

TMT International Observatory, LLC

Financial Statements

**For the Year Ended December 31, 2015 and the
Period From May 6, 2014 (Inception) to December 31,
2014**

TMT International Observatory, LLC.

Index

December 31, 2015 and 2014

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Report of Independent Auditors

To the Board of Directors of
TMT International Observatory, LLC

We have audited the accompanying financial statements of TMT International Observatory, LLC (the "Organization"), which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of activities, changes in members' equity (deficit) and cash flows for the year ended December 31, 2015 and the period from May 6, 2014 (date of inception) to December 31, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 our 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, we consider internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 financial statements referred to above present fairly, in all material respects, the financial position of TMT International Observatory, LLC as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the year ended December 31, 2015 and for the period from May 6, 2014 (date of inception) to December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 1, 2016

TMT International Observatory, LLC
Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 25,304,541	\$ 5,169,392
Accounts receivable, net	358,384	-
Prepaid expenses and other assets	719,782	-
Advance - personnel and administrative agreement	1,000,000	-
Property, plant, and equipment, net		
Construction in progress	28,234,891	7,414,861
Equipment	327,056	-
Leasehold improvements	1,311,888	-
Total assets	<u>\$57,256,542</u>	<u>\$12,584,253</u>
Liabilities and Members' Equity (Deficit)		
Accounts payable		
Trade creditors	\$ 2,832,877	\$ 403,616
Due to TMT Observatory Corporation	2,228,831	3,192,394
Deferred contribution income	115,205	-
Accrued expenses	3,748	-
Community benefits payable	1,000,000	1,000,000
Total current liabilities	<u>6,180,660</u>	<u>4,596,010</u>
Long term liabilities		
Community benefits payable	10,212,628	10,855,800
Asset retirement obligations	1,246,188	410,876
Deferred lease liabilities	856,863	219,193
Lease Incentive Obligation	196,363	-
Total liabilities	<u>18,692,702</u>	<u>16,081,879</u>
Commitments and contingencies (Note 4 and Note 9)		
Members' equity (deficit)		
Contributed capital	68,056,909	12,198,719
Accumulated deficit	(29,493,068)	(15,696,345)
Members' equity (deficit)	<u>38,563,841</u>	<u>(3,497,626)</u>
Total liabilities and members' equity (deficit)	<u>\$ 57,256,542</u>	<u>\$ 12,584,253</u>

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC

Statements of Activities

For the Year Ended December 31, 2015 and the Period From May 6, 2014 (date of inception) to December 31, 2014

	2015	2014
Contribution Income	<u>\$ 890,889</u>	<u>\$ -</u>
Total Contribution Income	<u>890,889</u>	<u>-</u>
Expenses		
Program services (of which \$1,903,066 and \$3,399,807 are related party in 2015 and 2014, respectively)	12,619,242	15,503,002
Supporting services (of which \$1,325,266 and \$193,343 are related party in 2015 and 2014, respectively)	2,068,370	193,343
Total expenses	<u>14,687,612</u>	<u>15,696,345</u>
Net deficit	<u>(13,796,723)</u>	<u>(15,696,345)</u>
Net deficit, beginning of year	<u>(15,696,345)</u>	<u>-</u>
Net deficit, end of year	<u>\$ (29,493,068)</u>	<u>\$ (15,696,345)</u>

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC
Statements of Changes in Members' Equity (Deficit)
For the Year Ended December 31, 2015 and the Period From May 6, 2014 (date of inception) to December 31, 2014

	Contributed Capital	Accumulated Deficit	Members' Equity (Deficit)
Balances at May 6, 2014	\$ -	\$ -	\$ -
Contributions	12,198,719	-	12,198,719
Net deficit	-	(15,696,345)	(15,696,345)
Balances at December 31, 2014	<u>12,198,719</u>	<u>(15,696,345)</u>	<u>(3,497,626)</u>
Contributions	55,858,190	-	55,858,190
Net deficit	-	(13,796,723)	(13,796,723)
Balances at December 31, 2015	<u>\$ 68,056,909</u>	<u>\$ (29,493,068)</u>	<u>\$ 38,563,841</u>

