



DALAIWAN AUDIT

AUDITOR'S REPORT

“Gobi Oyu Development Support Fund” NGO

Financial statement as of
December 31, 2017



 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, 2017, 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, 2017, 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 2017 was issued before the audit report.

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, 2017

		31-Dec-16 thousand togoas	31-Dec-17 thousand togoas
ASSETS			
Current assets			
Cash and cash equivalents	4.1	6,768,726.2	8,479,802.0
Receivables		-	-
Inventories		-	-
Prepaid expenses and advance		-	-
Total current assets		6,768,726.2	8,479,802.0
Non-current assets			
Furniture and equipment	4.2	14,360.0	64,508.3
Accumulated depreciation		(2,480.8)	(8,108.4)
Intangible assets (net)		-	1,655.7
Investment and other assets		-	-
Total non-current assets		11,879.2	58,055.6
TOTAL ASSETS		6,780,605.4	8,537,857.6
Liabilities and net assets			
Current liabilities			
Accounts payable		-	2,723,135.8
Taxes payable		-	505.8
Short-term bank loan		-	-
Unearned revenue		-	-
Other liabilities		-	-
Total current liabilities		-	2,723,641.6
Net assets			
Unrestricted reserve		-	-
Accumulated results of performance	4.3	6,780,605.4	5,814,216.0
Total net assets		6,780,605.4	5,814,216.0
TOTAL LIABILITIES AND NET ASSETS		6,780,605.4	8,537,857.6



Approved by:

S. Erdenebat
Executive Director

Prepared by:

B. Batkhuyag
Accountant

GOBI OYU DEVELOPMENT SUPPORT FUND NGO

STATEMENT OF ACTIVITIES
for the year ended December 31, 2017

		31-Dec-16 thousand togrogs	31-Dec-17 thousand togrogs
Operating income	4.4		
Income from projects and programs		10,024,900.0	12,024,650.0
Donations, aids and gifts		-	-
Other income		-	33,462.9
Total operating income		10,024,900.0	12,058,112.9
Operating expenses	4.5		
Project and programs expenses		4,018,415.4	12,100,935.0
Donations given to organizations		33,000.0	368,125.8
Donations given to individuals		-	112,982.9
Wages, salaries and bonuses		63,171.4	142,802.4
Social insurance expenses		6,948.9	15,919.5
Maintenance and repair		635.0	115.0
Stationery costs		3,972.8	7,197.1
Rent expenses		14,850.0	14,850.0
Cleaning service cost		2,449.4	3,122.7
Transportation expenses		91.6	7,780.4
Depreciation expense		2,480.8	5,761.9
Advertising expenses		23,098.0	66,679.6
Postal and communication expenses		2,255.0	3,698.4
Supply expenses		1,928.1	2,425.9
Training expenses		14,150.4	430.0
Professional service expenses		1,026.3	127,622.4
Meetings and seminars expense		30,682.6	37,438.0
Other expenses		-	6,615.3
Total operating expenses		4,219,155.7	13,024,502.3
Total operating profit/(loss)		5,805,744.3	(966,389.4)
Other items			
Foreign exchange gain / (loss)		-	-
Other income		-	-
Total other items		-	-
NET RESULTS FOR THE CURRENT PERIOD		5,805,744.3	(966,389.4)



Approved by:

S. Erdenebat
Executive Director

Prepared by:

B. Batkhuyag
Accountant

GOBI OYU DEVELOPMENT SUPPORT FUND NGO

STATEMENT OF CHANGES IN NET ASSETS
for the year ended December 31, 2017

	31-Dec-16 thousand togrogs	For the reporting period thousand togrogs	31-Dec-17 thousand togrogs
Unrestricted fund	-	-	-
Restricted fund			
Revaluation reserve			
Foreign exchange reserve			
Accumulated results of performance	6,780,605.4	(966,389.4)	5,814,216.0
BALANCE/CHANGE AT THE END OF THE YEAR	6,780,605.4	(966,389.4)	5,814,216.0



