*The following discussion should be read in conjunction with our consolidated financial information as at December 31, 2006, 2007 and 2008 and September 30, 2009 and for the three years ended December 31, 2008 and for the nine months ended September 30, 2008 and 2009, together with the accompanying notes included in the Accountant's Report in Appendix I to this prospectus. We have prepared our consolidated financial information in accordance with IFRS, which differ in certain material respects from generally accepted accounting principles in other jurisdictions, including the United States and Canada.*

*The following discussion contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which are based on our current expectations and are subject to risks, uncertainties and changes in circumstances. For further information on risks and other factors that could affect the accuracy of forward-looking statements and our results of operations, please refer to the sections headed "Risk Factors" and "Business" and elsewhere in this prospectus.*

## OVERVIEW

We are one of the largest coal producers in Mongolia in terms of coal sales for export based on the first nine months of 2009. Our operations focus on mining, development and exploration of coking and thermal coals in Mongolia's South Gobi Province to supply premium quality coals to customers in China.

We own licences for three significant coal projects in Mongolia: a producing mine, the Ovoot Tolgoi Mine, and two development projects, the Soumber Deposit and the Ovoot Tolgoi Underground Deposit. In addition, we hold 18 mineral exploration licences in Mongolia. Each of these licences and the related mining assets are wholly-owned by us.

The Ovoot Tolgoi Mine, strategically located approximately 40 kilometres from the China-Mongolia border, is our flagship asset. We commenced mining at Ovoot Tolgoi's Sunset Pit in April 2008 and commenced coal sales in September 2008. The products from the Ovoot Tolgoi Mine include coking, premium and thermal coals, which are being sold to customers in China. Since the commencement of production in late 2008 until September 30, 2009, we have sold approximately 1.1 million tonnes of coal from the Ovoot Tolgoi Mine. The Ovoot Tolgoi Mine is covered by a single 9,308 hectare mining licence and corresponding permit to mine. Norwest, our Independent Technical Expert, considers it possible that our total coal production from the Ovoot Tolgoi Mine could increase to approximately eight million tonnes per annum from 2012. We estimate that aggregate capital expenditure in relation to this production ramp-up will be US$140 million up to the end of 2012.

Our Soumber Deposit is located approximately 20 kilometres to the east of our Ovoot Tolgoi Mine, which could allow the operations to share existing infrastructure in the event a mine is developed there. Preliminary exploration results show potential for thick seams of coking coal, and a resource has been established confirming a deposit. We are planning to do more exploration work on the east and the west parts of the deposit to fully investigate the feasibility of this project and to prepare for licensing.

We have conducted substantial exploration activities at the Ovoot Tolgoi Underground Deposit and have delineated mineral resources at this project. The Ovoot Tolgoi Underground Deposit is covered by the existing Ovoot Tolgoi Mining Licence.

Our 18 exploration licences in Mongolia comprise an area of 784,358 hectares. These licences are located around our existing mining area in the western part of the South Gobi Province but also further east, including a substantial holding around another known third-party owned Mongolian coal deposit called Tavan Tolgoi. Out of

these 18 licences, four may be affected by a new Mongolian law that prohibits minerals exploration and mining in certain areas. See "Business — Our Mining and Exploration Operations — Mongolia". We intend to explore certain priority exploration targets over the next 12 months.

Our priority is to expand production at the Ovoot Tolgoi Mine, to investigate the feasibility of the Soumber Deposit and to continue exploration at the Ovoot Tolgoi Underground Deposit and our priority exploration targets.

In addition, we own a mining licence for the Tsagaan Tolgoi Deposit in Mongolia. We have no immediate plans to advance the development of the Tsagaan Tolgoi Deposit.

Prior to December 23, 2009, we also held an 85% interest in the Mamahak Deposit in Indonesia. In the third quarter of 2009, we, in the normal course of business, performed a more detailed operational review of the Mamahak Deposit. To minimise cash outflows pending the results of the operational review, we suspended operations at the Mamahak Deposit in October 2009 and recorded an impairment charge of US$23 million for the nine months ended September 30, 2009. On December 15, 2009, we announced that we had entered into an agreement to divest our 85% interest in the Mamahak Deposit in Indonesia to Kangaroo. The sale of our interest in the Mamahak Deposit was completed on December 23, 2009. For further details, see "Business — Our Mining and Exploration Operations — Indonesia — Mamahak Deposit".

We have been engaged in mining exploration activities and have a short operating history. To date, we have not generated net profits and have recorded operating cash outflows.

For the three years ended December 31, 2008 and the nine months ended September 30, 2009, our evaluation and exploration costs amounted to US$9.6 million, US$13.8 million, US$36.2 million and US$13.8 million, respectively.

As at September 30, 2009, we have two reportable operating segments, being the Mongolian Coal Division and Indonesian Coal Division. Each segment represents our acquisition, exploration and development of coal properties in distinct geographical locations. For both segments, we receive discrete financial information that is used by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. The Mongolian Coal Division earned revenue through the sale to external customers of coal from the Ovoot Tolgoi Mine during 2008 and the nine months ended September 30, 2009. As at September 30, 2009, the Indonesian Coal Division has yet to complete sales of coal and therefore has no revenues recorded.

Our historical financial statements also include the results of the Metals Division, which consisted of certain base and precious metal exploration properties in Mongolia and Indonesia, related assets, employees and contracts. For the three years ended December 31, 2008 and for the nine months ended September 30, 2009, the Metals Division incurred a loss of US$6.5 million, US$4.7 million, US$7.9 million and nil, respectively. In December 2008, we entered into an agreement for the sale of the Metals Division to Ivanhoe for US$3 million and other non-cash consideration in order to focus solely on coal production, development and exploration. The agreement became effective on December 30, 2008 and the disposal transaction was completed on February 2, 2009.

## BASIS OF PREPARATION

Our Company is a publicly listed company incorporated in Canada on February 14, 2002 with limited liability under the legislation of the Province of British Columbia and its shares were listed on the TSX-V from December 15, 2003. We were originally principally engaged in the acquisition, exploration and development of metal properties. In July 2006, our Company and Ivanhoe signed a definitive agreement to acquire Ivanhoe's coal divisions which was comprised of a series of coal assets in Mongolia. On May 29, 2007, we completed the purchase

of the Ivanhoe coal division in consideration for the issuance to Ivanhoe of 57,000,000 Shares and 25,576,383 convertible Preferred Shares.

The Shares issued to Ivanhoe, when aggregated with Ivanhoe's existing holding of Shares, represented approximately 86% of the total number of our Shares issued and outstanding at December 31, 2007. Since Ivanhoe controlled the coal division that was transferred to us and continues to control us after the completion of the Coal Transaction, the Coal Transaction is considered a combination between businesses or entities under common control and is therefore exempt from the scope of IFRS 3, Business Combinations. We have accounted for the business combinations of the entities under common control by using the principles of merger accounting as if the current group structure had been in existence at December 31, 2006, 2007 and 2008. Accordingly, our consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results, changes in equity and cash flows of the coal division of Ivanhoe as if the current group structure had been in existence throughout the reporting periods. The consolidated statements of financial position of our Company as at December 31, 2006, 2007, 2008 and September 30, 2009 have been prepared to present the assets and liabilities of the entities under common control as at the respective dates.

In addition, with the completion of the Coal Transaction, certain coal division expenditures made by Ivanhoe from April 25, 2006 to May 28, 2007 were added to our indebtedness and were repayable by us as if they were advances. The total coal expenditures funded by Ivanhoe from April 25, 2006 to May 28, 2007, and accepted by us, were approximately US$13.2 million of which US$13.0 million were related to exploration expenses and approximately US$0.2 million were for plant and equipment. Together with other line of credit advances and interest charges, the total principal and interest payable to Ivanhoe as at December 31, 2007 was US$29.9 million.

## FACTORS AFFECTING OUR RESULTS

Our results of operations and financial condition have been and will continue to be affected by a number of important factors, including the following:

### *Coal prices*

We sell our coal products in Mongolia to Chinese customers. The average selling price of our coal products was approximately US$29 per tonne for 2008 and for the nine months ended September 30, 2009.

The selling prices of our coal products are influenced by price fluctuations in the PRC domestic market and the international market. The main factors affecting the selling prices of our coal products include the supply and demand for thermal coal in the PRC and the Asia-Pacific market, the coal characteristics and quality, the availability of coal transportation and capacity and means and cost of transportation. See "Industry Overview — Coal Pricing" for more detailed information on the global and PRC coal markets.

