



**DALAIWAN AUDIT**

# **AUDITOR'S REPORT**

**“Gobi Oyu Development Support Fund” NGO**

Financial statement as of  
December 31, 2016



 an independent member of  
**BAKER TILLY**  
INTERNATIONAL



## INDEPENDENT AUDITOR'S REPORT

**To: Board of Directors of “Gobi Oyu Development Support Fund” NGO**

### Opinion

We have audited the financial statements of “Gobi Oyu Development Support Fund” NGO, which comprise the statement of financial position as at December 31, 2016, and the related statements of activities, and cash flows for the year then ended, the related notes to the financial statements, a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements were presented fairly, in all material respects, the financial position of “Gobi Oyu Development Support Fund” NGO as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with the Guideline on Maintenance of Accounting Records and Reporting of Non-Government Organization approved by the resolution No.385 of the Ministry of Finance pursuant to International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information*

Management is responsible for other information. The other information of the “Gobi Oyu Development Support Fund” NGO refers to the operational report which does not include the financial statements and the auditor's opinion and report. The operational report of “Gobi Oyu Development Support Fund” NGO for the year 2016 was issued before the audit report.

Gobi Oyu development support fund (DSF) is operating in a transparent manner by aligning with the Cooperation Agreement and the Fund Charter is providing funding to Umnugobi aimag priority projects and programs that are approved by the DSF Board. Besides, the DSF is functioning in accordance with the Fund Charter and other related operational guidelines which leads to successful project and program implementation.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

INDEPENDENT AUDITOR'S REPORT  
(continued)

In preparing the financial statements, management is responsible for assessing the “Gobi Oyu Development Support Fund” NGO’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the organization’s financial reporting process.

*Auditor’s Responsibility for the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. ‘Reasonable assurance’ is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 “Gobi Oyu Development Support Fund” NGO’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization’s ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the “Gobi Oyu Development Support Fund” NGO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.





GOBI OYU DEVELOPMENT SUPPORT FUND NGO

STATEMENT OF FINANCIAL POSITION  
as of December 31, 2016

		31-Dec-15 thousand togrogs	31-Dec-16 thousand togrogs
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4.1	974,166.1	6,768,726.2
Receivables		-	-
Inventories		-	-
Prepaid expenses and advance		-	-
Total current assets		<b>974,166.1</b>	<b>6,768,726.2</b>
<b>Non-current assets</b>			
Furniture and equipment	4.2	695.0	14,360.0
Accumulated depreciation		-	(2,480.8)
Intangible assets (net)		-	-
Investment and other assets		-	-
Total non-current assets		<b>695.0</b>	<b>11,879.2</b>
<b>TOTAL ASSETS</b>		<b>974,861.1</b>	<b>6,780,605.4</b>
<b>Liabilities and net assets</b>			
<b>Current liabilities</b>			
Accounts payable		-	-
Taxes payable		-	-
Short-term bank loan		-	-
Unearned revenue		-	-
Other liabilities		-	-
Total current liabilities		-	-
<b>Net assets</b>			
Unrestricted reserve		-	-
Accumulated results of performance	4.3	974,861.1	6,780,605.4
Total net assets		<b>974,861.1</b>	<b>6,780,605.4</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>974,861.1</b>	<b>6,780,605.4</b>



Approved by:

*S. Erdenebat*  
S. Erdenebat  
Executive Director

Prepared by:

*B. Batkhuyag*  
B. Batkhuyag  
Accountant

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**GOBI OYU DEVELOPMENT SUPPORT FUND NGO**