Approved by:

S. Erdenebat
Executive Director

Prepared by:

B. Batkhuyag
Accountant

GOBI OYU DEVELOPMENT SUPPORT FUND NGO

STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

	31-Dec-16 thousand togrogs	31-Dec-17 thousand togrogs
Cash inflows from operating activities		
Cash receipt from projects and programs	10,024,900.0	12,006,650.0
Donations, aids and gifts received	-	-
Cash receipt from other activities	-	22,919.2
Total cash inflow from operating activities	10,024,900.0	12,029,569.2
Cash outflow from operating activities		
Payments to employees	(63,171.4)	(133,104.8)
Payments to social insurance organization	(6,948.8)	(26,147.5)
Cash paid for inventories	(67,931.0)	(61,226.5)
Cash paid for utilities	(27,116.7)	(31,380.4)
Cash paid for fuel, vehicles and spare parts	(91.6)	(9,496.4)
Cash paid for programs and projects	(4,051,415.4)	(10,021,295.6)
Interest paid	-	-
Taxes paid	-	(1,807.4)
Payments for insurance	-	(96.5)
Total cash outflow from operating activities	(4,216,674.9)	(10,284,555.1)
Net cash flow a from operating activities	5,808,225.1	1,745,014.1
Cash in/(out) flows from investing activities		
Proceeds from sale of long-term assets	-	-
Purchase of long-term assets	(13,665.0)	(33,938.3)
Net cash flows from investing activities	(13,665.0)	(33,938.3)
Cash in/(out) flows from financing activities		
Proceeds from bank loans	-	-
Payment of bank loans	-	-
Interest received	-	-
Foreign exchange gains/(losses)	-	-
Net cash flows from financing activities	-	-
TOTAL NET CASH FLOWS	5,794,560.1	1,711,075.8
Cash and cash equivalent at the beginning of the year	974,166.1	6,768,726.2
Cash and cash equivalent at the end of the year	6,768,726.2	8,479,802.0



Approved by:

S. Erdenebat
Executive Director

Prepared by:

B. Batkhuyag
Accountant

NOTES TO THE FINANCIAL STATEMENT

NOTE (1) GENERAL INFORMATION

Gobi Oyu Development Support Fund NGO was registered as a Non-Government Organization on September 23, 2015 and was issued 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 Umnugobi aimag and in partnership with Oyu Tolgoi LLC implements and provides financing of projects and programs that directed to the soum's and local social and economic development.

Gobi Oyu Development Support Fund NGO is governed by the Governing Board and the Executive management team. It has the following members in 2017:

Governing Board

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

Executive management team

<u>Name</u>	<u>Position</u>
S.Erdenebat	Executive Director
S.Boldmaa	Project manager
B. Sugarjargal	Project and program officer
B. Batkhuyag	Finance officer

Official address of Gobi Oyu Development Support Fund NGO:
Umnugobi Aimag, Dalanzadgad Soum, 3rd Bag, Golomt Business Center, 4th Floor, Room 404
Phone/Fax 976-70533577/976-70533578
E-mail: info@goviinoyu.mn

Independent auditor of the financial statements for 2017: Dalaivan Audit LLC independent representative of Baker Tilly International
Dalaivan Audit Building, Amarsanaa Street-5, Bayangol District, 16th Khoroo, Ulaanbaatar, Mongolia
Tel/Fax: 976-11-70005401/70005403,
E-mail: 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 cost principle 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 Order 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 effective 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 income 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 assets 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 derecognized, impaired or amortized the gain or loss are recognized in profit or loss

On April 22, 2015 the NGO entered into a Cooperation Agreement with Oyu Tolgoi LLC in Umnugobi aimag. According to the article 8.1 of the agreement in order to ensure the execution of the Cooperation Agreement the Gobi Oyu Development Support Fund NGO was established. According to article 8.3 of the agreement Oyu Tolgoi LLC provides funding of five million US dollars per calendar year. However Oyu Tolgoi LLC provides the funding in a series of installments throughout the year. In making the decisions regarding the timing of the payment of funding Oyu Tolgoi LLC confer with the Governing Board of Gobi Oyu Development Support Fund NGO and attempt to structure and time the making the funding (or any part of it) so 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 or 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 realizable value. Inventories are accounted at first-in, first-out method and expensed in the period that used.

