
CONNECTED TRANSACTIONS

Overview

We have entered into transactions in the ordinary course of our business with certain of our connected persons which we expect to continue following Listing. These connected transactions are entered into with (i) MCS Holding, and its subsidiaries; and (ii) Petrovis LLC (“Petrovis”), and its subsidiaries (“Petrovis Group”). Set out below is a summary of the connected transactions as well as the waivers from strict compliance with the relevant requirements of the Listing Rules that we have received from the Stock Exchange:

Transactions with the MCS Group

| Category | Nature of Transaction | Applicable Listing Rule | Waiver Sought |
|--------------|---|-------------------------|--|
| 1 | Lease from the MCS Group | Listing Rule 14A.33(3) | None |
| 2 | Rental of equipment from the MCS Group | Listing Rule 14A.34 | Waiver from announcement requirements |
| 3A | Supply of goods and services by the MCS Group – information technology and management services | Listing Rule 14A.35 | Waiver from announcement and independent shareholders’ approval requirements |
| 3B | Supply of goods and services by the MCS Group – offices and camp sites supporting services | Listing Rule 14A.35 | Waiver from announcement and independent shareholders’ approval requirements |
| 3C | Supply of goods and services by the MCS Group – construction supporting and ancillary supporting services | Listing Rule 14A.35 | Waiver from announcement and independent shareholders’ approval requirements |

Continuing Connected Transactions

Details of the continuing connected transactions with the MCS Group are set out below.

1. Lease from the MCS Group (Category 1)

- *Background:* We have entered into an agreement with a subsidiary of MCS Holding to lease a space located at 3 khoroo, MCS Anun Centre, Khan-Uul District, Ulaanbaatar, Mongolia, with an aggregate gross floor area of approximately 87 square meters as our Company’s office.

The contract commenced on February 15, 2010, and US\$0 payment has been made by us during the Track Record Period.

- *Connected Person:* MCS Holding’s subsidiary. MCS Holding is a Substantial Shareholder and connected person of our Company. Accordingly, any subsidiary of MCS Holding is also a connected person of our Company.

CONNECTED TRANSACTIONS

- *Connected Transactions:* Any leases between (i) our Group and (ii) our connected persons which continue after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The rent payable by our Group under the agreement is determined by reference to the market rent.
- *Reasons for such transaction:* There are alternative offices which our Company may lease as our office in Mongolia. Such alternatives offer comparable pricing. However, the office provided by the MCS Group is of a higher quality in terms of the location of the office, the facilities and the supporting services when compared to other alternatives available. Further, as we are currently occupying the space specified in the agreement and our Company has no intention to continue to lease this space upon expiration of the agreement, we do not consider it cost effective to incur additional costs to move to other premises.
- *Future lease:* We have entered into a lease agreement with a subsidiary of MCS Holding, which commenced on February 15, 2010 and will expire on December 31, 2010.

We estimate that the total rent payable by our Group under the agreement will be approximately MNT15,064,920 (US\$11,134) for the year ending December 31, 2010.

American Appraisal China Limited, our property valuer, has confirmed to us that the rental payments to be made by us for the leased space located at 3 khoroo, MCS Anun Centre, Khan-Uul District, Ulaanbaatar, Mongolia for the year ending December 31, 2010 are in line with the then prevailing market rates of comparable space, and are fair and reasonable.

2. Rental of equipment from the MCS Group (Category 2)

- *Background:* During the Track Record Period, we rented office equipment, such as computers, printers, monitors, fax apparatus, duplicating machines, scanners, and various other office equipment from MCS Holding's subsidiaries. For the year ended December 31, 2009 and the four months ended April 30, 2010, the total rent paid to the MCS Group for the use of office equipment amounted to approximately MNT152,673,628 (US\$106,076) and MNT127,393,494 (US\$94,156), respectively.
- *Connected Person:* MCS Holding's subsidiaries. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.