**STATEMENT OF ACTIVITIES  
for the year ended December 31, 2016**


		31-Dec-15 thousand togrogs	31-Dec-16 thousand togrogs
<b>Operating income</b>	4.4		
Income from projects and programs		3,993,980.0	10,024,900.0
Donations, aids and gifts		-	-
Other income		-	-
<b>Total operating income</b>		<b>3,993,980.0</b>	<b>10,024,900.0</b>
<b>Operating expenses</b>	4.5		
Project and programs expenses		3,010,722.4	4,018,415.4
Donations given to organizations		-	33,000.0
Donations given to individuals		-	-
Wages, salaries and bonuses		2,795.8	63,171.4
Social insurance expenses		307.5	6,948.9
Maintenance and repair		229.0	635.0
Stationery costs		226.6	3,972.8
Rent expenses		2,475.0	14,850.0
Cleaning service cost		-	2,449.4
Transportation expenses		50.9	91.6
Depreciation expense		-	2,480.8
Advertising expenses		448.9	23,098.0
Postal and communication expenses		486.2	2,255.0
Supply expenses		988.8	1,928.1
Training expenses		-	14,150.4
Professional service expenses		-	1,026.3
Meetings and seminars expense		-	30,682.6
Other expenses		387.8	-
<b>Total operating expenses</b>		<b>3,019,118.9</b>	<b>4,219,155.7</b>
<b>Total operating profit/(loss)</b>		<b>974,861.1</b>	<b>5,805,744.3</b>
<b>Other items</b>			
Foreign exchange gain / (loss)		-	-
Other income		-	-
<b>Total other items</b>		-	-
<b>NET RESULTS FOR THE CURRENT PERIOD</b>		<b>974,861.1</b>	<b>5,805,744.3</b>

Approved by:



S. Erdenebat  
Executive Director

Prepared by:



B. Batkhuyag  
Accountant

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The accompanying notes on page 1-17 are an integral part of these financial statements.



GOBI OYU DEVELOPMENT SUPPORT FUND NGO

STATEMENT OF CHANGES IN NET ASSETS  
for the year ended December 31, 2016

	31-Dec-15 thousand togrogs	For the reporting period thousand togrogs	31-Dec-16 thousand togrogs
Unrestricted fund	-	-	-
Restricted fund			
Revaluation reserve			
Foreign exchange reserve			
Accumulated results of performance	974,861.1	5,805,744.4	6,780,605.5
<b>BALANCE/CHANGE AT THE END OF THE YEAR</b>	<b>974,861.0</b>	<b>5,805,744.4</b>	<b>6,780,605.4</b>

Approved by:  
  
 S. Erdenebat  
 Executive Director

Prepared by:

  
 B. Batkhuyag  
 Accountant

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GOBI OYU DEVELOPMENT SUPPORT FUND NGO

STATEMENT OF CASH FLOWS  
for the year ended December 31, 2016

	31-Dec-15 thousand togrogs	31-Dec-16 thousand togrogs
<b>Cash inflows from operating activities</b>		
Cash receipt from projects and programs	3,993,980.0	10,024,900.0
Donations, aids and gifts received	-	-
Cash receipt from other activities	-	-
Total cash inflow from operating activities	3,993,980.0	10,024,900.0
<b>Cash outflow from operating activities</b>		
Payments to employees	(2,795.8)	(63,171.4)
Payments to social insurance organization	(307.5)	(6,948.8)
Cash paid for inventories	(5,057.3)	(67,931.0)
Cash paid for utilities	-	(27,116.7)
Cash paid for fuel, vehicles and spare parts	(235.9)	(91.6)
Cash paid for programs and projects	(3,010,722.4)	(4,051,415.4)
Interest paid	-	-
Taxes paid	-	-
Payments for insurance	-	-
Total cash outflow from operating activities	(3,019,118.9)	(4,216,674.9)
<b>Net cash flow a from operating activities</b>	<b>974,861.1</b>	<b>5,808,225.1</b>
<b>Cash in/(out) flows from investing activities</b>		
Proceeds from sale of long-term assets	-	-
Purchase of long-term assets	(695.0)	(13,665.0)
Net cash flows from investing activities	<b>(695.0)</b>	<b>(13,665.0)</b>
<b>Cash in/(out) flows from financing activities</b>		
Proceeds from bank loans	-	-
Payment of bank loans	-	-
Interest received	-	-
Foreign exchange gains/(losses)	-	-
Net cash flows from financing activities	-	-
<b>TOTAL NET CASH FLOWS</b>	<b>974,166.1</b>	<b>5,794,560.1</b>
Cash and cash equivalent at the beginning of the year	-	974,166.1
Cash and cash equivalent at the end of the year	974,166.1	6,768,726.2

Approved by:  
  
 S. Erdenebat  
 Executive Director

Prepared by:

  
 B. Batkhuyag  
 Accountant

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The accompanying notes on page 1-17 are an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

### Note (1) ORGANIZATION

Gobi Oyu Development Support Fund NGO was registered as a Non-Government Organization on September 23, 2015 and was granted the State registration certificate No.64947 with entity registration number 8186995. Gobi Oyu Development Support Fund NGO aims to contribute to the sustainable development of Umnugovi aimag with core objectives to implement and finance programs and projects that shall contribute in socio-economic development of soum and local community in partnership with Oyu Tolgoi LLC.