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC

Statements of Cash Flows

For the Year Ended December 31, 2015 and the Period From May 6, 2014 (date of inception) to December 31, 2014

	2015	2014
Cash flows from operating activities		
Net deficit	\$ (13,796,723)	\$ (15,696,345)
Adjustments to reconcile decrease in members' equity (deficit) to net cash (used in) provided by operating activities		
Depreciation and amortization	103,470	-
Changes in assets and liabilities		
Accounts payable and other liabilities	(1,178,771)	3,439,789
Asset retirement obligations	835,312	410,876
Short term liabilities - charity	-	1,000,000
Long term liabilities - charity	(643,172)	10,855,800
Accounts Receivable	(358,384)	-
Advance - personnel and administrative agreement	(1,000,000)	-
Prepaid expenses and other assets	(719,782)	-
Net cash (used in) provided by operating activities	<u>(16,758,051)</u>	<u>10,120</u>
Cash flows from investing activities		
Capital expenditures	(18,964,989)	(7,039,447)
Net cash used in investing activities	<u>(18,964,989)</u>	<u>(7,039,447)</u>
Cash flows from financing activities		
Contributions from members	55,858,190	12,198,719
Net cash provided by financing activities	<u>55,858,190</u>	<u>12,198,719</u>
Net increase in cash and cash equivalents	20,135,149	5,169,392
Cash and cash equivalents		
Beginning of period	5,169,392	-
End of period	<u>\$ 25,304,541</u>	<u>\$ 5,169,392</u>

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2015 and 2014

1. Description of the TMT International Observatory, LLC

TMT International Observatory, LLC (TIO), was incorporated in the state of Delaware in May 2014 by the California Institute of Technology (Caltech), Department of Science and Technology, Government of India (DST), the National Astronomical Observatories of China, Chinese Academy of Sciences (NAOC), the National Institute of Natural Sciences (NINS), National Research Council of Canada (NRC), and the University of California (UC), hereinafter collectively called “the Members” for the purpose of the execution of the Thirty Meter Telescope Project hereinafter called the “TIO Project” through the construction, commissioning and operation of an observatory. Each of the Members have signed the Limited Liability Company Agreement of TIO (Company Agreement) and a Contribution Agreement with TIO.

Prior to establishment of TIO in May 2014, the pre-construction activities were managed by TMT Observatory Corporation (TMT). From May 2014 until March 2015, TMT managed the in-kind construction contributions of Caltech and UC to TIO. TIO also has a Personnel Administrative Agreement (PAA) with TMT executed in 2014, under which TMT provides labor and support services to TIO.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of TIO have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The significant accounting policies are described below to enhance the usefulness of the financial statements.

Project Funding

Construction of the TIO Project is dependent upon funding from the Members of TIO, who have collectively committed \$0.7 billion to fund toward the construction costs. During the construction phase, the Members will make contributions which will be reflected as increases in their membership equity. Such membership equity interests may be transferable by the Member if approved by TIO. TIO will not reflect revenue until the telescope is operational and providing access to the Members and others for viewing time. As such, TIO will incur losses and negative cash flows from operations until the facility is operational. To offset these negative cash flows, TIO will continue to rely upon member contributions in accordance with the agreed upon project funding schedule.

Revenue Recognition

TIO recognizes revenue from contracts to perform services as allowable expenditures under such agreements are incurred. Advances on contracts to perform services are deferred until the related expenses are incurred at which time revenue is recognized.

TIO received a contribution in the amount of \$1,005,882 from the Gordon and Betty Moore Foundation for the year ended September 30, 2015. This grant is specifically conditioned to provide support for communications efforts in Hawaii.