CONNECTED TRANSACTIONS

- *Connected Transactions:* Any rental between (i) our Group and (ii) our connected persons which continue after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The rental payable by our Group with regard to the use of the office equipment is determined by reference to the market rent.
- *Reasons for such transaction:* The service provider, a subsidiary of MCS Holding, is one of the largest office equipment providers in Mongolia. It provides an extensive variety of office equipment that can fully satisfy our needs for our daily operation. Although there are alternative equipment providers that offer comparable pricing, the MCS Group offers a wider range of office equipment that are of higher quality when compared to other available alternatives. We have been renting the office equipment specified in the agreements for a period of time and hence we do not consider it cost effective to terminate the existing rental agreements and rent similar office equipment from other providers.
- *Future rentals:* We have entered into rental agreements with various subsidiaries of MCS Holding. The rental agreements commenced at different intervals during the Track Record Period with the last one ending on April 21, 2013. Each of the agreements will subsist for no more than three years following Listing.

We estimate that the total rent payable by our Group under the above agreements will be approximately US\$369,602, US\$630,199 and US\$503,189 for each of the three years ending December 31, 2012, respectively. Our Group anticipates that more administrative support is needed as it expands its business operations and, therefore, the level of usage of the rental equipment is projected to increase with our Group's production ramp-up. Rental of office equipment is charged at a monthly rate on a per unit basis. The proposed annual caps for the three years ending December 31, 2012 have been determined based on the monthly rates and the projected level of usage (i.e. number of units) of the rental equipment, taking into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT. The reason for the substantial decrease in the annual cap for the year ending December 31, 2012 is due to the expiration of a vast majority of the agreements during the year of 2012.

3A. Supply of Goods and Services by the MCS Group – information technology and management services (Category 3A)

- *Background:* During the Track Record Period, we have entered into agreements in relation to the information technology services with certain subsidiaries of MCS Holding, pursuant to which such subsidiaries agreed to provide to certain subsidiaries of our Company: (i) services for the maintenance of time and attendance system used for registration of attendance of employees; (ii) services for the maintenance of reliable operations of a computer program in relation to finance and

CONNECTED TRANSACTIONS

accounting; (iii) iridium satellite communication services; (iv) satellite internet connection services; (v) computer systems; and (vi) a domain name. On February 1, 2008, we also entered into an agreement with MCS Holding (the “Management Agreement”), pursuant to which MCS Holding agreed to provide our Company with various management services such as services to organize and manage activities related to investment and financing sourcing, marketing, legal consulting and planning and operation of mining operation.

For the two years ended December 31, 2008 and 2009 and the four months ended April 30, 2010, the total fees paid to the MCS Group for its provision of information technology and management services amounted to approximately MNT1,716,699,400 (US\$1,472,500), MNT3,281,864,780 (US\$2,280,213) and MNT1,126,432,558 (US\$832,544), respectively.

- *Connected Person:* MCS Holding and MCS Holding’s subsidiaries. MCS Holding is a Substantial Shareholder, hence a connected person of our Company. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.
- *Connected Transactions:* Any continuing services provided by the MCS Group to our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The fees for the services payable by our Group under the agreements in relation to the information technology services are determined by reference to market rate. Under the Management Agreement, our Company shall pay MCS Holding a monthly fee of US\$70,000 together with a percentage of EBITDA set as 6% in 2010 and a monthly fee of US\$70,000, together with a percentage of EBITDA set as 5.5% in 2011. EBITDA is defined as the profit for the year plus net financing costs, investing income, income tax, depreciation and amortisation and minority interests. At the time when the Management Agreement was entered into, ER LLC was not a profit generating company. All the shareholders of ER LLC concluded that as an incentive to MCS Holding, which had been assigned to manage the operation of ER LLC for the first few years, to assist ER LLC to rapidly expand its business and to develop a strong management structure, a compensation in the form of a percentage of EBITDA was appropriate under the circumstances.
- *Reasons for such transactions:* In relation to the services for the maintenance of time and attendance system used for registration of attendance of employees and the services for the maintenance of operations of computer programs and systems, there are no alternative suppliers who are able to provide maintenance services in relation to the particular systems and programs adopted by the Company. There are suppliers who provide maintenance services in relation to other registration systems and computer programs and systems that serve similar functions. However, our Company would incur unnecessary additional costs to replace the current systems and programs.