### *Sales volume/Production volume*

We generate revenue by producing and supplying coal for our customers. We commenced coal production at the Ovoot Tolgoi Mine in August 2008. We sold a total of 0.1 million tonnes of coal in 2008 and approximately 1 million tonnes in the nine months ended September 30, 2009. Our coal sales volume will be largely dependent upon the market demand, our production capacity and the transportation capacity.

We anticipate that our major customers will include a mixture of the end users and distributors of coal, including steel mills, power plants, and industrial consumers in China. Rapid growth in the PRC economy has created substantial energy demand in China and we believe that the demand for our coal products from China will

continue to grow. Norwest, our Independent Technical Expert, considers it possible that our total coal production from the Ovoot Tolgoi Mine could increase to approximately eight million tonnes from 2012 and onward. We have also entered into preliminary discussions with railway contractors on the development of a coal railway from the Ovoot Tolgoi Mine to the Shivee Khuren-Ceke border crossing. We expect that increases in the production volume and sales volume of our coal product will be the main driver for our revenue growth in the future. Demand for our coal, however, may be affected by the changes in the PRC's economy and market conditions.

***Production costs/Cost of sales***

An important factor that affects our profitability is our production costs/cost of sales. Our cost of sales is comprised of the cost of product sold, mine administration costs, equipment depreciation and depletion of stripping costs. Our total cash costs of product sold per tonne, which provides an additional measure of our costs on a per unit basis, was US$14.1 and US$16.0, respectively, for 2008 and the nine months ended September 30, 2009. The key factors impacting our production costs include variations in production volume, and the cost of power, fuel and labour.

***Exploration costs***

We carry out exploration activities to delineate mineral resources. Some of the exploration programmes are partly designed to meet Mongolian legal requirements regarding retention of exploration licences. Exploration costs include exploration licence fees, drilling, assaying, geology, camp costs and salaries and benefits. Exploration costs are charged to operations until such time as it has been determined that a property has economically recoverable reserves, in which case the costs incurred to develop a property are capitalised. Exploration costs include value-added tax incurred in foreign jurisdictions when recoverability of those taxes is uncertain, as value-added tax is only recoverable upon the sale of products. All exploration costs were written off until we commenced production at the Ovoot Tolgoi Mine.

For the three years ended December 31, 2008 and the nine months ended September 30, 2009, our evaluation and exploration costs amounted to US$9.6 million, US$13.8 million, US$36.2 million and US$13.8 million, respectively. We expect to have on-going exploration costs and these costs will vary materially due to many factors, including the number, location and physical characteristics of the projects and the legal and regulatory concerns for each. Fluctuations in the exploration costs will have a direct impact on our results of operations.

## CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements have been prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements. Critical accounting policies are those that are the most important to the portrayal and understanding of our financial condition and/or results of operations and require our management's most difficult, subjective or complex judgment, often as a result of the need to make estimates that are particularly sensitive because of their significance to our financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments.

***Fair value of amounts due under line of credit facility***

The fair value of the conversion option included in the amounts due under our line of credit facility is subject to the limitation of the Black-Scholes option pricing model, which incorporates market data and involves uncertainty in estimates used by our management in the assumptions. Because the Black-Scholes option

pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

***Depletion and depreciation of property, plant and equipment ("PPE")***

PPE comprise the largest component of our assets and, as such, the depreciation of these assets has a significant effect on our financial statements.

On the commencement of commercial production, depletion of each individual mining property is provided on the unit-of-production basis using estimated resources as depletion basis. The estimates of the resources for the depletion basis are determined based on professional evaluation, but may change based on additional knowledge gained subsequent to the initial assessment. A change in the original resource estimates would result in a change in the rate of depletion of the related mining assets.

The mining equipment and other capital assets are depreciated over their expected economic lives using either the unit-of-production or straight-line method. Capital projects in progress are not depreciated until the capital asset has been put into operation.

***Stripping costs***

Stripping costs incurred during the development of a mine are capitalised into PPE. 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 PPE. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body. Capitalised stripping costs are depleted on a unit-of production basis, using estimated resources as the depletion base.

***Mineral properties***

All direct costs related to the acquisition of mineral property interests are capitalised into intangible assets on a property by property basis. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalised into PPE. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of these taxes is uncertain. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of production basis using estimated resources as the depletion base.

***Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")***

Our management recognises provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortised as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for

changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Reclamation and closure costs have been estimated based on our management's interpretation of current regulatory requirements and have been measured at fair value. Fair value is determined based on the net present value of expected future cash expenditures upon reclamation and closure. Because the fair value measurement requires the input of subjective assumptions, including the reclamation and closure costs, changes in subjective input assumptions can materially affect the fair value estimate.

***Stock-based compensation***

Our employees (including Directors and our senior executives) receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. We account for stock options using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of our stock options at the date of the grant thereafter.

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

***Income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of the financial position.

Deferred income tax is provided using the liability method on temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each date of the statement of financial position and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

***Impairment of non-financial assets***

At the end of each reporting period, our management reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the management estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of 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 the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

***Revenue recognition***

Revenue represents the fair value of consideration received and receivable that are derived from the sales of coal. Sales revenues are recognised when the risk and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably fixed and determinable. This occurs when the coal is either loaded onto a truck or when it is unloaded at the final destination, depending on the terms of the contract.

***Inventory valuation***

Coal inventories are stated at lower of production cost and net realisable value. Production costs include direct and indirect labour, operating materials and supplies, transportation costs and an appropriate portion of fixed and variable overhead expenses, including depreciation and depletion. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Supplies inventory consists of consumable parts and supplies which are valued at lower of weighted average cost and net realisable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Net realisable value is defined as the selling price of the finished product less any provisions for obsolescence and costs of completion.

## DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

***Revenue***

Our revenue represents the fair value of consideration and receivables that are derived from our sales of coal. Sales revenues are recognised when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. The revenue from sales of coal in our ordinary course of business is recognised when coal is either loaded onto a truck or when it is unloaded at the final destination, depending on the terms of the contract.

***Cost of sales***

Our cost of sales is comprised of operating expenses and equipment depreciation and depletion of stripping costs. Operating expenses mainly include the cost of product sold and mine administration costs.

***Administration expenses***

Our administration expenses consist primarily of salaries and benefits, corporate administration expenses, professional fees, legal expenses and foreign exchange loss. In 2008 and the nine months ended September 30, 2009, we incurred listing expenses (including professional fees and charges) of US$6.7 million and US$1.9 million in relation the preparation for this Secondary Listing. Legal expense comprises costs related to our compliance with regulatory requirements including expenses associated with corporate governance, annual statutory information

filings, registration, disclosure and preparation of financing documentation. Professional fees include costs related to the quarterly reviews of our financial statements, accrued year end audit, recruitment expenses, corporate tax planning and information technology consulting, together with costs incurred in effecting the Coal Transaction.

***Evaluation and exploration costs***

Exploration costs mainly include the geology, licence fees, drilling, assaying, camp costs, and salaries and benefits of employees undertaking exploration work.

***Finance costs***

Finance costs include the fair value change on the embedded derivative and the warrant liabilities, interest expenses on borrowings and interest accretion costs on the line of credit facilities. The embedded derivative results from the conversion feature on the credit facility under the First Funding Agreement, whereby the U.S. dollar-denominated loan may be converted at a fixed conversion rate into Canadian dollar-denominated Shares. The fair value of both the embedded derivative and the warrant liabilities was determined using the Black-Scholes option pricing model. The embedded derivative was valued at initial measurement upon the closing of the Coal Transaction and on each drawing date thereafter. The warrant liabilities related to 1,153,998 warrants to purchase Shares granted to BHP Billiton World Exploration Inc. on June 28, 2005, which had a term of two years and an exercise price of C$1.395 per Share. All warrants were exercised on June 26, 2006.

***Interest income***

Interest income is comprised of the income derived from our cash balances on hand and invested from time to time.

***Income tax***

We are subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. Our Company was not liable for income tax in Hong Kong during the Track Record Period as it did not have assessable income arising in Hong Kong during that period.

***Loss from discontinued operations***

Loss from discontinued operations represents the losses incurred by the Metals Division, which was transferred to Ivanhoe in February 2009.