Gobi Oyu Development Support Fund NGO is governed by the Board of Directors and the management team. It has the following members in 2016:

#### Board members

<u>Name</u>	<u>Position</u>
Stephen Jones	Board Chairperson - Chief Operating Officer, Oyu Tolgoi LLC
Sugir Kh	Board member - Chairman of the Citizens' Representatives Khural of Umnugovi Aimag
Naranbaatar N	Board member - Governor of Umnugovi Aimag
Erdene-Ochir B	Board member - Member of the Citizens' Representatives Khural of Umnugovi Aimag (representing Khanbogd Soum)
Michael Gavin	Board member - General Manager, People & Organisation, Oyu Tolgoi LLC
Amarbayasgalan D	Board member - Chief Counsel, Oyu Tolgoi LLC
Baigalmaa Sh	Board member - General Manager, Communities, Oyu Tolgoi LLC

#### Executive management team

<u>Name</u>	<u>Position</u>
Erdenebat S	Executive Director
Sugarjargal B	Project and program officer
Batkhuyag B	Financial officer

Gobi Oyu Development Support Fund NGO business address:  
Room 404, 4<sup>th</sup> Floor, Golomt Business Center, 3<sup>rd</sup> Bag, Dalanzadgad Soum, Umnugobi Aimag  
Phone/Fax 976-70533577/976-70533578 e-mail: [info@goviinoyu.mn](mailto:info@goviinoyu.mn)

Independent auditor of the financial statements for 2015 and 2016: Dalaivan Audit LLC  
Dalaivan Audit Building, Amarsanaa Street-5, Bayangol District, 16th Khoroo, Ulaanbaatar, Mongolia  
Tel/Fax: 976-11-70005401/70005403, E-mail: [info@dalaivanaudit.mn](mailto:info@dalaivanaudit.mn)

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## **Note (2) BASIS OF PREPARATION**

The principal accounting policies adopted by Gobi Oyu Development Support Fund NGO's management in the preparation of the financial statements are set out below. These policies have been used consistently at all times.

### **2.1 Basis of preparation**

The financial statements prepared by Gobi Oyu Development Support Fund NGO's management have been prepared on historical and cash basis of accounting.

### **2.2 Basis for preparation of the financial statements**

The financial statements have been prepared in accordance with Guideline on Maintenance of Accounting Records and Reporting of Non-Government Organization approved by the resolution No.385 of the Ministry of Finance pursuant to International Financial Reporting Standards.

### **2.3 Financial instruments**

Financial assets and liabilities consist of cash and cash equivalents, receivables, payables, finance income and cost.

### **2.4 Going concern**

Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

### **2.5 Main solutions, assumptions and estimates of accounting**

The preparation of the financial statements in conformity with IFRS require to management to make assumptions and estimates. The management of Gobi Oyu Development Support Fund NGO has own solution in implementation of the accounting policies. The NGO regularly evaluates its calculations, assumptions and solutions based on their available information and experience. Actual results could differ from those estimates used in the preparation of financial statements.

### **2.6 Foreign currency transactions and balances**

The financial statements of Gobi Oyu Development Support Fund NGO have been presented in functional currency, Mongolian togrogs. Transactions in foreign currencies are translated into togrogs at the rate of exchange of the Mongol Bank in effect at the date of the transactions. Monetary items of assets and liabilities in foreign currencies are retranslated at the official closing rate announced by the Mongol Bank of exchange ruling at the balance sheet date. Gains or losses on foreign exchange differences arising on these transactions are recognized in the statement of activities and the statement of changes in net assets.