CONNECTED TRANSACTIONS

In relation to the iridium satellite communication services, there are two to three alternative service providers from whom our Company may obtain its cell phone communication services. Although such alternatives offer comparable pricing, the MCS Group offers more reliable connection services when compared to other alternatives available.

In relation to the services for the maintenance of the domain name of ER LLC, as the domain name is a unique name acquired from the current service provider, there are no alternative service providers who are able to provide maintenance services in relation to the current domain name of ER LLC. There are service providers who provide maintenance services in relation to domain names maintained under other systems. However, our Company would incur unnecessary additional costs to replace such domain name.

In relation to the high speed satellite internet connection services, the relevant subsidiary of the MCS Group is the only high speed satellite internet connection provider in UHG and Tsagaan Khad in Mongolia. There are no alternative providers available in the market. Further, as we have been using the information technology services provided by the MCS Group for a period of time and such providers have been providing a stable and high quality source of information technology services to our Company, we do not consider it cost effective to incur additional costs to engage another service provider for providing similar services.

In relation to the management services, at the time when the Management Agreement was entered into, we were in the early stages of development and looked to our major shareholder, MCS Holding, for guidance on how to operate and develop the UHG deposit. Being a major conglomerate in Mongolia, MCS Holding has a professional team of personnel who has the requisite expertise and experience in areas which are relevant to our Group's business operations and development. Further, it was then agreed among MCS Holding and the other shareholders of ER LLC that MCS Holding should be given the role of managing our Group and developing the UHG deposit in the initial years. For the foregoing reasons, the Management Agreement was put in place to require MCS Holding to designate certain of its resources to develop and operate ER LLC and, in return, MCS Holding is compensated in accordance with the pricing basis as described above.

For each of the services provided under the Management Agreement, such as operational and strategic planning, management, administration and organization of operations, development of business plans and policies for fund raising, design solutions with suitable mechanics and technologies for business operations, provide market studies and industry forecasts information, research and identify sales and marketing channels, overall guidance on financial reporting and accounting policies and liaison with governmental authorities, there are alternative suppliers who are able to provide similar services to our Company separately. The MCS Group, being one of the largest conglomerates in Mongolia, however, has a more experienced team of professionals who can provide the relevant services of the highest quality when compared to other alternatives available.

CONNECTED TRANSACTIONS

- *Future services:* We have entered into agreements with various subsidiaries of MCS Holding for the provision of information technology services during 2009 and 2010 and the Management Agreement during the Track Record Period. Each of the agreements will subsist for no more than three years following Listing, with the last one ending on December 6, 2012. Over the last few years, we have further developed and enlarged our operations and strengthened our own management team. To ensure minimal disruption to our current operations and in the interests of our Shareholders as a whole, we do not intend to terminate the Management Agreement prior to expiration as we will require time for the transition of such services to be assumed by our own management team. We have started performing some of these management-related services ourselves and anticipate that we will be able to perform all such services on or before the expiration of the Management Agreement on January 1, 2012.

We estimate that the total fees payable by our Group under the agreements in relation to the information technology services will be approximately US\$128,548, US\$16,851 and US\$19,627 for each of the three years ending December 31, 2012, respectively. Our Group anticipates an increase in usage of information technology services, such as finance and administrative functions, to support our Group's expanded business operations as a result of our Group's production ramp-up. The proposed annual caps for the three years ending December 31, 2012 have been determined based on the existing service fees paid for the information technology services provided by the MCS Group and the expected increase in service fees as a result of the expected growth of our Group's business operations, taking into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT. The reason for the substantial decrease in the annual caps for the years ending December 31, 2011 and 2012 is due to the expiration of a vast majority of the agreements before year 2012.

