The following is the text of a report, prepared for the purpose of incorporation in the prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
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Hong Kong

28 September 2010

The Directors
Mongolian Mining Corporation
Citigroup Global Markets Asia Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Mongolian Mining Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2007, 2008 and 2009 and 30 April 2010, together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 28 September 2010 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.A., Energy Resources Corporation LLC, Energy Resources Road LLC and Gobi Road LLC, as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out below. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in Mongolia.

Name of company	Financial period	Auditors
Energy Resources LLC	Years ended 31 December 2007 and 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Iteglt Audit LLC
Energy Resources Rail LLC	Period from 1 July 2008 (date of incorporation) to 31 December 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Iteglt Audit LLC
Transgobi LLC	Period from 1 September 2008 (date of incorporation) to 31 December 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Iteglt Audit LLC
Energy Resources Mining LLC	Period from 23 December 2008 (date of incorporation) to 31 December 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Iteglt Audit LLC
Tavan Tolgoi Airport LLC	Period from 7 October 2009 (date of incorporation) to 31 December 2009	Iteglt Audit LLC
Enrestechnology LLC	Period from 25 June 2009 (date of incorporation) to 31 December 2009	Iteglt Audit LLC
United Power LLC	Period from 24 June 2009 (date of incorporation) to 31 December 2009	Iteglt Audit LLC
Ukhaa Khudag Water Supply LLC (formerly known as United Water LLC)	Period from 24 June 2009 (date of incorporation) to 31 December 2009	Iteglt Audit LLC

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of presentation set out in Section A below and the accounting policies set out in Section C below ("Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 April 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 April 2010.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined statement of comprehensive income, the combined statement of changes in equity and combined cash flow statement for the four months ended 30 April 2009, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PRESENTATION

Prior to the incorporation of the Company, the business was operated by Energy Resources LLC in Mongolia. Pursuant to the Reorganisation, the Company, through the relevant investment holding companies acquired the entire equity interest in Energy Resources LLC from its then shareholders. Upon completion of the Reorganisation, which was completed on 17 September 2010, the Company became the holding company of Energy Resources LLC. The ultimate shareholders of Energy Resources LLC remain the same immediately before and after the Reorganisation.

At the date of this report, the Company had a direct or indirect interest in the following subsidiaries, which are private companies. The particulars of the subsidiaries are set out below:

Name of company	Place and date of incorporation	Issued and fully paid up capital	Equity attributable to the Company Note (i)		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong 11 June 2010	HK$1	100%	–	Investment holding
Mongolian Coal Corporation S.A.	Luxembourg 20 July 2010	Euro31,000	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia 20 August 2010	USD100,000	–	100%	Investment holding
Energy Resources LLC	Mongolia 22 April 2005	USD26,200,370	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia 1 July 2008	MNT10,700,000,000	–	100%	Railway project management
Energy Resources Mining LLC	Mongolia 23 December 2008	USD1,000	–	100%	Mining and technical management
Transgobi LLC	Mongolia 1 September 2008	MNT9,122,641,836	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia 7 October 2009	MNT3,475,379,000	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia 25 June 2009	MNT3,466,163,000	–	100%	Coal plant management

Name of company	Place and date of incorporation	Issued and fully paid up capital	Equity attributable to the Company Note (i)		Principal activities
			Direct	Indirect	
Ukhaa Khudag Water Supply LLC (formerly known as United Water LLC)	Mongolia 24 June 2009	MNT1,000,000	–	100%	Water exploration and supply management
United Power LLC	Mongolia 24 June 2009	MNT3,025,219,000	–	100%	Power supply project management
Gobi Road LLC	Mongolia 24 March 2010	MNT1,000,000	–	100%	Construction of road
Energy Resources Road LLC	Mongolia 21 April 2010	MNT1,000,000	–	100%	Transportation of coal and construction of road
Public Service LLC	Mongolia 19 August 2009	MNT20,000,000	–	100%	Provision of public utility services

Notes:

(i) The Group's effective interest in these subsidiaries is 100% as at the respective applicable balance sheet dates of the Relevant Period, where applicable.

(ii) Enrestechnology LLC, Ukhaa Khudag Water Supply LLC (formerly known as United Water LLC) and United Power LLC (collectively referred to as the "Entities") were incorporated in June 2009 and were 50% held by Energy Resources Mining LLC and 50% held by Khangad Exploration LLC with an initial capital contribution of MNT1 million each upon their incorporation. The Entities did not commence any operation during the year ended 31 December 2009. In December 2009, the Group repaid Khangad Exploration LLC's share of the initial capital contribution to the Entities of MNT0.5 million each, totalling MNT1.5 million, to Khangad Exploration LLC. As the directors of the Company considered that the Entities were effectively under the Company's control, the Entities have been consolidated into the Group's combined financial information since their respective dates of incorporation.

(iii) The Group acquired a 100% equity interest in Public Service LLC at a consideration of MNT20,000,000 in July 2010.

Pursuant to the Reorganisation, the issue of shares of the Company and the relevant investment holding, through Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.A. and Energy Resources Corporation LLC, in exchange for the entire interest in Energy Resources LLC resulted in the Company becoming an indirect 100% owner of Energy Resources LLC. The Company and the relevant investment holding companies have not carried on any businesses since their respective dates of incorporation. Accordingly, there were no business combinations of the companies now comprising the Group during the Relevant Period. The Reorganisation has been accounted for by applying a principle similar to that for a reverse acquisition. The Financial Information has been prepared as a continuation of Energy Resources LLC and the assets and liabilities of Energy Resources LLC are recognised and measured at their historical carrying values prior to the Reorganisation. The Financial Information before the acquisition date consists of the consolidated financial information of Energy Resources LLC, as the predecessor reporting entity.

B COMBINED FINANCIAL INFORMATION

1 Combined Statements of Comprehensive Income

	Section C Note	Years ended 31 December			Four months ended 30 April	
		2007	2008	2009	2009	2010
		USD	USD	USD	USD (unaudited)	USD
Revenue	2	–	–	66,982,707	119,843	32,253,543
Cost of revenue	3	–	–	(38,682,328)	(75,764)	(20,713,052)
Gross profit		–	–	28,300,379	44,079	11,540,491
Other revenue		–	80,989	70,002	15,224	4,330
Other net (expenses)/income	4	(3,506,536)	(8,575)	(34,813)	179	–
Administrative expenses		(442,629)	(4,043,792)	(10,427,093)	(3,347,448)	(7,067,029)
(Loss)/profit from operations		(3,949,165)	(3,971,378)	17,908,475	(3,287,966)	4,477,792
Finance income	*5(a)*	6,629	12,856	342,318	59,460	2,808,186
Finance costs	*5(a)*	(30,026)	(1,139,261)	(3,860,204)	(1,565,541)	(1,045,452)
Net finance (costs)/income	*5(a)*	(23,397)	(1,126,405)	(3,517,886)	(1,506,081)	1,762,734
Share of profits/(losses) of associate		–	29,735	(9,702)	(3,312)	(11,449)
(Loss)/profit before taxation	5	(3,972,562)	(5,068,048)	14,380,887	(4,797,359)	6,229,077
Income tax	6	942,658	1,488,616	(4,110,723)	1,003,863	(1,217,604)
(Loss)/profit for the year/period		(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Other comprehensive income for the year/period	10					
Exchange differences on re-translation		(13,995)	(1,450,430)	30,590	434,608	2,435,841
Total comprehensive income for the year/period		(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
(Loss)/profit attributable to the equity shareholders of the Company		(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Total comprehensive income attributable to the equity shareholders of the Company		(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
(Loss)/earnings per share	7					
– Basic and diluted		(0.10 cent)	(0.12 cent)	0.34 cent	(0.13 cent)	0.17 cent

The accompanying notes form part of the Financial Information.