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## Note (3) SUMMARY OF ACCOUNTING POLICIES

### 3.1 Financial instruments

The financial instruments are consist of the following instruments:

- Cash and cash equivalents
- Accounts and other receivables
- Accounts and other payables

#### Financial assets and liabilities

##### 3.1.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities up to three months that are readily convertible to known amounts of cash.

##### 3.1.2 Accounts and other receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. When these assets are derecognised, impaired or amortized the gain or loss are recognized in profit or loss.

Oyu Tolgoi LLC signed a Cooperation agreement with Umnugovi aimag and Khanbogd soum on April 22, 2015. Gobi Oyu Development Support Fund NGO was established in accordance with the article 8.1 of the agreement in order to ensure the execution of the Cooperation Agreement. Under the Article 8.3 of the agreement, Oyu Tolgoi LLC shall provide USD 5 million financing annually. As the decision of Oyu Tolgoi to allocate funding in installments and schedule of installments is provided to be based on negotiations to allocate funding with Board of Gobi Oyu Development Support Fund NGO (or any part of it), the receivables of funding and income are recorded on cash basis.

##### 3.1.3 Accounts payables and accumulated liabilities

Payables are recorded at the nominal value at the time of receipt of the invoices from the suppliers for a goods and service.

### 3.2 Non-financial assets

#### 3.2.1 Inventories

Inventories include assets held for sale in ordinary course of business and supply materials for service.

The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

At the end of the reporting period inventories measured at the lower of cost and net realisable value. Inventories are accounted at first-in, first-out method and expensed in the period that used.



### **3.3 Finance income and cost**

#### **3.3.1 Service charge and other income**

Revenue is measured at the fair value of the consideration received or receivable net of returns, trade allowances and rebates.

According to Cooperation Agreement executed with Oyu Tolgoi LLC the funding received shall recognized as income in the following cases:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the organization
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

#### **3.3.2 Expenses**

Expenses are recognized on a cash basis of accounting when paid for it. When the economic benefits are reduced such as cash outflows incurred that reduce the assets and increase the liabilities the expenses are recognized.

Expenses are recognized in profit or loss and or in statement of activities.

### **3.4 Taxes**

#### **3.4.1 Income tax**

As Gobi Oyu Development Support Fund NGO is a non-profit organization it is not subject to corporate income tax.

#### **3.4.2 Personal income tax and social insurance contribution**

The non-government organization deducts employees' social insurance contributions in accordance with "Social insurance law" of Mongolia and personal income taxes in accordance with "Personal income tax law" of Mongolia from the employees' salaries and wages, and reports them to its respondent finance and tax authorities. Taxes are recorded when they levied on irrespective from the payment.

In accordance with the "Social insurance law" social insurance contribution from the employer is paid at the rate of 11 percent and it is expensed in the period recognized. Social insurance contributions are recorded when they are levied.

### **3.5 Related parties**

A related party is a person or entity that is related to the entity that is preparing its financial statements. A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity

### 3.6 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the organization has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provision is disclosed only until the payment becomes definite.

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**Note (4) FINANCIAL ITEMS****4.1. Note-Cash and cash equivalents**

	31 Dec 2015 thousand MNT	31 Dec 2016 thousand MNT
Cash in hand:		
Togrog	-	20.0
Cash at bank:		
Togrog	974,166.1	6,768,726.2
<b>Total</b>	<b><u>974,166.1</u></b>	<b><u>6,768,726.2</u></b>
	31 Dec 2015 thousand MNT	31 Dec 2016 thousand MNT
Cash at bank:		
Togrog		
Khan bank-5585698858	809,726.2	5,953,411.8
Khan bank-5585638869	-	-
Khan bank-5585644465	164,439.9	186,007.2
Khan bank-5585673454	-	60,799.4
Khan bank-5585672708	-	167,493.8
Khan bank-5585675200	-	200,498.0
<b>Total</b>	<b><u>974,166.1</u></b>	<b><u>6,568,210.2</u></b>
Khan bank- saving 5585675222	-	200,496.0
<b>Total</b>	<b><u>200,496.0</u></b>	<b><u>200,496.0</u></b>
<b>Total cash and cash equivalents</b>	<b><u>974,166.1</u></b>	<b><u>6,768,706.2</u></b>

The above mentioned cash balance is due amount of the programs and projects that were approved by the DSF Board to be financed in the reporting year.