Members' Equity (Deficit)

All member equity contributions are considered to be available for unrestricted use. Liability of the Members under the Company Agreement is limited so that no Member shall be individually obligated to any third party for any debt, obligations or liabilities of TIO. Each Member's liability for the debts, obligations or liabilities of TIO is limited to the maximum extent of the respective

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2015 and 2014

Members' Contributions. "Contribution" means any money (excluding loans), property provided, services rendered, or any commitment or agreement to provide money, property or to render services to TIO by a Member that is reflected in the various agreements which have been made between TIO and its Members. An allocation of TIO's income, expenses, deductions and other tax and accounting items is allocated to the Members according to the respective membership participation percentages.

Cash and Cash Equivalents

TIO considers cash on deposit, temporary investments, and all highly liquid financial instruments with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

Cash and cash equivalents are maintained in an account with a bank. While these deposits exceed the amount of insurance provided by the FDIC, they may be redeemed upon demand and are maintained by a financial institution with reputable credit; therefore management believes the deposits bear minimal risk.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets relate to expenses paid for which the related services or goods have not yet been performed or received as of the balance sheet date.

Construction in Progress

Direct labor, travel, subcontract costs and the present value of the asset retirement obligation costs are capitalized as part of Construction in Progress. They remain in such an account until the assets are placed into service, at which time the costs of the assets are transferred into respective property, plant and equipment accounts to be depreciated over their estimated respective periods of operation.

Property and Equipment

Property and equipment is stated at cost, except for donated property that is valued at fair market value at the date of the gift. There is no donated equipment received or recorded by TIO.

Depreciation of the telescope and equipment will be recorded using a straight-line method over the estimated useful lives the assets, which are estimated to be 50 years for the telescope and a range of 3 to 10 years for equipment. No depreciation is reflected until the assets are placed in service. When an asset is either acquired or disposed of during the year, one-half year's depreciation is recorded in the year of acquisition, and one-half year's depreciation is recorded in the year of disposal.

When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss arising from such disposition is recorded in the Statement of Activities. Expenditures for repairs and maintenance are charged to expenses as incurred.

TIO reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value.

Leases

TIO has entered into lease agreements for the construction of the observatory and office space. The provisions of some lease agreements contain renewal options.

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2015 and 2014

Asset Retirement Obligation

Asset retirement obligations (AROs) represent legal or contractual obligations associated with the retirement of certain tangible long-lived assets and are recorded at the present value of the projected costs for the future retirement of specific assets. AROs are recognized in the period in which the liability is incurred if a reasonable estimate of the fair value can be made. As part of TIO's lease with the University of Hawaii, TIO has an obligation to decommission its observatory at the end of the lease agreement. TIO re-evaluates this obligation on an annual basis.

Management Estimates and Uncertainties

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenditures at the date of the financial statements. Actual results could differ from those estimates.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed

In 2015, TIO had its construction permit for the site of the observatory in Mauna Kea, Hawaii revoked by the Supreme Court of the State of Hawaii. TIO has appealed such revocation and believes it has the ability to continue the project in Hawaii. However, if TIO were to conclude that the TMT project will not proceed in Hawaii, certain costs that have been included in construction in progress would be impaired.

Income Taxes

TIO is generally exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. TIO is also generally exempt from payment of state income, gift, estate, and inheritance taxes. TIO has no reporting requirements for uncertain tax provisions for the year ended December 31, 2015. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

3. THINK Fund

Community Benefits Payable

TIO launched THINK (The Hawaii Island New Knowledge) fund to better prepare Hawaii Island students to master STEM (Science, Technology, Engineering and Math) and to become the workforce for science and technology jobs in Hawaii's 21st century economy.