2 Combined Balance Sheets

	Section C Note	31 December 2007	31 December 2008	31 December 2009	30 April 2010
		USD	USD	USD	USD
Non-current assets					
Property, plant and equipment, net	*12*	71,128	9,113,827	30,357,991	49,574,318
Construction in progress	*13*	–	15,128,658	43,985,016	53,629,692
Lease prepayments	*14*	–	122,393	104,816	109,568
Interest in associate	*15*	–	27,547	14,521	3,388
Other non-current assets	*16*	–	946,988	8,371,548	7,868,813
Deferred tax assets	*22(b)*	942,957	2,239,603	328,038	579,546
		1,014,085	27,579,016	83,161,930	111,765,325
Current assets					
Inventories	*17*	–	15,190	7,661,009	14,109,773
Trade and other receivables	*18*	1,806	4,541,146	20,036,053	15,652,034
Cash at bank and in hand	*19*	969,081	3,790,797	2,371,030	15,169,202
		970,887	8,347,133	30,068,092	44,931,009
Current liabilities					
Short-term borrowings and current portion of long-term borrowings	*20*	2,950,000	3,000,000	24,200,000	40,000,000
Trade and other payables	*21*	17,588	15,931,318	17,106,673	45,302,287
Current taxation	*22(a)*	–	–	794,999	1,815,613
		2,967,588	18,931,318	42,101,672	87,117,900
Net current liabilities		(1,996,701)	(10,584,185)	(12,033,580)	(42,186,891)
Total assets less current liabilities		(982,616)	16,994,831	71,128,350	69,578,434
Non-current liabilities					
Interest-bearing borrowings, less current portion	*20*	–	–	10,000,000	–
Long-term payables, less current portion	*23*	–	563,837	15,214,753	15,834,027
Accrued reclamation obligations	*24*	–	1,640,380	1,704,998	1,905,249
Deferred tax liabilities	*22(b)*	–	–	367,231	550,476
Total non-current liabilities		–	2,204,217	27,286,982	18,289,752
Net (liabilities)/assets		(982,616)	14,790,614	43,841,368	51,288,682
Capital and reserves					
Share capital	*25*	–	–	–	–
Reserves	*26*	(982,616)	14,790,614	43,841,368	51,288,682
Total equity attributable to equity shareholders of the Company		(982,616)	14,790,614	43,841,368	51,288,682

The accompanying notes form part of the Financial Information.

3 Combined Statements of Changes in Equity

	Section C Note	Share capital USD (Note 25(a))	Share premium USD (Note 26(a))	Other reserve USD (Note 26(b))	Exchange reserve USD (Note 26(c))	(Accumulated losses)/ retained earnings USD	Total equity USD
At 1 January 2007		–	–	8,411	(42,435)	(2,912,458)	(2,946,482)
Increase in other reserve	*26(b)*	–	–	5,007,765	–	–	5,007,765
Total comprehensive income for the year		–	–	–	(13,995)	(3,029,904)	(3,043,899)
At 31 December 2007		–	–	5,016,176	(56,430)	(5,942,362)	(982,616)
At 1 January 2008		–	–	5,016,176	(56,430)	(5,942,362)	(982,616)
Increase in other reserve	*26(b)*	–	–	20,803,092	–	–	20,803,092
Total comprehensive income for the year		–	–	–	(1,450,430)	(3,579,432)	(5,029,862)
At 31 December 2008		–	–	25,819,268	(1,506,860)	(9,521,794)	14,790,614
At 1 January 2009		–	–	25,819,268	(1,506,860)	(9,521,794)	14,790,614
Increase in other reserve	*26(b)*	–	–	18,750,000	–	–	18,750,000
Total comprehensive income for the year		–	–	–	30,590	10,270,164	10,300,754
At 31 December 2009		–	–	44,569,268	(1,476,270)	748,370	43,841,368
At 1 January 2010		–	–	44,569,268	(1,476,270)	748,370	43,841,368
Total comprehensive income for the period		–	–	–	2,435,841	5,011,473	7,447,314
At 30 April 2010		–	–	44,569,268	959,571	5,759,843	51,288,682
(unaudited)							
At 1 January 2009		–	–	25,819,268	(1,506,860)	(9,521,794)	14,790,614
Increase in other reserve	*26(b)*	–	–	18,750,000	–	–	18,750,000
Total comprehensive income for the period		–	–	–	434,608	(3,793,496)	(3,358,888)
At 30 April 2009		–	–	44,569,268	(1,072,252)	(13,315,290)	30,181,726

The accompanying notes form part of the Financial Information.

4 Combined Cash Flow Statements

	Section C Note	Years ended 31 December			Four months ended 30 April	
		2007	2008	2009	2009	2010
		USD	USD	USD	USD (unaudited)	USD
Cash flows from operating activities						
(Loss)/profit before taxation		(3,972,562)	(5,068,048)	14,380,887	(4,797,359)	6,229,077
Adjustments for:						
Depreciation and amortisation		11,035	38,633	1,864,804	472,780	891,046
Share of (profits)/losses of associate		–	(29,735)	9,702	3,312	11,449
Loss/(gain) on disposal of property, plant and equipment		9	8,575	34,813	(179)	–
Write off of construction in progress		3,506,527	–	–	–	–
Finance costs		29,513	98,623	194,487	66,464	860,778
Changes in working capital:						
Increase in inventories		–	(15,190)	(7,645,819)	(2,328,835)	(6,448,764)
Increase in trade and other receivables		(875)	(2,770,267)	(6,996,595)	(305,575)	4,158,237
(Decrease)/increase in trade and other payables		(982,511)	15,837,501	(4,561,137)	(1,955,744)	30,274,808
Cash generated from operations		(1,408,864)	8,100,092	(2,718,858)	(8,845,136)	35,976,631
Income tax paid		–	–	(1,305,024)	–	(340,859)
Net cash (used in)/from operating activities		(1,408,864)	8,100,092	(4,023,882)	(8,845,136)	35,635,772
Investing activities						
Payments for acquisition of property, plant and equipment and construction in progress		(3,513,416)	(25,867,718)	(58,562,528)	(7,417,211)	(28,579,751)
Proceeds from disposal of property, plant and equipment		937	15,529	459,682	25,058	33
Payment for lease prepayments		–	(133,971)	–	–	–
Payments for investments		–	(197)	–	–	–
Amount due from related party		–	–	(2,300,789)	–	2,300,789
Time deposits		–	–	(2,000,000)	–	2,000,000
Interest received		566	12,856	342,318	59,460	97,007
Net cash used in investing activities		(3,511,913)	(25,973,501)	(62,061,317)	(7,332,693)	(24,181,922)

