

September 11, 2018

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Project No.: DV602-00010/09  
Doc. No.: DV-18-1014

**Re: Amulsar Gold Mine, Armenia  
Project Conformance with International Lender Requirements**

Dear Mr. Walker,

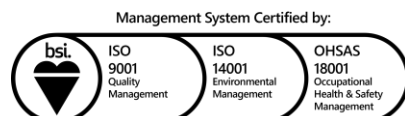
This letter summarizes the current status of Lydian's Amulsar Project in relation to conformance with international lender requirements. The letter presents the history of our role as the Independent Environmental and Social Consultant (IESC) and our involvement with the Project, gives a high-level summary of the international lender requirements pertaining to the Project, and states our independent opinion regarding the current conformance status of the Project with international lender requirements.

## 1.0 BACKGROUND

In 2014, Knight Piésold and Co. (Knight Piésold) was retained by Endeavour Financial Limited (Endeavour) on to serve as Independent Environmental and Social Consultant (IESC) to the lenders of Lydian International Ltd.'s Amulsar Project (the Project) in Armenia. Endeavour, Lydian's financial advisor at the time, was acting on behalf of the future lender group to "jump-start" the independent review of the Project's Environmental and Social Impact Assessment (ESIA) prepared by Wardell Armstrong International (WAI). The current lender group is comprised of Orion Mine Finance (Orion), Resource Capital Funds VI L.P., managed by RCF Management LLC (RCF), the European Bank for Reconstruction and Development (EBRD), ING, and EKN.

As IESC, Knight Piésold's mandate to the lenders is to:

- Assess conformance with environmental, social, health and safety (ESHS) requirements pursuant to the Equator Principles, International Finance Corporation Performance Standards, EBRD Performance Requirements, good international industry practice guidance, and the lender's Environmental and Social Action Plan.
- Assess conformance and progress of the Project commitments register (CR) (collectively "project commitments") developed as part of ESIA v10 with respect to the above-mentioned requirements
- Report accomplishments and any non-compliant issues and opportunities for improvement as appropriate.
- Identify any ESHS factors that may adversely affect the future performance of the Project.
- Identify any Project practices, errors, omissions or other actions that may affect the lenders' reputation or overall project finance risk.



Knight Piésold has acted as the IESC since the advanced exploration phase of the Project. From 2014 through 2016, the IESC completed independent reviews of the ESIA (Versions 9 and 10) and prepared a gap analysis and action table to be used by lenders. Since that time, the Project has advanced to construction. The onset of the construction initiated more activity on site, and as such, the lenders commissioned a robust IESC audit program to monitor the construction activities and the transition into operations. The monitoring activities established thus far include:

### 2017 IESC Monitoring Program

- Phase 1: Data Review and Desktop Audit (**Complete**, April 2017)
- Phase 2: Site Verification Audit (**Complete**, June 2017)
- Phase 3: Biodiversity Audit (**Complete**, September 2017)
- Phase 4: Land Acquisition and Social Program Verification Audit (**Complete** implemented concurrently with Phase 2, June 2017)
- Phase 5: Ongoing Support Verification Audit (**Complete**, December 2017)

### 2018 IESC Monitoring Program

- Spring Verification Audit (**Complete**, September 2018)
- Fall Verification Audit (Pending, planned for late 2018)

Following the IESC mandate presented above, the findings from each IESC audit are presented confidentially to the lender group with a complementary confidential copy provided to Lydian. Lydian then works to address or make progress against each action item before the next IESC audit.

## 2.0 REGULATORY FRAMEWORK

The Project regulatory framework is summarized in Chapter 2 of the ESIA (Lydian, 2016). Lydian has committed that the construction, operation and closure of the Amulsar Project will meet the requirements, spirit and intent of the following:

- Armenian legislation, regulation, permits, approvals and strategies;
- International lender requirements;
- Lydian corporate mandates, its eight corporate policies, Code of Conduct and best practice commitments; and,
- Good International Industry Practice (GIIP) that defines leading industry best practices.

As mentioned above in the IESC mandate, the IESC compares ESHS performance to specific lender requirements, most importantly:

- **Equator Principles** - The Equator Principles (EPs) are a risk management framework, voluntarily adopted by financial institutions for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making. The EPs have greatly increased the attention and focus on social/community standards and responsibility, including robust standards for indigenous peoples, labor standards, and consultation with locally affected communities within the project finance market. They have also promoted convergence around common environmental and social standards (Equator Principle, 2013). The ten EPs are listed in Table 3-1 below.
- **International Finance Corporation Performance Standards** – International Finance Corporation’s (IFC) Environmental and Social Performance Standards (PS) are part of the IFC’s Sustainability Framework. The Sustainability Framework articulates IFC’s strategic commitment to sustainable development and is an integral part of their approach to risk management. The Sustainability Framework promotes sound environmental and social practices, encourages transparency and accountability, and contributes to positive development impacts. The PS have become globally recognized as a benchmark for environmental and social risk management in the private sector. The PS define a company’s responsibilities for managing their environmental and social risks. Implementation the PS are supported by various guidance notes, good international industry practice (GIIP) guidance, and technical reference documents (IFC, 2012). The eight PSs are listed in Table 3-1 below.
- **European Bank for Reconstruction and Development Performance Requirements** – EBRD-financed projects are expected to be designed and operated in compliance with good international practices relating to sustainable development. The EBRD has established Performance Requirements (PR) which cover key areas of environmental and social issues and impacts. The PR provide a solid base from which companies can improve the sustainability of their business operations. The PR also state projects should avoid adverse impacts on workers, communities, and the environment. If avoidance is not possible, negative impacts should be reduced, mitigated or compensate for, as appropriate. EBRD also requires new facilities or business activities financed by EBRD to be designed to meet the PR from the outset (EBRD, 2014). The ten PRs are listed in Table 3-1 below.

### 3.0 PROJECT CONFORMANCE STATUS

Conformance with the various lender requirements is an ongoing effort. Lydian has demonstrated its commitment to conforming with the regulatory framework through evidence presented at each IESC audit. While the Project does have ongoing action items and programs in-process to maintain conformance, the IESC finds the Project currently in substantive conformance with lender requirements.

Table 3-1 presented below is a summary of the Project’s conformance to the lender requirements following completion of the most recent audit.

**Table 3-1: Conformance with Lender Requirements**

Topic	Equator Principles III (EP)	IFC Performance Standards (PS)	EBRD Performance Requirements (PR)	Substantive Conformance
Project Categorization	Principle 1	Applies to all projects posing environmental/ social risks and impacts	PR-1	Yes
Project Impact and Risk Assessment	Principle 2	PS-1	PR-1	Yes
Management Systems and Discipline-Specific Implementation Plans	Principle 4	PS-1	PR-1	Yes
Standards, Efficiency and Pollution Prevention	Principle 3	PS-3	PR-3	Yes
Labor and Working Conditions		PS-2	PR-2	Yes
Community Health, Safety and Security		PS-4	PR-4	Yes
Land Acquisition, Resettlement, and Economic Displacement		PS-5	PR-5	Yes
Biodiversity and Natural Resource Management		PS-6	PR-6	Yes
Indigenous People		PS-7	PR-7	Not applicable
Cultural Heritage		PS-8	PR-8	Yes
Stakeholder Engagement	Principle 5	PS-1, 5, 6, 7 and 8	PR-1, 5, 8 and 10	Yes
Grievance Mechanism	Principle 6	PS-1, 2, and 5	PR-2, 5, 7 and 10	Yes
Independent Review	Principle 7			Yes
Financial Intermediaries			PR-9	Not applicable
Covenants	Principle 8			Not applicable
Independent Monitoring and Reporting	Principle 9			Not applicable
Reporting and Transparency	Principle 10			Not applicable

### 3.1 INDEPENDENT ADVISORY PANEL

A commitment from the ESIA required Lydian to form an Independent Advisory Panel (IAP). The IAP is separate and autonomous from the IESC. The IAP has had an 'open-door' approach and drawn on interactions with communities near to the Project site, representatives of civil society groups, academics, government officials, international institutions, technical experts and Lydian staff. These combine to form an independent, objective overview of the Amulsar project's management of social and environmental impacts and of the way in which Lydian is meeting its commitments.

The IAP's first annual review was completed in May 2018 and many of their findings were aligned with those identified by the IESC. The IESC has had no contact with the members of the IAP regarding compliance or addressing project commitments.

### 4.0 CONCLUSION

This letter summarizes our role as IESC to the Amulsar Project in Armenia and presents our opinion regarding its current conformance status to the various lender requirements. Since we became involved with the Amulsar Project in 2014, our independent audits have consistently documented Lydian's conformance with lender expectations and industry good practice and its continued determination to develop a world-class, environmentally and socially responsible mine.

Yours truly,  
**Knights Piésold and Co.**



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Catherine Schumacher,  
Project Engineer



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Barbra Filas, P.E.  
Executive Project Manager

**Attachments:** None

**Copy:**

Orion: Istvan Zollei and Nate Abebe

EBRD: Sarah Ruck

RCF: Allison Forrest, Justin Anderson, and Temuulen Tumurbat

Lydian International: Rodney Stuparyk, Armen Stepanyan, Adrian Milton, and Alan Blakemore

IESC Team: Barbara Filas, Catherine Schumacher, Steven Lange, Edward Pollett, and Jared Hardner

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## REFERENCES

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