant Agreement TF 093653 and, in all material respects, expenditures have been applied to the purposes intended in Grant Agreement TF 093653.

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 application for the Grant TF 093653 withdrawals.

Emphasis of a Matter

We draw attention to note 3 to the special purpose project financial statements, which states that the closing date of the Project was defined as September 30, 2012. Our opinion is not qualified in respect of this matter.

April 20, 2012

Gagik Gyulbudaghyan
Managing Partner

Emil Vassilyan, FCCA
Engagement Partner

Statement of financial position

	As of December 31, 2011	As of December 31, 2010
	987,091	582,766
	987,091	582,766
	147,298	136,584
	147,298	136,584
	1,134,389	719,350
	1,140,453	720,241
	(6,307)	(1,138)
	1,134,146	719,103
	243	247
	243	247
	1,134,389	719,350

In US dollars

Assets

Non-current assets Accumulated

Project expenses

Current assets

Balances in designated account

Total assets

Funds and liabilities Accumulated

Project financing Exchange rate

difference

Liabilities Accounts payable

Total funds and liabilities

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 11.

The special purpose project financial statements were approved on March 22, 2012

 Tamara Babayan
Executive director

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Roza Manucharyan
Financial manager ^

Statement of the Project sources and uses of funds

As of and for the year ended December 31, 2011 In US dollars

	Actual		Planned		Variance		Project
	For the year	As of December 31, 2011	For the year	As of December 31, 2011	For the year	As of December 31, 2011	
<i>Sources of funds</i>							
Grant Agreement TF 093653 (note 4)	345,751	968,220					
Government co-financing	74,461	172,233					
Total	420,212	1,140,453					
Exchange rate difference	(5,169)	(6,307)					
<i>Less: Uses of funds</i>							
Consultants' services and Operating costs under Parts A1 and B1 of the Project	42,513	625,279	17,445	600,211	25,068	25,068	656,800
Consultants' services and Operating costs under Parts A2 and B2 of the Project	361,812	361,812	883,268	883,268	(521,456)	(521,456)	1,143,200
Total	404,325	987,091	900,713	1,483,479	(496,388)	(496,388)	1,800,000
Net increase in working capital (note 5)	10,718						

Statement of uses of funds by the Project activities

As of and for the year ended December 31, 2011 In US dollars

	Actual		Planned		Variance		Project
	For the year	As of December 31, 2011	For the year	As of December 31, 2011	For the year	As of December 31, 2011	
A. Technical Assistance		914,082	880,776	1,420,736	(506,654)	(506,654)	1,740,000
A1. Consultants' services for the geological and geophysical fieldwork	12,310	552,270		539,960	12,310	12,310	630,400
A2. Consultants' services for further geophysical investigation works	361,812	361,812	880,776	880,776	(518,964)	(518,964)	1,109,600
B. Project implementation	30,203	73,009	19,937	62,743	10,266	10,266	60,000
B1. Support to the Project Implementing Entity for part A1	30,203	73,009	77,445	60,251	72,753	12,758	20,000
B2. Support to the Project Implementing Entity for part A2	-	-	2,492	2,492	(2,492)	(2,492)	40,000
Total	404,325	987,091	900,713	1,483,479	(496,388)	(496,388)	1,800,000

SOE withdrawal schedule

Grant TF 093653
For the year ended December 31, 2011 In US dollars

Application No.	Category
	Consultants' services and Operating costs under Parts A1 and B1 of the Project
7-SA	19,213
9-SA	26,784
	45,997

Designated account statement

Geothermal Project
Special purpose project financial statements
December 31, 2011

Grant TF 093653
As of and for the year ended December 31, 2011 in
US dollars

Opening balance as of January 1, 2011		136,584
Add: Cumulative unexplained discrepancy		
Grant replenishment during the year	<u>97,425</u>	<u>97,425</u>
	<u>97,425</u>	<u>97,425</u>
Less: Refund to Bank from the designated account during the year		
Present outstanding amount advanced to the designated account (1)		<u>234,009</u>
Closing balance as of December 31, 2011		147,298
Add:		
Amount of eligible expenditures paid during the year	<u>86,711</u>	<u>86,711</u>
	<u>86,711</u>	<u>86,711</u>
Less: Interest earned (if credited into the designated account)		
Total advance accounted for (2)		<u>234,009</u>
Discrepancy (1) - (2) to be explained		

Notes to the special purpose 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 Project (the "Project"), which is financed under the Grant Agreement TF 093653 signed between the International Bank for Reconstruction and Development (the "IBRD") and the Government of the Republic of Armenia on February 26, 2009.