	Section C Note	Years ended 31 December			Four months ended 30 April	
		2007	**2008**	**2009**	**2009**	**2010**
		USD	**USD**	**USD**	**USD (unaudited)**	**USD**
Financing activities						
Proceeds from issue of shares		5,007,765	20,803,092	18,750,000	18,750,000	–
Proceeds from borrowings		2,970,184	3,611,151	53,330,597	5,500,000	19,099,995
Proceeds from customers		–	–	14,668,390	–	–
Repayment of borrowings		(2,112,670)	(3,561,151)	(22,130,597)	(3,500,000)	(13,299,995)
Interest paid		(30,026)	(144,124)	(1,934,686)	(123,495)	(2,543,345)
Net cash generated from financing activities		5,835,253	20,708,968	62,683,704	20,626,505	3,256,655
Net increase/(decrease) in cash and cash equivalents		914,476	2,835,559	(3,401,495)	4,448,676	14,710,505
Cash and cash equivalents at beginning of the year/period		54,658	969,081	3,790,797	3,790,797	371,030
Effect of foreign exchange rate changes		(53)	(13,843)	(18,272)	(13,078)	87,667
Cash and cash equivalents at end of the year/period	*19*	969,081	3,790,797	371,030	8,226,395	15,169,202

The accompanying notes form part of the Financial Information.

C NOTES TO COMBINED FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective terms includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). A summary of the significant accounting policies adopted by the Company are set out below.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the Relevant Period. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Period are set out in Note 32.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries (the "Group").

(c) Basis of measurement

The Financial Information is presented in United States Dollar ("USD"). The Financial Information is prepared on the historical cost basis.

(d) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 December 2007, 2008 and 2009 and 30 April 2010. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the 12 months after the balance sheet date, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(e) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 30.

(f) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(g) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(j)(i)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year/period are recognised in profit or loss whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in other comprehensive income in the combined statements of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment, which consist of buildings, plant and equipment, motor vehicles, office equipment, mining structures and mining rights are initially stated at cost less accumulated depreciation and impairment losses (see Note 1(j)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

When proven and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. Stripping costs incurred during the development of a mine are capitalised into property, plant and equipment. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalised into property, plant and equipment. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body.

All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than mining structures and mining rights, over their estimated useful lives using the straight line method, after taking into account the estimated residual values.

The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
– Buildings	10-40 years
– Plant and equipment	10 years
– Motor vehicles	5-10 years
– Office equipment	3-10 years

Mining structures and mining rights, except for capitalised stripping costs incurred during the production phase, are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Capitalised stripping costs incurred during the production phase are depleted to the extent that the actual waste to ore ratio is lower than the estimated ratio.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Lease prepayments

Lease prepayments represent the costs of acquiring the land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 1(j)(ii)). Amortisation is charged to profit or loss on a straight line basis over the period of the land use rights.

(j) Impairment of assets

(i) Impairment of investments in associate and other receivables

Investments in associate and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associate recognised using the equity method (see Note 1(g)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(j)(ii).

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment

– construction in progress

– lease prepayments

– other non-current assets (excluding receivables)

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss for the year/period in which the reversals are recognised.

(k) Inventories

Coal inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued for the year/period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(q) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in Mongolia. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue associated with the sale of coal is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations in Mongolia are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into USD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange difference is recognised directly in a separate component of equity.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decision, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 REVENUE

The Group is principally engaged in the production, marketing and sale of coal in Mongolia. Revenue represents the aggregate of the invoiced amount of goods sold.

During the year ended 31 December 2009, the Group had four customers that individually exceeded 10% of the Group's turnover, being USD15,438,673, USD15,241,672, USD26,092,134 and USD10,208,672 respectively. During the four months ended 30 April 2010, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD13,843,308, USD9,665,788 and USD8,457,397 respectively. During the four months ended 30 April 2009 (unaudited), the Group had one customer that individually exceeded 10% of the Group's turnover, being USD119,843.

3 COST OF REVENUE

	Years ended 31 December			Four months ended 30 April	
	2007	**2008**	**2009**	**2009**	**2010**
	USD	**USD**	**USD**	**USD (unaudited)**	**USD**
Mining costs	–	–	24,500,450	45,434	15,214,990
Transportation costs	–	–	7,999,950	26,267	2,471,390
Others	–	–	6,181,928	4,063	3,026,672
	–	–	38,682,328	75,764	20,713,052

4 OTHER NET EXPENSES/(INCOME)

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Net loss/(gain) on disposal of property, plant and equipment	9	8,575	34,813	(179)	–
Write off of construction in progress *(Note 13)*	3,506,527	–	–	–	–
	3,506,536	8,575	34,813	(179)	–

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Finance (income)/costs:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Interest income	(566)	(12,856)	(342,318)	(59,460)	(97,007)
Foreign exchange gain, net	(6,063)	–	–	–	(2,711,179)
Finance income	(6,629)	(12,856)	(342,318)	(59,460)	(2,808,186)
Interest on bank and other borrowings	30,026	144,124	1,934,686	123,495	2,543,345
Unwinding interest on					
– Other long-term payables	–	38,645	70,585	22,581	26,300
– Accrued reclamation obligations	–	58,991	264,605	90,265	108,747
Less: Interest expense capitalised	–	(144,124)	(1,751,343)	(123,495)	(1,632,940)
Net interest expense	30,026	97,636	518,533	112,846	1,045,452
Foreign exchange loss, net	–	1,041,625	3,341,671	1,452,695	–
Finance costs	30,026	1,139,261	3,860,204	1,565,541	1,045,452
Net finance costs/(income)	23,397	1,126,405	3,517,886	1,506,081	(1,762,734)

* *Borrowing costs have been capitalised at a rate of 5%, 4% and 13% per annum for the years ended 31 December 2008 and 2009 and for the four months ended 30 April 2010 respectively.*

(b) Staff costs:

	Years ended 31 December			Four months ended 30 April	
	2007	**2008**	**2009**	**2009**	**2010**
	USD	**USD**	**USD**	**USD (unaudited)**	**USD**
Salaries, wages, bonuses and benefits	66,609	354,939	2,849,398	349,236	2,360,742
Retirement scheme contributions	8,523	23,890	191,786	23,506	158,896
	75,132	378,829	3,041,184	372,742	2,519,638

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes ("the Schemes") organised by the Government of Mongolia whereby the Group is required to make contributions to the Schemes at a rate of 7%-13.5% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) Other items:

	Years ended 31 December			Four months ended 30 April	
	2007	**2008**	**2009**	**2009**	**2010**
	USD	**USD**	**USD**	**USD (unaudited)**	**USD**
Depreciation and amortisation	11,035	38,633	1,864,804	472,780	891,046
Operating lease charges:					
minimum lease payments					
– hire of plant and machinery	–	–	1,135,288	–	366,423
– hire of other assets (including property rentals)	30,068	75,284	307,760	61,330	369,905
	30,068	75,284	1,443,048	61,330	736,328
Auditors' remuneration					
– audit services	4,999	27,846	90,323	–	–
Cost of inventories#	–	–	38,682,328	75,764	18,074,053

\# *Cost of inventories includes Nil, Nil, USD3,729,971, USD11,659 and USD2,571,402 for the years ended 31 December 2007, 2008 and 2009 and for the four months ended 30 April 2009 (unaudited) and 2010 respectively, relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses.*

6 INCOME TAX

(a) Income tax in the combined statements of comprehensive income represents:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Current tax					
Provision for the year/period					
– Mongolian Enterprise Income Tax *(Note 22(a))*	–	–	2,100,023	–	1,285,341
Deferred tax					
Origination and reversal of temporary difference *(Note 22(b))*	(942,658)	(1,488,616)	2,010,700	(1,003,863)	(67,737)
	(942,658)	(1,488,616)	4,110,723	(1,003,863)	1,217,604

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
(Loss)/profit before income tax	(3,972,562)	(5,068,048)	14,380,887	(4,797,359)	6,229,077
Notional tax on (loss)/profit before taxation	(993,141)	(1,267,012)	2,990,330	(1,200,440)	1,360,876
Tax effect of non-deductible items *(Note (iii))*	51,179	292,445	1,134,672	195,202	399,185
Tax effect of non-taxable items *(Note (iii))*	(696)	(616,529)	(83,199)	(329)	(735,097)
Tax loss not recognised	–	102,480	68,920	1,704	192,640
Actual tax expenses	(942,658)	(1,488,616)	4,110,723	(1,003,863)	1,217,604

Note:

(i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT 3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the Relevant Period.

(iii) Non-deductible items and non-taxable items mainly represent the unrealised exchange losses and gains during the Relevant Period, respectively.

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to equity shareholders of the Company for each of the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 and the 3,000 million ordinary shares in issue pursuant to the Reorganisation as if these shares were outstanding throughout the entire Relevant Period.

The Company did not have any potential dilutive shares throughout the entire Relevant Period. Accordingly, diluted earnings per share is the same as basic earnings per share.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed is as follows:

	Year ended 31 December 2007			
	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
Executive directors				
Odjargal Jambaljamts (Chairman)	–	–	–	–
Battsengel Gotov	–	–	–	–
Non-executive directors				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo	–	–	–	–
Enkh-Amgalan Luvsantseren	–	–	–	–
Badamtsetseg Dash-Ulzii	–	–	–	–
Oyungerel Janchiv	–	–	–	–
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	–	–	–	–
Independent non-executive directors				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	–	–	–	–

	Year ended 31 December 2008			
	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
Executive directors				
Odjargal Jambaljamts (Chairman)	14,985	–	–	14,985
Battsengel Gotov	21,518	12,962	2,498	36,978
Non-executive directors				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo	–	–	–	–
Enkh-Amgalan Luvsantseren	–	–	–	–
Badamtsetseg Dash-Ulzii	–	–	–	–
Oyungerel Janchiv	9,990	–	–	9,990
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	9,990	–	–	9,990
Independent non-executive directors				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	56,483	12,962	2,498	71,943

	Year ended 31 December 2009			
	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
Executive directors				
Odjargal Jambaljamts (Chairman)	12,186	–	521	12,707
Battsengel Gotov	65,459	39,976	7,640	113,075
Non-executive directors				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo	–	–	–	–
Enkh-Amgalan Luvsantseren	51,035	20,844	4,847	76,726
Badamtsetseg Dash-Ulzii	–	–	–	–
Oyungerel Janchiv	4,995	–	–	4,995
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	4,995	–	–	4,995
Independent non-executive directors				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	138,670	60,820	13,008	212,498

	Four months ended 30 April 2009 (unaudited)			
	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
Executive directors				
Odjargal Jambaljamts (Chairman)	555	–	–	555
Battsengel Gotov	18,094	13,154	2,264	33,512
Non-executive directors				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo	–	–	–	–
Enkh-Amgalan Luvsantseren	10,605	6,897	1,228	18,730
Badamtsetseg Dash-Ulzii	–	–	–	–
Oyungerel Janchiv	555	–	–	555
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	555	–	–	555
Independent non-executive directors				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	30,364	20,051	3,492	53,907

	Four months ended 30 April 2010			
	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
Executive directors				
Odjargal Jambaljamts (Chairman)	46,899	30,434	5,443	82,776
Battsengel Gotov	27,519	31,624	4,286	63,429
Non-executive directors				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo	–	–	–	–
Enkh-Amgalan Luvsantseren	15,996	27,531	2,950	46,477
Badamtsetseg Dash-Ulzii	–	–	–	–
Oyungerel Janchiv	2,220	–	–	2,220
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	2,220	–	–	2,220
Independent non-executive directors				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	94,854	89,589	12,679	197,122

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period. Philip Hubert ter Woort waived all his emoluments during the Relevant Period.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals for the years ended 31 December 2007, 2008 and 2009 and for the four months ended 30 April 2009 (unaudited) and 2010 are set forth below:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
				(unaudited)	
Directors	–	2	2	1	2
Non-directors	5	3	3	4	3
	5	5	5	5	5

The emoluments of the directors are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Basic salaries, allowances and benefits in kind	37,868	63,256	189,489	69,725	61,789
Discretionary bonuses	–	22,302	63,439	25,801	99,300
Retirement scheme contributions	5,049	6,200	17,605	6,842	11,190
	42,917	91,758	270,533	102,368	172,279

The emoluments of the individuals with the highest emoluments are within the following band:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
				(unaudited)	
Nil to HKD 1,000,000	5	5	5	5	5

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period.

10 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2007, 2008 and 2009 and for the four months ended 30 April 2010.

11 SEGMENT REPORTING

For the years ended 31 December, 2007, 2008 and 2009 and for the four months ended 30 April 2010, the Group had one business segment, the production, marketing and sales of coal in Mongolia. Accordingly, no business and geographical segment information are presented.