A savings contract was signed with the Khan Bank branch of Umnugovi aimag to place savings deposit of MNT 200,496.00 equivalent to USD 100,000 with monthly interest of 1.3% (annual interest of 16%) for period of 1 year on December 20, 2016 based on the procedures of "Future generation fund" in accordance with 4.1 of Article 4 of "Funding guidelines to finance projects and programs" approved by the Resolution #3 of 2016 of the Board of Gobi Oyu Development Support Fund and the "Next Generation Fund of Umnugovi" approved by the Resolution #5 of September 19, 2017 of the Board accordingly. Parties agreed to make the extensions on yearly basis for the next 10 years.

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**4.2.Note-Furniture and equipment**

	Buildings	Other buildings and facilities	Furniture and fixtures	Computers and equipment	Vehicles	Total
<b><u>Initial cost:</u></b>						
Balance on 31 Dec 2015	=	=	=	<u>695.0</u>	=	<u>695.0</u>
Additions: Purchased			4,000.0	9,665.0	-	13,665.0
Deductions: <b>Balance on 31 Dec 2016</b>	=	=	<u>4,000.0</u>	<u>10,360.0</u>	=	<u>14,360.0</u>
<b><u>Accumulated depreciation:</u></b>						
Balance on 31 Dec 2015	=	=	=	=	=	-
Charge for the year	-	-	95.0	2,385.8	-	2,480.8
Deductions: <b>Balance on 31 Dec 2016</b>	=	=	<u>95.0</u>	<u>2,385.8</u>	=	<u>2,480.8</u>
<b><u>Carrying value:</u></b>						
<b>Balance on 31 Dec 2015</b>	=	=	=	<u>695.0</u>	=	<u>695.0</u>
<b>Balance on 31 Dec 2016</b>	=	=	<u>3,905.0</u>	<u>7,974.2</u>	=	<u>11,879.2</u>

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**4.3 Note-Net assets**

	31 Dec 2015 thousand MNT	31 Dec 2016 thousand MNT
Restricted reserve	-	-
Unrestricted reserve	-	-
Accumulated results of performance	974,861.1	6,780,605.4
<b>Total net assets</b>	<b><u>974,861.1</u></b>	<b><u>6,780,605.4</u></b>

**4.4 Note-Main operating income**

	31 Dec 2015 thousand MNT	31 Dec 2016 thousand MNT
Voluntary funding from Oyu Tolgoi LLC	3,993,980.0	10,024,900.0
<b>Total income</b>	<b><u>3,993,980.0</u></b>	<b><u>10,024,900.0</u></b>

Oyu Tolgoi LLC executed a Cooperation Agreement on April 22, 2015 with Umnugobi aimag and Khanbogd soum. Gobi Oyu Development Support Fund NGO was established in accordance with the article 8.1 of the agreement in order to ensure the execution of the Cooperation Agreement. According to article 8.3 of the agreement, funding of 5,000,000 US dollars or MNT equivalent to it was received from Oyu Tolgoi LLC during the reporting period and it recognized as an income.

**4.5 Note- Operating expenses**

	31 Dec 2015 thousand MNT	31 Dec 2016 thousand MNT
Expenses from implementing project and programs	3,010,722.4	4,018,415.4
Donations given to organizations		33,000.0
Wages, salaries and bonuses	2,795.8	63,171.4
Social insurance expenses	307.5	6,948.9
Meetings and seminars expense of Board	-	30,682.6
Advertising expenses	448.9	23,098.0
Rent expenses	2,475.0	14,850.0
Training expenses	-	14,150.4
Stationery expenses	226.6	3,972.8
Cleaning service cost	-	2,449.4
Depreciation expenses	-	2,480.8
Postal and communication expenses	486.2	2,255.0
Supply expenses	988.8	1,928.1
Professional service expenses	-	1,026.3
Maintenance and repair	229.0	635.0
Transportation expenses	50.9	91.6
Other expenses	387.8	-
<b>Total</b>	<b><u>3,019,118.9</u></b>	<b><u>4,219,155.7</u></b>

According to the Cooperation Agreement thematic schedules, the funding contributions provided from Oyu Tolgoi LLC were spent accordingly.