## RESULTS OF OPERATIONS

The following table sets out selected financial data which are extracted from our consolidated financial statements during the Track Record Period as set out in "Appendix I — Accountant's Report" in this prospectus.

| | Year ended December 31, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | US$ | US$ | US$ | US$ (unaudited) | US$ |
| **Continuing operations** | | | | | |
| Revenue | — | — | 3,125,851 | — | 26,077,803 |
| Cost of sales | — | — | (2,177,425) | — | (20,988,873) |
| **Income from mine operations** | — | — | 948,426 | — | 5,088,930 |
| Administration expenses | (5,038,547) | (7,191,262) | (20,310,155) | (12,850,768) | (16,783,348) |
| Evaluation and exploration expenses | (9,577,429) | (13,787,952) | (36,183,163) | (28,088,514) | (13,781,444) |
| Impairment charge on Mamahak Deposit | — | — | — | — | (23,029,013) |
| **Operating loss from continuing operations** | (14,615,976) | (20,979,214) | (55,544,892) | (40,939,282) | (48,504,875) |
| Finance costs | (628,362) | (71,125,484) | (7,989,492) | (7,966,271) | (1,061,141) |
| Interest income | 49,700 | 44,082 | 1,869,894 | 1,697,623 | 16,272 |
| **Loss before tax** | (15,194,638) | (92,060,616) | (61,664,490) | (47,207,930) | (49,549,744) |
| Current income tax expense | — | — | — | — | (711,855) |
| Deferred income tax credit | — | — | — | — | 8,608,766 |
| **Loss from continuing operations** | (15,194,638) | (92,060,616) | (61,664,490) | (47,207,930) | (41,652,833) |
| Loss from discontinued operations | (6,533,998) | (4,675,812) | (7,911,252) | (5,362,114) | — |
| **Net loss and comprehensive loss attributable to equity holders of the Company** | (21,728,636) | (96,736,428) | (69,575,742) | (52,570,044) | (41,652,833) |
| **Basic and diluted loss per share from:** | | | | | |
| Continuing operations | (0.91) | (1.80) | (0.48) | (0.37) | (0.31) |
| Discontinued operations | (0.40) | (0.09) | (0.06) | (0.04) | — |
| **Continuing and discontinued operations** | (1.31) | (1.89) | (0.54) | (0.41) | (0.31) |
| Weighted average number of basic and diluted shares outstanding | 16,647,940 | 51,070,891 | 128,353,692 | 126,775,043 | 133,341,543 |

## PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

## NINE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2008

***Revenue***

We generated revenue of US$26.1 million from the sale of coal in the nine months ended September 30, 2009. Approximately one million tonnes of coal were sold in the nine months ended September 30, 2009, at an average realised selling price of approximately US$28.8 per tonne.

***Cost of sales***

Our cost of sales in the nine months ended September 30, 2009, was US$21.0 million, including operating expenses of US$16.8 million and depreciation and depletion of US$4.2 million. There were no cost of sales in the nine months ended September 30, 2008.

***Income from mine operations***

As a result of the foregoing, we derived income of US$5.1 million from our mine operations for the nine months ended September 30, 2009. We did not derive any income for the nine months ended September 30, 2008.

***Administration expenses***

Our administration expenses increased 30.6% from US$12.9 million in the nine months ended September 30, 2008, to US$16.8 million in the nine months ended September 30, 2009. The significant increase in the nine months ended September 30, 2009, was primarily attributable to the increase in stock based compensation to our employees of 252% from US$2.3 million for the nine months ended September 30, 2008 to US$8.1 million for the same period in 2009.

***Evaluation and exploration expenses***

Evaluation and exploration expenses decreased 50.9% from US$28.1 million in the nine months ended September 30, 2008, to US$13.8 million in the nine months ended September 30, 2009. Evaluation and exploration expenses in Mongolia in 2008 were higher as we acquired equipment, hired additional personnel and began pre-development activities at the Ovoot Tolgoi Mine. Throughout 2008, we concentrated on drilling in the Sunset Pit. We also continued our exploration activities in Indonesia throughout the nine months ended September 30, 2009.

***Impairment charge***

In the third quarter of 2009, we became aware of the requirement for additional capital expenditure at the Mamahak Deposit beyond what was originally budgeted to develop the project. We undertook a detailed operational review to confirm the additional capital requirements and to enhance the mine plan and resource base. Pending the results of the review, we suspended future development works at the Mamahak Deposit. As a result of the suspension, we recorded an impairment charge of US$23 million in the third quarter of 2009.

***Finance costs***

Our finance costs decreased 86.7% from US$8.0 million for the nine months ended September 30, 2008, to US$1.1 million for the nine months ended September 30, 2009. This was mainly because our loss on the fair value change on the embedded derivative decreased from US$7.2 million in the nine months ended September 30, 2008,

to nil in the nine months ended September 30, 2009. This loss was related to the valuation of the embedded derivative under the First Funding Agreement as a result of its convertible feature after the closing of the Coal Transaction on May 29, 2007. The decrease in the nine months ended September 30, 2009, resulted from the conversion of the line of credit into shares. As a result of this conversion the amount due under the line of credit facility was eliminated. For more information on the First Funding Agreement, see "— Description of Selected Income Statement Line Items — Finance costs"

***Interest income***

Our interest income decreased from US$1.70 million for the nine months ended September 30, 2008, to US$0.02 million for the nine months ended September 30, 2009. Interest income was higher in 2008, due to higher cash balances which relate to the completion of the equity financings in early 2008. Lower interest income during 2009 reflects lower average cash balances during this period.

***Loss before tax***

As a result of the changes in the items described above, our loss before tax increased 5.0% from US$47.2 million for the nine months ended September 30, 2008, to US$49.5 million for the nine months ended September 30, 2009.

***Income tax expense***

We incurred current income tax expense of US$0.7 million because we had assessable income from our subsidiaries in Mongolia. We also recorded deferred income tax credit of US$8.6 million in relation to tax losses and other temporary differences.

***Loss from continuing operations***

Our loss from continuing operations decreased 11.8% from US$47.2 million in the nine months ended September 30, 2008 to US$41.7 million in the nine months ended September 30, 2009.

***Net loss and comprehensive loss attributable to equity holders of the Company***

As a result of the foregoing, the losses attributable to equity holders of our Company decreased 20.8% from US$52.6 million in the nine months ended September 30, 2008 to US$41.7 million in the nine months ended September 30, 2009.

**YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007**

***Revenue***

We commenced commercial production of coal at the Ovoot Tolgoi Mine in April 2008 and generated revenue of US$3.1 million from the sales of coal in 2008. Approximately 0.1 million tonnes of coal were sold in 2008 at an average realised selling price of approximately US$29.2 per tonne.

***Cost of sales***

Our cost of sales in 2008 was US$2.2 million, including operating expenses of US$1.9 million and depreciation and depletion of US$0.3 million. The depreciation and depletion costs represented the charges for equipment depreciation and the depletion of stripping costs.

***Income from mine operations***

As a result of the foregoing, we derived income of US$0.9 million from our mine operations and our gross profit margin was 30.3% in 2008.

***Administration expenses***

Our administration expenses increased 182.4% from US$7.2 million in 2007 to US$20.3 million in 2008. The significant increase in 2008 was primarily attributable to the fees and expenses we incurred in connection with the preparation for the Secondary Listing and the foreign exchange loss in 2008. The foreign exchange loss in 2008 was due to (i) the Company undertaking a series of equity financings in Canadian dollars which meant that the Company had higher Canadian dollar cash balances in 2008, and (ii) the C$/US$ exchange rate fluctuating between 0.9984 C$/US$ at December 31, 2007 and 1.2188 C$/US$ at December 31, 2008.

***Evaluation and exploration expenses***

Evaluation and exploration expenses increased 162.4% from US$13.8 million in 2007 to US$36.2 million in 2008. The increase for 2008 related predominantly to the activity on the Indonesian and Mongolian coal projects. We established the Mamahak Deposit and began our exploration activities in Indonesia in 2008. The exploration costs of US$9.7 million for the Indonesian project were incurred to carry out geological reconnaissance, licensing, mapping, initial drilling, and a documentation programme on the new concessions in East Kalimantan. The 2008 drilling programme has identified quantities of coking coal that appeared to be amenable to surface mining.

The exploration costs for the Mongolian projects increased from US$13.8 million in 2007 to US$26.4 million in 2008. A new drilling programme began on the Ovoot Tolgoi Mine in June 2007. Mobilisation of drills, crews and camps started in May 2007. For the remainder of the year from June 2007 to December 2007, we completed a combination of exploration programmes on the Ovoot Tolgoi Complex and our other coal exploration properties in Mongolia. In 2008, we assembled equipment, hired additional personnel and began pre-development activities at the Ovoot Tolgoi Mine site. Our 2008 exploration programme concentrated on drilling in the Sunset Pit. The exploration continued to expand the extent of the known mineralisation in both the underground and surface coal deposits as well as increase the knowledge level of the quality and structure of the deposit.

***Finance costs***

Our finance costs decreased 88.8% from US$71.1 million in 2007 to US$8.0 million in 2008. This was mainly because our loss on the fair value change on the embedded derivative decreased from US$63.3 million in 2007 to US$7.2 million in 2008. This loss was related to the valuation of the embedded derivative under the First Funding Agreement as a result of its convertible feature after the closing of the Coal Transaction on May 29, 2007. The decrease in 2008 resulted from the conversion of the line of credit into shares. As a result of this conversion the amount due under the line of credit facility was eliminated. For more information on the First Funding Agreement, see "— Description of Selected Income Statement Line Items — Finance costs".

***Interest income***

Our interest income increased from US$0.04 million in 2007 to US$1.9 million in 2008, which mainly related to higher average cash balances we held during 2008. We completed a series of financings in 2008, including (i) an equity private placement of 10,000,000 Shares at C$8.00 per Share and a second equity private placement of 3,500,000 Shares at C$9.00 per Share to institutional investors, for total gross proceeds of C$111.5 million (US$108.4 million); (ii) an additional equity private placement to institutional investors for 711,111 Shares at

C$9.00 per Share for proceeds of C$6.4 million (US$6.5 million) and (iii) a private placement of 2,000,000 Shares to Monnis at C$12.45 per Share representing an aggregate offering amount of C$24.9 million (US$24.8 million).

***Loss before tax***

As a result of the changes in the items described above, our loss before tax decreased 33.0% from US$92.1 million in 2007 to US$61.7 million in 2008.

***Income tax expense***

As none of the entities in our Group recorded an assessable profit, we were not subject to any income tax in 2007 and 2008.

***Loss from continuing operations***

Our loss from continuing operations decreased 33.0% from US$92.1 million in 2007 to US$61.7 million in 2008.

***Loss from discontinued operations***

Our loss from the Metals Division increased 69.2% from US$4.7 million in 2007 to US$7.9 million in 2008. The increase resulted from, among other things, increases in drilling costs, salaries of the employees undertaking the exploration work and geological consulting services.

***Net loss and comprehensive loss attributable to equity holders of the Company***

As a result of the foregoing, the losses attributable to equity holders of our Company decreased 28.1% from US$96.7 million in 2007 to US$69.6 million in 2008.

**YEAR ENDED DECEMBER 31, 2007 COMPARED TO YEAR ENDED DECEMBER 31, 2006**

***Revenue***

None of our projects was at the stage of commercial production in 2006 and 2007 and, therefore, we did not generate any revenue in those two years.

***Cost of sales***

Since no revenue was recorded, we did not incur any cost of sales in 2006 and 2007.

***Income from mine operations***

We did not have any income from mine operations in 2006 and 2007.

***Administration expenses***

Our administration expenses increased 42.7% from US$5.0 million in 2006 to US$7.2 million in 2007, mainly attributable to an increase in salary and benefits expenses. Salary and benefits expenses increased significantly in 2007 mainly because (1) additional Options were granted to our employees in 2007; (2) the fair value of such Options increased as a result of an increase in our Share price and (3) we hired additional personnel in 2007 in connection with the expansion of our operations.

***Evaluation and exploration expenses***

Evaluation and exploration expenses increased 44.0% from US$9.6 million in 2006 to US$13.8 million in 2007. This increase was primarily due to an expansion in exploration activities in accordance with our growth objectives in the South Gobi area of southern Mongolia, including increases in drilling costs, salaries of the employees undertaking the exploration work and geological consulting services.

***Finance costs***

Our finance costs were US$71.1 million in 2007, compared to US$0.6 million in 2006. This was because we recorded a US$63.3 million loss in 2007 on a fair value change on an embedded derivative and an interest accretion on a line of credit facility of US$6.5 million, which were partly offset by a decrease in the fair value change on warrant liabilities. As discussed above, the US$63.3 million loss in 2007 was related to the embedded derivative under the First Funding Agreement. The higher interest accretion on the line of credit facility resulted after the completion of the Coal Transaction on May 29, 2007. We recorded a cost of US$0.5 million for the fair value change on warrant liabilities in 2006. The underlying warrants were exercised in full on June 26, 2006, resulting in no outstanding warrant liabilities, and accordingly no fair value change on such warrants in 2007.

***Interest income***

We had interest income of US$0.05 million in 2006 and US$0.04 million in 2007.

***Income tax expense***

As none of the entities in our Group recorded an assessable profit, we were not subject to any income tax in 2006 and 2007.

***Loss from continuing operations***

Our loss from continuing operations increased from US$15.2 million in 2006 to US$92.1 million in 2007.

***Loss from discontinued operations***

Our loss from the Metals Division decreased 28.4% from US$6.5 million in 2006 to US$4.7 million in 2007.

***Net loss and comprehensive loss attributable to equity holders of the Company***

As a result of the foregoing, the losses attributable to equity holders of our Company increased from US$21.7 million in 2006 to US$96.7 million in 2007.

## LIQUIDITY AND CAPITAL RESOURCES

To date, our principal sources of funds have been from financing provided by Ivanhoe and from the issuance of equity securities. We may use funding from future equity financings, credit facilities, earn-in agreements and profits from the Company's coal operations for the provision of working capital and general exploration, development and acquisition activities. Based on proceeds from CIC and the expected net proceeds from the International Offering, the Company does not anticipate any additional funding requirements in the near future.

We had cash and cash equivalents of US$1.0 million as at December 31, 2006, US$1.4 million as at December 31, 2007, US$10.1 million as at December 31, 2008 and US$2.7 million as at September 30, 2009 and US$433.9 million as at November 30, 2009.

***Cash Flow***

The following table presents selected cash flow data from our cash flow statements for the three years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009.

| Cash Flows | Year ended December 31, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | | | | (unaudited) | |
| | | | (US$ millions) | | |
| Cash used in operating activities | (8.2) | (17.0) | (63.6) | (44.2) | (20.2) |
| Cash used in investing activities | (0.4) | (0.6) | (57.7) | (51.8) | (24.4) |
| Cash generated from financing activities | 6.4 | 18.1 | 134.3 | 134.2 | 37.0 |

***Operating activities***

Net cash used in operating activities amounted to US$20.2 million for the nine months ended September 30, 2009, all of which was used in our continuing operations. The net cash outflow in our continuing operations was primarily attributable to (i) our operating loss before movements in working capital of US$10.0 million; (ii) an increase in trade and other receivables of US$9.7 million; and (iii) an increase in prepaid expenses and deposits of US$4.6 million. With the increased activities at the Ovoot Tolgoi Complex and the operations in Mongolia, accounts receivable, prepaid expenses, and accounts payable increased during the nine months ended September 30, 2009. The increase in prepaid expenses and deposits was due to the timing of prepayments for Mongolian exploration licences, supplies, insurance and additional security deposits in Indonesia.

Net cash used in operating activities amounted to US$63.6 million in 2008, of which US$57.8 million was used in our continuing operations. The net cash outflow in our continuing operations was primarily attributable to (i) our operating loss before movements in working capital of US$44.9 million; (ii) an increase in inventories of US$10.9 million; and (iii) an increase in trade and other receivables of US$7.2 million, which were partly offset by an increase in trade and other payables of US$6.1 million. With the increased activities at the Ovoot Tolgoi Mine site and the operations in Mongolia, inventory, accounts receivables, and accounts payable increased significantly during 2008 as compared to 2007. The increase in inventory reflected our production and stockpiling of coal at the Ovoot Tolgoi Mine from April 2008. Accounts receivable included funds due from government taxation authorities for goods and services tax or value added tax. Accounts payable also increased with the additional coal exploration, administrative and mining activity in 2008.

Net cash used in operating activities amounted to US$17.0 million in 2007, of which US$13.2 million was used in our continuing operations. The net cash outflow in our continuing operations was mainly due to (i) our operating loss before movements in working capital of US$12.4 million and (ii) an increase in prepaid expenses and deposits of US$1.4 million, which were partly offset by an increase in trade and other payables of US$1.1 million. The increase in prepaid expenses was primarily due to the prepayments in respect of exploration licences in Mongolia, additional lease deposits and deposits for equipment and supplies at the Ovoot Tolgoi Mine. Trade and other payables also increased in connection with the additional coal exploration activity.

Net cash used in operating activities amounted to US$8.2 million in 2006, primarily attributable to our operating loss before movements in working capital of US$1.8 million and cash used in discontinued operations of US$6.3 million.

***Investing activities***

Net cash used in investing activities amounted to US$24.4 million for the nine months ended September 30, 2009, primarily attributable to the expenditures incurred for mobile and mining equipment in Mongolia and construction projects and deferred stripping in Indonesia.

Net cash used in investing activities in 2008 amounted to US$57.7 million, which mainly reflected (i) the increase of our interest in the Mamahak Deposit from 56% to 85%; and (ii) our investment in plant and equipment for the Ovoot Tolgoi Mine. Our divestment of the Metals Division generated a net cash inflow of US$2.9 million in 2008.

Net cash used in investing activities in 2007 was US$0.6 million, primarily attributable to the purchase of computer and office equipment for our operations worldwide in connection with the expansion of our operations.

Net cash used in investing activities in 2006 was US$0.4 million.

***Financing activities***

For the nine months ended September 30, 2009, we generated a net cash inflow of US$37.0 million from financing activities, attributable to (i) the advancement of US$36.0 million from the line of credit obtained from Ivanhoe in December 2008; and (ii) the proceeds of US$1.0 million received for the exercise of stock options.

Net cash inflow from financing activities was US$134.3 million in 2008, which mainly reflected the proceeds from equity issuances, partly offset by the repayment of our drawings under the credit facility. We completed a series of equity issuances in 2008, including (i) an equity private placement of 10,000,000 Shares at C$8.00 per Share and a second equity private placement of 3,500,000 Shares at C$9.00 per Share to institutional investors, for total gross proceeds of C$111.5 million (US$108.4 million); (ii) an additional equity private placement to institutional investors for 711,111 of Shares at C$9.00 per Share for gross proceeds of C$6.4 million (US$6.5 million) and (iii) a private placement of 2,000,000 shares to Monnis at C$12.45 per Share for gross proceeds of C$24.9 million (US$24.8 million).

The Company had the following financing activities in the year ended December 31, 2008:

- Private Placements of 16,211,111 Shares for net proceeds of approximately US$139.7 million
- Exercise of 1,442,244 employee stock Options for net proceeds of approximately US$4.0 million
- Drawings under line of credit facility of approximately US$2.0 million
- Repayment of line of credit facility of (US$8.1 million)
- Total cash raised from financing activities in 2008 was approximately US$134.3 million

The cash raised from the 2008 financing sources of approximately US$134.3 million was used as follows:

- Cash used for operating activities of approximately US$63.6 million
- Cash used for the purchase of PPE of approximately US$54.5 million
- Cash used for the purchase of intangible mining rights of approximately US$8.0 million
- Total cash used for these major items in 2008 was approximately US$126.1 million
- The remainder of the cash raised was used by the Company to increase its cash reserves. In 2008 the Company's cash reserves increased by approximately US$9.0 million

The Company had the following financing activities in the nine months ended September 30, 2009:

- Exercise of 349,767 employee stock Options for net proceeds of approximately US$1.0 million
- Drawings under line of credit facility of approximately US$36.0 million
- Total cash raised from financing activities in the nine months ended September 30, 2009 was approximately US$37.0 million

The cash raised from the 2009 financing sources of approximately US$37.0 million was used as follows:

- Cash used for operating activities of approximately US$20.2 million
- Cash used to purchase PPE of approximately US$24.1 million
- Additional cash was needed by the Company for its operating activities and capital purchases above what was raised in 2009 and for this shortfall the Company used its cash reserves which have decreased by US$7.6 million in the 9 months ended September 30, 2009

Net cash inflow from financing activities was US$18.1 million in 2007, which was mainly derived from our drawings under the First Funding Agreement and the Second Funding Agreement of US$15.5 million. It was also attributable to the proceeds received upon the exercise of Options by our employees of US$2.6 million.

Net cash inflow from financing activities was US$6.4 million in 2006, which was primarily attributable to our drawings under the First Funding Agreement of US$5.5 million. The net cash inflow also resulted partly from the proceeds we received upon the exercise of Options by our employees and by BHP Billiton World Exploration Inc.

**BORROWING**

In April 2006, in conjunction with the Coal Transaction, we obtained from Ivanhoe an unsecured line of credit of up to US$10.0 million under the terms of the First Funding Agreement, which was subsequently increased to US$15.0 million. The outstanding loan was, under the terms of the First Funding Agreement, convertible into Shares at the election of either our Company or Ivanhoe. Until May 29, 2008, we had the right to require Ivanhoe to convert the outstanding loans into Shares at a conversion price of C$2.09 per Share. Until August 29, 2008, Ivanhoe had the right to convert the outstanding loans into Shares at a conversion price of C$2.35 per Share. Concurrent with the closing of our equity placements to institutional investors on January 24, 2008, Ivanhoe converted its Preferred Shares and convertible debt under the First Funding Agreement into Shares of the Company, and therefore we no longer have any debt outstanding under the First Funding Agreement.

Coal expenditures incurred by Ivanhoe during the period from April 25, 2006 to May 28, 2007 were deemed to be advances under the line of credit facility. All amounts outstanding under the First Funding Agreement bore interest at the three month LIBOR plus two per cent per annum.

On October 25, 2007, Ivanhoe and our Company entered into the Second Funding Agreement, which provided for an additional, unsecured non-convertible line of credit of up to US$32.5 million. One tranche of funding for US$15.0 million could be used for general corporate purposes and the second tranche of US$17.5 million was contingent upon Ivanhoe having drawn down funds under a credit agreement between Ivanhoe and Rio Tinto International Holdings Limited. Use of the proceeds from the second tranche was restricted to expenditures in respect of our activities in Mongolia. All amounts advanced under the Second Funding Agreement bore interest at an annual rate equal to the three month LIBOR plus 3.30 per cent per annum and matured on June 30, 2009. The balance due under the Second Funding Agreement included accrued interest and was

repaid in January 2008 from proceeds of our equity financing. The Second Funding Agreement was then terminated.

On December 30, 2008, we announced the sale of our Metal Division to Ivanhoe for US$3 million. In addition, we obtained a US$30 million credit facility from Ivanhoe. The credit facility was for a one year term with a one year discretionary extension. The credit facility was unsecured and carried an interest rate equal to LIBOR plus 750 basis points. In July 2009, we and Ivanhoe agreed to increase the credit facility from US$30 million to US$60 million. The amended credit facility was to mature on December 31, 2010, was unsecured and bore interest at LIBOR plus 750 basis points. The amended facility also required repayment in the event that we acquired additional financing from a third party source and provided for an extension fee of US$1.5 million payable in the event any portion of the facility is outstanding past March 31, 2010. For the nine months ended September 30, 2009, we received advances of US$36 million against the line of credit facility.

On November 19, 2009, we issued a Convertible Debenture to a wholly-owned subsidiary of CIC. The financing is required primarily to support the accelerated investment programme in Mongolia and up to US$120 million of the financing may also be used for working capital, repayment of debt due on funding, general and administrative expense and other general corporate purposes. For additional details, please refer to section headed “CIC Investment”.

As a result of having entered into the agreement with CIC, we repaid the Ivanhoe credit facility (including accrued interest) in full on November 30, 2009. Along with the full repayment of the Ivanhoe credit facility, we have terminated this credit facility and will not be able to draw down on the facility in the future.

The financing transactions with both Ivanhoe and CIC have complied with the Company’s corporate governance procedures, the TSX-V listing rules and other applicable regulations in Canada.

## INDEBTEDNESS

As of November 30, 2009, which is the latest practicable date for the purpose of the indebtedness statement, we had total debt of about US$520.8 million, the detail of which is set forth in the table below:

| | Secured | Unsecured | Total |
|---|---|---|---|
| | | (US$ millions) | |
| Current portion of long-term debt | 1.3 | — | 1.3 |
| Non-current portion of long-term debt | 519.5 | — | 519.5 |
| Total | 520.8 | — | 520.8 |

On November 19, 2009, we issued a convertible debenture to a wholly-owned subsidiary of CIC for US$500 million which is secured and bears interest at 8.0% with a maximum term of 30 years. We have conducted an accounting analysis of the convertible debenture. Based on the accounting analysis conducted by the Company, the convertible debenture is a hybrid instrument, containing a debt component and three embedded derivatives. The debt component will be measured at amortised cost using the effective interest method. The embedded derivatives will be measured at fair value and all changes in fair value will be recognised in profit or loss immediately. As of November 30, 2009, the value of the embedded derivative was estimated to be US$294.4 million and the value of the debt component was estimated to be US$226.4 million, and constituted the total debt of about US$520.8 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Company did not have outstanding, at the close of business on November 30, 2009, any loan capital issued and outstanding or agreed

to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities

## CAPITAL EXPENDITURES

During the Track Record Period, our principal capital expenditures relate to the Ovoot Tolgoi Mine. Our capital expenditures are principally comprised of costs associated with the acquisition of our mining fleet. The following table sets forth our total capital expenditures for each of the periods indicated:

| | Year ended December 31, | | | Nine months ended September 30, |
|---|---|---|---|---|
| **Business segment** | **2006** | **2007** | **2008** | **2009** |
| | | | (US$ millions) | |
| Mongolian Coal Division | 0.2 | 0.5 | 54.0 | 17.8 |
| Indonesian Coal Division | — | — | 0.5 | 6.3 |
| Discontinued Operations | 0.1 | 0.04 | 0.05 | — |
| Unallocated | 0.03 | 0.1 | 0.02 | 0.06 |
| Total | 0.3 | 0.7 | 54.5 | 24.1 |

The significant increase in our capital expenditure in 2008 mainly represented our investment in production equipment and development of the Ovoot Tolgoi Mine.

We expect to fund these expenditures partially with the proceeds from the International Offering and working capital.

## CONTRACTUAL OBLIGATIONS, OPERATING LEASE AND CAPITAL COMMITMENTS

At September 30, 2009, we had outstanding commitments of US$28.7 million for coal mining equipment and buildings. Included in the US$28.7 million is US$24.1 million for the purchase of a second and third fleet of coal mining equipment for the development of its Ovoot Tolgoi Mine. Delivery and commissioning of the majority of the second fleet of equipment is scheduled for the fourth quarter of 2009 and of the third fleet of equipment is scheduled for mid-2010. We also have the option to purchase truck and shovel fleets for delivery in 2010 and 2011 with prices to be negotiated at the time of the orders.

## CONTINGENT LIABILITIES

As at the Latest Practicable Date, we had no material contingent liabilities.

## WORKING CAPITAL

As of November 30, 2009, we had net current assets of US$454.4 million, consisting of US$468.8 million of current assets and US$14.4 million of current liabilities, which represented an increase of US$467.2 million from September 30, 2009. This increase was mainly a consequence of an increase in current assets as a result of the net proceeds of US$485 million received from CIC financing, additional cash advances in the period from Ivanhoe of US$14 million through the line of credit facility, and a decrease in the current liabilities due to the repayment of the line of credit facility to Ivanhoe of US$50 million. The increase in net current assets was partially offset by an increase in current liabilities as a result of US$1.9 million increase in trade and other payables, and an increase of US$1.3 million for the interest accrual on the CIC financing for the period.

Our Directors confirm that our existing bank and cash balances, together with cash flows we expect to generate from operating activities, and the estimated net proceeds from the International Offering will be sufficient to finance our working capital for our present requirements, and for the period ending 24 months from the date of this prospectus.

## DIVIDENDS AND DIVIDEND POLICY

The Company has not paid any dividends on its outstanding Shares since its incorporation and does not anticipate that it will do so in the foreseeable future. The declaration of dividends on the Shares is, subject to certain statutory restrictions described within this prospectus, within the discretion of the Board based on its assessment of, among other factors, the Company's earnings or lack thereof, its capital and operating expenditure requirements and its overall financial condition. Under the BCBCA, the Board has no discretion to declare or pay a dividend on the Shares if it has reasonable grounds for believing that the Company is, or after payment of the dividend would be, unable to pay its liabilities as they become due or that the realisable value of its assets would, as a result of the dividend, be less than the aggregate sum of its liabilities and the stated capital of the Shares.

## DISTRIBUTABLE RESERVES

As at September 30, 2009, we had no reserves available for distribution to Shareholders.

## MARKET RISKS

We are exposed to various types of market risk, including currency risk, interest risk and commodity price risk.

### *Currency Risk*

Our borrowings, major operating expenses and acquisition costs are denominated in U.S. dollars and a minor portion of our expenses are in Canadian dollars. Our headquarters are based in Canada and the exposure in exchange rate risks mainly arises from fluctuations in foreign currencies against the functional currency of the relevant group entities, which is U.S. dollars. We are principally engaged in the acquisition, exploration and development of mineral properties in Mongolia. Our sales contracts are currently denominated in RMB and payable in U.S. dollars. The fluctuation in the exchange rate between the RMB and U.S. dollars will affect our revenue and results of operations.

We have not entered into any derivative instruments to manage foreign exchange fluctuations. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### *Interest Rate Risk*

We are exposed to interest rate risk on the variable rate of interest incurred on the amounts due under the line of credit facilities and on interest earned on short term money market investments. The fair value interest rate risk on cash and cash equivalents is insignificant as they are short-term. The credit facility we entered into with Ivanhoe in 2008 in connection with the disposal of the Metals Division bears an interest at LIBOR plus 750 basis points. Increases in the market interest rate will increase our interest expense on outstanding borrowings and the cost of new borrowings and therefore could have an adverse effect on our financial position.

We have not entered into any derivative instruments to manage interest rate fluctuations, however, our management closely monitors our interest rate exposure.

***Credit Risk***

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Credit risk for us is primarily associated with trade receivables, value added tax ("VAT") receivable, goods and services tax ("GST") receivable and cash equivalents.

The credit risk on trade receivables is managed through an internal process whereby any potential customer is investigated before a sales contract is signed. The VAT/GST receivable includes amounts that have been accumulated to date in various subsidiaries. The majority of the VAT balance was due from the Mongolian Government Taxation Authority. Verification by the Mongolian Government Taxation Authority of the collectability of the funds was conducted in the fourth quarter of 2008 and early 2009. In July 2009, the Mongolia tax law was amended to preclude producers and exporters of unfinished mineral products from claiming back VAT. The Mongolian government has yet to define what products will qualify as finished mineral products and any VAT amounts impacted will be prospective from the effective date of the law, August 16, 2009. Based on current available information we anticipate full recoverability of amounts due on account. The credit risk on cash equivalents is limited because the cash equivalents are composed of short term money market investments financial instruments issued by Canadian banks and companies with high credit ratings as assigned by international credit-rating agencies.

Therefore, we are not exposed to significant credit risk and our overall credit risk has not changed significantly during the three years ended December 31, 2008 and the nine month period ended September 30, 2009.

***Liquidity Risk***

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. In the management of liquidity risk we maintain a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance projects and operations.

***Commodity Price Risk***

Our profitability depends on coal prices. Coal prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand. We do not enter into commodity derivative instruments or futures to hedge any potential price fluctuations of coal. Therefore, fluctuations in the prices of coal will have a direct effect on our sales and profit.

## HEDGING ACTIVITIES

Currently we are not a party to any currency, credit, liquidity, interest rate or commodity price risk management transactions.

## DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules were the waiver which the Company has applied for, and been granted by, the Stock Exchange under Rules 13.13 to 13.19 of the Listing Rules to not apply.

## DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under relevant securities legislation is recorded, processed, summarised and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Management, including our chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures. As part of this evaluation, management has considered the error that occurred in the independent third party resource estimate announced in July 2008 which resulted in an overstatement of the resources in the Sunset Field, and whether the occurrence of the error indicated a lack of effectiveness in certain of our disclosure controls and procedures. The overstatement of the resources was primarily in the indicated and inferred categories which by definition have a higher degree of uncertainty than reserves. Indicated and inferred surface coal resources in the Sunset Field as of June 2008 were incorrectly estimated at 113,623,016 and 138,821,278 tonnes respectively. These estimates, which were prepared by The Americas Group, Inc (TAG), were corrected such that indicated and inferred resources were estimated as of June 2008 at 27,687,201 and 18,761,047 tonnes respectively. We announced the discovery of these errors in March 2009, and subsequently appointed Norwest, a major international engineering firm, to complete a new technical report for the Ovoot Tolgoi Mine.

Based on a thorough review of the facts and circumstances that gave rise to the error and its subsequent discovery, management has concluded that our scientific and technical disclosure compliance department was understaffed and that, as a result, the supervision of our independent third party technical consultant, and the performance of quality assurance procedures with respect to the consultant's work, was inadequate. We have sought to address these deficiencies by recruiting additional qualified personnel to our scientific and technical disclosure compliance team. Taking into account these remedial measures, as of December 31, 2008, our chief executive officer and chief financial officer have each concluded that our disclosure controls and procedures are effective to achieve the purpose for which they were designed.

## SUBSEQUENT EVENTS

### *CIC Investment*

On October 26, 2009, we announced that we had entered into a financing agreement with a wholly-owned subsidiary of CIC for US$500 million (US$485 million net of advisory fees) in the form of a secured, Convertible Debenture bearing interest at 8.0% (6.4% payable in cash and 1.6% payable in Shares, where the number of Shares to be issued is calculated based on the 50-day VWAP with a term of 30 years). On November 19, 2009, the financing transaction closed.

#### Conversion terms of the financing agreement

We and CIC each have various rights to call conversion of the Convertible Debenture into Shares. The conversion price is set as the lower of C$11.88 or the VWAP of the Company's shares for the 50 business days prior to the conversion date, with a floor price of C$8.88 per Share.

CIC has the right to convert the Convertible Debenture, in whole or in part, into Shares 12 months after the date of issue (investor's conversion option).

We have two conversion rights — an early conversion right and a normal conversion right. The early conversion right entitles us to call for the conversion of up to US$250 million of the Convertible Debenture on the earlier of 24 months after the issuance date or upon us achieving a qualified float under certain agreed circumstances, if the VWAP of our shares for the 50 business days prior to the conversion is greater than C$10.66. The normal conversion right entitles us to require conversion of the outstanding Convertible Debenture into Shares, 60 months from the issuance date, if the VWAP of the Shares for the 50 business days prior to the conversion is greater than C$10.66. Our early and normal conversion rights represent the issuer's conversion option.

Based on the accounting analysis conducted by us, the Convertible Debenture will be accounted for as follows:

**Instrument classification**

The Convertible Debenture is a hybrid instrument, containing a debt component and three embedded derivatives — the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment). The debt component will be measured at amortised cost using the effective interest method. The embedded derivatives will be measured at fair value and all changes in fair value will be recognised in profit or loss immediately.

**Transaction costs**

On inception, transaction costs will be allocated on a pro-rata basis between the embedded derivatives and the debt component based on the fair value of the embedded derivatives and the residual value of the debt component.

**Instrument measurement**

Based on our valuation as at November 19, 2009, the closing date of the Convertible Debenture financing, the value of the embedded derivatives is estimated to be US$269.4 million and the value of the debt component is estimated to be US$230.6 million (prior to transaction costs).

**Future results and position**

The future impact of the embedded derivatives on the financial statements requires significant judgement with respect to the underlying variables — foreign exchange rates, interest rates, volatility and our Share price — that drive the valuation model. Depending on the future changes that occur in the underlying variables the value of the embedded derivatives will increase or decrease. The future impact of the embedded derivatives on the financial statements is that the increase or decrease in the value of the embedded derivatives will be recorded in our results in the period the change occurs.

The future impact of the debt component on the financial statements will be the accretion of the debt component (net of transaction costs) on initial recognition to the face value of the convertible debentures over their expected life.

***Sale of our 85% interest in the Mamahak Deposit***

On December 15, 2009, the Company entered into an agreement to divest its 85% interest in the Mamahak Deposit to Kangaroo, for consideration comprising US$1 million in cash and 50 million shares of Kangaroo. During

the nine months ended September 30, 2009, the Company had recorded an impairment charge on the Mamahak Deposit of $23.0 million as a result of the suspension of this project. Based on the terms of the agreement with Kangaroo, the estimated net recoverable value, determined by the estimated fair value of the Mamahak Deposit less costs to sell, has been revised and the recognised impairment charge will be decreased by approximately $10.5 million. The transaction was completed on December 23, 2009. As a result of this transaction, the Company would hold approximately 6.7% of the outstanding shares in Kangaroo, which will be subject to a 12 month lock-up.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustration purpose only, the following statement of unaudited pro forma adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes as set out below is to illustrate the effect of the Offerings on the consolidated net tangible assets attributable to the equity holders of the Company as at September 30, 2009 as if it had taken place on September 30, 2009 and based on the audited consolidated net tangible assets attributable to the equity holders of the Company as at September 30, 2009 as shown in "Appendix I — Accountant's Report" to this prospectus, and adjusted as follows:

| | Audited consolidated net tangible assets attributable to equity holders of the Company as of September 30, 2009 | Estimated net proceeds from the International Offering(1) | Estimated net proceeds from Canadian Offering(2) | Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as of September 30, 2009 | Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as of September 30, 2009 per Share(3)(4)(5) | | |
|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | HK$ | C$ |
| Based on a maximum Offer Price/maximum Canadian Offer Price of HK$133.50/ C$17.00 per Share . . . . . . | 60,676,493 | 377,990,782 | 63,380,640 | 502,047,915 | 3.11 | 24.11 | 3.22 |

*Notes:*

(1) The estimated net proceeds from the International Offering are based on 22,950,000 Offer Shares at the maximum Offer Price of HK$133.50, after deduction of the underwriting commissions (exclusive of any discretionary incentive fees) and other estimated expenses payable by the Company in relation to the International Offering assuming pro rata allocation of underwriting commissions (exclusive of any discretionary incentive fees) and other estimated expenses between the International Offering and the Canadian Offering. No account has been taken of the Shares that may be issued pursuant to any exercise of Over-allotment Options or Options granted under the EIP.

(2) The estimated net proceeds from the Canadian Offering are based on 4,050,000 Canadian Offer Shares at the maximum Canadian Offer Price of C$17.00 per Canadian Offer Share, after deduction of the underwriting commissions (exclusive of any discretionary incentive fees) and other estimated expenses payable by the Company in relation to the Canadian Offering assuming pro rata allocation of underwriting commissions (exclusive of any discretionary incentive fees) and other estimated expenses between the International Offering and the Canadian Offering. No account has been taken of the Shares that may be issued pursuant to any exercise of Over-allotment Options or options granted under the EIP.

(3) The unaudited pro forma net tangible assets attributable to equity holders of the Company as of September 30, 2009 per Share is based on 161,523,562 Shares, which includes 134,523,562 fully paid Shares as at the Latest Practicable Date, and 22,950,000 Offer Shares and 4,050,000 Canadian Offer Shares, expected to be in issue immediately following completion of the Offerings. No account has been taken of the Shares that may be issued pursuant to any exercise of Over-allotment Options or Options granted under the EIP.

(4) The unaudited pro forma net tangible asset attributable to equity holders of the Company per Share is translated into Hong Kong dollars at an exchange rate of US$1 to HK$7.7567, the rate of the Bank of Canada prevailing on the Latest Practicable Date. No representation is made that the U.S. dollar amounts have been, could have been or may be converted to Hong Kong dollars or vice versa, at that rate.

(5) The unaudited pro forma net tangible assets attributable to owners of the Company per Share is translated into Canadian dollars at an exchange rate US$1 to C$1.0372, the rate of the Bank of Canada prevailing on the Latest Practicable Date. No representation is made that the U.S. dollar amounts have been, could have been, or may be converted to Canadian dollars, or vice versa at that rate.

## LOSS ESTIMATE

Our Directors estimate that, on the bases set out in Appendix III to this prospectus and in the absence of unforeseeable circumstances, our operating loss from continuing operations for the year ended December 31, 2009 will amount to no more than US$53.0 million and our net loss and comprehensive loss attributable to equity holders of our Company for the year ended December 31, 2009, will amount to no more than US$111.2 million after financing costs[(1)], other income and income taxes.

*Note:*

(1) The financing costs relating to the increase in the fair value of the embedded derivatives, as described in "Financial Information — Subsequent Events — CIC Investment", is estimated to be not more than US$46.8 million during the year ended December 31, 2009. The change in the fair value of such embedded derivatives, which are non-cash in nature and recorded as a liability, is dependent on a number of factors including volatility and change in market price of the Shares.

## PROPERTY VALUATION

American Appraisal China Limited, an independent property valuation firm, valued our property interests in land or buildings in Canada, Mongolia, China and Hong Kong as at December 31, 2009, and attributed no commercial value thereto. For details relating to our properties leased, together with the relevant valuations and valuation certificates, please refer to "Business — Properties" and "Appendix IV — Property Valuation" in this prospectus.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the Company's financial or trading position or prospects since September 30, 2009, being the date of the Company's last audited financial statements as set out in "Appendix I — Accountant's Report" of this prospectus.

## ECONOMIC ANALYSIS OF OVOOT TOLGOI MINE

Based on operating and capital costs, as well as indirect costs, an annual cash flow analysis was developed by Norwest as a means of establishing the Ovoot Tolgoi Mine's value, based on the reserves only. The analysis was based on a full recovery of capital and operating costs presented in the previous sections as well as a return on investment. As noted in "Business-Competition," other coal mining companies, MAK and MAK-Qinghua, produce coal in the same region as the Ovoot Tolgoi Mine. The mine plan volumes account for material on the MAK side of the mining lease, that must be removed in order to access coal within the Company's lease. No MAK or MAK-Qinghua coal is accounted for in this analysis. In addition, it is assumed that through a "back-slope agreement" the MAK-lease coal uncovered through the Company's operations will be sold back to them at such a price as to allow the Company to be fully reimbursed for its costs of stripping. In other words, the cost of removing MAK lease waste and coal is removed from the cost model.

The following assumptions were made by Norwest based on discussion with the Company's management:

- an exchange rate of RMB6.8 to US$1;
- annual corporate overhead of US$2.925 million;
- 2007 exploration costs of US$2.875 million are expensed; and
- coal price estimates as described on page V-A-54.

Income was determined by applying the various coal prices to quantities of each coal product sold. Operating costs including labour, materials, supplies, contractors, administration and production taxes and royalties were deducted to arrive at earnings before taxes, interest, depreciation and amortisation ("EBITDA"). An after-tax cash flow was developed by deducting depreciation from EBITDA to get taxable income. A income tax rate of 25 percent was applied to this value and an after-tax income determined. Depreciation was added back in and capital spending deducted to arrive at the after tax cash flow over the project life. NPVs were then calculated on this cash flow.(1)

This cash flow analysis indicates a favourable NPV at varying discount rates. A summary of project sensitivity to discount rate appears in the table below. It is noted that this a "snapshot" of economics after a project has started, i.e., the economics reported are more favourable than they might have been for a developing (as opposed to producing) property. Much of the development costs (though not all) are already incurred, and project risk due to unknowns is minimised.

| **NPV at Various Discount Rates (8 million tonnes per annum)** | | | | | | |
|---|---|---|---|---|---|---|
| **Interest Rate** | **0%** | **8%** | **10%** | **12%** | **15%** | **20%** |
| Net Present Value (US$'000) | 2,320,177 | 1,156,318 | 994,467 | 862,322 | 706,242 | 523,565 |

*Note:*

(1) The NPV calculations set forth in the Ovoot Tolgoi Technical Expert Report are used by us for the purpose of establishing mineable reserves in accordance with NI 43-101. As such, NPV calculations for Ovoot Tolgoi Mine should not be interpreted to represent the value of the Company.

***Sensitivity Analysis***

Several issues are known that may have a positive or negative effect on cash flow and the value of the Ovoot Tolgoi Mine. The principle issues include:

- a potential switch to rail transport from the Ovoot Tolgoi Mine to the Shivee Khuren-Ceke border crossing. This would potentially reduce costs and increase the profit margin to the Company; and
- recent developments with regards to Mongolian tax law have made the provision allowing refund on VAT uncertain. It is possible that this tax advantage may not be realised going into the future.

The cash flow analysis was repeated to take into account the two scenarios described above.

The typical cost of trucking coal from the Ovoot Tolgoi Mine to the Shivee Khuren-Ceke border crossing is approximately RMB25/tonne (including fixed and variable costs). Preliminary studies have indicated that there are cost benefits to constructing a rail connecting the Ovoot Tolgoi region (the Ovoot Tolgoi Mine and MAK-Nariin Sukhait mines) to the border at the Shivee Khuren-Ceke border crossing, and the existing rail terminus. It is expected that this would reduce transport costs to approximately RMB17/tonne. The cost flow analysis was adjusted to assume a rail connection from Ovoot Tolgoi Mine to the Shivee Khuren-Ceke border crossing, starting in 2013.

Taking into account the above, replacing truck transport with rail transport yields the following project NPVs:

| **NPV at Various Discount Rates (8 million tonnes per annum, Rail Transport)** | | | | | | |
|---|---|---|---|---|---|---|
| **Interest Rate** | **0%** | **8%** | **10%** | **12%** | **15%** | **20%** |
| Net Present Value (US$'000) | 2,399,271 | 1,189,783 | 1,021,726 | 884,586 | 722,731 | 533,587 |

Currently, the Mongolian tax code allows for VAT paid by the producer to claim a refund. In this study, it is assumed that the VAT would be refunded in full the following year. However, it is understood that there have been recent adjustments to the tax code specifically relating to VAT, although the new law has not yet been officially published.

In order to gauge sensitivity of project economics to this issue, an alternate analysis has been performed that assumes that thermal and unwashed coking coal producers would be "exempt", i.e., there will no refund of VAT. The following has been taken into account:

- it is assumed that outstanding refund claims will not be fulfilled; and
- VAT will be applied to all capital purchases, materials and supplies (but not labor), and will not be refunded the following year, or at any other time.

Taking into account the above, assuming an exception to the VAT refund rule (i.e., no VAT refund), the following project NPVs would result:

| NPV at Various Discount Rates (8 million tonnes per annum, Without VAT Refund) | | | | | | |
|---|---|---|---|---|---|---|
| **Interest Rate** | **0%** | **8%** | **10%** | **12%** | **15%** | **20%** |
| Net Present Value (US$'000) | 2,172,801 | 1,076,041 | 923,983 | 799,960 | 653,641 | 482,677 |

In addition, project sensitivity to some secondary issues was analysed.

The sensitivity of project economics to 10% variations in coal pricing for all three coal products were performed, as summarised in the tables below:

| NPV at Various Discount Rates (8 million tonnes per annum, + 10% Coal Prices) | | | | | | |
|---|---|---|---|---|---|---|
| **Interest Rate** | **0%** | **8%** | **10%** | **12%** | **15%** | **20%** |
| Net Present Value (US$'000) | 2,876,775 | 1,453,278 | 1,254,009 | 1,090,942 | 897,810 | 670,830 |

| NPV at Various Discount Rates (8 million tonnes per annum - 10% Coal Prices) | | | | | | |
|---|---|---|---|---|---|---|
| **Interest Rate** | **0%** | **8%** | **10%** | **12%** | **15%** | **20%** |
| Net Present Value (US$'000) | 1,763,580 | 859,358 | 734,924 | 633,703 | 514,675 | 376,300 |

Finally, a sensitivity analysis was performed assuming a delay in project start-up. In reality, this is likely to take the form of a longer ramp-up period to steady-state (8 million tonnes per annum). However, for the purposes of the sensitivity analysis, it was conservatively assumed that the entire project would be delayed a whole year. The effects on NPV are summarised below:

| NPV at Various Discount Rates (8 million tonnes per annum, Delay of One year) | | | | | | |
|---|---|---|---|---|---|---|
| **Interest Rate** | **0%** | **8%** | **10%** | **12%** | **15%** | **20%** |
| Net Present Value (US$'000) | 2,320,177 | 1,070,665 | 904,060 | 769,931 | 614,124 | 436,304 |

***Payback Period***

The current 'base-case' cost flow analysis (see table in "Financial Information — Economic Analysis of Ovoot Tolgoi Mine" entitled "NPV at Various Discount Rates (8 million tonnes per annum)") indicates that the development capital (including all sunk costs prior to June 1, 2009) will be recovered during 2010.