3.2.2 Furniture and equipment

At the end of the reporting periods furniture and equipment are stated at cost less accumulated depreciation in net book value. Historical cost of asset includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

	<u>Useful life</u>
Furniture and fixtures	10
Computers and equipment	3

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

3.2.3 Intangible assets

An intangible asset that acquired separately is measured initially at cost. After initial recognition, an intangible asset be carried at its cost less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of an intangible asset with a finite useful life be allocated on a systematic basis over its useful life. Impairment assessment is required when impairment indication exits.

Intangible assets are amortized using the straight-line method over the following estimated useful lives:

	<u>Useful life</u>
Smart balance pro financial program	5

3.2.4 Restricted and unrestricted reserves

A restricted contribution is a contribution that comes with a specific condition or restriction imposed by the donor or by the law. Unrestricted funds are property of NGO.

Restricted and unrestricted reserves are recognized in the following ways:

- When an objective or time constraint is made in accordance with a donor or law, revenue is recognized when the goal or time is satisfied.
- Unrestricted contributions are recognized as revenue of the general fund in the year received if there is no restriction by the donor or by laws.

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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 Expense recognition

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 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 recognized 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**

	2016.12.31 thousand MNT	2017.12.31 thousand MNT
Cash in hand:		
MNT	20.0	534.2
Cash at bank:		
MNT	6,768,726.2	8,429,267.8
Total	<u>6,768,726.2</u>	<u>8,479,802.0</u>
	2016.12.31 thousand MNT	2017.12.31 thousand MNT
Cash at bank::		
MNT		
(i) Khan bank -5585698858	5,953,411.8	7,164,084.3
(ii) Khan bank -5585644465	186,007.2	14,057.3
(iii) Khan bank -5585673654	60,799.4	73,398.4
(iv) Khan bank -5585672708	167,493.8	297,783.5
(v) Khan bank -5585675200	200,498.0	481,025.0
Total	6,568,210.2	8,030,348.5
(vi) Khan bank - saving 5585675222	200,496.0	448,919.3
Total	200,496.0	448,919.3
Total cash and cash equivalents	<u>6,768,706.2</u>	<u>8,429,267.8</u>

- (i) The current account 5585698858 held at Khan Bank at is a special project account to receive funding money from for Oyu Tolgoi to fund from projects and programs and approved by the Governing Board's resolution and to transfer to sub-accounts of the projects.

Transfers and payments from this account are made using a specific "Payment Permission" form for project financing and other payments from the account. In doing so, transfers to projects and program implementers, Fund's operating accounts upon the approval of the Fund Management Team based on contracts, transactions and other financial documents.

- (ii) The current account 5585644465 held at Khan Bank at is a sub account to finance the operational activities of the Fund.
- (iii) The current account 5585673654 in Khan Bank is a sub account that is used only to fund program under the Gobi Oyu-Student Scholarship Program for the future generations of Umnugobi aimag.

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4.1. Note-Cash and cash equivalents (continued)

- (iv) The current account 5585672708 held at Khan Bank is a sub account opened only for donations and assistance designated to be spent for social work, cases raised from difficulties from nature and climate for Umnugobi aimag and its soums.
- (v) The current account 5585675200 held at Khan Bank is a sub account opened only for loaning for small and medium enterprises of targeted groups.
- (vi) The MNT current account 5585675222 held at Khan Bank is the savings account of the Gobi's Oyu Tolgoi Development Fund designated for future generations of Umnogobi aimag. According to the Article 4.1 of the "Guidelines for Financing of the Project and Program" approved by the Governing Board resolution No.3 in 2016 of Gobi's Oyu Tolgoi Development Fund, and Procedure of the "Fund for Umnugobi's future generation fund" approved by the Governing Board resolution No.5 on September 19, 2016 of Gobi's Oyu Tolgoi Development Fund, the amount of 100000 USD was deposited into the Khan bank's 1 year savings account with the monthly interest rate of 1.3 and yearly 16 percent. The parties concluded 10 year agreement, and agreement must be extended every year.