We estimate that the total fees payable by our Group under the Management Agreement will be approximately US\$6,860,000 and US\$17,380,000 for the two years ending December 31, 2011, respectively. The proposed annual cap for the year ending December 31, 2010 has been determined after taking into account the total fees paid to the MCS Group for the six months ended June 30, 2010 and the estimated management service fees payable to the MCS Group for the six months ending December 31, 2010, taking into account the anticipated increase in EBITDA for the period as a result of our planned ROM coal production ramp-up from 1.8 million tonnes to 3.8 million tonnes and the anticipated change in forecast exchange rate of the MNT. The proposed annual cap for the year ending December 31, 2011 has been determined based on our estimated increase in EBITDA for the year as a result of our planned ROM coal production ramp-up from 3.8 million tonnes to 7.0 million tonnes, the estimated inflation rate in Mongolia of 25% and the anticipated forecast exchange rate of the MNT.

CONNECTED TRANSACTIONS

Having considered the above, we estimate that the aggregate fees payable by our Group under this category will be approximately US\$6,988,548, US\$17,396,851 and US\$19,627 for each of the three years ending December 31, 2012, respectively. The reason for the substantial decrease in the annual caps for the year ending December 31, 2012 is due to the expiration of the Management Agreement on January 1, 2012.

3B. Supply of Goods and Services by the MCS Group – offices and camp sites supporting services (Category 3B)

- *Background:* We have entered into agreements with various subsidiaries of MCS Holding, pursuant to which such subsidiaries agreed to provide to certain subsidiaries of our Company (i) cleaning and repairing services of office space, office fittings and office equipment; (ii) cafeteria, laundry and cleaning services for employees' camp sites located at UHG; (iii) security services; and (iv) human resource recruitment services of the power plant of our Company at UHG.

We paid an aggregate of approximately MNT2,090,354,240 (US\$1,452,361) and MNT1,133,553,536 (US\$837,807) for the relevant services provided by the subsidiaries of MCS Holding for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

- *Connected Person:* MCS Holding's subsidiaries. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.
- *Connected Transactions:* Any continuing services provided by the MCS Group to our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The prices for the services payable by our Group under the agreements are determined by way of a tender process. The selection process involves reviewing and assessing the quotes submitted by various companies, including the MCS Group. We have selected the current service providers based on the experience and expertise of such service providers and the relevant fees quoted in the tenders submitted. We consider that the prices payable by us to the MCS Group are in line with the market rates and, from our perspective, no less favourable than those obtainable from third parties.
- *Reasons for such transactions:* In view of the increasing demand for offices and camp sites supporting services as a result of the recent expansion of our Company's business, including the development of the UHG deposit, we have decided to outsource our offices and camp sites works, including cleaning, laundry, and recruitment to other professional supporting services providers. We have gone through a tender process to select a service provider for the provision of supporting services for our camps located at UHG. As our Company's operations are mainly located at our camp sites at UHG, a substantial portion of the total expenditure for

CONNECTED TRANSACTIONS

offices and camp sites supporting services were utilized for the provision of supporting services at the camp sites. Approximately 1% of the total expenditure for offices and camp sites supporting services were utilised for the cleaning and security services for our offices located at Central Tower in Ulaanbaatar, Mongolia, which are provided by the MCS Group. Our Group also retained the MCS Group for the provision of human resource recruitment and training services as MCS International LLC, a subsidiary of MCS Holding, is a leading energy supply company in Mongolia, which possesses the relevant expertise and knowledge to assist our Company to recruit skilled personnel and provide training to such personnel for the power plant of our Company at UHG. We consider that the prices payable by us to the MCS Group are in line with the market rates and, from our perspective, no less favourable than those obtainable from third parties.