The objective of the Project is to assess the feasibility of exploratory drilling of the geothermal site with the highest estimated geothermal potential.

The Project consists of the following parts:

A: Technical Assistance

1. Provision of consultants' services for the geological and geophysical fieldwork for the technical investigation in Gridzor and Karkar sites, including: (a) geological field works (mapping and scouting); (b) geophysical investigations, specifically, conducting and interpretation of the magneto-telluric (MT) sounding study; and (c) supervision over the implementation of the scope of geological field works and MT sounding study.
2. Provision of consultants' services for further geophysical investigation works on one selected site as a result of the services provided in 1 above, including: (a) conducting and interpretation of the three dimensional seismic survey (3DSS); (b) supervision over the implementation of the scope of 3DSS; and (c) overall assessment of the economic and financial viability of the selected site.

B: Project Implementation

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 11.

1. Support to the Project Implementing Entity for the effective implementation and monitoring of the Part A.1 of the Project.

2. Support to the Project Implementing Entity for the effective implementation and monitoring of the Part A. 2 of the Project. .

The financing of the Project consists of the following parts:

Category	Percentage of expenses to be financed	Amount of the Grant allocated (in US dollars)
Consultants' Services and Operating Costs under Parts A.1 and B.1 of the Project	83%	540,000
Consultants' Services and Operating Costs under Parts A.2 and B.2 of the Project	83%	960,000
Total		1,500,000

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

The average number of the Fund's staff in 2011 was 17 (2010: 21).

2 Significant accounting policies

2.1 Basis of preparation

The special purpose project financial statements were prepared in accordance with the accruals basis of accounting as well as the World Bank guidelines and the relevant points of the requirements of the Grant Agreement TF 093653. Significant accounting policies are disclosed below.

2.2 Functional and presentation currency

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

In preparing the special purpose 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 385.77 Armenian drams for 1 US dollar as of December 31, 2011 (as of December 31, 2010: 363.44 Armenian drams for 1 US dollar). 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 "Funds".

2.3 Project financing

Financing received in the framework of the Grant Agreement TF 093653 is recorded in the statement of financial position as "Accumulated Project financing" and is recognized at each replenishment. In addition, the current year funds received are disclosed in the Statement of the Project sources and uses of funds, showing the sources of funds.

2.4 Project expenses

Project expenses are recognized on an accrual basis of accounting. The accumulated project expenses are disclosed in the statement of financial position under non-current assets. In addition, the current year expenses are included in the statement of the Project sources and uses of funds and the statement of uses of funds by the Project activities disclosing expenses both by category and activities.

2.5 The World Bank financing

To finance eligible expenditures for the Grant Agreement, the World Bank disburses proceeds from the Project amount 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 refinanced 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 payments

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.

2.6 Planned annual expenses

As of the end of the period "Planned Project expenses" include the amount of "Actual Project expenses" as of end of the previous period and annual budget expenses of the reporting period.

3. Closing date of the Project

As described in the Grant Agreement, the Project closing date was defined as April 30, 2011. According to the letter dated December 15, 2010, the closing date of the Project was extended till September 30, 2012.

4. Sources of funds

Grant Agreement TF 093653

In US dollars	For the year ended December 31, 2011
SOE procedures Direct	45,997
payment Other	248,326
procedures	<u>51,428</u>
	345,751

5. Working capital

In US dollars	For the year ended December 31, 2011
Increase in bank balances	10,714
Decrease in accounts payable	<u>4</u>
	10,718

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

Grant TF 093653

For the year ended December 31, 2011 In US dollars

Category	Appl.	Fund	WB	Difference
Consultants' services and Operating costs under Parts A1 and B1 of the Project		7-SA 9-SA		19,213 26,784 <hr/> 45,997
Consultants' Services and Operating Costs under Parts A.2 and B.2 of the Project		9-SA 10-DA		51,428 248,326 <hr/> 299,754
Total				<hr/> 345,751 <hr/> 345,751