During the reporting period total of 248,447.3 thousand MNT had generated 32,079.7 thousand MNT interest income.

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4.2. Note-Furniture and equipment

Item	Furniture and fixtures	Computers and equipment	Vehicles	Other	Total
<u>Initial cost:</u>					
Balance as at 2016.12.31	<u>4,000.0</u>	<u>10,360.0</u>	<u>18,000.0</u>	=	<u>14,360.0</u>
Additions: Purchased	3,672.4	16,982.0	18,000.0	11,493.9	50,148.3
Deductions: Balance as at 2017.12.31	<u>7,672.4</u>	<u>27,342.0</u>	<u>18,000.0</u>	<u>11,493.9</u>	<u>64,508.3</u>
<u>Accumulated depreciation:</u>					
Balance as at 2016.12.31	<u>95.0</u>	<u>2,385.8</u>	=	=	<u>2,480.8</u>
Charge for the year	399.8	4,648.7	-	579.1	5,627.6
Deductions: Balance as at 2017.12.31	<u>494.8</u>	<u>7,034.5</u>	=	=	<u>8,108.4</u>
<u>Carrying value:</u>					
Balance as at 2016.12.31	<u>3,905.0</u>	<u>7,974.2</u>	=	=	<u>11,879.2</u>
Balance as at 2017.12.31	<u>7,177.6</u>	<u>20,307.5</u>	<u>18,000.0</u>	<u>10,914.8</u>	<u>56,399.9</u>

According to the Order No.15 of Executive director of NGO dated from December 8, 2017, the physical counting of assets performed by committee that consists of 2 persons, during December 11 through 13, 2017.

No surpluses or deficiencies observed during physical counting of assets.

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4.3. Note-Intangible assets (net)

	2016.12.31 Thousand MNT	2017.12.31 Thousand MNT
Financial software	-	990.0
Budget software		800.0
Accumulated amortization	-	(134.3)
Total	:	<u>1,655.7</u>

4.4. Note-Liabilities

	2016.12.31 Thousand MNT	2017.12.31 Thousand MNT
Accounts payables	-	2,723,135.6
Salary payables		0.2
Personal income tax payables	-	505.8
Total liabilities	:	<u>2,273,216.0</u>

4.5 Note-Net assets

	2016.12.31 Thousand MNT	2017.12.31 Thousand MNT
Restricted reserve	-	-
Unrestricted reserve	-	-
Accumulated results of performance	6,780,605.4	5,814,216.0
Total net assets	<u>6,780,605.4</u>	<u>5,814,216.0</u>

No restriction imposed by the donor or by the law is using the assets.

4.6 Note-Donations and other income

	2016.12.31 Thousand MNT	2017.12.31 Thousand MNT
Voluntary funding from Oyu Tolgoi LLC	10,024,900.0	12,006,650.0
Donations		18,000.0
Interest income		32,079.7
Student fee return		1,383.2
Total income	<u>10,024,900.0</u>	<u>12,058,112.9</u>

On April 22, 2015 the Oyu Tolgoi LLC entered into a Cooperation Agreement with Khanbogd soum and Umnugobi aimag. According to the article 8.1 of the agreement in order to ensure the execution of the Cooperation Agreement the Gobi Oyu Development Support Fund NGO was established. According to article 8.3 of the agreement Oyu Tolgoi LLC provides funding of five million US dollars per calendar year.

4.6 Note-Donations and other income (continued)

Oyu Tolgoi LLC donated vehicle Land cruiser 76 on November 27, 2017, which was accounted as income.

The MNT savings account 5585675222 at Khan bank generated interest income at 1.3 percent monthly (16 percent yearly) of 32,079.7 thousand MNT.

4.7 Note- project and program implementing expenses

	2016.12.31 Thousand MNT	2017.12.31 Thousand MNT
Project and program expenses	3,978,970.2	12,100,935.0
Donations and aid costs	33,000.0	368,125.8
Student Scholarship Program expenses	39,445.2	112,982.9
Total expenses	4,051,415.4	12,582,043.7

The classification of funding of financing from Cooperation Agreement with Oyu Tolgoi LLC:

Funding area	Amount of funding: Thousand MNT	
	2016.12.31	2017.12.31
(i) Social infrastructure, construction	2,733,625.0	9,501,073.8
(ii) Environmental management	282,863.9	145,944.3
(iii) Basic social services, training	171,598.0	1,426,432.5
(iv) Traditional animal husbandry and pastureland management	386,585.6	461,283.8
(v) National history, culture and tourism	404,297.7	566,200.6
(vi) Donations and aids	33,000.0	368,125.8
(vii) Scholarship program	39,445.2	112,982.9
Total	4,051,415.4	12,582,043.7

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4.7 Note- project and program implementing expenses (continued)

The following are examples of major projects financed under the Cooperation Agreement:

(i) Social infrastructure, construction:

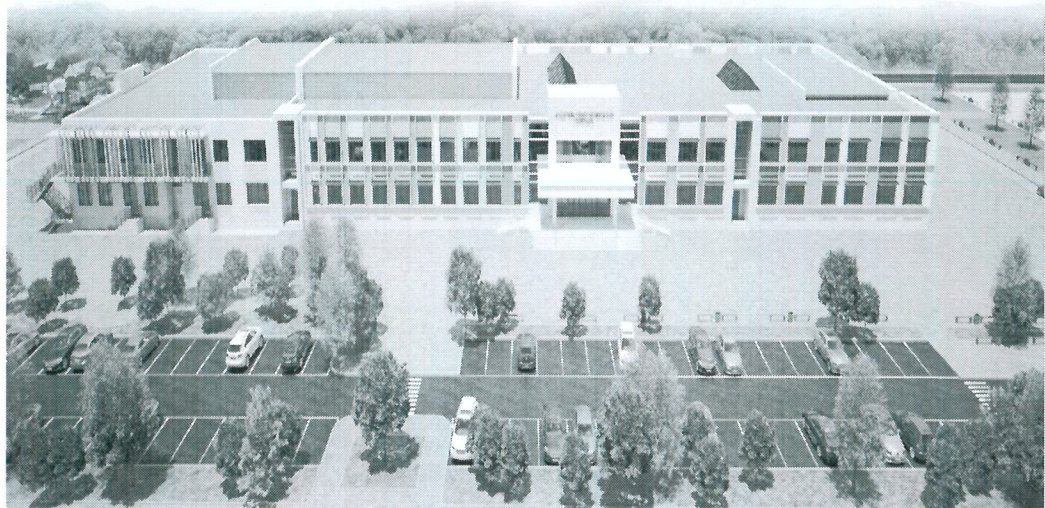
Construction of a complex building of 640 children’s general education school and 200 children's kindergarten in Khanbogd soum of Umnugobi aimag

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Goviin Uguuj LLC

Funding amount: 6,079,828,009 MNT

Issued funding: 4,255,694,290 MNT

Photo of construction complex:



Construction of Unified Center of Animal Health in Khanbogd soum of Umnugobi aimag.

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Bilegt Bagana LLC
Funding amount: 1,084,618,739 MNT		
Issued funding: 1,030,387,803 MNT		
Photo of UCAH:		



Construction of steam boiler of Manlai soum in Umnugobi aimag.

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Narnii tsag LLC
Funding amount: 929,150,000 MNT		
Issued funding: 743,320,000 MNT		
Photo of steam boiler construction:		



Program to improve public transportation services in Dalanzadgad soum of Umnugobi aimag.

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Ecologbus LLC

Funding amount: 350,000,000 MNT

Issued funding: 175,000,000 MNT

Photo:



(ii) Environmental management:

Gobi forest work program

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Bat tsaiz cooperative

Funding amount: 57,419,700 MNT

Issued funding: 41,757,500 MNT

Photo:



Waste reduction work program on Nice Dalanzadgad work program.

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Tushig Mandal LLC
Funding amount: 40,500,000 MNT		
Issued funding: 39,285,000 MNT		
Photo:		



(iii) Social services, training:

Provide training to teachers of schools and kindergartens in all soums of Umnugobi aimag.

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Polaris Educational Academy LLC
Funding amount: 150,000,000 MNT		
Issued funding: 150,000,000 MNT		
Photo:		



(iv) Traditional animal husbandry and pastureland management:

Flock herd creation program in targeted soums

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Umnugobi aimag Agriculture division

Funding amount: 138,283,840 MNT

Issued funding: 138,283,840 MNT

Photo:



(v) National history, culture and tourism:

Ordering party	Financing party	Executing party
Umnugobi aimag Governor's Office	Gobi Oyu Development Support Fund NGO	Ulaanbaatar television LLC

Funding amount: 200,000,000 MNT

Issued funding: 160,000,000 MNT

Photo:



(vi) Donation and aid:

Amount of 250,000,000 tugrugs were donated to the Umnugobi Aimag Development and Investment Department for the preparation of hay and fodder to overcome difficulties in winter and spring of 2017-2018 for livestock sector.

(vii) Scholarship program:

“Gobi Oyu - Scholarship program” provided scholarship amounting to 105,215,602 MNT to 57 students.

4.8 Note- Operating expenses

	2016.12.31 Thousand MNT	2017.12.31 Thousand MNT
Salary and additions	63,171.4	142,802.4
Social insurance expenses	6,948.9	15,919.5
Meeting expense of Board	30,682.6	37,438.0
Advertising expenses	23,098.0	66,679.6
Rental expenses	14,850.0	14,850.0
Training expenses	14,150.4	430.0
Stationery expenses	3,972.8	7,197.1
Cleaning service cost	2,449.4	3,122.7
Depreciation expenses	2,480.8	5,761.9
Postal and communication expenses	2,255.0	3,698.4
Supply material expenses	1,928.1	2,425.9
Professional service expenses	1,026.3	-
Maintenance and repair	635.0	115.0
Transportation expenses	91.6	7,780.4
Consultancy service expenses	-	127,622.4
Monitoring expenses	-	4,424.0
Other expenses	-	2,191.3
Total	<u>167,740.3</u>	<u>442,458.6</u>

4.9 Note-Non-operational income

	2016.12.31 Thousand MNT	2017.12.31 Thousand MNT
Interest income	-	33,462.9
Total	<u>=</u>	<u>33,462.9</u>

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4.10 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	Australian citizen	Board Chairperson	Meetings and conferences
Kh.Sugir	Mongolian citizen	Board member	Meetings and conferences
N. Naranbaatar	Mongolian citizen	Board member	Meetings and conferences
B. Erdene-Ochir	Mongolian citizen	Board member	Meetings and conferences
Michael Gavin	Australian citizen	Board member	Meetings and conferences
D. Amarbayasgalan	Mongolian citizen	Board member	Meetings and conferences
Sh. Baigalmaa	Mongolian citizen	Board member	Meetings and conferences
S. Erdenebat	Mongolian citizen	Executive Director	Salary


4.11 Note-Contingencies

There is no legal obligation or constructive obligation as a result of past events at the end of 2017.

4.12 Events after reporting period

No any events that occurred after the end of reporting period until June 4, 2018, 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 LLC
1115208209 2018365
June 04, 2018