Although there are alternative suppliers who are able to provide offices and camp sites supporting services to our Company at comparable pricing, the MCS Group has a more organized and experienced team of professionals which provides services of a higher quality when compared to other alternatives available.

- *Future services:* We have entered into agreements with various subsidiaries of MCS Holding for the provision of offices and camp sites supporting services during 2009 and 2010. Each of the agreements will subsist for no more than three years following Listing, with the last one ending on December 31, 2010.

We estimate that the total contract sum payable by our Group will be approximately US\$4,189,805 for the year ending December 31, 2010. The aggregate amount of service fees payable by our Group for the office and camp sites supporting services provided by the MCS Group is associated with the number of employees utilizing the permanent UHG camp site and the temporary ger camp at UHG as a fixed monthly fee will be charged for each employee. Our Group had an average of 208 employees utilizing the camp sites during 2009 and our Group anticipates that an average of 435 employees will be utilizing the camp sites during 2010. The proposed annual cap for the year ending December 31, 2010 has been determined based on the existing service fees paid for the office and camp sites supporting services provided by the MCS Group, the anticipated respective increase in the number of employees of our Company utilizing the different camp sites in 2010 to cope with our expanding business, the different service fees applicable to the different camp sites and the additional security service fees and maintenance fees for the office. Our Company has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in deriving the proposed annual cap.

3C. Supply of goods and services by the MCS Group – construction supporting and ancillary supporting services (Category 3C)

- *Background:* We have entered into agreements with various subsidiaries of MCS Holding, pursuant to which such subsidiaries agreed to provide to our Company or certain subsidiaries of our Company (i) electricity plant operational services; (ii)

CONNECTED TRANSACTIONS

maintenance, repair and management services in relation to the heating supply of our power plant; (iii) construction management services; and (iv) engineering, procurement and construction management services for the construction of overhead power line and substations.

We paid an aggregate of approximately MNT463,737,455 (US\$322,201) and MNT537,866,059 (US\$397,536) for the relevant services provided by MCS Holding and its subsidiaries for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

- *Connected Person:* MCS Holding's subsidiaries. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.
- *Connected Transactions:* Any continuing services provided by the MCS Group to our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The fees for the services payable by our Group under the agreements are determined by reference to the market rate.
- *Reasons for such transactions:* It is a pre-requisite of the Government of Mongolia that all service providers providing services in relation to electrical operations and heating supply systems must hold the relevant special permit issued by the Government of Mongolia. MCS Group, being one of the few companies in Mongolia that has been granted such special permits, is the only service provider in Mongolia that is able to provide the relevant services to our Group at the UHG deposit. As MCS Holding is one of the largest conglomerates in Mongolia, it possesses the relevant expertise and has extensive experience in the area. It is familiar with the conditions of the UHG mine area and has sufficient professional engineers. For these reasons, there are no alternative service providers available in the market in Mongolia that are able to provide similar services. We consider that the engagement of MCS Group as our service provider in relation to the above services is in the interest of our Company.

We are a company with a vision to expand our business operations globally. In order to conform our business with international standards, we require construction management service providers with international experience. MCS Group is one of the very few companies in Mongolia that possesses the relevant international experience to facilitate the construction operations of our Company.

In order to facilitate the operation of our expanding business and secure reliable and high quality supporting services, we consider that the engagement of MCS Group as our supporting service provider is in the interest of our Company.

CONNECTED TRANSACTIONS

- *Future services:* We have entered into agreements with various subsidiaries of MCS Holding for the provision of construction supporting and ancillary supporting services at various intervals during 2009 and 2010. Each of the agreements will subsist for no more than three years following Listing with the last one ending on May 31, 2012.

We estimate that the total contract sum payable by the Group will be approximately US\$4,174,180, US\$190,659 and US\$222,080 for the three years ending December 31, 2012, respectively. Our Company expects to undergo a number of construction projects in the course of our Group's production ramp-up which we anticipate to require additional supporting services from experienced service providers. As such, the proposed annual caps for the three years ending December 31, 2012 are determined based on the existing service fees paid for the construction supporting and ancillary supporting services and the expected increase in the demand for such services. Our Company has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in deriving the proposed annual caps. The reason for the substantial decrease in the annual caps for the two years ending December 31, 2012 is due to the expiration of some of the agreements before 2011.