12 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings	Plant and equipment	Motor vehicles	Office equipment	Mining structures and mining rights	Total
	USD	USD	USD	USD	USD	USD
Cost:						
At 1 January 2007	–	–	65,529	21,382	–	86,911
Additions	–	–	–	6,889	–	6,889
Disposals	–	–	–	(946)	–	(946)
Exchange adjustments	–	–	(278)	(89)	–	(367)
At 31 December 2007	–	–	65,251	27,236	–	92,487
At 1 January 2008	–	–	65,251	27,236	–	92,487
Additions	357,664	47,302	8,294,018	312,599	887,488	9,899,071
Disposals	(12,094)	–	–	(17,062)	–	(29,156)
Exchange adjustments	(27,719)	(3,794)	(670,302)	(25,802)	(71,187)	(798,804)
At 31 December 2008	317,851	43,508	7,688,967	296,971	816,301	9,163,598
At 1 January 2009	317,851	43,508	7,688,967	296,971	816,301	9,163,598
Additions	1,355,058	1,666,420	2,703,258	1,246,387	1,040,773	8,011,896
Transfer from construction in progress	2,214,682	–	–	–	14,536,946	16,751,628
Disposals	(20,203)	(168,344)	(246,873)	(79,224)	–	(514,644)
Exchange adjustments	(47,382)	(8,983)	(940,403)	(38,968)	(137,630)	(1,173,366)
At 31 December 2009	3,820,006	1,532,601	9,204,949	1,425,166	16,256,390	32,239,112
At 1 January 2010	3,820,006	1,532,601	9,204,949	1,425,166	16,256,390	32,239,112
Additions	261,600	279,290	254,244	748,117	4,083,926	5,627,177
Transfer from construction in progress	11,956,751	–	–	–	328,739	12,285,490
Disposals	–	–	–	(701)	–	(701)
Exchange adjustments	653,392	89,049	481,551	101,071	998,857	2,323,920
At 30 April 2010	16,691,749	1,900,940	9,940,744	2,273,653	21,667,912	52,474,998
Accumulated amortisation and depreciation:						
At 1 January 2007	–	–	8,737	1,627	–	10,364
Charge for the year	–	–	6,523	4,512	–	11,035
Exchange adjustments	–	–	(35)	(5)	–	(40)
At 31 December 2007	–	–	15,225	6,134	–	21,359
At 1 January 2008	–	–	15,225	6,134	–	21,359
Charge for the year	6,444	389	17,337	13,558	–	37,728
Written back on disposals	(245)	–	–	(4,807)	–	(5,052)
Exchange adjustments	(497)	(31)	(2,562)	(1,174)	–	(4,264)
At 31 December 2008	5,702	358	30,000	13,711	–	49,771
At 1 January 2009	5,702	358	30,000	13,711	–	49,771
Charge for the year	109,144	73,530	1,467,277	114,945	97,197	1,862,093
Written back on disposals	(609)	(2,096)	(13,077)	(4,367)	–	(20,149)
Exchange adjustments	(961)	(220)	(7,234)	(1,939)	(240)	(10,594)
At 31 December 2009	113,276	71,572	1,476,966	122,350	96,957	1,881,121
At 1 January 2010	113,276	71,572	1,476,966	122,350	96,957	1,881,121
Charge for the period	134,817	62,900	528,636	122,000	42,092	890,445
Written back on disposals	–	–	–	(668)	–	(668)
Exchange adjustments	10,858	6,025	95,533	10,818	6,548	129,782
At 30 April 2010	258,951	140,497	2,101,135	254,500	145,597	2,900,680
Carrying amount:						
At 31 December 2007	–	–	50,026	21,102	–	71,128
At 31 December 2008	312,149	43,150	7,658,967	283,260	816,301	9,113,827
At 31 December 2009	3,706,730	1,461,029	7,727,983	1,302,816	16,159,433	30,357,991
At 30 April 2010	16,432,798	1,760,443	7,839,609	2,019,153	21,522,315	49,574,318

(a) All the Group's property, plant and equipment are located in Mongolia.

(b) As at 31 December 2009 and 30 April 2010, certain of the Group's short-term interest-bearing borrowings were secured by the Group's motor vehicles and buildings with net book value of USD5,026,121 and USD7,304,837 respectively (see Note 20).

(c) Mining structures and mining rights at 31 December 2007, 2008 and 2009 and 30 April 2010 include deferred stripping costs of Nil, Nil, USD1,040,773 and USD5,328,288, respectively.

13 CONSTRUCTION IN PROGRESS

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
At 1 January	–	–	15,128,658	43,985,016
Additions	3,506,527	16,447,985	47,522,302	19,407,917
Write off *(Note 4)*	(3,506,527)	–	–	–
Transferred to property, plant and equipment	–	–	(16,751,628)	(12,285,490)
Exchange adjustments	–	(1,319,327)	(1,914,316)	2,522,249
At 31 December/30 April	–	15,128,658	43,985,016	53,629,692

The construction in progress as at 31 December 2007, 2008 and 2009 and 30 April 2010 are mainly related to power plants and mining related machinery and equipment.

In February 2007, the Parliament of Mongolia declared that the six mining licenses originally held by the Group as a "mineral deposit of strategic importance" under the 2006 Minerals Law. Subsequent to February 2007, the Group entered into various discussions with the Government of Mongolia and concluded that the capitalised drilling and exploration expenditures in relation to the six mining licenses would no longer bring future economic benefits to the Group. Accordingly, the Group wrote off US$3.5 million, the carrying amount of the relevant capitalized drilling and exploration expenditures to profit and loss in 2007.

14 LEASE PREPAYMENTS

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Cost:				
Balance at the beginning of the year/period	–	–	123,225	108,251
Additions	–	133,971	–	–
Exchange adjustments	–	(10,746)	(14,974)	5,552
Balance at the end of the year/period	–	123,225	108,251	113,803
Accumulated amortisation:				
Balance at the beginning of the year/period	–	–	832	3,435
Charge for the year/period	–	905	2,711	601
Exchange adjustments	–	(73)	(108)	199
Balance at the end of the year/period	–	832	3,435	4,235
Net book value:	–	122,393	104,816	109,568

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in Mongolia, with lease period from 15 years to 60 years.

15 INTEREST IN ASSOCIATE

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Share of net assets	–	27,547	14,521	3,388

On 15 July 2008, the Group invested in Coal Road LLC (the "Associate") and had 25% interest in the Associate, an entity incorporated in Mongolia with issued and paid up capital of USD864. The principal activities of the Associate are road construction, maintenance and traffic management.