Funding thematic areas	Amount of funding: thousand MNT	
	31 Dec 2015	31 Dec 2016
(i) Social infrastructure	3,010,722.4	2,733,625.0
(ii) Environmental management	-	282,863.9
(iii) Basic social services	-	171,598.0
(iv) Traditional animal husbandry and pastureland management	-	386,585.6
(v) National history, culture and tourism	-	404,297.7
(vi) Donations and sponsorship	-	33,000.0
(vii) Scholarship program	-	39,445.2
	-	-
<b>Total</b>	<b><u>3,010,722.4</u></b>	<b><u>4,051,415.4</u></b>

The projects and programs received funding are as follows:

No	Projects and programs title	Funding provided
1	Outstanding payment for construction of kindergarten No. 25 implemented in Dalanzadgad soum in 2015	364,497.6
2	Outstanding payment for construction of kindergarten No. 26 implemented in Dalanzadgad soum in 2015	438,279.4
3	Construction of sport hall of school number 2 in Dalanzadgad soum	757,037.5
4	Construction of 10 bed hospital in Bayan-Ovoo soum	1,033,910.4
5	Design and construction work of School and kindergarten complex in Khanbogd soum	128,900.0
6	Construction of inter-soum animal health care center in Khanbogd soum	11,000.0
7	"Oyu green-house" program	150,000.0
8	"Tree nursery plant" program in Khanbogd soum	61,077.1
9	"Gobi grove" program in Manlai soum	71,786.8
10	"Training" program in Umnugobi aimag	14,785.0
11	"City culture" program	56,813.0
12	"Healthy herder" program	100,000.0
13	Disinfection-2016	386,585.6
14	Manlai soum museum	36,297.7
15	"Protect Shar Tsav, Khurdet cave cultural heritage through developing tourism" program in Manlai soum	368,000.0
16	Donations and sponsorship	33,000.0
17	"Gobi Oyu-student scholarship" program	39,445.2
	<b>Total</b>	<b><u>4,051,415.4</u></b>

**"DALAIVAN AUDIT" Co.,Ltd**  
**CERTIFIED ACCOUNTING, AUDITING**  
**& APPRAISAL**



#### 4.7 Note – Related parties

Name	Citizenship	Relation	Transaction type
Oyu Tolgoi LLC	Mongolian legal entity	Founder	Funding of projects and program
Umnugobi aimag, Khanbogd soum and other partner soums	Mongolian legal entity	Governing bodies under the Cooperation Agreement	Funding, donation and support for projects and program
Stephen Jones	Citizen of Australia	Board Chairperson	Meetings and conferences
Sugir Kh	Citizen of Mongolia	Board member	Meetings and conferences
Naranbaatar N	Citizen of Mongolia	Board member	Meetings and conferences
Erdene-Ochir B	Citizen of Mongolia	Board member	Meetings and conferences
Michael Gavin	Citizen of Australia	Board member	Meetings and conferences
Amarbayasgalan D	Citizen of Mongolia	Board member	Meetings and conferences
Baigalmaa Sh	Citizen of Mongolia	Board member	Meetings and conferences
Erdenebat S	Citizen of Mongolia	Executive Director	Salaries and wages

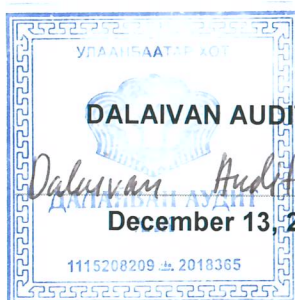
#### 4.8 Note-Contingencies

There is no legal obligation or constructive obligation as a result of past events at the end of 2016.

#### 4.9 Events after the end of the reporting period

Management is not aware of any events that occurred after the end of reporting period until December 13, 2017, which would have impact on these financial statements.

Auditor's report and notes have been prepared in Mongolian and English languages in two copies in each language and in the event of discrepancies or contradictions, the Mongolian version will prevail.







## DALAIWAN AUDIT

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