Transactions with the Petrovis Group

| Category | Nature of Transaction | Applicable Listing Rule | Waiver Sought |
|-------------|---------------------------------------|-------------------------|--|
| 4 | Insurance from the Petrovis Group | Listing Rule 14A.34 | Waiver from announcement requirements |
| 5 | Supply of goods by the Petrovis Group | Listing Rule 14A.35 | Waiver from announcement and independent shareholders' approval requirements |

Details of the continuing connected transactions with the Petrovis Group are set out below.

1. *Insurance (Category 4)*

- *Background:* We have entered into insurance agreements with a subsidiary of Petrovis as the insurer, pursuant to which such subsidiary of Petrovis agreed, in consideration for the insurance premium stipulated by the respective agreements, to pay insurance compensation for the loss, damage and injury to the following insured items or personnel as a result of the insured event in accordance with the terms and conditions set out in the respective agreements:
 - (i) vehicles;
 - (ii) equipment and construction materials of projects implemented by ER LLC;

CONNECTED TRANSACTIONS

- (iii) construction of facilities including power plant, coal handling plant and water system plant;
- (iv) liability in connection with operations of the airport located at Tavan Tologi;
- (v) properties of the airport located at Tavan Tologi;
- (vi) coal stockpile; and
- (vii) full time employees of ER LLC.

For the year ended December 31, 2009, the total insurance premium paid by us to the subsidiary of Petrovis amounted to approximately MNT2,177,631 (US\$1,513).

- *Connected Person:* Petrovis's subsidiary. Petrovis is a Substantial Shareholder and connected person of our Company. Accordingly, any subsidiary of Petrovis is also a connected person of our Company.
- *Connected Transactions:* Any continuing transactions between the Petrovis Group and our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The insurance premium payable by our Group under the agreements are determined by way of a selection process. The selection process involves reviewing and assessing the quotes submitted by various insurance companies, including the Petrovis Group. We have selected the current insurance provider based on the variety of products offered and the relevant fees quoted in the tenders submitted. We consider that the prices payable by us to the Petrovis Group are in line with the market rates and, from our perspective, are no less favourable than those obtainable from third parties.
- *Reasons for such transactions:* Tenger Insurance, a subsidiary of Petrovis, is one of the largest insurance companies operating in Mongolia. It provides a variety of insurance products that provide our Group with protection against liability and loss. Although there are several alternative insurance providers who are able to provide insurance coverage for our Group, Tenger Insurance offers the most comprehensive protection at the lowest price. We do not consider it cost effective to terminate the currently existing insurance agreements and obtain similar insurance products from other insurance providers.

CONNECTED TRANSACTIONS

- *Future services:* We have entered into insurance agreements with a subsidiary of Petrovis for the provision of insurance services during 2009 and 2010. Each of the agreements will subsist for no more than three years following Listing with the last one ending on April 30, 2011.

We estimate that the total premium payable by our Group under the agreements will be approximately US\$641,821 and US\$329,268 for each of the two years ending December 31, 2011, respectively. The proposed annual caps for the two years ending December 31, 2011 have been determined based on the expectation of our Company that there will be an increase in insurance cover as a result of the anticipated increase in the number of employees, assets and construction projects of our Company as our Group is undergoing a production ramp-up. Insurance charges in relation to equipment and construction materials, construction of facilities, airport and coal stockpile are determined based on fixed contract values. Insurance charges in relation to vehicles are estimated based on the value of such vehicles to be insured and the premium to be paid. Insurance charges in relation to full time employees are estimated based on the insurance cover per individual and the premium to be paid. Our Company has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in deriving the proposed annual caps. The reason for the substantial decrease in the proposed annual cap for the year ending December 31, 2011 is due to the expiration of the agreements before 2011.

2. *Supply of goods (Category 5)*

- *Background:* We have entered into contracts with various subsidiaries of Petrovis, pursuant to which such subsidiaries agreed to provide certain subsidiaries of our Company with (i) fuel cards for the purpose of purchasing fuel from the gas stations of Petrovis; and (ii) petroleum products.

We paid an aggregate of approximately MNT10,651,766,232 (US\$7,400,760) and MNT2,891,458,518 (US\$2,137,072) for the purchases of fuel from the Petrovis Group for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

- *Connected Person:* Petrovis's subsidiaries. As described in Category 4 above, any subsidiary of Petrovis is also a connected person of our Company.
- *Connected Transactions:* Any continuing purchases between our Group and the Petrovis Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The prices of the fuel cards and the fuel payable are determined by market rate. Our Directors have confirmed that the prices payable by us to the Petrovis Group were determined on normal commercial terms, and will be in line with market rates and no less favourable than those obtainable from third parties.

CONNECTED TRANSACTIONS

- *Reasons for such transactions:* Due to the size of our mine, we require large scale mining equipment to facilitate our mining activities, and such equipment requires a substantial amount of fuel to operate. Our coal is then hauled by trucks from our UHG deposit to our trans-shipment stockpile at TKH, located approximately 21km from the Mongolia-China border crossing, then to GS where it is further trans-shipped to markets in China. Petrovis is an oligopoly in the fuel market in Mongolia and there are few alternative suppliers of fuel with comparable pricing at market rate. However, the gas stations owned by Petrovis are distributed conveniently within the close proximity of the UHG deposit and along the road to the Mongolia-China border. When compared to other alternatives available, we consider that it is efficient and cost-effective for our Company to continue to purchase fuel from the gas stations operated by the Petrovis Group.
- *Future purchases:* We have entered into contracts with various subsidiaries of Petrovis for the supply of fuel cards for the purpose of purchasing fuel from the gas stations of the Petrovis Group and petroleum products. Each of the contracts will subsist for no more than three years following Listing with the last one ending on June 7, 2011.

We estimate that our total purchases of fuel cards and fuel from the Petrovis Group will amount to approximately US\$19,535,509 and US\$22,730,504 for the year ending December 31, 2010 and the period commencing on January 1, 2011 and ending on June 7, 2011, respectively. The proposed annual caps for the two years ending December 31, 2011 have been determined based on the historical figures for the year ended December 31, 2009 and the four months ended April 30, 2010 and the anticipated increase in fuel consumption due to the increasing level of mining activities conducted by our Company. In deriving the annual caps, our Group has considered the estimated fuel consumption data provided by our Group's mining contractor, Leighton. It is estimated that our Group will purchase approximately 16 million liters and 15 million liters of fuel from Petrovis during the six months ending December 31, 2010, and the six months ending June 30, 2011, respectively. Our Group has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in determining the proposed annual caps for 2010 and 2011. After taking into account the anticipated inflation and the exchange rate fluctuation, the estimated price of fuel per liter for 2010 and 2011 is US\$1.22 and US\$1.53, respectively (inclusive of VAT).

CONNECTED TRANSACTIONS

Waivers

No waivers applied for in respect of certain categories of connected transaction

For the continuing connected transaction described under Category 1 above, each of the percentage ratios (other than profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, is expected on an annual basis to be less than 0.1%. Accordingly, this transaction qualifies under Rule 14A.33(3) of the Listing Rules as a de minimis transactions that is exempt from the annual review, reporting, announcement and independent shareholders' approval requirements.

Waivers from compliance with announcement and independent shareholders' approval requirements

The transactions contemplated in Categories 2 and 4 above (the "discloseable continuing connected transactions") constitute continuing connected transactions which are subject to annual review, reporting and announcement requirements under Rules 14A.45 to 14.47 of the Listing Rules on each occasion on which they arise following the completion of the Global Offering.