TIO's unconditional promise to give to THINK includes an annual payment of \$750,000 to the Hawaii Community Foundation until January 2033 and \$250,000 to the Ke-Ali'i Pauahi Foundation annually through February 2019:

	Current	Long Term	Total
Ke Ali'i Pauahi Foundation	\$ 250,000	\$ 566,985	\$ 816,985
Hawaii Community Foundation	750,000	9,645,643	10,395,643
	<u>\$ 1,000,000</u>	<u>\$ 10,212,628</u>	<u>\$ 11,212,628</u>

Amounts are payable as follows and are based upon the present value of estimated future cash flows, using a discount rate of 5.35%. The commitment amounts are adjusted for inflation on an annual basis.

TMT International Observatory, LLC
Notes to Financial Statements
December 31, 2015 and 2014

	2015	2014
Payable in less than one year	\$ 1,000,000	\$ 1,000,000
Payable in less than five years	4,826,254	4,989,257
Payable in more than five years	<u>11,630,857</u>	<u>12,467,854</u>
Total unconditional promise to give	17,457,111	18,457,111
Less: Discounts to net present value	<u>(6,244,483)</u>	<u>(6,601,311)</u>
Total net present value of unconditional promises to give	<u>\$ 11,212,628</u>	<u>\$ 11,855,800</u>

TIO has committed funding from the Members in the future to meet the future liabilities. TIO expects to meet these liabilities as and when they fall due for payment.

4. Commitments and Contingencies

Asset Retirement Obligations - Decommissioning of the observatory is expected to begin after the expiration of the lease agreement in 2033. The liability for the asset retirement obligation is based on a present value of a weighted average of site-specific studies conducted in 2013, using a discount rate of 5.35% amounting to \$15.6 million. The establishment of the ARO increased ARO liabilities and construction in progress.

TIO will establish a sinking fund to finance the cost of decommissioning the observatory. Contributions to this sinking fund will commence with \$1 million per year beginning the first year of operations and will be maintained for the 50-year life of the observatory. TIO has an accrued ARO at a present value of \$1,246,188 and \$410,876 as of December 31, 2015 and 2014, respectively. Changes to the ARO liability included on the balance sheet were as follows:

Balances at December 31, 2014	\$ 410,876
Accretion expense	835,312
Liabilities incurred	-
Liabilities settled	-
Revision in estimated cash flows	-
Balances at December 31, 2015	<u>\$ 1,246,188</u>

Leases – TIO's lease agreements consist of an agreement for the lease of land and an agreement for office space. TIO's lease agreement with the University of Hawaii was executed on July 28, 2014 and extends until 2033 for the construction and operation of the observatory on Mauna Kea, Hawaii. TIO's lease agreement with Parsons Service Company, executed in 2015, extends until February 2021 for the lease of office space.

Lease expense for the years ended December 31, 2015 and 2014 were \$937,669 and \$348,324, respectively. As the agreements have scheduled changes in the annual lease payments, the leases have been expensed on a straight-line basis over the term of the leases, with deferred liabilities of \$856,863 and \$219,193 as of December 31, 2015 and 2014, respectively on the balance sheet for the difference between lease expense and cash outlay. TIO has recognized

TMT International Observatory, LLC
Notes to Financial Statements
December 31, 2015 and 2014

lease incentive obligation of \$196,362 as of December 31, 2015 under the sublease agreement with Parson's Service Company for tenant improvement allowance.

As of December 31, 2015, future minimum payments related to the lease agreements are as follows:

Years Ending December 31,	
2016	\$ 682,135
2017	922,251
2018	937,919
2019	1,154,056
2020	1,170,678
Thereafter	13,195,577

5. Property, Plant and Equipment, Net

Property and equipment at December 31, 2015 and 2014 consists of the following:

	2015	2014
Equipment	\$ 367,048	\$ -
Leasehold improvements	1,375,366	-
	<u>1,742,414</u>	<u>-</u>
Less: Accumulated depreciation and amortization	(103,470)	-
Property and equipment, net	<u>\$ 1,638,944</u>	<u>\$ -</u>