16 OTHER NON-CURRENT ASSETS

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Prepayments in connection with construction work, equipment purchases and others	–	946,988	8,263,196	7,820,330
Others	–	–	108,352	48,483
	–	946,988	8,371,548	7,868,813

The prepayments in connection with construction work, equipment purchases and others as at 31 December 2008, 2009 and 30 April 2010 are mainly related to power plants and railway project.

17 INVENTORIES

(a) Inventories in the combined balance sheets comprise:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Coal	–	–	6,918,360	13,297,498
Materials and supplies	–	15,190	742,649	812,275
	–	15,190	7,661,009	14,109,773

As at 31 December 2009 and 30 April 2010, the Group's long-term interest-bearing borrowings were secured by the Group's coal inventory (see Note 20).

18 TRADE AND OTHER RECEIVABLES

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Trade receivables *(Note (a))*	–	–	8,502,157	1,302,391
Other receivables *(Note (b))*	1,806	4,541,146	11,533,896	14,349,643
	1,806	4,541,146	20,036,053	15,652,034

As at 31 December 2007, 2008 and 2009 and 30 April 2010, all of the trade and other receivables are expected to be recovered within one year.

(a) Ageing analysis

Included on trade and other receivables are trade receivables, which represent the amount due from the Group's major customers. Trade receivables are due from the date of billing. As at 31 December 2009 and 30 April 2010, all of the trade receivables are past due but not impaired as there has not been any significant change in credit quality of the trade receivables. Further details on the Group's credit policy are set out in Note 27(b).

(b) Other receivables

	31 December			30 April
	2007	**2008**	**2009**	**2010**
	USD	**USD**	**USD**	**USD**
Amounts due from related parties *(Note (i))*	–	–	3,038,127	104,599
Security deposit *(Note (ii))*	–	1,000,000	1,000,000	–
Prepayments	–	1,474,767	958,485	4,216,975
Value-added tax ("VAT") receivables *(Note (iii))*	–	1,711,762	5,738,084	9,716,085
Payment on behalf of the customers	–	134,232	489,038	84,476
Others *(Note (iv))*	1,806	220,385	310,162	227,508
	1,806	4,541,146	11,533,896	14,349,643

Notes:

(i) At 31 December 2009, amounts due from related parties mainly represent loan to MCS Holding LLC amounting to USD2.3 million, at an interest rate of 2% per month and with repayment period of three months and the remaining balances represent other current accounts with related parties (see Note 29(a)).

(ii) This represents the security deposit paid to the mining contractor.

(iii) VAT receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Government of Mongolia Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.

(iv) Others mainly represent mainly advances to staff/receivable from staff.

All other receivables were aged within one year and expected to be recovered or expensed off within one year.

19 CASH AT BANK AND IN HAND

	31 December			30 April
	2007	**2008**	**2009**	**2010**
	USD	**USD**	**USD**	**USD**
Cash in hand	6,060	4,211	39,111	23,906
Cash at bank	963,021	3,786,586	2,331,919	15,145,296
Cash at bank and in hand	969,081	3,790,797	2,371,030	15,169,202
Less: time deposits with original maturity over three months	–	–	(2,000,000)	–
Cash and cash equivalents in the combined cash flow statements	969,081	3,790,797	371,030	15,169,202

20 BORROWINGS

(a) The Group's long-term interest-bearing borrowings comprise:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Bank loan (secured)	–	–	30,000,000	30,000,000
Less: Current portion of long-term borrowings	–	–	20,000,000	30,000,000
	–	–	10,000,000	–

(b) The Group's short-term interest-bearing borrowings comprise:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Bank loans				
– Secured	–	–	1,200,000	8,000,000
– Unsecured	–	–	1,000,000	–
Other borrowings				
– Related party *(Note 29(a))*	2,950,000	–	–	–
– Third parties	–	3,000,000	2,000,000	2,000,000
Current portion of long-term borrowings				
– Bank loan	–	–	20,000,000	30,000,000
	2,950,000	3,000,000	24,200,000	40,000,000

At 31 December 2009 and 30 April 2010, the Group's long-term interest-bearing borrowings bear interest of 6 months London Interbank Offered Rate +8%~9% and were secured by the Group's coal inventory (see Note 17).

At 31 December 2009 and 30 April 2010, certain of the Group's short-term interest-bearing borrowings were secured by certain of the Group's property, plant and equipment (see Note 12).

At 31 December 2009 and 30 April 2010, the short-term bank loans bear interest rate of 12.4%~13.2% and 12%~14% per annum, respectively.

The other borrowings as at 31 December 2007 bear interest rate of 18% per annum. The other borrowings as at 31 December 2008 bear interest rate of 12% per annum. The other borrowings as at 31 December 2009 and 30 April 2010 bear interest of 6 months London Interbank Offered Rate +1%.

(c) The Group's long-term borrowings are repayable as follows:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Within 1 year or on demand	–	–	20,000,000	30,000,000
After 1 year but within 2 years	–	–	10,000,000	–
	–	–	30,000,000	30,000,000

21 TRADE AND OTHER PAYABLES

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Trade payables *(Note (i))*	–	41,349	1,622,798	6,311,381
Receipt in advance *(Note (ii))*	–	14,615,269	8,537,178	31,397,126
Amounts due to related parties *(Note (iii))*	7,450	1,100,512	2,052,326	2,245,409
Payables for purchase of equipment	–	–	4,162,332	3,145,420
Current portion of payables for acquisition of mining rights	–	–	–	225,000
Others *(Note (iv))*	10,138	174,188	732,039	1,977,951
	17,588	15,931,318	17,106,673	45,302,287

Notes:

(i) As at 31 December 2008 and 2009 and 30 April 2010, all trade payables are due and payable on presentation or within one month.

(ii) Receipts in advance represent advances from third party customers, in relation to the terms set out in sales agreements.

(iii) Amounts due to related parties represent management service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 29(a)).

(iv) Others represent accrued expenses, payables for staff related costs, royalty fees and other deposits.