The transactions contemplated in Categories 3A, 3B, 3C and 5 above (the "non-exempt continuing connected transactions") constitute continuing connected transactions which are subject to, (i) annual review, reporting and announcement requirements under Rules 14A.45 to 14.47 of the Listing Rules, and (ii) independent shareholders' approval requirements set out in Rule 14A.48 on each occasion on which they arise following the completion of the Global Offering.

In relation to the discloseable continuing connected transactions described above, each of the percentage ratios (other than the profit ratio) based on the relevant annual cap as set out below, where applicable, in relation to each of these categories is, on an annual basis, expected to be less than 2.5% under Rule 14A.34 of the Listing Rules. Accordingly, such transactions are exempt from the independent shareholders' approval requirement but are subject to annual review, reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As the discloseable and non-exempt continuing connected transactions described above are expected to continue on a recurring basis after Listing, and have been entered into prior to the Listing Date, have been fully disclosed in this prospectus and potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the reporting and announcement and/or the independent shareholders' approval requirements would add unnecessary administrative costs for us. Accordingly, we have requested the Stock Exchange, and the Stock Exchange has granted us, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the discloseable and non-exempt continuing connected transactions from compliance with the announcement and/or independent shareholders' approval requirements under the Listing Rules. In addition, we confirm that we will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules in relation to the discloseable and non-exempt continuing connected transactions.

CONNECTED TRANSACTIONS

In respect of Rules 14A.35(2) and 14A.36(1) of the Listing Rules, the maximum aggregate annual value, if any, for the discloseable and non-exempt continuing connected transactions shall not exceed the applicable limit set out below:

| Category | Nature of transaction | Applicable Listing Rules | Historical amount (US\$) | | | Annual cap (US\$) | | |
|---|---|--------------------------|---------------------------------|-----------|-----------|----------------------------------|------------|---------|
| | | | For the year ended December 31, | | | For the year ending December 31, | | |
| | | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| <i>Discloseable continuing connected transactions</i> | | | | | | | | |
| 2. | Rental of equipment from the MCS Group | Listing Rule 14A.34 | - | - | 106,076 | 369,602 | 630,199 | 503,189 |
| 4. | Insurance from the Petrovis Group | Listing Rule 14A.34 | - | - | 1,513 | 641,821 | 329,268 | - |
| <i>Non-exempt continuing connected transactions</i> | | | | | | | | |
| 3A | Supply of goods and services by MCS Group – information technology and management services | Listing Rule 14A.35 | - | 1,472,500 | 2,280,213 | 6,988,548 | 17,396,851 | 19,627 |
| 3B | Supply of goods and services by the MCS Group – offices and camp sites supporting services | Listing Rule 14A.35 | - | - | 1,452,361 | 4,189,805 | - | - |
| 3C | Supply of goods and services by the MCS Group – construction supporting and ancillary supporting services | Listing Rule 14A.35 | - | - | 322,201 | 4,174,180 | 190,659 | 222,080 |
| 5. | Supply of goods by the Petrovis Group | Listing Rule 14A.35 | - | - | 7,400,760 | 19,535,509 | 22,730,504 | - |

Confirmation from our Directors

Our Directors, including our independent non-executive Directors, are of the opinion that the transactions described in the section above headed “Continuing Connected Transactions” have been entered into, and will be carried out following the completion of the Global Offering, in the ordinary and usual course of our business and on normal commercial terms, and that the terms of the transactions and the annual caps above are fair and reasonable and in the interests of our Shareholders as a whole.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that (1) the discloseable and non-exempt continuing connected transactions as described above that have been entered into, are in the ordinary and usual course of our business, on normal commercial terms, are fair and reasonable and in the interest of our Shareholders as a whole, and (2) the annual caps for such discloseable and non-exempt continuing connected transactions are fair and reasonable as far as our Shareholders as a whole are concerned.