6. Members' Equity

The Members of TIO made the following equity contributions during the years ended December 31, 2015 and 2014 respectively:

	2015 Contributions						Total
	Caltech	NRCC	DST	NAOC	NINS	UC	
Cash contributions	\$ 13,588,528	\$ 20,777,926	\$ 3,020,142	\$ 3,623,976	\$ 11,259,090	\$ 3,588,528	\$ 55,858,190
Other contributions	-	-	-	-	-	-	-
Total received	<u>\$ 13,588,528</u>	<u>\$ 20,777,926</u>	<u>\$ 3,020,142</u>	<u>\$ 3,623,976</u>	<u>\$ 11,259,090</u>	<u>\$ 3,588,528</u>	<u>\$ 55,858,190</u>
	2014 Contributions						Total
	Caltech	NRCC	DST	NAOC	NINS	UC	
Cash contributions	\$ 2,412,759	\$ -	\$ -	\$ 1,163,201	\$ 6,210,000	\$ 2,412,759	\$ 12,198,719
Other contributions	-	-	-	-	-	-	-
Total received	<u>\$ 2,412,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,163,201</u>	<u>\$ 6,210,000</u>	<u>\$ 2,412,759</u>	<u>\$ 12,198,719</u>

TMT International Observatory, LLC
Notes to Financial Statements
December 31, 2015 and 2014

Membership Interests

In accordance with the Company agreement, the Members' rights in TIO, including their respective economic interests and rights to participate in management, are represented by the membership participation percentages listed below:

	Membership Participation Percentage
Caltech	16.60 %
DST	11.80 %
NAOC	11.20 %
NINS	24.60 %
NRC	19.50 %
UC	16.30 %

7. Related Party Transactions

Expenses were incurred by TMT on behalf of TIO for the authorized labor costs, program services and purchase of goods and services under the PAA for the years ended December 31, 2015 and 2014 as follows:

	2015	2014
Capitalized to construction in progress	\$ 13,099,631	\$ 6,483,586
Program services	1,903,066	3,399,807
Supporting services	1,325,266	193,343
	<u>\$ 16,327,963</u>	<u>\$ 10,076,736</u>

Amounts payable were \$2,228,831 and \$3,192,394, respectively as of December 31, 2015 and 2014 to TMT under the PAA. Amounts due under this agreement are non-interest bearing and due within 30 days.

Amounts receivable from TIO under the PAA were \$152,520 as of December 31, 2015.

TIO provided an advance to TMT for \$1,000,000 as of December 31, 2015 for costs to be incurred by TMT and reimbursed by TIO under the PAA.

8. Supplemental Cash Flow Information

The following are additional supplemental disclosures related to the statement of cash flows:

	2015	2014
Accrued purchases for capital expenditures	\$ 3,972,868	\$ 375,414

TMT International Observatory, LLC
Notes to Financial Statements
December 31, 2015 and 2014

9. Subsequent Events

Subsequent events were evaluated through December 1, 2016, which was the date the financial statements were available to be issued.

The right to construct the observatory at Mauna Kea is based on a Conservation District Use Permit ("CDUP") which was granted by the Hawaiian Board of Land and Natural Resources ("BLNR") to the University of Hawaii on April 12, 2013. On December 2, 2015, the Supreme Court of the State of Hawaii ruled that the procedure leading to the issuance of the CDUP was inappropriate and remanded the decision regarding the issuance of the CDUP back to the Board of Land and Natural Resources for reconsideration in accordance with an appropriate procedure.

On October 1, 2016, the following agreements were executed: (i) an Amended and Restated Contribution Agreement between Caltech and TIO, (ii) an Amended and Restated Contribution Agreement between UC and TIO, and (iii) a Task Framework Agreement which, together, provided for contributions formerly anticipated to be made by Caltech and UC on an "in-kind" basis to be converted to contributions of cash, and which made provisions for Caltech and UC to conduct certain activities for the TIO Project on cost-reimbursable basis.