All of the other payables and receipts in advance are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

22 INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Tax payable in the combined balance sheets represents:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
At the beginning of the year/period	–	–	–	794,999
Provision for the year/period *(Note 6(a))*	–	–	2,100,023	1,285,341
Income tax paid	–	–	(1,305,024)	(340,859)
Exchange adjustments	–	–	–	76,132
At the end of the year/period	–	–	794,999	1,815,613

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

	Tax losses	Unrealised profits on intra-group transactions	Depreciation and amortisation	Total
	USD	USD	USD	USD
Deferred tax arising from:				
At 1 January 2007	–	–	–	–
Credited/(charged) to profit or loss *(Note 6(a))*	942,658	–	–	942,658
Exchange adjustments	299	–	–	299
At 31 December 2007	942,957	–	–	942,957
At 1 January 2008	942,957	–	–	942,957
Credited/(charged) to profit or loss *(Note 6(a))*	1,488,209	–	407	1,488,616
Exchange adjustments	(191,938)	–	(32)	(191,970)
At 31 December 2008	2,239,228	–	375	2,239,603
At 1 January 2009	2,239,228	–	375	2,239,603
Credited/(charged) to profit or loss *(Note 6(a))*	(1,971,611)	177,947	(217,036)	(2,010,700)
Exchange adjustments	(267,617)	(439)	(40)	(268,096)
At 31 December 2009	–	177,508	(216,701)	(39,193)
At 1 January 2010	–	177,508	(216,701)	(39,193)
Credit/(charged) to profit or loss *(Note 6(a))*	–	171,792	(104,055)	67,737
Exchange adjustments	–	15,534	(15,008)	526
At 30 April 2010	–	364,834	(335,764)	29,070

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Net deferred tax assets recognised on the balance sheet	942,957	2,239,603	328,038	579,546
Net deferred tax liability recognised on the balance sheet	–	–	(367,231)	(550,476)
	942,957	2,239,603	(39,193)	29,070

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD377,040, USD605,026 and USD1,435,464 as at 31 December 2008 and 2009 and 30 April 2010 respectively as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in two years after the tax losses generated under current tax legislation.

23 LONG-TERM PAYABLES

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Receipt in advance from a customer *(Note i)*	–	–	14,658,194	15,399,356
Payable for mining right *(Note ii)*	–	563,837	556,559	434,671
	–	563,837	15,214,753	15,834,027

Notes:

(i) *Receipt in advance represented an advance payment made by an independent third party customer in relation to a long term sales contract with this customer within a ten-year period starting from 2009. The balance represented non-current portion of advance payment made by this customer.*

(ii) *In September 2008, the Group entered into an agreement with respective Government agency of Mongolia to reimburse it in relation to the exploration expenditures incurred by the Government of Mongolia at the UHG deposit prior to the registration of the UHG mining license. Pursuant to the agreement, the payable for mining right will be settled annually within a five-year period starting from 2009.*

24 ACCRUED RECLAMATION OBLIGATIONS

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. At the balance sheet dates, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2009 and 30 April 2010 are adequate and appropriate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
At the beginning of the year/period	–	–	1,640,380	1,704,998
Additions	–	1,581,390	–	–
Accretion expense	–	58,991	264,605	108,747
Exchange adjustments	–	(1)	(199,987)	91,504
At the end of the year/period	–	1,640,380	1,704,998	1,905,249

25 SHARE CAPITAL

(a) Share capital

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 shares of USD0.01 each.

For the purpose of the report, the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries, was included in other reserve during the Relevant Period (Note 26(b)).

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

26 RESERVES

(a) Share premium

The application of the share premium is governed by the Companies Law. Under the Companies Law, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(b) Other reserve

Other reserve as at the respective balance sheet dates included the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of investments in subsidiaries (Note 25(a)).

Increases in other reserve during the Relevant Period represent the subscription of share capital by the then shareholders of Energy Resources LLC (2007: 4,446 ordinary shares; 2008: 12,430,729 ordinary shares; 2009: 655,010 ordinary shares; four months ended 30 April 2009: 655,010 ordinary shares; four months ended 30 April 2010: Nil).

(c) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the companies now comprising the Group. The reserve is dealt with in accordance with the accounting policy set out in Note 1(u).

(d) Distributable reserves

The Company was incorporated on 18 May 2010 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to the equity shareholders at 31 December 2007, 2008 and 2009 and 30 April 2010.

27 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

Given the Group's major customers are reputable and with sound repayment ability, the credit risks of trade receivables are considered low. The Group closely monitors the amount due from related parties. The receivable amount is expected to be settled in a short period. At 31 December 2007, 2008 and 2009 and 30 April 2010, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 18.

(c) Foreign currency exchange risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. The currencies giving rise to this risk are primarily USD and RMB.

(i) Sensitivity analysis

An 5% strengthening/weakening of MNT against USD as at the respective balance sheet dates would (decrease)/increase profit after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

	31 December			30 April
	2007	**2008**	**2009**	**2010**
	USD	**USD**	**USD**	**USD**
Profit for the year/period				
5% increase in MNT	102,823	697,026	1,746,941	1,038,794
5% decrease in MNT	(102,823)	(697,026)	(1,746,941)	(1,038,794)

(d) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings and long-term borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

At 31 December 2007, 2008 and 2009 and 30 April 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately Nil, Nil, USD240,000 and USD80,000 respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax that would arise assuming that the change in interest rates had occurred at the combined balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(e) Liquidity risk

The Group's net current liabilities amounted to USD1,996,701, USD10,584,185, USD12,033,580 and USD42,186,891 as at 31 December 2007, 2008 and 2009 and 30 April 2010 respectively. The Group recorded a net cash (outflow)/inflow from operating activities of USD1,408,864 (outflow), USD8,100,092, USD4,023,882 (outflow) and USD35,635,772 for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 respectively. For the same periods, the Group had a net cash outflow to investing activities of USD3,511,913, USD25,973,501, USD62,061,317 and USD24,181,922 respectively. The Group also recorded a net cash inflow from financing activities of USD5,835,253, USD20,708,968, USD62,683,704 and USD3,256,655 respectively. The Group had an increase/(decrease) in cash and cash equivalents of USD914,476, USD2,835,559, USD3,401,495 (decrease) and USD14,710,505 respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and on its ability to obtain external financing, to meet its committed future capital expenditures.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the 12 months after the balance sheet date. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2007 Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
	USD	USD	USD	USD	USD	USD
Borrowings *(Note 20)*	3,038,725	–	–	–	3,038,725	2,950,000
Trade and other payables *(Note 21)*	12,588	5,000	–	–	17,588	17,588
	3,051,313	5,000	–	–	3,056,313	2,967,588

	2008 Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
	USD	USD	USD	USD	USD	USD
Borrowings *(Note 20)*	3,206,000	–	–	–	3,206,000	3,000,000
Trade and other payables *(Note 21)*	15,926,573	4,745	–	–	15,931,318	15,931,318
Long-term payables *(Note 23)*	225,000	225,000	450,000	–	900,000	563,837
	19,357,573	229,745	450,000	–	20,037,318	19,495,155

	2009 Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
	USD	USD	USD	USD	USD	USD
Borrowings *(Note 20)*	26,167,703	10,309,229	–	–	36,476,932	34,200,000
Trade and other payables *(Note 21)*	17,071,358	35,315	–	–	17,106,673	17,106,673
Long-term payables *(Note 23)*	450,000	225,000	225,000	14,648,194	15,548,194	15,214,753
	43,689,061	10,569,544	225,000	14,648,194	69,131,799	66,521,426

	30 April 2010 Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
	USD	USD	USD	USD	USD	USD
Borrowings *(Note 20)*.	42,664,284	–	–	–	42,664,284	40,000,000
Trade and other payables *(Note 21)* .	45,302,287	–	–	–	45,302,287	45,302,287
Long-term payables *(Note 23)*	–	225,000	15,098,879	–	15,323,879	15,834,027
	87,966,571	225,000	15,098,879	–	103,290,450	101,136,314

(f) Fair values

The Group has no financial instruments measured at fair value during the Relevant Period.

In respect of cash and cash equivalents, trade and other receivables and trade and other payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

The aggregate fair values of other financial liabilities carried on the combined balance sheets are not materially different from their fair values as at 31 December 2007, 2008 and 2009 and 30 April 2010.

The fair values of borrowings have been determined by discounting the relevant cash flows using current interest rates for similar instruments at the respective balance sheet dates.

28 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the Financial Information were as follows:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Contracted for	–	9,693,372	81,096,544	61,539,721
Authorised but not contracted for	–	139,127	–	177,751,976
	–	9,832,499	81,096,544	239,291,697

(b) Operating lease commitments

(i) At respective balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Within 1 year.	30,560	94,005	890,161	1,080,218
After 1 year but within 5 years	–	10,862	1,061,431	971,967
	30,560	104,867	1,951,592	2,052,185

(ii) The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

(c) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 24 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonable at present and which could be material.

29 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the Relevant Period. During the Relevant Period, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
MCS Holding ("MCS")	Shareholder
Energy Resources Investment LLC ("ERI")	Shareholder
Officenet LLC ("Officenet")	Subsidiary of MCS
MCS Property LLC ("MCS Property")	Subsidiary of MCS
MCS Electronics LLC ("MCS Electronics")	Subsidiary of MCS
Anun LLC ("Anun")	Subsidiary of MCS

Particulars of significant transactions between the Group and the above related parties during the Relevant Period are as follows:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Interest income *(Note (i))*	–	–	72,522	–	40,372
Interest expenses *(Note (ii))*	29,989	24,812	157,762	41,000	–
Ancillary services *(Note (iii))*	3,130	1,790,932	5,284,905	713,130	2,348,067
Purchase of goods *(Note (iv))*	–	129,962	829,630	55,617	13,559
Lease of property, plant and equipment *(Note (v))*	5,880	24,444	1,446,472	347	68,793
Loans provided to/(repayment from) related parties *(Note (vi))*	–	–	2,306,480	–	(2,306,480)
Loans received from/(repayment to) related parties *(Note (vii))*	2,950,000	(2,950,000)	–	–	–
Purchase of equipment and construction work *(Note (viii))*	1,954,762	2,737,196	11,672,642	44,505	2,142,264

(i) Interest income represents interest earned from loan to MCS. The applicable interest rate is 2% per month.

(ii) Interest expense represents interest incurred in respect of borrowings from MCS and ERI. The applicable interest rates are ranging from 18% to 24% per annum.

(iii) Ancillary services represent expenditures for support services such as consultancy, cleaning and canteen expense paid to Officenet, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, were applicable.

(iv) Purchase of goods represents concrete purchased from MCS Property, MCS and its affiliates. The goods are purchased at comparable or prevailing market prices, were applicable.

(v) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from MCS Electronics, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

(vi) The Group provides loans to MCS and MCS Electronics (Note 18(b)).

(vii) The Group obtains loans from MCS and ERI (Note 20).

(viii) Purchase of equipment and construction work represents expenditure related to equipment and construction service provided by MCS Electronics, Anun, MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.

Loans provided to and from related parties are fully recovered and repaid before 30 April 2010.

Except for the loans provided to and from the related parties and its corresponding interest income and expenses which were terminated before 30 April 2010, the above related party transactions are recurring after the listing of the Company on the Stock Exchange.

The directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Amounts due from/to related parties

	31 December			30 April
	2007	**2008**	**2009**	**2010**
	USD	**USD**	**USD**	**USD**
Other receivables *(Note 18(b)(i))*	–	–	3,038,127	104,599
Total amounts due from related parties	–	–	3,038,127	104,599
Borrowings *(Note 20(b))*	2,950,000	–	–	–
Other accruals and payables *(Note 21(iii))*	7,450	1,100,512	2,052,326	2,245,409
Total amounts due to related parties	2,957,450	1,100,512	2,052,326	2,245,409

(b) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 8, and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Years ended 31 December			Four months ended 30 April	
	2007	**2008**	**2009**	**2009**	**2010**
	USD	**USD**	**USD**	**USD (unaudited)**	**USD**
Salaries and other emoluments	47,686	278,426	786,013	197,213	412,952
Discretionary bonus	–	35,263	223,008	73,382	398,309
Retirement scheme contributions	6,358	16,795	69,860	19,206	57,017
	54,044	330,484	1,078,881	289,801	868,278

30 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. Reserve estimates are updated at regular basis and have taken into account recent production and technical information about the relevant coal deposit. In addition, as prices and cost levels change from year to year, the estimate of coal reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are amortised based on the units produced.

(b) Useful lives of property, plant and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decreased in the provision of the impairment loss and affect the Group's net asset value.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(d) Obligation for reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

(e) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the next profit in the future years.

31 ULTIMATE CONTROLLING PARTY

As at 30 April 2010, the directors consider the ultimate controlling party of the Group to be MCS Holding LLC, which was incorporated in Mongolia. This entity does not produce financial statements available for public use.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON 1 JANUARY 2010

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information.

	Effective for accounting periods beginning on or after
Amendments to IAS 32, "Financial instruments: Presentation – Classification of rights issues"	1 February 2010
IFRIC 19, "Extinguishing financial liabilities with equity instruments"	1 July 2010
IAS 24 (revised), "Related party disclosures"	1 January 2011
Amendments to IFRIC 14, IAS 19 – "The limit on a defined benefit assets, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement"	1 January 2011
IFRS 9, "Financial instruments"	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 April 2010:

1 Reorganisation

On 17 September 2010, the Group completed the Reorganisation so as to rationalise the Group's structure in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Corporate reorganisation" in Appendix VII to the Prospectus and Section A above. As a result of the Reorganisation, the Company became the holding company of the Group.

2 Valuation of properties

For the purpose of the listing of the Company's shares on the Main Board of the Stock Exchange, the properties of the Group were valued at 30 June 2010 by American Appraisal China Limited. In accordance with the accounting policy of the Group, the valuation difference was not taken up in its financial statements.

3 Share option scheme

Pursuant to the shareholders' resolutions passed on 17 September 2010, the Company has conditionally adopted the Share Option Scheme. The summary of terms of the Share Option Scheme is set out in the section headed "Share Option Scheme" in Appendix VII to the Prospectus.

E BALANCE SHEET OF THE COMPANY

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 divided into 5,000,000 shares of a nominal value of USD0.01 each. The Company has not carried out any business other than investment holding since the date of its incorporation.

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 30 April 2010.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong