MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 975

ANNUAL REPORT 2010

Contents

Company Profile

Mongolian Mining Corporation ("MMC", The Stock Exchange of Hong Kong Limited ("SEHK" or "Stock Exchange") Stock Code: 975) is the largest producer and exporter of high-quality hard coking coal in Mongolia. MMC operates an open-pit coking coal mine at the Ukhaa Khudag ("UHG") deposit located within the Tavan Tolgoi coal formation in South Gobi, Mongolia.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Odjargal Jambaljamts (Chairman)
Battsengel Gotov (Chief Executive Officer)
Badamtsetseg Dash-Ulzii (Chief Investment Officer)

Non-Executive Directors

Oyungerel Janchiv
Batsaikhan Purev
Philip Hubert ter Woort
Enkh-Amgalan Luvsantseren
Gantumur Lingov
Enkhtuvshin Gombo

Independent Non-Executive Directors

Ochirbat Punsalmaa
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

15th Floor, Central Tower
2 Sukhbaatar Square
8th Khoroo
Sukhbaatar District
Ulaanbaatar 210620a
Mongolia

COMPANY SECRETARY

Ng Sin Yee, Clare

INDEPENDENT AUDITOR

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

AUTHORIZED REPRESENTATIVES

Badamtsetseg Dash-Ulzii
Ng Sin Yee, Clare

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

LEGAL ADVISERS

Mallesons Stephen Jaques
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central,
Central, Hong Kong

Economic & Legal Consultancy LLC
Suite 1003, Central Tower
2 Sukhbaatar Square
8th Khoroo Sukhbaatar District
Ulaanbaatar 21062
Mongolia

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street, George Town
PO Box 609
Grand Cayman, KY1-1107
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

European Bank for Reconstruction and Development
FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.
DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH
Standard Bank Plc, London
Citibank, N.A., Hong Kong Branch
The Bank of East Asia, Limited
Standard Chartered Bank (Hong Kong) Limited
Golomt Bank of Mongolia
Khan Bank of Mongolia
Trade and Development Bank of Mongolia

COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Directors and Senior Management

BOARD OF DIRECTORS (THE "BOARD")

Odjargal Jambaljamts, aged 45, is an executive Director and Chairman of the Board of Mongolian Mining Corporation. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is also the Chairman of the Nomination and the Remuneration Committees. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

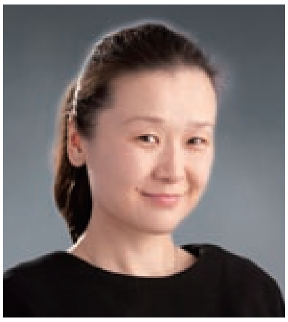
From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC (together with its subsidiaries, the "MCS Group"), the controlling shareholder of the Company. Under his management, the MCS Group has become one of the largest and most diversified privately-held holding companies in Mongolia. He has an extensive 14 years of experience in exploration and/or extraction activities and was closely involved with several mining projects and exposed to all different stages of mining, including exploration, feasibility, mine development and mine production. Mr. Jambaljamts has played a major role and overseen the development of the Ukhaa Khudag project from the time of its establishment to its current level.

Battsengel Gotov, aged 38, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia. Having started his professional career as an Assistant Professor at the Comenius University, Dr. Gotov worked in highly successful projects both in Mongolia and abroad. Since 2004, Dr. Gotov has served at various managerial positions in the MCS Group of companies.

He has about three years of experience in exploration and/or extraction activities. Dr. Gotov joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. He managed an exploration drilling program at the UHG deposit, led the discussion and commercial negotiations with bidders for the contract mining and coal handling preparation plant which resulted in the conclusion of a contractual engagement with Leighton LLC to act as the contract miner and Sedgman Engineering Consulting (Beijing) Co Limited to act as the contractor under the engineering, procurement and construction management. Since October 2008, he has been involved in managing the UHG deposit's site preparatory work, box-cut, establishment of temporary mining site facilities, and obtaining various governmental permits and licenses which resulted in the launch of commercial operations in April 2009. Dr. Gotov has successfully transformed the UHG deposit from a green-field project to a profitable, full-fledged mining operation.

Dr. Gotov is a board member of the Mongolian National Mining Association, the Mineral Industry Safety Association and the South Gobi Business Council.

Directors and Senior Management



Badamtsetseg Dash-Ulzii, aged 35, is an executive Director and Chief Investment Officer of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. Effective from 22 December 2010, she was appointed as the Chief Investment Officer of the Company and re-designated from a non-executive Director to an executive Director. She is a representative of MCS Holding LLC, the controlling shareholder of the Company. Ms. Dash-Ulzii was awarded a bachelor's degree in business administration by George Washington University, USA and a master's degree in international affairs by Columbia University, USA.

Ms. Dash-Ulzii's professional experience includes positions held at the World Bank's East Asia and Pacific Vice Presidency's Chief Economist's office in Washington, D.C. and JP Morgan in New York. She was an advisor/economist for the USAID's Economic Policy Support Project, a member of the project team advising the Prime Minister's office on economic policy in mining, minerals and financial sectors and co-drafted the Economic Development Strategy for Mongolia. She was a director of the investments department of the Trade and Development Bank of Mongolia and was appointed as a director of MCS Holding LLC in 2007. Ms. Dash-Ulzii, being the project team leader for the initial public offering of the Company which took place in October 2010 (the "IPO"), has substantially contributed to the success of the IPO raising approximately USD748 million from the global investors.

Ms. Dash-Ulzii is currently an executive director of the investment department of MCS Holding LLC.

Following her appointment as the Chief Investment Officer of the Company and the re-designation, Ms. Dash-Ulzii has entered into a new service contract with the Company under which she has agreed to act as executive Director and Chief Investment Officer commencing from 22 December 2010 for an initial term of two years and she will receive a director's fee of USD200,000 per annum.

Ms. Dash-Ulzii became a shareholder of MCS Holding LLC, the controlling shareholder of the Company, with effect from 1 February 2011.

Oyungerel Janchiv, aged 56, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. She is a representative of Petrovis Resources Inc., a substantial shareholder of the Company. Dr. Janchiv was awarded a diploma of engineer-economist for the petroleum and gas industry and a PhD by the Gubkin State University of Oil and Gas in Moscow, Russian Federation.

Having started her professional career as a petroleum economist at the Oil Supply Management Authority, Dr. Janchiv has been the Chairperson and General Director of Petrovis LLC, the largest petroleum import and distribution company in Mongolia since 1996. Dr. Janchiv is also a non-executive Director and the Deputy Chairperson of Petro Matad Limited, a subsidiary of Petrovis LLC, engaged in oil exploration and listed on the London Stock Exchange.

Philip Hubert ter Woort, aged 50, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of the European Bank for Reconstruction and Development ("EBRD"). Mr. ter Woort graduated from the University of Amsterdam with a master's degree in economics.

Mr. ter Woort has over 20 years of broad experience in the banking and finance field, during which he held responsible positions in various international banks and financial institutions, including ING Bank N.V., Cargill Financial Services in Geneva, Switzerland, and ABN AMRO Bank, Russian Federation. In 2009, Mr. ter Woort was appointed as the Head of EBRD Mongolia Resident Office.

Batsaikhan Purev, aged 44, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of Shunkhlai Mining, a shareholder of the Company. Mr. Purev holds a bachelor's degree in mechanical engineering from the Mongolian Technical University.

He is a founder of Shunkhlai LLC, one of the first private companies in Mongolia and one of Mongolia's largest petroleum companies. He has been the General Director of Shunkhlai LLC and Shunkhlai Group LLC, and an Executive Director of Shunkhlai Mining LLC since 1993. Mr. Purev has a broad range of expertise in the private sector of Mongolia.

Enkh-Amgalan Luvsantseren, aged 41, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of MCS Holding LLC, the controlling shareholder of the Company. Mr. Luvsantseren was awarded a diploma in journalism by Saint-Petersburg State University, Russian Federation, and a master's degree in business administration by Handong Global University, South Korea.

He has nearly 20 years of experience working in the private sector of Mongolia and joined the MCS Group in 1997. During his career at the MCS Group, he held various executive positions, including being a Deputy Director of MCS Holding LLC and the Managing Director of MCS Electronics LLC. Mr. Luvsantseren has been a Vice President of the MCS Group since 2002. He is a Chairman of Coal Road LLC, Unitel LLC and Sky Resort LLC.

Directors and Senior Management

Gantumur Lingov, aged 41, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of MCS Holding LLC, the controlling shareholder of the Company. Mr. Lingov was awarded a diploma as engineer-economist for the fuel and energy industry by the Moscow State Academy of Management, Russian Federation, and a master's degree in business administration (international business) by the Maastricht School of Management, the Netherlands.

He has over 17 years of experience in both the private and public sector. His past work experience includes being project coordinator of the UNESCO/DANIDA Project and Procter & Gamble Distributor Operations Manager for the whole Central Asia and Caucasus region. Since 2006, Mr. Lingov has been the Vice President for Human Resources of the MCS Group. He is also the Managing Director of MCS Management LLC.

Enkhtuvshin Gombo, aged 40, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. She is a representative of MCS Holding LLC, the controlling shareholder of the Company. Ms. Gombo is also a member of the Audit Committee. Ms. Gombo was awarded a bachelor's degree in banking and finance from the Economic College of Mongolia, a master's degree in business administration from the University of Birmingham, UK, and a master's degree in finance from the University of Colorado, USA.

She has a broad experience in the field of finance and has been responsible for all aspects of financial planning and implementation since joining MCS Holding LLC in 2003. Ms. Gombo is currently the Vice President for Finance and Investment of MCS Holding LLC.

Ochirbat Punsalmaa, aged 69, is an independent non-executive Director of the Company. Mr. Punsalmaa was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Punsalmaa is also a member of the Audit, the Nomination and the Remuneration Committees. He was awarded a PhD in Technical Sciences from the Moscow Mining Institute, and Honorary Doctorate from Dankook University, South Korea, Mongolian Technical University and Saint Petersburg Mining Institute, Russian Federation. Mr. Punsalmaa was credited as a Barrister Emeritus by the School of Law, Texas Wesleyan University, USA.

Having started his professional career as an officer at the Ministry of Industry, he held various senior and executive positions in the Government of Mongolia. Mr. Punsalmaa was the first President of Mongolia between 1990 and 1997, and he is one of the country's well-respected public figures. Mr. Punsalmaa has over 40 years of extensive experience in both the private and public sectors of Mongolia, in which he has devoted 20 years to the development of the mining and exploration industry in Mongolia.

Unenbat Jigjid, aged 48, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is also the Chairman of the Audit Committee and a member of the Nomination and the Remuneration Committees. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russian Federation, and a master's degree in international affairs by Columbia University, USA.

During his remarkable tenure in the public service, Mr. Jigjid served as the Governor of the Bank of Mongolia and as the Executive Director of the Mongolian Bankers Association. Since 2009, Mr. Jigjid has been an Executive Director of the Corporate Governance Development Center in Mongolia. He is also a Supervisory Board Member of the Bank of Mongolia and the Micro Finance Development Fund. From October 2010, Mr. Jigjid also serves as a director of Golomt Bank and Resources Investment Capital.

Chan Tze Ching, Ignatius (陳子政), aged 54, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Chan is also a member of the Audit Committee. Mr. Chan was awarded bachelor's and master's degrees in business administration from the University of Hawaii, USA, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

Throughout his extensive professional career, Mr. Chan held various positions in both international and national financial institutions in Hong Kong as well as notable community and public service institutions. At present, Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited, an independent non-executive director of Hong Kong Exchanges and Clearing Limited (Stock Code: 388), the shares of which are listed on the SEHK. Mr. Chan was appointed as a senior advisor of The Bank of East Asia on 1 March 2009 and of CVC Capital Partners Limited on 1 November 2010. He was appointed as an Honorary Advisory Vice President of The Hong Kong Institute of Bankers on 14 February 2011.

SENIOR MANAGEMENT

Gankhuyag Adilbish, aged 34, is the Vice President and Chief Financial Officer of the Company. Mr. Adilbish holds a bachelor's degree in finance and economics from the National University of Mongolia.

Mr. Adilbish started his career at the MCS Group in 1999 as a financial analyst and since then has held various positions within the MCS Group, including Chief Financial Officer, MCS Electronics LLC, and Vice President for Finance and the Managing Director of MCS Holding LLC. Mr. Adilbish has been instrumental in assisting Energy Resources LLC in its fund raising activities and has substantially contributed to the success of the initial public offering of the Company. He was appointed as the Chief Financial Officer of the Company in December 2010.

Enkhtuvshin Dashtseren, aged 35, is the Vice President and Chief Marketing Officer. Mr. Dashtseren holds a bachelor's degree in finance and management from the National University of Mongolia.

Mr. Dashtseren joined the MCS Group in 1997 and since then has held various positions including Chief Financial Officer and Vice President for the Corporate Strategy of MCS Holding LLC. He joined Energy Resources LLC in 2008 as the Vice President and Chief Marketing Officer and has played a key role in obtaining and maintaining the current customer base of the Company. Mr. Dashtseren has over three years of experience in exploration and/or extraction activities.

Oyunbat Lkhagvatsend, aged 34, is the Vice President and Chief Logistics Officer of the Company. On 8 February 2011, Mr. Lkhagvatsend was appointed as the Chief Executive Officer of Energy Resources Rail LLC, Transgobi LLC, Tavan Tolgoi Airport LLC, Energy Resources Road LLC and Gobi Road LLC. Mr. Lkhagvatsend was awarded a bachelor's degree in law from the National University of Mongolia. He also underwent executive trainings held by the Michigan Business School in 2004.

Mr. Lkhagvatsend has about 10 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. He joined the Group in 2008 as the Chief Executive Officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning.

Uurtsaikh Dorjgotov, aged 47, is the Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov holds a Master's Degree (LLM) from the University of Waikato, New Zealand, and also a Diploma of Lawyer from the University of Irkutsk, Russian Federation.

Prior to joining the Company, Ms. Dorjgotov worked as the Director of the Legal and Administration Department and Chief Legal Counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Program of Barents Group of Bearing Point, Inc. as In-House Lawyer and for 9 years at the Prosecutor General Office of Mongolia as a Supervising Prosecutor. She joined the Group in December 2009.

Davaakhuu Chultem, aged 38, is the Vice President, Operations and Project Management, of the Company. On 8 February 2011, Mr. Chultem was appointed as the Chief Executive Officer of Energy Resources Mining LLC, Enrestechnology LLC, United Power LLC, Ukhaa Khudag Water Supply LLC and Public Service LLC. Mr. Chultem was awarded a bachelor's degree in power engineering from the Mongolian Technical University and a master's degree in business administration from the La Trobe University, Australia.

He held various engineering and managerial positions with MCS International LLC, including Deputy Director of MCS International LLC, prior to joining Energy Resources LLC in April 2010. He has over 13 years of experience in the project implementation of heating systems and power plants, and has been involved in various national level energy sector projects.

Ulemj Baskhuu, aged 32, is our Vice President, Finance and Investment. Ms. Baskhuu holds a bachelor's degree in business administration from the Mercer University, USA.

After returning to Mongolia, she worked for major banks in various senior positions such as Director of Financial Institutions at the Trade and Development Bank of Mongolia and Head of Investment Banking at Khan Bank. She was leading the USD150 million European Medium Term Note program for the Trade and Development Bank in January 2007, which was the first ever bond for the country and USD300 million Global Medium Term Note program for Khan Bank, which was listed on the Singapore Stock Exchange in September 2008. In December 2008, Ms. Baskhuu started working as Vice President, Investment, for Energy Resources Rail LLC. She was involved in the funding of USD180 million from EBRD/FMO/DEG and USD75 million from Standard Bank.

Enkh-Amgalan Sengee, aged 35, is the Vice President, Corporate Development, of the Company. Mr. Sengee holds a bachelor's degree in international relations from the National University of Mongolia, and was a recipient of the Fulbright Scholarship, upon which he earned his master's degree in international policy studies concentrating in international trade from the Monterey Institute of International Studies, a Graduate School of Middlebury College, USA.

He started his professional career as Foreign Service Officer for Mongolia's Ministry of Foreign Affairs. Since 2004, he has also held various senior and executive positions in the areas of exporting, sales and marketing, human resources, and corporate affairs functions within the MCS Group. Prior to joining Energy Resources LLC in September 2010 as Vice President for Corporate Development, he worked as the Managing Director of Goyo LLC, a well-known cashmere producer in Mongolia. Mr. Sengee serves as a Board Director for Grandkhaan Holding LLC, Goyo LLC and "Ambassadors for Development", a US State Alumni Association.

Ariunaa Baldandorj, aged 45, is the Vice President, Corporate Communications and Public Relations, of the Company. Ms. Baldandorj was awarded a bachelor's degree in economics from the Moscow Economics University, Russian Federation, and a master's degree in international business and marketing from the University of Waikato, New Zealand.

She started her professional career as a journalist in the Mongolian press agency Montsame, and worked as a consultant on various projects of the Asian Development Bank. In 2002, she joined the MCS Group as head of the marketing department and was responsible for the establishment and development of the marketing functions of the group. Ms. Baldandorj has over 20 years of experience in marketing, public relations and related fields, and joined the Group in April 2010.

Gary Ballantine, aged 43, is the General Manager, Exploration and Geology, of the Company. Mr. Ballantine was awarded a bachelor's degree in geology from the University College of Southern Queensland, Australia, and a postgraduate diploma in geology from James Cook University, North Queensland, Australia. Mr. Ballantine has been a member of the Australian Institute of Mining and Metallurgy since 1996 and is highly competent for JORC and NI43-101 reporting.

Mr. Ballantine has over 20 years of experience in mining and geology, and has held important positions in reputable Australian mining companies, such as Micromine Pty Limited and BHP Billiton. During his time at BHP Billiton, Mr. Ballantine was responsible for the company's global exploration strategy for thermal and coking coal, due diligence and special projects. Mr. Ballantine was appointed as General Manager for Exploration and Geology of the Company in July 2010 and has provided competent advice for upcoming resource reviews and approval of borehole data for JORC compliance as well as for the designing, budgeting and supervising of our 5 year exploration program and the setting up of the Geology Department.

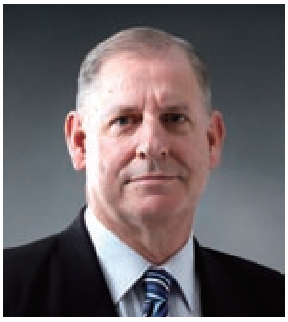
Bayarbayasgalan Dorjderem, aged 37, is the General Manager, Mining, of the Company. Mr. Dorjderem holds a bachelor's degree in mine surveying from the Mongolian Technical University.

Mr. Dorjderem has 15 years of extensive experience in the mining sector, having started his professional career at Baganuur coal mine, which once was the largest open cut coal mine operating in Mongolia. Having held various positions in Baganuur coal mine, he has rich experience in all major mining operations, including survey work, mine planning, railway and haul road design, geological model design and mine site infrastructure. Mr. Dorjderem joined Energy Resources LLC in January 2009 as a Chief Surveyor and was later promoted to General Manager for Mining.

Buljinsuren Gelenkhuu, aged 52, is the General Manager, Safety, of the Company. Mr. Gelenkhuu was awarded a diploma in mining electrical engineering by the Mongolian Technical University.

He has over 20 years of experience in exploration and/or extraction activities and has gained substantial experience during his career at Mongolia's Baganuur coal mine. He joined Energy Resources LLC as a safety supervisor in January 2009 and worked as part of the joint mining team of Energy Resources LLC and Leighton LLC at the UHG site. In view of his professional background and skills, and extensive knowledge of Mongolia's coal industry safety requirements for open pit coal mining operations, Mr. Gelenkhuu was appointed as General Manager for Safety in April 2010.

Directors and Senior Management



Andrew Philip Duncan Little, aged 58, is the Special Advisor, Technical Services, to the Chief Executive Officer. Mr. Little holds a Diploma of Mining Engineering from RMIT University, Melbourne, Australia, and a Graduate Diploma in Business (Management Studies) from Edith Cowan University, Perth, Western Australia. Mr. Little has been a member of the Australian Institute of Mining and Metallurgy for 22 years and is also a member of the Australian Coal Preparation Society. Mr. Little has over 35 year experience in the mining industry, including 8 years in the Australian coal mining industry with Utah Development Company at Peak Downs coking coal mine and Capricorn Coal Management at German Creek coking coal mine. He has also held operational and technical positions with Hedges Gold Mine (Alcoa), Alcoa Alumina and Minproc Engineers.

From 1997 to 2007 Mr. Little was Technical Director, Mining & Metals with JPMorgan. He was responsible for providing technical, operational and economic evaluation of client's proposed resource projects and existing operations in Australia, Asia and South Africa, including coal, gold, bauxite, copper, nickel, zinc, vanadium, tantalum, lithium, fertilizer, and iron ore projects. Mr. Little joined the Group in April 2008 as Technical Director with primary responsibility for the technical development of the UHG coal project, including management of the tender process and negotiation for the mining contract and the CHPP EPCM contract. He was also responsible for managing the Bankable Feasibility Study which incorporated additional exploration drilling of the UHG deposit as well as an extensive metallurgical testwork program on bulk coal samples.

Sundui Rentsen, aged 59, is the Special Advisor, Mining Operations, to the Chief Executive Officer. He was awarded a master's degree in mining exploitation technology from the Mongolian University of Science and Technology. Mr. Rentsen also attended professional trainings in business management, open pit mining, mining technology, mining production environment, mine planning and development studies. Mr. Rentsen is a registered mining engineer in Mongolia in the field of coal mining technology and operations.

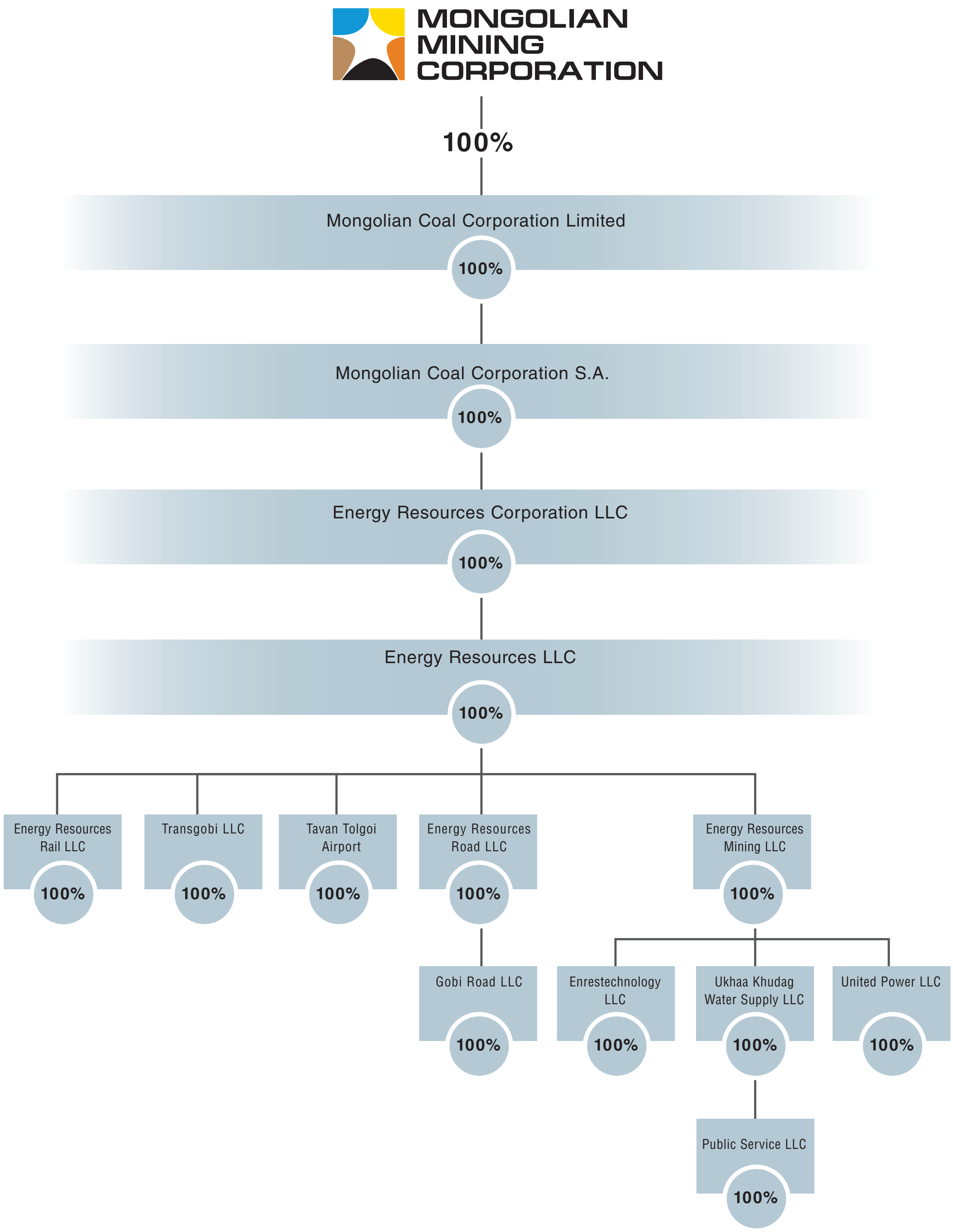
From 1978 to 1992, Mr. Rentsen held various positions at the Baganuur coal mine, such as mining engineer, department head, chief technologist, chief engineer and head of production. From 1992 to 2007, Mr. Rentsen served as the head of the Ministry of Fuel and Energy's coal and mining departments, as well as an advisor to the Fuel and Energy Minister. Since 2008, he has taught at the School of Mining and Engineering, Mongolian Technical University. Mr. Rentsen has over 30 years of experience in exploration and/or extraction activities. He was appointed as a special advisor to the Chief Executive Officer on 1 April 2010, and is responsible for assisting Dr. Battsengel Gotov in the Group's mining operations.

Tulga Gaapil, aged 58, is the Special Advisor, Mining Policy and Regulations, to the Chief Executive Officer. He was awarded a diploma in mining engineering from the National University of Mongolia and a doctorate in mining technology from the Postgraduate School of the Moscow Mining Institute, Russian Federation. Mr. Gaapil is a registered mining engineer in Mongolia in the field of surface coal mining technology and operations.

Mr. Gaapil has had a distinguished career in fuel and energy research institutions and the Government of Mongolia since 1976. From 1997 to 2005, Mr. Gaapil was an executive director of Mincon LLC, where he worked on the development of the Baganuur and Shivee-Ovoo coal mines, providing local consulting services on mine technology, environmental monitoring, surface facilities (including a coal handling plant and dewatering system), project supervision and coordination. Mr. Gaapil has over 26 years of consulting and work experiences in the mining sector and has been involved in the development of all large existing coal mines in Mongolia. Mr. Gaapil was appointed as a special advisor to the Chief Executive Officer on 1 April 2010, and is responsible for assisting Dr. Battsengel Gotov in the policy and regulatory aspects of the Group's operations.

Ng Sin Yee, Clare (吳倩儀), aged 50, was appointed as Company Secretary of the Company on 23 July 2010. Ms. Ng is a senior manager of the Corporate Services Department of Tricor Services Limited. She is an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Before joining the Tricor Group, Ms. Ng worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 25 years of experience in the company secretarial field and has been providing corporate services to both multi-national and listed companies in Hong Kong.

The Group Structure

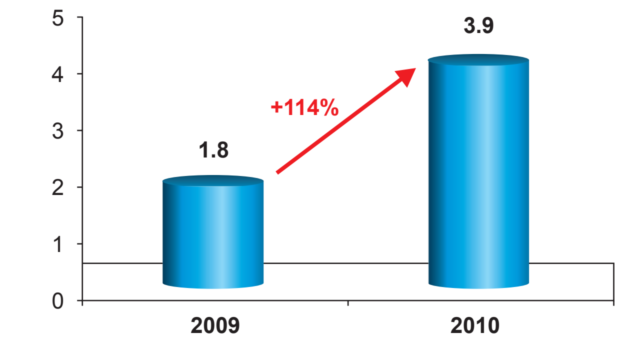


Financial Highlights

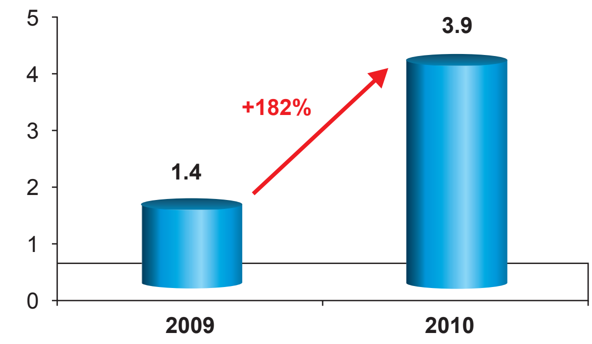
	2010 (USD)	2009 (USD)	Change
FINANCIAL HIGHLIGHTS			
Revenue	**277,501,594**	66,982,707	314.3%
Cost of revenue	**164,368,042**	38,682,328	324.9%
Gross profit	**113,133,552**	28,300,379	299.8%
Gross profit margin	**40.8%**	42.3%	-1.5%
Profit attributable to the equity shareholders of the Company	**60,138,704**	10,270,164	485.6%
Net profit margin	**21.7%**	15.3%	+6.4 ppt
Basic and diluted earnings per share	**1.91 cents**	0.34 cents	461.8%
Total non-current assets	**338,137,305**	83,161,930	306.6%
Total current assets	**715,133,194**	30,068,092	2278.4%
Total current liabilities	**131,679,008**	42,101,672	212.8%
Total non-current liabilities	**194,310,579**	27,286,982	612.1%
Net assets	**727,280,912**	43,841,368	1558.9%
Equity attributable to equity shareholders of the Company	**727,280,912**	43,841,368	1558.9%
Net cash generated from/(used in) operating activities	**69,640,535**	(4,023,882)	1830.7%
Net cash used in investing activities	**564,379,069**	62,061,317	809.4%
Net cash generated from financing activities	**823,494,622**	62,683,704	1213.7%
Debt to total asset	**23.8%**	30.2%	-6.4%
Debt to equity	**34.5%**	78.0%	-43.5%
Debt to EBITDA	**3.2x**	1.7x	+1.5x
Current ratio	**5.4x**	0.7x	+4.7x
Interest coverage ratio (EBIT/Interest)	**18x**	35x	-17x
OPERATIONAL			
Production volume (Mt)	**3.93**	1.84	113.6%
Strip ratio	**5.06**	3.42	+1.64 ppt
Cost per total material movement (USD/BCM)	**4.00**	4.01	-0.25%
Sales volume (Mt)	**3.92**	1.39	182.0%
Estimated share in Mongolia's total coal export	**24%**	19%	+5 ppt
Average selling price per tonne (USD)	**70.8**	48.2	46.89%

Financial Highlights

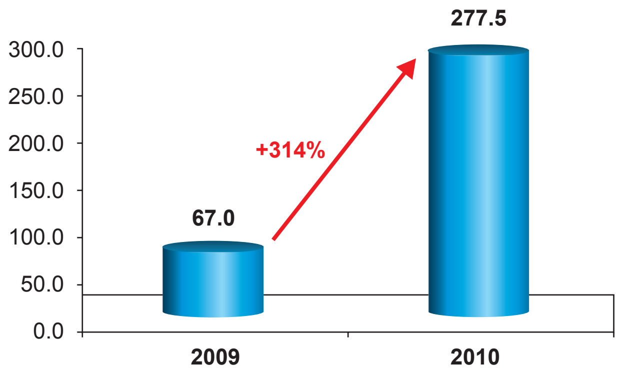
Run-of-mine coal production (Mt)



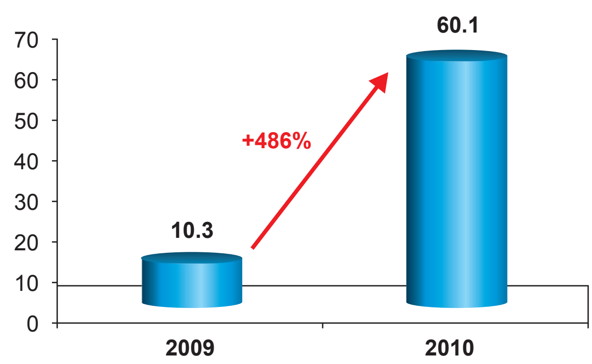
Coal sales volume (Mt)



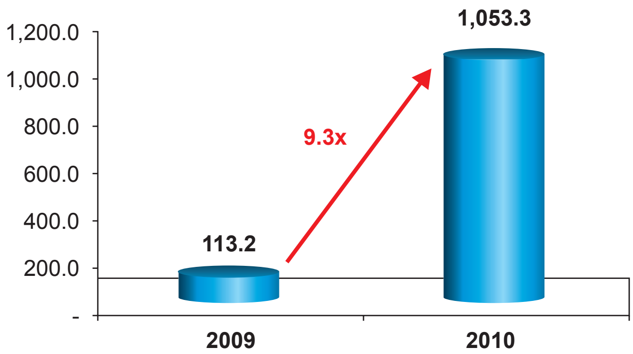
Sales revenue (million USD)



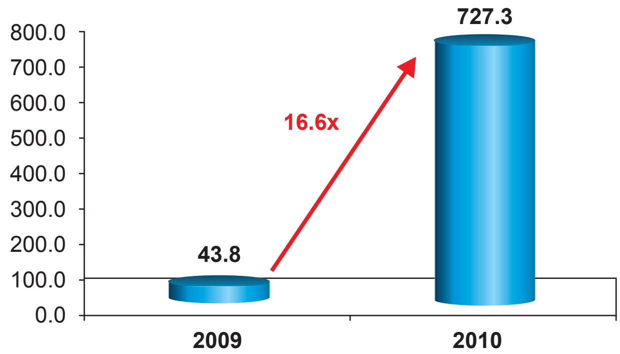
Net profit (million USD)



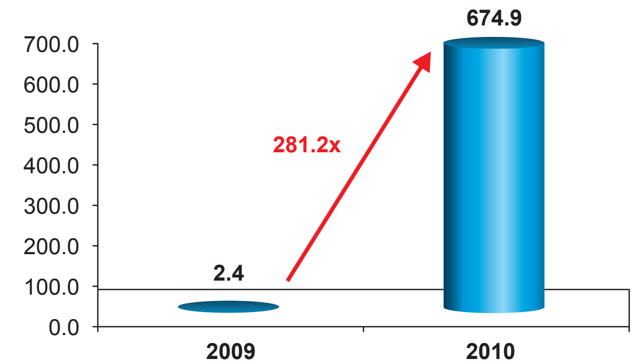
Total assets (million USD)



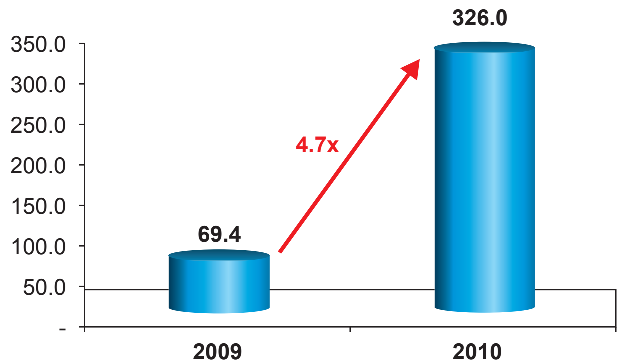
Total book value of equity (million USD)



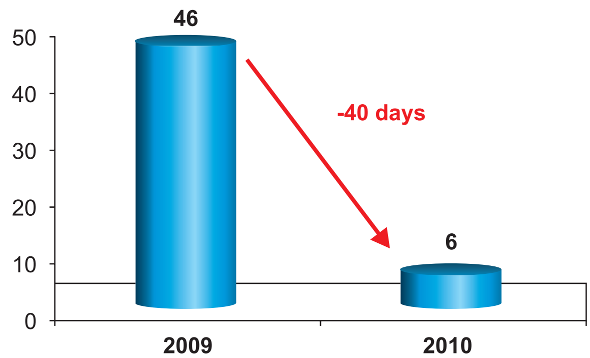
Available cash (million USD)



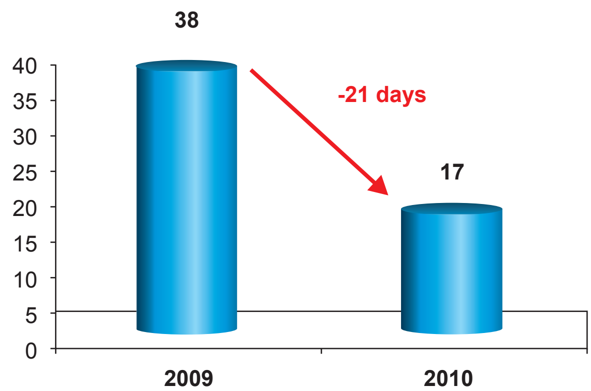
Total liability (million USD)



Receivable turnover days[1]



Inventory turnover days[2]



[1] Turnover of trade receivables in days equals trade receivables at the end of the period divided by revenue for the relevant period multiplied by 365 for annual periods.

[2] Turnover of inventory, in days, is the inventory at the end of the period divided by cost of revenue multiplied by 365 for annual periods.

Chairman's Statement

Dear Shareholders,

Since our inception, Mongolian Mining Corporation ("MMC", the "Company") has had a clear and far-reaching vision of developing ourselves into one of the leading mining companies in the region. We began our mission with developing the UHG coking coal deposit located within the Tavan Tolgoi coal formation in South Gobi, Mongolia.

To realize our vision, we have set ambitious and progressive targets guided by a disciplined strategy to increase and optimise our resource and reserve base, ramp up production and build infrastructure to support our expansion plan. We have a clear development roadmap to deliver an annual production capacity of approximately 15.0 million tonnes in 2013, representing a compounded annual growth rate of over 52% between 2009 and 2013. We made a successful start in the first year of production when we commenced mining activity at UHG in April 2009 and quickly ramped up production to 1.8 million tonnes of coal in the first nine months of operations.

I am delighted to report that in 2010, we delivered more than what we promised. Last year, we continued to make substantial progress in our production, exceeding our target and increasing our annual coal production at UHG by about 114% year-on-year to approximately 3.9 million tonnes. In the meantime, the Company continued to focus efforts on expanding our customer base. As a result, our sales volume increased by approximately 182% year-on-year to approximately 3.9 million tonnes, boosting our revenue by more than 314% to about USD277.5 million in 2010 as compared to the previous year. Spurred by a strong demand for coking coal, the average selling price surged by approximately 47% to USD70.8 per tonne. Profit attributable to our equity shareholders increased almost 5.9 fold to about USD60.1 million, thus improving our net profit margin from approximately 15% to 22%.

In view of the Company's current phase of development, which might require substantial investments in the near future, the Board has decided not to declare a dividend for the year ended 31 December 2010.

In October 2010, MMC's shares were successfully listed on the main board of the SEHK, giving us an enhanced international profile and more ready access to international capital to fund our future development. The long-term growth story of MMC based on UHG's attractive ramp-up profile was well regarded by investors. The positive response received from the global investment community to our initial public offering has inspired our confidence in taking our development to the next level.

MMC's strong growth last year was achieved on the back of robust macroeconomic fundamentals. Mongolian trade hit a record in 2010 reaching about USD6.2 billion, with exports increasing by approximately 53.8% year-on-year driven primarily by Chinese demand for Mongolian commodities. During 2010, Mongolia exported a total of more than 16.0 million tonnes of coal and revenues from coal exports surpassed those of copper for the first time. With a total coal export volume of over 3.9 million tonnes, MMC accounted for almost a quarter of Mongolia's total coal exports and maintained our lead as the largest producer and exporter of hard coking coal in Mongolia.

As the world's largest steel producer and coking coal consumer, China continued to import an increasing amount of coking coal reaching more than 47.0 million tonnes in 2010 representing an increase of approximately 37% compared to 33.0 million tonnes in 2009. Leveraging on our strategic location being within close proximity to major steel producing provinces in China, the Company continued to focus efforts on expanding our customer base to a diversified group of end-users, including iron and steel mills as well as coke and chemical plants. As a result, last year, we entered into new direct off-take agreements with several end-user customers, including Shagang and Risun.

Central to our business expansion and profit margin improvement is the construction of the coal handling and preparation plant (the "CHPP") at UHG. Our CHPP, when completed, will be the first of its kind in Mongolia and will enable us to produce high-quality washed coking coal products.

The commercial launch of the first module of the CHPP with the processing capacity of 5.0 million tonnes per annum is scheduled for the second quarter of 2011. The second and third modules of the CHPP, expected to bring its anticipated aggregate capacity to 15.0 million tonnes per annum, are expected to be operational in the second half of 2011 and by the end of 2012, respectively, to coincide with the continued ramp-up of our coal mine production. The construction of supporting infrastructure including a coal fired power plant and water supply facilities is progressing in line with the CHPP's development.

The paved road connecting UHG and the Gashuun Sukhait border point is expected to be completed in the second half of 2011. This will increase transportation efficiency and support our current expansion plans.

At MMC, we believe that sustainable development provides economic growth together with protection of community values and the environment. Corporate citizenship and contribution to local development form an integral part of our long-term sustainable development policy. Emphasizing the importance of international environmental standards, we endeavour to introduce technologically advanced infrastructure solutions to the domestic mining sector through the UHG project.

The Listing of the MMC on the Main Board of the SEHK on October 13, 2010

We have a strong commitment to the local community where we operate. Our community development projects are not limited by legislative requirements and are aimed at supporting the broader growth opportunities and overall sustainability of local communities. We continue to contribute to and roll out various community development programs focusing on employment, local business development, localisation of procurement, community infrastructure development, health, education and cultural heritage preservation.

Looking ahead, 2011 promises to be another year of strong demand from China for coking coal, and the outlook for coal prices is positive.

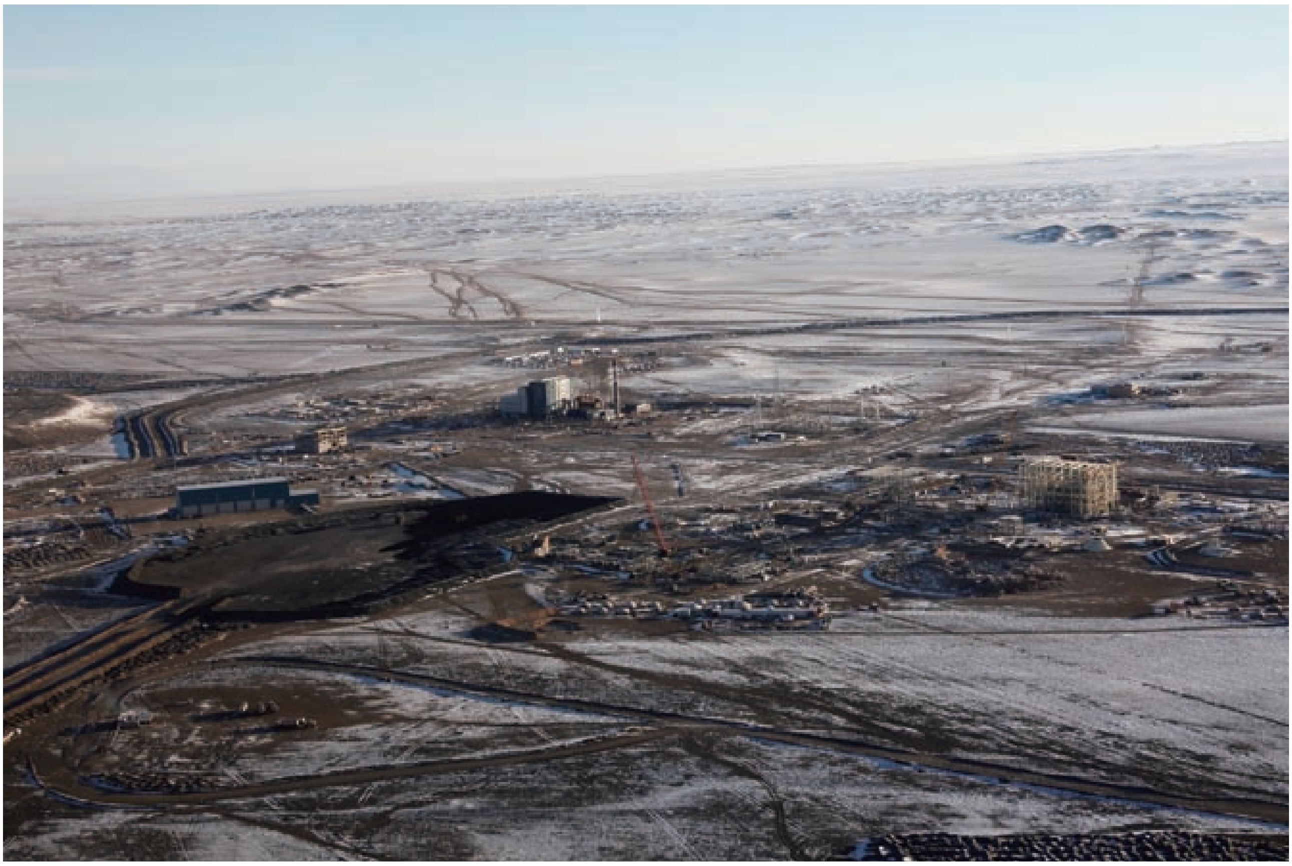
The Company has set a solid coal production target of 7.0 million tonnes for 2011. We expect a further improvement in our profit margin by benefiting from the higher pricing of washed coal, improved transportation efficiency and economies of scale in our operations.

Lastly, on behalf of the Board, I would like to express my sincere gratitude to all shareholders for your strong support. We value your opinions and guidance as we proceed with implementation of our stated strategy. My appreciation also goes out to all MMC staff, who demonstrated full dedication and commitment to achieve our goals last year.

Odjargal Jambaljamts
Chairman

22 March 2011

Management Discussion and Analysis



OVERVIEW

Since April 2009, Mongolian Mining Corporation has been principally engaged in the open-pit coking coal mining at our UHG deposit, which is located in the Tavan Tolgoi coal formation. During the period under review, we produced approximately 3.9 million tonnes of coking coal, surpassing our target for the year by 0.1 million tonnes, and sold approximately 3.9 million tonnes at an average selling price of USD70.8 per tonne which increased by approximately 47% from the previous year. The Group's export of approximately 3.9 million tonnes accounted for about 24% of Mongolia's total coal exports (2009: 19%).

For the year ended 31 December 2010, the Group recorded revenue of about USD277.5 million, which is approximately 314% higher than the revenue recorded of approximately USD67.0 million for the previous year. Meanwhile, comprehensive income attributable to the equity shareholders of MMC was approximately USD60.1 million, representing an approximately 486% year-on-year increase from USD10.3 million and basic and diluted earnings per share also increased by approximately 462% to USD0.0191 (2009: USD0.0034).

To further facilitate the Group's production and sales activities, MMC, during the period under review, both continued with existing and undertook new construction initiatives in line with our plans for key infrastructure expansion, including a CHPP, a coal-fired power plant, a water supply facility, a paved road and a railway line.

OPERATING ENVIRONMENT

In 2010, Mongolia exported 16.0 million tonnes of coal, which surpassed expectations of many commodities analysts who forecasted such exports to be around 10.0 to 13.0 million tonnes. The exports increased mainly due to spurring demand of China for coal. China is the world's largest coking coal consumer and the country's annual demand for and consumption rate of coking coal is expected to keep rising. This is because coking coal is an essential component in the production of steel, whose industry represents the backbone of China's accelerating urbanization and infrastructure development. For the year ended 31 December 2010, China imported approximately 47.2 million tonnes of coking coal and approximately 32% was supplied by Mongolia, which was almost a three-fold increase over the previous year while the Australian share in the supply of coking coal products to China shrunk from approximately 66% in 2009 to approximately 37% in 2010.

The Mongolian Government has implemented a series of policies to further promote the growth of the mining and minerals processing industry in the country aiming to encourage value-added production. MMC is ideally placed to benefit from this policy as we will be the first company in Mongolia to produce washed coal. This will provide us with the advantage of enjoying a zero rate value-added tax ("VAT").

Secondly, the flat rate royalty of 5% on all export minerals was replaced by progressive royalty rates that vary depending on mineral prices at international markets and the level of processing. In addition to the 5% base royalty rate, washed coal is subject to the lowest progressive royalty rate range of 1%-3%, whereas for raw coal, the range is 1%-5% (see table below).

Raw Coal Progressive Royalty

Base Royalty 5%

Price Range (USD/t)	Additional Royalty %
0-25	–
25-50	1.00
50-75	2.00
75-100	3.00
100-125	4.00
125+	5.00

Processed Coal Progressive Royalty

Base Royalty 5%

Price Range (USD/t)	Additional Royalty %
0-100	–
100-130	1.00
130-160	1.50
160-190	2.00
190-210	2.50
210+	3.00

BUSINESS REVIEW

Coal Resources, Reserves and Exploration Activities

Covering an area of approximately 2,960 hectares, the Group's UHG licensed area, as at 31 December 2010, had 497.0 million tonnes and 283.0 million tonnes of JORC-compliant measured and indicated coal resources and proved and probable reserves, respectively.

The JORC-compliant estimation of 497.0 million tonnes of measured and indicated coal resources at the UHG deposit as of 31 December 2010 is categorised as follows (in million tonnes):

Category	Resources above 300 m			Resources below 300 m			Total Resources		
	Coking Coal	Thermal Coal	Total Coal	Coking Coal	Thermal Coal	Total Coal	Coking Coal	Thermal Coal	Total Coal
Measured	82.9	120.2	**203.1**	–	–	**–**	82.9	120.2	**203.1**
Indicated	153.4	51.9	**205.3**	50.7	37.9	**88.6**	204.1	89.8	**293.9**
Inferred	–	11.7	**11.7**	42.2	27.1	**69.3**	42.2	38.8	**81.0**
Total	**236.3**	**183.8**	**420.1**	**92.9**	**65.0**	**157.9**	**329.3**	**248.8**	**578.0**
Total Measured and Indicated	**236.3**	**172.1**	**408.4**	**50.7**	**37.9**	**88.6**	**287.0**	**210.0**	**497.0**

The JORC-compliant reserve estimate of 283.0 million tonnes of proved and probable reserves at the UHG deposit as at 31 December 2010, is categorised as follows:

Category	Total Reserves (million tonnes)
Proved	188.0
Probable	95.0
Total	**283.0**

With regard to exploration activities, the following map of the UHG deposit shows the locations of the exploration boreholes from our 2008 exploration program (124 boreholes) and the exploration program conducted in 1970s-80s by a Russian-Mongolian initiative (111 boreholes). The information from both these exploration programs has been used to produce a geological model of the UHG deposit, which has formed the basis of the JORC compliant resource estimation as at 31 December 2010. The coal resources in the eastern part of the deposit are in the measured category while those in the western part are in the indicated category as shown in the following UHG borehole location plan.

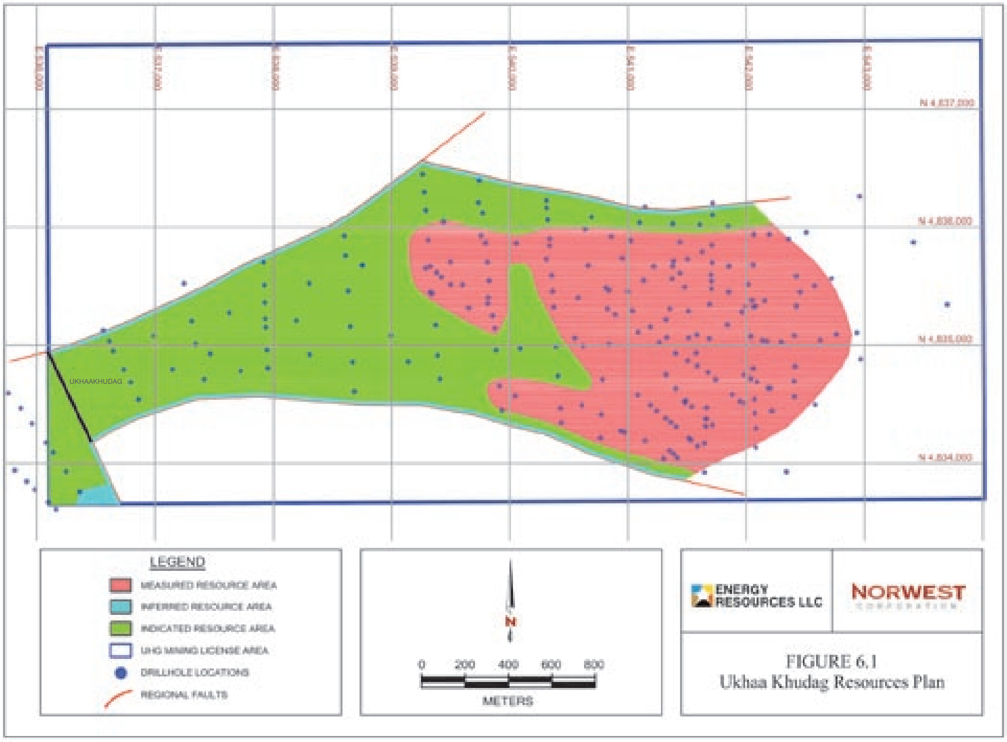


FIGURE 6.1
Ukhaa Khudag Resources Plan

Since the commencement of our commercial mining operation in April 2009, MMC's geological team has continued with exploration activities with the following objectives in mind:

- To prove actual lower in-situ ash content of the coal than was predicted by the geological model
- To produce a bulk sample of the Seam 0 ply's to enable coking coal sections to be identified and explore blending possibilities that may produce hard coking coal products
- To convert indicated resources to measured resources in the updated JORC compliant resource estimate to be prepared in 2012
- To explore Seam 5 and Seam 10, which occur in the western part of the deposit and which were not fully explored during the 2008 exploration program. This may potentially expand coking coal resources
- To define oxidation limits for mine planning purposes
- To undertake closed-spaced drilling ahead of mining to determine the localised geological structure and location of any oxidized coal which is then mined as thermal coal

The successful completion of many of these exploration efforts has provided us with invaluable information to enable our mining operation to be optimised. A 2D Seismic program, covering approximately 44 kilometers over the eastern part of the deposit, was completed during the period under review. This program was designed to identify coal seam continuity at depth, confirmed the UHG deposit's boundary limits and increased our confidence in long-term planning decisions relating to seam location and structure style. In addition, approximately 58,000 and 60,000 meters of drilling were carried out in 2009 and 2010 respectively, as well as geophysical logging and laboratory test work on the samples. The total cost of these exploration programs was approximately USD1.8 million in 2009 and USD6.7 million in 2010. This exploration data will be used to update the geological and coal quality model and hence JORC compliant resource and reserve estimates in 2012.

In the forthcoming year, an exploration drilling campaign to identify resources is planned for the western part of the deposit, which is estimated to total approximately 31,000 meters of drilling and logging work, and budgeted at USD3.7 million. In addition, approximately 36,000 meters of drilling and logging work, budgeted at USD3.9 million, will be conducted in the next 10-year mining area, further building on the exploration drilling activities carried out during the period under review.

Moreover, a similar 2D Seismic program is planned for the western part of the deposit to help the Group to identify coal seam continuity and structure, as well as to obtain new, valuable information on the potential of the deposit's underground resources.

Finally, a large-diameter, bulk-sample drilling program, estimated to total approximately 420 meters of drilling and logging work will be conducted on the Seam 0 ply's, and the samples gathered will undergo washability and metallurgical testing and pilot washing at an internationally recognised coal laboratory in Mongolia.

No resource acquisitions nor divestments were conducted during the period under review.

Mine Production

In 2010, we exceeded our target of 3.8 million tonnes of coking coal production reaching an output of approximately 3.9 million tonnes by year-end. Moreover, for the last eight months of the period under review, our average monthly production rate was approximately 400,000 tonnes, equating to a pro-rated annualized production rate of nearly 5.0 million tonnes.

The following table shows MMC's production volume, sales volume and average stripping ratio for the two years ended 31 December 2009 and 2010, respectively:

	2009	**2010**
Coal production (in million tonnes)	1.8	**3.9**
Coal sales (in million tonnes)	1.4	**3.9**
Average stripping ratio (bank cubic meter/tonne)	3.42	**5.06**

In 2010, the Group's production capacity expanded greatly, enabling us to gain significantly in terms of market share from approximately 19% in 2009 to approximately 24% of total coal exports of Mongolia.

The Group's coal exports volume increased from approximately 1.4 million tonnes to approximately 3.9 million tonnes year-on-year representing an approximate 182% growth; while total volume of coal exports of Mongolia increased by approximately 143% during the year ended 31 December 2010, based on data issued by the General Customs Office of Mongolia.

For the year ended 31 December 2010, our mining costs were approximately USD78.8 million. Of these, approximately 45% were costs incurred directly by the Group and primarily included fuel, labour and employee-related costs, as well as drilling and blasting expenses. The remaining costs were incurred by our mining contractor and primarily related to the depreciation, repair and maintenance of the mining equipment used at our UHG mine, as well as costs associated with major repair provisions, insurance and financing-related matters.

The Group's mining cost associated with coal sold was approximately USD20.1 per tonne.

For the upcoming three years ending 31 December 2011, 2012 and 2013, our annual run-of-mine ("ROM") coal production targets are approximately 7.0 million tonnes, 10.7 million tonnes and 14.7 million tonnes, respectively.

Marketing and Sales

MMC's UHG deposit is located in Mongolia's Tavan Tolgoi coal formation, which is known as one of the world's few remaining large unexploited sources of high-quality coking coal. Therefore, we are a well-positioned supplier for the Target Market Region ("TMR"), which, besides most of the Chinese territory immediately adjacent to Mongolia's southern border with China's Inner Mongolia and Gansu provinces, extends west to the Xinjiang provincial border, east to Liaoning province and south to Jiangsu province and the three major coal exporting ports of Qinhuangdao, Tianjin and Huanghua.

The Group exported coking coal to a total of 18 customers for the year ended 31 December 2010, and revenue from the single largest customer represented approximately 38% of our total revenue. During the year under review, MMC's customer base was diversified to include more end-users. Out of approximately 3.9 million tonnes of coking coal sold, approximately 2.4 million tonnes was sold to end-users, representing approximately 63% of our total revenue, with the remaining revenue coming from coal traders.

Contract signing ceremony with Risun company, September 09, 2010, Ulaanbaatar, Mongolia

With MMC's aim to directly sell our high-quality coking coal to a diversified group of end-users in China, including iron and steel mills and coke and chemical plants, MMC has entered into long-term direct off-take agreements with several new end-users, including Shagang and Risun. In 2010, MMC continued to supply coking coal to Baotou Iron and Steel (Group) Co., Ltd, Qinghua Group, Winsway and others.

MMC was able to achieve price increments through quarterly negotiations in 2010. This resulted in an increased average selling price from approximately USD48.2 per tonne in 2009 to approximately USD70.8 per tonne in 2010, while Mongolia's average export coal price, according to publicly available sources, increased from approximately USD43.1 per tonne in 2009 to approximately USD52.8 per tonne during the same period. From the fourth quarter of 2010, the Group started to recognise revenue at DAF Ganqimaodu ("GM"), the sales point on the Chinese side of the border.

Logistics and Transportation

Being approximately 245 kilometres from the Mongolian-Chinese border and 600 kilometres from Baotou, MMC is strategically located in close proximity to the major railway hub that provides access to major steel producing provinces in China, such as Hebei and Shandong. Furthermore, through Baotou, our coal can be transported by rail to the ports of Tianjin, Qinhuangdao and Huanghua, from which our products can potentially be sold to the southern part of China and seaborne markets.

Currently, all coal from MMC's UHG deposit is transported to customers in China using a combined fleet of self-owned and contracted trucks. The Group's transportation costs for the year ended 31 December 2010 were approximately USD15.5 per tonne of coal sold.

Paved Road

To keep pace with our rapid expansion, we have commenced construction of an approximately 245-kilometer paved road parallel to the existing gravel road currently used for the transportation of our coal products. As of 31 December 2010, approximately 65% of the work volume of the road had been completed, and once fully completed the road is expected to have the capacity to transport up to 18.0 Mtpa, sufficient to meet our projected requirement of 11.0-12.0 Mtpa.

With regard to this project, we signed a Build-Operate-Transfer ("BOT") contract with the Government of Mongolia for 10 years from the date of the commissioning of the road whereby we would be able to charge toll fees for road use. This road will be our primary transportation link to China up until the completion of the railway project. It will not only improve our transportation capability and efficiency, but it will also have positive environmental and social impacts as compared to the existing gravel road. The paved road is expected to be commissioned in the second half of 2011.

The capital expenditure for this project, including sustaining capital cost, is approximately USD147 million, 34% of which was accounted for in 2010.

Railway

In order to further lower transportation costs and increase reliability and efficiency, MMC plans to build a railway between UHG and Gashuun Sukhait under the license granted in 2008 by the Government of Mongolia. The railway will be approximately 240 kilometres, connecting to the Chinese railway network at the border, and will be used to transport coal and other minerals to China and potentially to international seaborne markets.

The proposed single-line, heavy-haul, freight railway will take approximately two years to complete from the construction commencement date, and it will be able to support 15.0 Mtpa upon completion, and is upgradable to 30.0 Mtpa, if needed.

Railway network development

The total cost of constructing the railway is estimated to be approximately USD698.8 million, of which approximately 50% to 70% is expected to be financed through borrowings and the remainder through the proceeds from the global offering and the Group's operating cash flows.

The Parliament of Mongolia passed a resolution in June 2010, approving a formal policy on railway network development. According to the policy, railway development will be conducted in three stages and the UHG-GS railway project as mentioned above is included in the second stage.

Infrastructure

Coal Handling and Preparation Plant ("CHPP")

With our CHPP scheduled to commence its first phase of operations (5.0 Mtpa) in the second quarter of 2011, MMC will be the first washed coal producer in Mongolia. The second and third 5.0 Mtpa phases are expected to be operational in the second half of 2011 and by the end of 2012, respectively.

Our planned production for 2011 is approximately 7.0 million tonnes of ROM hard coking coal, of which approximately 5.5 million tonnes will be washed using the CHPP.

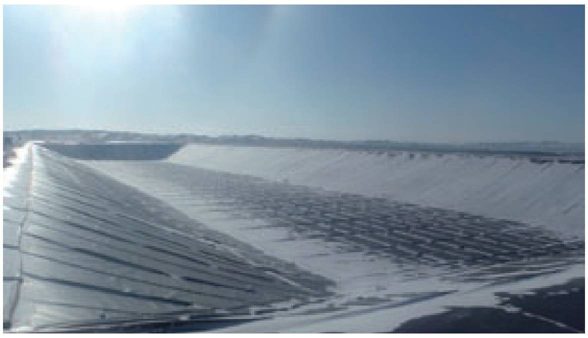
As of 31 December 2010, the first phase of our CHPP was approximately 88% complete, and the second phase of our CHPP was approximately 22% complete. The total estimated cost of the project is approximately USD343.8 million. As of 31 December 2010, the balance of construction-in-progress relating to this project was approximately USD102.2 million.

Power Plant

MMC commenced construction of a 3x6MW on-site power plant in August 2009, which is planned to be commissioned in three phases. The on-site power plant will use middlings to generate power to our CHPP and also provide excess power to areas around the mine site.

As of 31 December 2010, approximately 85% of this project had been completed, and the first and second of the three 6MW turbines and generators are expected to go into operation in the second quarter of 2011. The last phase is expected to be completed in the second half of 2011. The total project cost is expected to be approximately USD47.2 million. As of 31 December 2010, the balance of construction-in-progress relating to this project was approximately USD46.4 million.

Water Supply Facility



To support the operations of our CHPP and production capacity expansion, MMC commenced construction of a water supply facility in early 2010 with a timeline for completion of the initial stage by early 2011.

As of 31 December 2010, approximately 95% of the initial stage of the project to supply up to 117 liters per second had been completed, and the total construction cost for this facility is estimated to be approximately USD48.7 million. As of 31 December 2010, the balance of construction-in-progress relating to this project was approximately USD35.8 million.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2010, turnover of the Group reached approximately USD277.5 million, representing an increase of approximately 314%, as compared with approximately USD67.0 million for the year ended 31 December 2009. The increase was primarily attributable to respective rises in sales volume and average selling price. The sales volume recorded during the year under review amounted to approximately 3.9 million tonnes as compared to 1.4 million tonnes for the previous year, equating to a year-on-year increase of approximately 182%. The average selling price also rose significantly from USD48.2 per tonne in 2009 to USD70.8 per tonne for the year under review, equivalent to a 47% year-on-year increase.

Cost of Sales

Cost of sales consists of mining, transportation and logistics costs, royalty and customs fees, and road maintenance expenditures. Approximately USD164.4 million of cost of sales was incurred for the year ended 31 December 2010, representing an increase of approximately 325% from USD38.7 million for the year ended 31 December 2009. The increase in total cost of sales was mainly due to increases in mining and transportation volume during the year under review.

In 2010, 3.9 million tonnes of coal were produced with a strip ratio of 5.06 and per bank cubic meter ("BCM") total movement cost of USD4.00 compared to 1.8 million tonnes produced in 2009 with a strip ratio of 3.42 and per BCM total movement cost of USD4.01.

In 2010, approximately 2.8 million tonnes of coal were sold at the Tsagaan Khad ("TKH") and GM compared to approximately 0.6 million tonnes coal sold in 2009 at the TKH. Due to the increase of sales volume at the Mongolia-China border, transportation cost increased from approximately USD8 million for the year ended 31 December 2009 to USD60.6 million for the year ended 31 December 2010.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year ended 31 December 2010 was approximately USD113.1 million, representing a significant increase of approximately 300% from the gross profit of approximately USD28.3 million recorded for the year ended 31 December 2009. During the year under review, the gross profit margin was approximately 41%, compared with approximately 42% in 2009. This slight decrease was due to the increased transportation and mining costs during the year under review.

General and Administrative Expenses

During the year under review, administrative expenses were approximately USD38.7 million, representing an increase of approximately USD28.3 million as compared with approximately USD10.4 million in 2009. The higher administrative expenses were mainly due to the following factors: the extensive expansion of operations, the hiring of additional staff, the costs related to the initial public offering of the Company's shares on the main board of the SEHK in October 2010, social and environmental expenses, and domestic inflation.

Net Finance Income/Costs

Net finance income for the year ended 31 December 2010 amounted to approximately USD8.1 million, representing an increase of approximately USD11.6 million, as compared to a net finance cost of approximately USD3.5 million in 2009. The increase in net finance income was primarily due to foreign exchange gains.

Income Tax Expenses

Income tax expenses for the year under review amounted to approximately USD22.8 million, representing an increase of approximately 454%, as compared with approximately USD4.1 million in 2009. The substantial increase in income tax expenses for the year ended 31 December 2010 was due to the increase of taxable income.

Profit for the Year

As a result of the foregoing, the profit attributable to equity shareholders of the Company for the year under review was approximately USD60.1 million, representing an increase of approximately USD49.8 million or approximately 486%, as compared with approximately USD10.3 million in 2009. The net profit margin was 22% for the year, as compared with approximately 15% in 2009.

Liquidity, Financial Resources and Capital Structure

The Group generated approximately USD69.6 million cash from our operations during the year under review, as compared with approximately USD4.0 million used for the year ended 31 December 2009.

The Group invested approximately USD220.2 million during the year under review in our mining and infrastructure development, including, among others, a coal handling and preparation plant, an 18MW power plant, a water supply facility and a 245-km paved road. Long-term bank loans amounted to approximately USD255 million and were borrowed from the European Bank for Reconstruction and Development, Standard Bank Plc, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH.

As at 31 December 2010, the total bank and other borrowings of the Group were approximately USD251.1 million. Of this total sum, approximately USD85.9 million are repayable within one year while the remaining borrowings are repayable by May 2016, with effective weighted average interest rates ranging approximately from 5% to 8%.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2010 was approximately 24%.

Future Material Investment and Acquisition

For the current year ending 31 December 2011, our planned capital expenditure totals approximately USD673 million, approximately 55% of which is planned to be funded by proceeds from the initial public offering (the "IPO") and the remainder by cash flow from operating activities and external borrowings. The main portions of our planned capital expenditure are a railway line and a coal handling and preparation plant, expected to cost approximately 56% and 27% of our planned capital expenditure, respectively.

We will explore opportunities to acquire additional resources, including coking coal and iron ore assets, with progress, if any, reported in due time in compliance with appropriate procedures.

Foreign Exchange Risk

The Group's principal place of operation is in Mongolia and our functional currency is MNT. Therefore, the Group is subject to the risk of loss or gain due to USD and RMB fluctuations. The Group's sales revenue has been and is expected to be priced and settled in USD and RMB. Although the majority of our assets and operational expenses are denominated in MNT, a large portion of those, including fuel and capital expenditure, are import costs and thus linked to USD and RMB prices. Therefore, the Group believes that there exists a natural hedge that partially offsets foreign exchange risk. The Group's long term liabilities are denominated in USD and RMB. For the year ended 31 December 2010, foreign exchange fluctuations were favourable to the Group, and the Group had approximately USD12.0 million in realized and unrealized exchange gains. The Group will continue to monitor exposure to foreign exchange risk and consider hedging instruments, provided that such hedging instruments for MNT become available and not overly expensive compared to the underlying exposures.

Pledge of Assets of the Group

As at 31 December 2010, the Group pledged accounts held with Trade and Development Bank of Mongolia, Khan

Bank of Mongolia, Golomt Bank of Mongolia, Debt Service Reserve Account with Standard Bank Plc for EBRD loan repayment, off-take contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton, off-take contract with Color Future International Limited, off-take contract with Bayannaoer Puxing Mineral Co., Ltd, off-take contract with Pu Sheng Energy Co., Ltd, engineering, procurement, construction and management ("EPCM") agreement for the coal handling and preparation plant constructed at the UHG deposit with Sedgman, UHG Mining License, power plant, wash plant and coal stockpile to banks for credit facilities in the aggregate amount of USD255 million granted to the Group.

Contingent Liabilities

As at 31 December 2010, the Group did not have significant contingent liabilities.

Use of Net proceeds from the Company's IPO

The Company's shares were listed on the main board of the SEHK on 13 October 2010. The net proceeds from the Company's issue of new shares (after deducting expenses relating specifically to the issue of new shares in the IPO and expenses relating generally to the listing of all the shares of the Company, whether existing or new) amounted to approximately HKD4,778.0 million in total, which is more than the estimate of HKD4,017.9 million as announced in the announcement of the IPO allotment results dated 12 October 2010 due to the exercise of the over-allotment option. From the listing date to 31 December 2010, we have not used any proceeds from the Company's IPO.

Operating Lease Commitments

As at 31 December 2010, we had contracted obligations consisting of operating leases which totalled approximately USD2.2 million with approximately USD1.3 million due within one year and approximately USD0.9 million due between two and five years. Lease terms range from 1 to 3 years, with fixed rentals.

Capital Commitments

As at 31 December 2010, we had capital commitment of capital expenditure for an amount of approximately USD182.7 million, out of which USD80.1 million was contracted for and USD102.6 million was authorised but not contracted for.

Financial Instruments

The Company did not have any hedging contracts or financial derivatives outstanding for the years ended 31 December 2009 and 2010.

Employees

As at 31 December 2010, the number of employees of the Group reached 1,161 compared with 704 employees as at 31 December 2009. Total employee remuneration for 2009 and 2010 were USD3.0 million and USD10.7 million, respectively.

Dividend

Due to rapid business expansions by the Company, the Board decided not to pay any dividend for the year ended 31 December 2010 despite MMC's record earnings and large cash balances (dividends in 2009: nil).

Internal Control and Risk Management

The management recognises that it is their responsibility to establish and maintain an effective internal control and risk management system to achieve the Group's business objectives and safeguard our assets and stakeholders' interests. Our goal is to have effective and efficient operations, reliable financial reporting and full compliance with all applicable regulations. Therefore, in establishing our internal control and risk management system, we adopted the principles of both the International Standard ISO 31000:2009 and the Committee of Sponsoring Organisations (COSO), as well as complied with internationally recognised mandates on best practices.

We conduct regular reviews of the Group's internal control and risk management system to ensure it is effective and up-to-date with respect to changing business landscapes and regulatory requirements, and, if necessary, take any required steps in a timely manner in order to make improvements.

During the year under review, we engaged the services of an independent consultant to conduct an assessment of our internal control system, and according to the recommendations given, a series of measures have been implemented to further strengthen our system. The Audit Committee, the Remuneration Committee and the Internal Audit Department were established; a well-defined Risk Management Policy, inclusive of detailed and unambiguous procedures, was developed, which requires regular submissions of risk assessment reports on a quarterly and yearly basis; existing finance-related policies and procedures were improved; and the procedure for approving future policies and procedures was formally stipulated.

The management believes that risk management is always essential to the long-term sustainable and healthy growth of our business. The Risk Management and Internal Control Department ("RMICD") continuously assesses and monitors administrative, operational, and supporting processes, registers and evaluates any potential risk and plans accordingly for risk mitigation.

In addition, from the current year onwards, we will be retaining the services of Marsh (Beijing) Insurance Brokers Company Ltd, a subsidiary of Marsh Inc., as the Group's insurance broker.

OUTLOOK AND BUSINESS STRATEGIES IN 2011

MMC's growth strategy is to expand our coal mine production and boost our sales of washed hard coking coal. With our average monthly production of approximately 400,000 tonnes of coking coal for the last eight months of the period under review resulting in a pro-rated annualised production rate reaching almost 5.0 million tonnes by the

end of the period under review, MMC is confident of achieving our target of 7.0 million tonnes of production by the end of 2011. The operations of our CHPP, the first phase of which will commence in the second quarter of 2011, will not only accelerate MMC's growth but also contribute to the expanding profit margin of MMC's business in 2011 and beyond. The completion of the paved road in the second half of 2011 will increase efficiency and improve transportation capability between our UHG deposit and the GS-GM border crossing.

The outlook for coking coal prices remains positive. Recent heavy flooding in certain major coking coal supply regions has resulted in higher prices for seaborne coking coal trades, which in turn is expected to further influence coking coal prices in China. Chinese coking coal prices are expected to increase as a result of increasing demand for this commodity and due to potential constraints in supply from Australia, which accounted for nearly 37% of China's coking coal import in 2010. In addition, support for the creation of more affordable housing in line with China's 12th five-year plan will further increase steel demand in 2011. However, China's tight monetary policy may impede, to a certain extent, domestic coking coal price surges.

On the other side, the recent earthquake and tsunami in Japan may put a hold on the surge of seaborne coking coal prices in the short term since Japan is the biggest importer of seaborne coking coal. However, we believe that Japanese steel consumption will increase due to reconstruction as most analysts expect.

As such, the average selling price for hard coking coal is expected to reach approximately USD250 per tonne for seaborne coal trading in 2011, according to analysts' forecasts. With respect to the specific characteristics of the Chinese market, the average selling price may reach approximately USD240 per tonne in Tangshan, Hebei, in 2011.

Looking ahead, MMC will continue to ramp up our coal mine production and, at the same time, optimise our existing resources and reserves base. Upon completion of our CHPP, MMC will be able to produce consistent high quality washed coking coal. The management believes that these efforts will significantly increase our market recognition and competitiveness. We plan to sell our high quality coking coal in China pursuant to long-term agreements with a diversified group of end-users, including iron and steel mills, and coke and chemical plants. MMC will also explore opportunities to supply our coal to seaborne markets as part of our long-term diversification strategy. Finally, to support our business expansion, MMC will continue the construction of transport and logistics infrastructure.

MMC has been in the midst of a phase of rapid growth ever since mining operations commenced at the UHG deposit in April 2009. We are confident of benefiting from increasing economies of scale in our operations as we move forward in implementing our strategy to increase annual production volume. We will consider and explore opportunities to acquire additional resources, including coking coal and iron ore assets. We believe that the production of both high-quality coking coal and iron ore, which share virtually the same pool of customers, as well as the knowledge and experience needed to run such operations, will provide us with significant leverage on pricing, especially since both are critical raw materials for the steel industry.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Company has entered into the following connected transactions in the ordinary course of its business with certain of its connected persons. Set out below is a summary of the connected transactions entered by the Company in compliance with the Listing Rules, as inclusive of related party transactions fall under the definition of “connected transaction” and “continuing connected transactions”.

Non-exempt connected transactions

The Company entered into the following non-exempt connected transaction during the period from 28 September 2010 to 31 December 2010. The transaction contemplated under the agreement with MCS Electronics LLC, a subsidiary of MCS Holding LLC (the “Agreement”) constitutes a connected transaction of the Company which is subject to the reporting and announcement requirements but exempt from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules as the applicable percentage ratios are more than 0.1% but less than 5%. Announcement of this transaction was published on 29 December 2010.

Principal terms

On 8 October 2010, Gobi Road LLC entered into an agreement with MCS Electronics LLC, to supply and install a truck scale and toll gate system at the 25th kilometer section of a paved road that is being constructed by Gobi Road LLC. The supply and installation of the truck scale and toll gate system shall be completed on or before 1 June 2011.

Connected Person

MCS Holding LLC and its subsidiaries are connected persons of the Company as MCS Mining Group Limited is a substantial shareholder of the Company.

Consideration

The total consideration payable by Gobi Road LLC is MNT2,418,272,200 (equivalent to approximately USD1,782,019) and will be made in 4 installments within 10 working days after execution of the agreement, after shipping of full set of equipment, after system operates completely and on completion, respectively. Retention of 3% of the total consideration will be paid to MCS Electronics LLC within 10 working days after warranty period of three years expires.

A payment of MNT659,528,781.82 (equivalent to approximately USD486,005.41) was made by Gobi Road LLC for the year ended 31 December 2010.

The consideration payable by our company under the agreement was negotiated on an arm’s length basis between the Company and MCS Electronics LLC following the tendering process whereby MCS Electronics LLC had been selected as the supplier.

Continuing connected transactions

The following continuing connected transactions (the "CCTs") were recorded for the year ended 31 December 2010:

(1) Lease from the MCS Group

Principal terms

As disclosed in the prospectus of the Company dated 28 September 2010, on 2 April 2010 United Power LLC entered into rent agreement with MCS Property LLC, a subsidiary of MCS Holding LLC to lease a space with an aggregate gross floor area of approximately 87 square meters as our Company's office for the period from 15 February 2010 to 31 December 2010.

Connected Person

MCS Holding LLC and its subsidiaries are connected persons of the Company as MCS Mining Group Limited is a substantial shareholder of the Company.

Consideration

The rent payable by the Company under the agreement is determined by reference to the market rent. The fee payable under the rent agreement will be paid on monthly basis before or on the 10th day of every month. The Company estimated that the total rent payable by the Company under this agreement will be approximately MNT15,064,920 (USD11,134) for the year ended 31 December 2010.

Actual payment of USD12,141 was made by United Power LLC for the year ended 31 December 2010 under the agreement.

(2) Rental of equipment from MCS Electronics LLC

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	MCS Electronics LLC	2009.05.01	2012.04.30
2.	Energy Resources Rail LLC	MCS Electronics LLC	2009.07.01	2012.07.01
3.	Energy Resources Rail LLC	MCS Electronics LLC	2009.05.01	2012.04.30
4.	Transgobi LLC	MCS Electronics LLC	2009.07.01	2012.07.01
5.	Enrestechnology LLC	MCS Electronics LLC	2009.07.01	2012.07.01
6.	Ukhaa Khudag Water Supply LLC	MCS Electronics LLC	2009.07.01	2012.07.01
7.	Energy Resources LLC	MCS Electronics LLC	2009.07.01	2012.07.01
8.	Transgobi LLC	MCS Electronics LLC	2009.04.30	2012.07.01
9.	Energy Resources Mining LLC	MCS Electronics LLC	2009.05.06	2012.05.06
10.	Energy Resources Mining LLC	MCS Electronics LLC	2009.07.01	2012.07.01
11.	Energy Resources LLC	MCS Electronics LLC	2010.04.22	2013.04.22

Principal terms

Prior to IPO, various subsidiaries of the Company have entered into rental agreements with MCS Electronics LLC, a subsidiary of MCS Holding LLC to rent office equipment, such as computers, printers, monitors, fax apparatus, duplicating machines, scanners, and various other office equipments from MCS Electronics LLC. The rental agreements commenced at different intervals with last one ending on 22 April 2013, as mentioned above. Each of the agreements is subsisting for no more than three years following the listing of the Company's shares on the main board of the SEHK.

Connected Person

MCS Holding LLC and its subsidiaries are connected persons of the Company as MCS Mining Group Limited is a substantial shareholder of the Company.

Consideration

The rental of office equipment is charged at a monthly rate on a per unit basis to be paid on monthly basis. The Company estimated annual cap of USD369,602 for the year ended 31 December 2010.

Actual payment of USD259,881 was made by the Company for the year ended 31 December 2010 under the agreements.

(3) Supply of goods and services by the MCS Group

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	MCS Electronics LLC	2009.10.01	2010.10.01
2.	Energy Resources Rail LLC	MCS Electronics LLC	2009.12.30	2010.10.01
3.	Energy Resources LLC	MCS Management LLC	2010.01.01	2010.12.31
4.	Energy Resources Rail LLC	MCS Management LLC	2010.01.01	2010.12.31
5.	Energy Resources Mining LLC	MCS Management LLC	2010.01.01	2010.12.31
6.	Enrestechnology LLC	MCS Management LLC	2010.01.01	2010.12.31
7.	Ukhaa Khudag Water Supply LLC	MCS Management LLC	2010.01.01	2010.12.31
8.	United Power LLC	MCS Management LLC	2010.01.01	2010.12.31
9.	Transgobi LLC	MCS Management LLC	2010.03.22	2010.12.31
10.	Transgobi LLC	Monsat LLC	2009.06.05	2010.06.04
11.	Energy Resources Rail LLC	Monsat LLC	2009.05.11	2010.05.11
12.	Energy Resources LLC	MCS Com LLC	2009.10.30	2010.10.30
13.	Energy Resources LLC	MCS Holding LLC	2008.02.01	2012.01.01
14.	Energy Resources LLC	MCS Electronics LLC	2009.12.07	2012.12.07

Principal terms

Prior to IPO, various subsidiaries of the Company have entered into agreements in relation to the information technology services with MCS Holding LLC and its subsidiaries including MCS Electronics LLC, MCS Management LLC, MCS com LLC and Monsat LLC, pursuant to which such contractors agreed to provide to the company: (i) services for the maintenance of time and attendance system used for registration of attendance of employees; (ii) services for the maintenance of reliable operations of a computer program in relation to finance and accounting; (iii) iridium satellite communication services; (iv) satellite internet connection services; (v) computer systems; (vi) a domain name; and (vii) management services. The service agreements commenced at different intervals with last one ending on 7 December 2012, as mentioned above.

Connected Person

MCS Holding LLC and its subsidiaries are connected persons of the Company as MCS Mining Group Limited is a substantial shareholder of the Company.

Consideration

The fees for the services payable by the Company under the agreements in relation to the information technology services are determined by reference to market rate and will be paid on monthly basis. Under the agreement between Energy Resources LLC and MCS Holding LLC, the Company will pay MCS Holding LLC a monthly fee of USD70,000 together with a percentage of EBITDA set as 6% in 2010.

Estimated annual cap for the agreements is USD6,988,548 for the year ended 31 December 2010. Actual payment of USD6,240,022 was made by the Company for the year ended 31 December 2010 under those agreements.

(4) Supply of goods and services by MCS Group-office and camp sites supporting services

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	Officenet LLC	2009.04.01	2010.12.31
2.	Energy Resources LLC	Officenet LLC	2010.01.01	2010.12.31
3.	Energy Resources Rail LLC	Officenet LLC	2010.01.01	2010.12.31
4.	Energy Resources Mining LLC	Officenet LLC	2009.04.01	2010.12.31
5.	Enrestechnology LLC	Officenet LLC	2009.09.05	2010.09.05
6.	Energy Resources LLC	MCS Management LLC	2010.01.01	2010.12.31
7.	Energy Resources Rail LLC	MCS Management LLC	2010.01.01	2010.12.31
8.	Energy Resources LLC	MCS International LLC	2009.10.01	2010.12.31

Principal terms

Prior to IPO, certain subsidiaries of the Company have entered into agreements with Officenet LLC, MCS International LLC and MCS Management LLC, subsidiaries of MCS Holding LLC, pursuant to which such subsidiaries agreed to provide to the Company (i) cleaning and repairing services of office spaces, office fittings, and office equipment; (ii) cafeteria, laundry and cleaning services for employees' camp site located at UHG; (iii) security services; and (iv) human resources recruitment services of the power plant of the Company. The agreements commenced at different intervals with last one ended on 31 December 2010, as mentioned above.

Connected Person

MCS Holding LLC and its subsidiaries are connected persons of the Company as MCS Mining Group Limited is a substantial shareholder of the Company.

Consideration

The prices for the services payable by the Company under the agreements are determined by way of a tender process. The Company estimated that the total contract sum payable by the Company will be approximately USD4,189,805 for the year ended 31 December 2010. Actual payment of USD4,182,356 was made by the Company for the year ended 31 December 2010 under the above agreements.

(5) Construction supporting and ancillary supporting services

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	MCS International LLC	2010.04.08	2010.12.31
2.	Energy Resources LLC	MCS International LLC	2009.03.05	2010.10.15
3.	Energy Resources LLC	Enerco LLC	2009.12.01	2010.12.31
4.	Energy Resources LLC	MCS Property LLC	2010.03.29	2010.06.12
5.	Energy Resources LLC	MCS Property LLC	2010.05.31	2012.05.31
6.	Energy Resources LLC	Erchim Suljee LLC	2010.03.01	2010.12.31

Principal terms

Prior to IPO, Energy Resources LLC has entered into agreements with MCS International LLC, MCS Property LLC, Enerco LLC and Erchim Suljee LLC, subsidiaries of MCS Holding LLC, pursuant to which such subsidiaries agreed to provide to our Company (i) electricity plant operational services; (ii) maintenance, repair and management services in relation to the heating supply of our power plant; (iii) construction management services; and (iv)engineering, procurement and construction management services for the construction of overhead power line and substations. The agreements commenced at different intervals with last one ending on 31 May 2012, as mentioned above. Each of the agreements is subsisting for no more than three years following the Listing.

Connected Person

MCS Holding LLC and its subsidiaries are connected persons of the Company as MCS Mining Group Limited is a substantial shareholder of the Company.

Consideration

The fees for the services payable by the Company under the agreements are determined by reference to the market rate. We estimated that the total contract sum payable by the Company will be approximately USD4,174,180, for the year ended December 31 2010. Actual payment of USD4,133,013 was made by the Company for the year ended 31 December 2010 under the above agreements.

(6) Insurance from the Petrovis Group

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	Tenger Daatgal LLC	2009.12.09	2010.12.08
2.	Energy Resources LLC	Tenger Daatgal LLC	2009.12.09	2010.12.08
3.	Energy Resources LLC	Tenger Daatgal LLC	2010.01.01	2010.12.31
4.	Energy Resources LLC	Tenger Daatgal LLC	2010.01.01	2010.12.31
5.	Energy Resources LLC	Tenger Daatgal LLC	2010.01.07	2011.01.06
6.	Energy Resources LLC	Tenger Daatgal LLC	2010.04.16	2011.04.15
7.	Energy Resources LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
8.	Energy Resources LLC	Tenger Daatgal LLC	2010.06.01	2011.05.31
9.	Energy Resources Rail LLC	Tenger Daatgal LLC	2010.01.01	2010.12.31
10.	Transgobi LLC	Tenger Daatgal LLC	2010.01.01	2010.12.31
11.	Transgobi LLC	Tenger Daatgal LLC	2010.03.01	2011.02.28
12.	Transgobi LLC	Tenger Daatgal LLC	2010.03.01	2011.02.28
13.	Transgobi LLC	Tenger Daatgal LLC	2010.03.24	2010.12.31
14.	Transgobi LLC	Tenger Daatgal LLC	2010.02.22	2011.02.28
15.	Energy Resources Mining LLC	Tenger Daatgal LLC	2010.01.01	2010.12.31
16.	Ukhaa Khudag Water Supply LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
17.	Ukhaa Khudag Water Supply LLC	Tenger Daatgal LLC	2010.07.10	2010.12.31
18.	United Power LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
19.	United Power LLC	Tenger Daatgal LLC	2010.07.10	2010.12.31
20.	Enrestechnology LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
21.	Energy Resources Mining LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30

Principal terms

Various subsidiaries of the Company have entered into insurance agreements with Tenger Daatgal LLC, a subsidiary of Petrovis LLC, pursuant to which Tenger Daatgal agreed, in consideration for the insurance premium stipulated by the respective agreements, to pay insurance compensation for the loss, damage and injury to vehicles, equipment and construction materials of projects implemented by the Company, construction of facilities including power plant, wash plant, properties of the airport at Tavan Tolgoi and liability in connection with operations of the airport, coal stockpile or personnel, as a result of the insured event in accordance with the terms and conditions under the insurance agreements. The insurance agreements commenced at different intervals with last one ending on 31 May 2011, as mentioned above.

Connected person

Petrovis Group and its subsidiaries are connected persons of the Company, as Petrovis Resources Inc. is a substantial shareholder of the Company.

Consideration

The insurance premiums payable by the Company under the insurance agreements are determined by way of a selection process and will be paid by different policy depending on the amount of premiums, such as premiums for insurance of construction of facilities must be paid in two installments of equal amount upon signing the insurance agreements and in 6 months thereafter, and premiums for other kind of insurances will be paid 100% upon signing on the agreements.

We estimate that the total premium payable by the Company under the agreements will be approximately USD641,821 for the year ended 31 December 2010. Actual payment of USD534,059 was made by the Company for the year ended 31 December 2010 under the above agreements.

(7) Supply of goods by Petrovis Group

Principal terms

On 8 June 2010, Energy Resources LLC has entered into agreement with Gobi Oil LLC, a subsidiary of Petrovis Group, pursuant to which Gobi Oil LLC agreed to provide with petroleum products to various subsidiaries of the Company.

Connected Person

Petrovis Group and its subsidiaries are connected persons of the Company, as Petrovis Resources Inc is a substantial shareholder of the Company.

Consideration

The price of the fuel payable under the agreement is determined by market rate. Purchase estimation of fuel prices will be confirmed by both parties twice a month on the 10th and 25th days in every month. Energy Resources LLC will pay price for fuels purchased within 15 days after Gobi Oil LLC sent the payment claim.

We estimate that the Company's total purchases of fuel from the Gobi Oil LLC will amount to approximately USD19,535,509 for the year ended 31 December 2010. Actual payment of USD16,819,805 was made by the Company for the year ended 31 December 2010 under the supply agreement.

The independent non-executive Directors reviewed the continuing connected transactions of the Group pursuant to Rule 14A.37 of the Rules governing the Listing of Securities on the SEHK.

In the opinion of the independent non-executive Directors, the CCTs were entered into by the Group:

(i) in the ordinary and usual course of business of the Company;

(ii) on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditors of the Company stating that in respect of disclosed CCTs (other than the lease from the MCS Group which is exempt from the annual review, reporting, announcement and shareholders' approval under Rule 14A.33(3) of the Listing Rules):

a) nothing has come to the attention of the auditors that causes them to believe that the disclosed CCTs have not been approved by the Board;

b) for the transactions involving the provision of goods or services by the Group, nothing has come to the attention of the auditors that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c) nothing has come to the attention of the auditors that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

d) with respect to the aggregate amount of each of the CCTs set out in items (2) to (7), nothing has come to the attention of the auditors that causes them to believe that the disclosed CCTs have exceeded the maximum aggregate annual value disclosed in the previous announcement dated 28 September 2010 made by the Company in respect of each of the disclosed CCTs.

In respect of the CCTs, the Company has complied with the disclosure requirements under the Listing Rules.

OUR POSITION

At MMC, sustainability lies at the foundation of our businesses. Corporate citizenship and contribution to the local development form an integral part of our long-term sustainable development policy. Thus, we strive to implement the highest standards for health, safety and environmental stewardship, and we pursue meaningful engagement with our stakeholders, both external and internal.

Ensuring our social license to operate is at the core of our strategy. Our community development programs are aimed at supporting the broader growth opportunities and overall sustainability of the local communities. We implement various community development programs focusing on employment creation, local business development, community infrastructure development, health, education and cultural heritage preservation.

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENT

Employee health and safety is of utmost importance to us. We believe that work-related illnesses and injuries are preventable, and we are not satisfied with any result short of zero. To this end, we make management accountable for health and safety performances. We also train our people to understand the safe and correct way of doing each task; to identify, assess and remove hazards; and to make them aware that they are responsible both for their own actions and their fellow workers.

In 2010, the Company conducted the Miners' Fatigue Survey and the All Staff Camp Service Satisfaction Survey at the mine site. Based on the findings of these surveys, a cross-functional working group was set up to develop and implement the mitigation action plan.

According to the incident reporting system, any incident is analysed for root causes, and remedial actions are taken immediately. All reports are shared with the management, staff and contractors to build awareness and to monitor the implementation of remedial actions by relevant units.

Table 1. Health and Safety Data

	Indicators	Performance – 2010
1	Total man-hours worked	6,057,951
2	Fatality	0
3	Lost Time Injury (LTI)	3
4	Lost Time Injury Frequency Rate (LTIFR)[1]	1.48 per 1,000,000 hours worked
5	Accident Frequency	0.20
6	Accident Severity[2]	9.22
7	Incidence Frequency	1.78
8	Legal Compliance	Zero fines and penalties
9	Incidence[3]	1.29
10	Safety Induction	A total of 3,791 employees/contractors are covered in safety induction.

1 LTIFR = LTIs * 1,000,000/hours worked.

2 Severity Rate = (Days lost to LTIs and Restricted Work Injuries) * 1,000,000/hours worked.

3 Incidence = total lost workdays/total hours worked.

In 2010, all incidents were investigated for root causes. For instance, 30% of the cases were related to unsafe behaviours, 12% to the use of improper tools, 10% to motor vehicle accidents and 6% to housekeeping, and so on. In each case, management conducted a formal review of the incident as per the Company's procedures. The following remedial actions were taken such as change of equipment, revision of procedures and guidelines, and organization of additional trainings for employees and contractors to help prevent recurrences of such incidents. Corrective actions were registered in the Remedial Action Tracking System, and the Safety Team evaluated the implementation at the site. The corrective action rates were tied to the managerial key performance indicators ("KPIs").

Occupational Health, Safety and Environmental Training

A dedicated team of site-based OHS&E staff provide comprehensive training on the Company's OHS&E policies, procedures and guidelines, and emergency prevention and response. As part of emergency preparedness, emergency response exercises and drills were carried out regularly in 2010.

Table 2. OHS&E Training

Training	Target group	Number of participants	Man-hour
OHS&E training			
1 First Aid	Heavy vehicle operators	110	110
2 Prevention of HIV & STDs: Train the trainers	Voluntary trainers	22	880
3 Fire Prevention & Evacuation	Contractor companies	322	644
4 Fire Drills & Rescue Operations	Rescue team	6	156
5 Regular Rescue Drills	Rescue team	6	2,184
Inductions			
1 OHS&E Induction	All employees, including contractors	3,791	17,059
Total		4,257	21,033

Employee Health and Wellness Program

Prevention from occupational diseases, health education and awareness building, wellness programs and health assessments are the main components of the Company's Employee Health Program. In 2010, the Company paid for the annual medical check-ups of 387 employees and created a health database of 1,029 employees to help monitor employee health conditions with the aim to prevent possible occupational diseases. As part of the Employee Wellness Program, the Company invested in a sports complex, fitness rooms and physical treatment facilities, which are available for use by site-based employees.

As part of HIV/STD Prevention and Awareness Building Program, jointly with the Mongolian Employers' Federation we organised 40 hours training for voluntary trainers at the UHG site.

ENVIRONMENTAL STEWARDSHIP

We believe that responsible environmental stewardship is essential to long-term success. Through effective management practices, we aim to minimize our impact on the environment and ensure that the footprint of our operations is as small as possible. At all stages of mining and related activities – from exploration and planning through to operations and eventual closure – we aim to limit our environmental impact through the efficient use of natural resources, and the reduction in input materials and waste.

We measure our environmental performance both in terms of compliance with the prescribed regulatory framework and conformity with the requirements of our environmental monitoring program.

ENVIRONMENTAL MONITORING

Water Monitoring

We carry out water monitoring activities to control and prevent project-induced negative impacts on surface and ground water quality and quantity. We regularly monitor a total of 44 herder wells located around the UHG mine site and Tsogttsetsii soum centre, and along the coal transport road. In 2010, the monitoring survey results identified no negative impacts on water quality and quantity in the herder wells.

Dust Monitoring

We conduct dust monitoring activities to control dust emissions resulting from the various project operations and take mitigation measures. PM2.5 and PM10 levels are monitored at 15 different sites at the UHG mine site and Tsogttsetsii soum centre, and along the coal transport road. Monitoring results showed that dust levels fluctuate depending on weather conditions and wind speeds. To control dust during drier seasons, haul roads and construction sites are watered regularly with treated sewage and mine discharge water.

Waste Management

MMC's Waste Management Plan aims to reduce the amount of generated waste and to maximize the amount of recycled waste. In 2010, a total of 3,000 m^3 of solid waste was generated, and 120 m^3 of plastic waste, 20 tonnes of waste metal, and 124 tonnes of waste oil were recycled.

Table 3. Waste Generated at UHG during 2010

Waste classification	Waste Type	Source	Storage	Waste handling and disposal	Amount/ unit
Solid Waste	Flat tires	Workshops, service bays	Stockpiled in designated area near the workshop	Delivered back to the supplier for recycling	3,000 pieces
	Clinical waste	First aid unit	Sealed containers	Burned in an incinerator	8 kg
	Waste oil	Workshops	Waste oil tanks	Transported to a recycling plant in Ulaanbaatar ("UB") and recycled to black oil and pitch	124 tonnes
	Food waste	Kitchen	Waste bins	Used to feed pigs	40 tonnes
	Paper and paper boxes	Various	Waste paper container	Transported to a recycling facility in UB	200 kg
	Ash	Ger camp/ boiler house	Sealed containers	Used as raw material for brick production	600 tonnes

Waste classification	Waste Type	Source	Storage	Waste handling and disposal	Amount/ unit
	Waste metal	Workshops	Waste metal container	Transported to a recycling facility in UB	20 tonnes
	Plastic wastes	Various	Plastic waste collection bins	Transported to a recycling facility in Dundgobi aimag	120 m^3
	Timber	Various	Dedicated timber collection bin	Used as firewood	1 tonne
	Toner cartridges	Offices	Separate bins	Recharged and/or reused	240 pieces
Hazardous Waste	Truck batteries	Workshops	Designated area near the workshop	Delivered back to the supplier for recycling	67 pieces
	Oily rags/ oil absorbent material	Workshops, service bays	Oily rag bins	Burned in an incinerator	400 kg
	Oil filters	Workshops, service bays	Oily rag bins	Burned in an incinerator	567 pieces
	Empty oil drums	Workshops	Empty drum storehouse	Re-used for different purposes, e.g. as waste bins	2,000 pieces

Waste Dump Reclamation

Before November 2010, Tsogttsetsii soum centre lacked a proper landfill. In an area located about 1 kilometer from the soum centre, waste was being dumped by both local people as well as nearby companies. With no fence or a distinct border of any kind, waste had been spread over an area of 7.2 hectares. As part of our commitment to corporate social responsibility, we reduced the waste dump surface area from 7.2 hectares to 1.2 hectares. Moreover, we developed Tsogttsetsii soum Waste Management Plan in order to assist local authorities on good waste management practices. The Company spent approximately USD157,029 for clean-up, landfill reduction and the development of Tsogttsetsii soum waste management plan.

Before reclamation

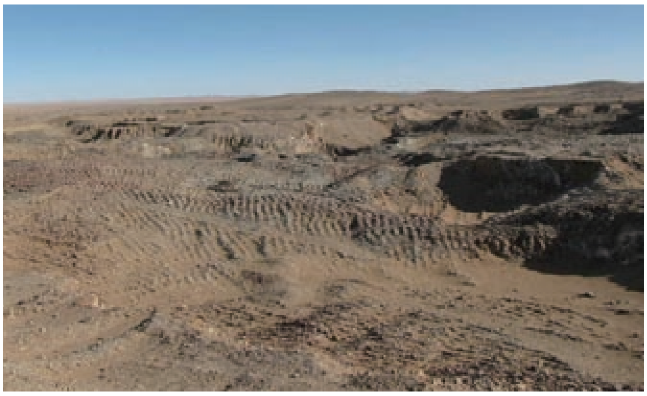
After reclamation

Nursery Field Activities

We established a nursery field in 2009 to develop rehabilitation methods and prepare seedlings and saplings for re-vegetation works. The nursery field consists of a nurturing section, growing section, green house, perennial plant experimental section and protection zone. In 2010, we planted 3,507 trees of 16 different non-endemic and endemic species and built two greenhouses.

Land Reclamation Work

In 2010, land reclamation was completed at the Tsagaan-Ovoo quarry used for gravel extraction. The reclaimed area was re-vegetated using seeds of perennial plants, such as Medicago falcate, Elymus dahuricus, and Agropyron cristatum and seedlings of the bushy species, Amygdalus pedenculata. The local government inspected and accepted the reclamation site at Tsagaan-Ovoo.



Before reclamation

After technical reclamation

After re-vegetation

Topsoil Storage and Re-Vegetation Experiment

Re-vegetation of topsoil stockpiles is important for the conservation of stockpiled topsoil fertility. In 2010, we conducted a pilot test in collaboration with the Mongolian State University of Agriculture to re-vegetate 0.2 hectares of topsoil stockpile using the seeds of four perennial species.

Field cultivation activities after grading by a dozer

Re-vegetated area

CORPORATE SOCIAL RESPONSIBILITY

We recognize that our operations have unique relationships with the neighbouring communities and other stakeholders. Our relationships with stakeholders are characterized by open and honest engagement through proven consultation and communication processes. We undertake a number of corporate social responsibility initiatives and programs at local and national levels based on the priorities and needs of stakeholders.

Stakeholder Engagement

Stakeholder engagement throughout the life of our operations is the cornerstone of our efforts to build and maintain positive relationships with our stakeholders. These include communities located near our operations, employees and their families, investors, governments (soum, aimag and central), suppliers, contractors and consultants, and interested non-governmental organizations (the "NGO").

MMC conducts the following on-going stakeholder engagement activities:

- Periodic visits to impact area residents by members of the Community Relations Team;

- Monthly meetings with the Community Development Advisory Councils ("CDAC") of each of the three impacted soums;

- Regular meetings with bagh governors;

- Grievances by local community members, employees and other stakeholders through established grievance mechanisms are received and handled by the Company;

- Annual public consultation and disclosure activities ("Open Ger" events).

For instance, the objectives of the annual Open Ger events are to share information about the Project with local communities, gain community feedback on the Project's potential, perceived and actual impacts and elicit community inputs on appropriate mitigation and management solutions. The representatives of environmental and human rights NGOs, and the local governments participated in the annual Open Ger events in September 2010.

Community Development Programs

Based on social baseline studies and relationships with the communities in which we operate, our community development programs go beyond the sectorial or legislative requirements and are aimed at supporting the broader growth opportunities and overall sustainability of local communities. In 2010, we invested approximately USD773,766 in these programs, which are briefly described below.

Education Support Program

At the pre-school education level, we installed a playground in Tsogttsetsii soum in June 2010 and collected and donated toys to Tsogttsetsii soum kindergarten.

At the secondary education level, we initiated a partnership between Orchlon private secondary school and Tsogttsetsii soum secondary school. In the framework of this partnership, an exchange program for students and teachers of both schools took place in June and July 2010. Teachers from Orchlon assist their counterparts in developing advanced English and Mathematics curricula. The Company set up a computer laboratory in Tsogttsetsii soum secondary school in September 2010. In addition, the Company sponsored English and computer training sessions in August 2010 with over 100 students attending, and two extraordinary achievers were awarded scholarships to study overseas.

At the undergraduate level, the Company started a scholarship program for Mongolian University of Science and Technology ("MUST") students majoring in the fields of mining and mechanical engineering. We also continued to support the Top 30 students from Umnugobi aimag with monthly stipends.

At the graduate and post-graduate level, the Company established a cooperation agreement with MUST to promote scientific research on mining, geology and related technologies, and industry applications of such findings.

Community Health Program

MMC and Umnugobi aimag Department of Health jointly implemented free medical check-ups for over 1,500 residents and organized the local medical staff training program at Tsogttsetsii soum hospital. Furthermore, 2010 Umnugobi aimag Eastern Region Health Days were organised for residents in Tsogttsetsii, Bayan-Ovoo, Khanbogd and Manlai soums to promote healthy lifestyles.

Local Small and Medium Enterprise Support

As part of our Community Development Program, MMC promotes local micro and small businesses' capabilities to create an awareness of business opportunities in the area and to expand existing businesses.

Based on a study of small and medium-size enterprises (SMEs) operating in Umnugobi aimag, small local businesses were provided with opportunities to supply various site operations with products like camel milk, meat, uniforms, vegetables and hygiene goods. Development Solutions, Ulaanbaatar based NGO, provided training for 61 local business owners under the EBRD/MMC co-sponsored TAM/BAS pilot project. Following the training and follow-up advice provided by business consultants, 23 businesses expanded their operations, 11 new businesses were launched, 10 entrepreneurs received bank loans and 17 businesses created 32 new jobs.

Corn field in Tsogt-Ovoo soum

Corn Plantation Project in Tsogt-Ovoo soum

The corn plantation project was initiated in 2010 by local herders of Tsogt-Ovoo soum who had lost their herds in the harsh winter of 2009. We provided both financial and professional support for the project and a local environmental regulator led the project on a voluntary basis.

As a result of the project, the herders planted 2 hectares of corn and harvested 25 tonnes of corn. The project team is now planning to establish a fodder preparation factory to produce corn fodder so that it can be sold locally. We assisted the corn growers to make a request to the national "Organic Mongolia" fund, which supports micro-agro-businesses by granting low interest loans.

Cultural Heritage Preservation Program

MMC is committed to support the local communities to protect and preserve tangible and in-tangible forms of cultural heritage. In 2010, the preservation activities included a Traditional Folk Long Song Contest ("Gobi Shankhi" songs).

Community Grievance Mechanism

An effective community grievance mechanism is vital for our long-term community development, as well as for a two-way dialogue and meaningful consultation with the local communities. Grievances and requests from community members are received via different channels, including Public Consultation, or Open Ger events, through soum CDAC members, third party surveys or directly by the Community Relations Team.

In 2010, a total of 223 grievances and requests were received from community members, out of which 203 were received during the Open Ger events and 20 were received by the Community Relations Team. Job requests, infrastructure improvement, support for local small businesses, herder well displacement and pastureland degradation, donation and sponsorship requests, and environmental and road concerns were the main issues raised by the local people.

HUMAN CAPITAL AND ORGANISATIONAL DEVELOPMENT

We believe that our employees are our most valuable resource. The Company's overall human resources policy is focused on attracting and retaining top talent along with providing local people with job opportunities. MMC offers professional and corporate training, and employee development and leadership opportunities, along with competitive compensation and benefits packages.

Human Resources Policy

The Company implements a range of human resources policies, which are updated, if necessary. For the reporting period, five policies were updated, including policies on internal job posting, business transportation and mobile expenses, retention of key employees, training and development, and reward and recognition. The Company does not employ people under the age of 18 as per the requirements of the Mongolian Labour Law.

Human Capital in Figures

In 2010, we created 704 new jobs, bringing the total number of staff to 1,161. The total workforce, including direct and indirect jobs both at MMC and our contractors, reached over 2,000 people, out of whom approximately 40% were men and women employed from within the local communities.

Training and Development

Professional and general skills training are offered to all staff, depending on business needs. In 2010, a total of 701 staff members were enrolled in both in-country and overseas training, and 178 people were trained as heavy machine operators, and 126 staff members attended corporate training sessions.

Career Development

Career promotion opportunities are open for both women and men and are based solely on performance, skills and merit and regardless of gender, age or position held. In 2010, 133 employees were promoted along their respective career paths.

Staff Volunteerism

We encourage staff to volunteer and engage in charity activities to support local communities. In 2010, our staff engaged in several volunteer activities, including the New Year's Gift Drive for Tsogttsetsii soum school children, the "Generous Heart" Donation Drive to support herders, the Red Cross Consumable Goods Drive to support herders during the harsh 2010 winter/spring, and the Staff Blood Donation Drive.

HUMAN RIGHTS

MMC is committed to observing the fundamental tenets of human rights. This obligation is embedded in our corporate culture. We are committed to equal opportunity and freedom from all forms of discrimination for our workers and to the rights of our employees to freedom of association and collective bargaining. We do not condone child labour or forced labour. We adhere to security practices based on the Voluntary Principles on Security and Human Rights.

Human Rights Risk Assessment

As part of MMC's management steps to support worker and community rights, we established a Human Rights Working Group ("Working Group") in July 2010 to drive the development of the Company's human rights program. We contracted with the Centre for Human Rights and Development ("CHRD"), Ulaanbaatar-based human rights NGO, to guide the Working Group and to conduct an independent Human Rights Impact Assessment (HRIA). As part of this effort, the CHRD developed an HRIA framework to guide its review of human rights performance by a mining company.

In collaboration with the CHRD, the Working Group adopted an HRIA model developed by the UN Global Compact and the Danish Institute for Human Rights' Business and Human Rights Project to assess risks associated with potential human rights violations.

In November 2010, MMC's staff and our subsidiaries, contractors and sub-contractors, as well as community members residing in Tsogttsetsii, Bayan-Ovoo and Khanbogd soums, participated in the human rights survey. Among those surveyed were 519 staff (234 of our staff and 285 staff of our contractors/sub-contractors) and 482 community members.

Training on Voluntary Principles on Security and Human Rights

The responsibility of companies to respect human rights has gained increased attention in recent years. Mining companies in particular, with their resource- and labour-intensive operations, can have a large impact on workers' human rights. Communities are exposed to human rights impacts through interactions with Project security or other personnel as well as indirect impacts of population influx (e.g., social tensions, crime, alcohol, pressure on local law enforcement, etc).

As part of our Human Rights Program, a two-day human rights training seminar was organized for site-based managers, senior staff and security personnel in collaboration with the CHRD. The training provided security personnel (40 security staff) and managers (18 managers, senior staff and several contractors) with knowledge on human rights and how to put that knowledge into practice. This included focusing on the need to respect and not violate human rights when performing duties as well as how to prevent and reduce human rights conflicts.

Corporate Governance Report

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the period ended 31 December 2010.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

Recognising the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") sets out the principles of good corporate governance and two levels of corporate governance practices:

(a) code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for any deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

The Company has complied with all the code provisions as set out in the CG Code throughout the period ended 31 December 2010.

The Company will continue to review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code and the rising expectations of shareholders and investors.

A. THE BOARD

1. Responsibilities

The Board is responsible for the overall management of the Company's business. The Board provides leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should make decisions objectively in the interests of the Company in the attainment of the objective of creating value to shareholders.

Every director carries out his/her duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

2. Board Composition

The Board of the Company comprises twelve members, consisting of three executive directors, six non-executive directors and three independent non-executive directors:

Executive Directors:

Mr. Odjargal Jambaljamts, *Chairman of the Board and Chairman of the Remuneration Committee and the Nomination Committee*
Dr. Battsengel Gotov, *Chief Executive Officer*
Ms. Badamtsetseg Dash-Ulzii, *Chief Investment Officer*

Non-Executive Directors:

Mr. Gantumur Lingov
Ms. Enkhtuvshin Gombo, *member of the Audit Committee*
Mr. Enkh-Amgalan Luvsantseren
Dr. Oyungerel Janchiv
Mr. Philip Hubert ter Woort
Mr. Batsaikhan Purev

Independent Non-Executive Directors:

Mr. Ochirbat Punsalmaa, *member of the Audit Committee, the Remuneration Committee and the Nomination Committee*
Mr. Unenbat Jigjid, *Chairman of the Audit Committee and member of the Nomination Committee and the Remuneration Committee*
Mr. Chan Tze Ching, Ignatius, *member of the Audit Committee*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The members of the Board are not related to one another.

During the period ended 31 December 2010, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interest and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

3. Chairman and Chief Executive Officer

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. Odjargal Jambaljamts, and the Chief Executive Officer is Dr. Battsengel Gotov. With the support of the senior management, the Chairman is responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board and is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

4. Appointment and Re-Election of Directors

Each of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, executive directors of the Company, is engaged on a service agreement with the Company for a term of 3 years commencing from 13 October 2010 (the "Listing Date"). The respective appointments shall be terminated automatically in the event that either ceases to be a director of the Company.

Ms. Badamtsetseg Dash-Ulzii, executive director of the Company, was engaged on a letter of appointment with the Company as non-executive director on 22 September 2010 for a term of 2 years commencing from the Listing Date. After her redesignation as an executive director, Ms. Dash-Ulzii is engaged on a new service agreement with the Company for a term of 2 years commencing from 22 December 2010. The appointment shall be terminated automatically in the event that she ceases to be a director of the Company.

Each of the non-executive directors and independent non-executive directors of the Company (except Mr. Philip Hubert ter Woort) is engaged on a letter of appointment with the Company for a term of 2 years commencing from the Listing Date. Mr. Philip Hubert ter Woort, a non-executive director of the Company, is engaged on a letter of appointment with the Company for a term of 1 year commencing from the Listing Date. According to the letter of appointment with the Company, the appointment may be terminated by giving to the other party at least 30 days' notice in writing.

In accordance with the articles of association of the Company (the "Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting or next annual general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the composition of the Board, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Nomination Committee

The Nomination Committee comprises three members, with the majority being independent non-executive directors.

The principal duties of the Nomination Committee include the following:

* To review the structure, size and composition of the Board and to make recommendations regarding any proposed changes;

* To develop and formulate relevant procedures for nomination and appointment of directors;

* To identify suitable candidates for appointment as directors;

* To make recommendations to the Board on appointment or re-appointment of and the succession planning of directors; and

* To assess the independence of independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, as well as the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

The Nomination Committee held one meeting during the period ended 31 December 2010 and the attendance record is set out under "Directors' Attendance Records" on page 64.

In accordance with the Articles of Association, Mr. Odjargal Jambaljamts, Dr. Battsengel Gotov, Ms. Badamtsetseg Dash-Ulzii, Mr. Gantumur Lingov, Mr. Enkh-Amgalan Luvsantseren and Mr. Batsaikhan Purev shall retire by rotation and, being eligible, offer themselves up for re-election at the forthcoming annual general meeting of the Company.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular, sent together with this annual report, contains detailed information of the directors standing for re-election.

5. Training and Continuing Development

Each newly appointed director has received formal, comprehensive and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually kept up-to-date with legal and regulatory developments, and business and market changes to facilitate the discharge of their responsibilities. Continued briefings and professional development for directors will be arranged where necessary.

6. Board Meetings

(i) Board Practices and Conduct of Meetings

Schedules for annual meeting and draft agenda of each meeting are normally sent to all directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before such meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to ensure that the directors have sufficient time to review the related documents and be adequately prepared for the meeting. The Board and each director also have separate and independent access to the senior management where necessary.

The Chief Executive Officer, Chief Investment Officer and Chief Financial Officer attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Articles of Association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practices, any material transaction, which involves a conflict of interest for a substantial shareholder or director, will be considered and dealt with by the Board at a duly convened Board meeting.

(ii) Directors' Attendance Records

During the period ended 31 December 2010, one regular Board meeting was held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance rate was 75%.

Code provision A.1.1 of the CG Code stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals. There was one Board meeting held during the period under review. The Company was incorporated in 2010 prior to the listing of its shares (the "Listing") on the Stock Exchange. The Company is obliged to comply with the CG Code and will take appropriate arrangements for holding at least four Board meetings in the forthcoming year.

The attendance records of each director at the meetings of the Board, Nomination Committee, Remuneration Committee and Audit Committee during the period ended 31 December 2010 are set out below:

	Attendance/Number of Meetings			
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Odjargal Jambaljamts	1/1	1/1	2/2	N/A
Battsengel Gotov	1/1	N/A	N/A	N/A
Badamtsetseg Dash-Ulzii	1/1	N/A	N/A	N/A
Gantumur Lingov	1/1	N/A	N/A	N/A
Enkhtuvshin Gombo	1/1	N/A	N/A	1/1
Enkh-Amgalan Luvsantseren	1/1	N/A	N/A	N/A
Oyungerel Janchiv	1/1	N/A	N/A	N/A
Philip Hubert ter Woort	1/1	N/A	N/A	N/A
Batsaikhan Purev	0/1	N/A	N/A	N/A
Ochirbat Punsalmaa	0/1	1/1	2/2	1/1
Unenbat Jigjid	0/1	1/1	2/2	1/1
Chan Tze Ching, Ignatius	1/1	N/A	N/A	1/1

7. Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and all the directors have confirmed that they have complied with the Model Code throughout the period ended 31 December 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guideline") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guideline by the employees was noted by the Company.

B. DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve a conflict of interest), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information of the Company. Board procedures and all applicable laws and regulations are followed. Each director is normally able to seek independent professional advice under appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established three committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference, which are posted on the Company's website and are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of the senior management of the Group. Details of the remuneration of each of the directors of the Company for the period ended 31 December 2010 are set out in note 9 to the financial statements.

Remuneration Committee

The Remuneration Committee comprises three members, with the majority being independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration. Remuneration will be determined by reference to the performance of the individual and the Company, as well as market practices and conditions.

The Human Resources Department is responsible for the collection and administration of human resources data and for making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult with the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee held two meetings during the period ended 31 December 2010 and the attendance records are set out under "Directors' Attendance Records" on page 64.

D. ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the period ended 31 December 2010.

The directors are responsible for overseeing the preparation of the financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The management of the Group provides detailed explanations and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

E. INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The internal control system of the Group aims to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard the assets of the Group. The senior management reviews and evaluates the control process, and monitors any risk factors on a regular basis, reporting to the Audit Committee on any findings and measures to address variances and identified risks.

The Board conducted a review of the effectiveness of the internal control system of the Group for the period ended 31 December 2010. Such review covered the financial, operational, compliance and risk management aspects of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, as well as their training programmes and budget.

F. AUDIT COMMITTEE

The Audit Committee comprises one non-executive director and three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and to consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, the internal auditor or the external auditor before submission to the Board;
- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor; and
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal control system of the Group and reports and makes recommendations to the Board on any material issues.

During the period under review, the Audit Committee reviewed the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management review and processes, and the re-appointment of the external auditor.

The external auditor was invited to attend meetings to discuss with the Audit Committee issues arising from the audit and other financial reporting matters.

The Audit Committee held one meeting during the period ended 31 December 2010 and the attendance record is set out under "Directors' Attendance Records" on page 64.

G. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 87 to 88.

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2010 amounted to USD330,000.00 and USD86,700.00, respectively. An analysis of the remuneration paid to the external auditor of the Company is set out below:

Category of Services	Fees Paid/ Payable
Audit Service	USD330,000.00
Non-audit Service	
– international tax advisory services in connection with the restructuring of the Group before the Listing	USD86,700.00
Total	USD416,700.00

H. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and the timely disclosure of corporate information to enable shareholders and investors to make the best investment decisions.

General meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as the chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholder meetings to answer questions at such meetings.

The Annual General Meeting (the "AGM") of the Company will be held on 21 June 2011. The notice of the AGM will be sent to shareholders more than 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.mmc.mn, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its principal place of business in Hong Kong or via email to contact@mmc.mn for any enquiries.

I. SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting.

All resolutions put forward at shareholders' meetings will be voted on by poll pursuant to the Listing Rules, and the poll results will be posted on the websites of the Company and the Stock Exchange after each shareholders' meeting. Detailed procedures for conducting a poll will be explained during the proceedings of the meetings.

J. GOING CONCERN

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

Directors' Report

The directors of the Company (the "Directors") have pleasure in presenting their annual report together with the audited consolidated financial statements of Mongolian Mining Corporation (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, its headquarters and principal place of business in Mongolia at 15/F, Central Tower, 2 Sukhbaatar Square, 8th Khoroo, Sukhbaatar District, Ulaanbaatar 210620a, Mongolia, and its principal place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the mining, transportation and sale of coking coal. The principal activities and other particulars of the subsidiaries and an associate are set out in notes 17 and 18 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	38 %	
Five largest customers in aggregate	96 %	
The largest supplier		13 %
Five largest suppliers in aggregate		25 %

To the best knowledge of the Directors, none of the Directors nor any of their associates nor any shareholder who holds more than 5% of the ordinary shares of the Company has any interests in the customers or suppliers disclosed above.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2010 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 89 to 143.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividend, of USD60,138,704 (2009: USD10,270,164) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 92.

No dividend has been declared and paid by the Group during the year ended 31 December 2010 (2009: Nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2010 amounted to USD350,781 (2009: USD143,856).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment for approximately USD27,406,927. Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

CONVERTIBLE NOTES

The Company has not issued any convertible notes for the year ended 31 December 2010.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 28 to the consolidated financial statements. Shares were issued during the year through the initial public offering of the shares of the Company on the main board of the SEHK.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2010 are set out in note 23 to the consolidated financial statements.

The borrowing amount totals USD255 million and all of it is in USD. As at the end of the year, cash was held primarily in USD and some in MNT.

All borrowings are at variable rates (with a fixed margin over LIBOR).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 144.

DIRECTORS

The Directors during the financial year and up to the date of this annual report are:

Executive Directors

Mr. Odjargal Jambaljamts (Chairman of the Board) (appointed on 18 May 2010)
Dr. Battsengel Gotov (Chief Executive Officer) (appointed on 18 May 2010)
Ms. Badamtsetseg Dash-Ulzii (Chief Investment Officer) (appointed as non-executive Director on 16 September 2010 and re-designated as executive Director on 22 December 2010)

Non-executive Directors

Dr. Oyungerel Janchiv (appointed on 16 September 2010)
Mr. Batsaikhan Purev (appointed on 16 September 2010)
Mr. Philip Hubert ter Woort (appointed on 16 September 2010)
Mr. Enkh-Amgalan Luvsantseren (appointed on 16 September 2010)
Mr. Gantumur Lingov (appointed on 16 September 2010)
Ms. Enkhtuvshin Gombo (appointed on 16 September 2010)

Independent non-executive Directors

Mr. Ochirbat Punsalmaa (appointed on 16 September 2010)
Mr. Unenbat Jigjid (appointed on 16 September 2010)
Mr. Chan Tze Ching, Ignatius (appointed on 16 September 2010)

In accordance with Article 83(3) of the articles of association of the Company (the "Articles of Association"), Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, who were appointed as Directors on 18 May 2010 by the board of directors (the "Board"), shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 84(1) of the Articles of Association, Ms. Badamtsetseg Dash-Ulzii, Mr. Gantumur Lingov, Mr. Batsaikhan Purev and Mr. Enkh-Amgalan Luvsantseren, who were appointed as Directors on 16 September 2010, shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange and considers all the independent non-executive directors to be independent in accordance with the guidelines set out under the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors (other than Ms. Badamtsetseg Dash-Ulzii) has entered into a service agreement with the Company for an initial fixed period of three years commencing from 13 October 2010 (the "Listing Date").

Ms. Badamtsetseg Dash-Ulzii has entered into a letter of appointment with the Company on 16 September 2010 for an initial fixed period of two years commencing from the Listing Date. Since her re-designation from a non-executive Director to an executive Director, she has entered into a new service agreement with the Company for an initial fixed period of two years commencing from 22 December 2010.

Each of the non-executive Directors and independent non-executive Directors has been appointed by the Company for an initial fixed term ranging from one to two years commencing from the Listing Date.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service agreement with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Connected transactions and continuing connected transactions" in this directors' report and "Material Related Party Transactions" in note 32 to the consolidated financial statements, no contract of significance, to which the Company or its subsidiary or its shareholder was a party and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

The Company has entered into a management contract with MCS Holding LLC for a period of three years ending 31 December 2011.

Save as disclosed above and other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

MCS Holding LLC and Mr. Odjargal Jambaljamts currently indirectly own a 4.9% interest and 5.1% interest respectively in Quincunx (BVI) Ltd ("QGX") which develops the Baruun Naran coking coal deposit (the "Baruun Naran Deposit") and the Bayan Airag gold, silver and copper deposit. However, each of MCS Holding LLC and Mr. Odjargal Jambaljamts has very limited control over the voting rights and the board of directors of QGX under the Listing Rules.

Save as disclosed above, none of the Directors or their associates has any interest in a business that competes or may compete with the business of the Group.

NON-COMPETITION UNDERTAKING

Pursuant to a deed of non-competition dated 20 September 2010 (the "Deed of Non-competition") executed by Mr. Odjargal Jambaljamts, MCS Holding LLC, MCS Mining Group Limited and MCS Group Limited (collectively the "Controlling Shareholders") in favour of the Company (for itself and on behalf of its subsidiaries, collectively the "MMC Group"), the Controlling Shareholders undertake, among other things, that at any time which the shares of the Company are listed on the SEHK and for so long as the Controlling Shareholders and its associates together hold, whether individually or taken together, 30% or more of the issued share capital or are otherwise regarded as a controlling shareholder of the Company under the Listing Rules, the Controlling Shareholders will not, and will procure that its associates (excluding MMC and its subsidiaries) will not, directly or indirectly, either on its own account or with each other or in conjunction with or on behalf of any person, firm or company, except through a member the MMC Group, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business (except for their aggregate 10% interest in QGX) which is or may be in competition with the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) of any member of the MMC Group from time to time. In the event that a business opportunity in relation to the Restricted Transportation Business (as defined in the prospectus of the Company dated 28 September 2010) is made available to the Controlling Shareholders and/or any of their associates, the Controlling Shareholders shall promptly notify the Company in writing and refer such business opportunity for the Company's consideration and the Controlling Shareholders shall not and procure his/their associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity has been rejected by the Company and the principal terms on which the Controlling Shareholders or his/their associates invest or participate are no more favourable than those made available to the Company.

Each of the Controlling Shareholders has reviewed his/their respective business (excluding the business of the MMC Group) and advised that during the period from 13 October 2010 to 31 December 2010, his/their respective business did not compete with the MMC Group and there was no opportunity made available to the Controlling Shareholders to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition. Each of the Controlling Shareholders has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Controlling Shareholders and concluded that each of the Controlling Shareholders has been in compliance with the Deed of Non-competition during the period from 13 October 2010 to 31 December 2010.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)(the "SFO")), as recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interests in the shares and underlying shares of the Company

		Ordinary shares of USD0.01 each	
Name of Director	Nature of interest	Total number of shares held	Percentage of total issued share capital
Mr. Odjargal Jambaljamts (Note 1)	Corporate interest	1,629,669,000 (L) 359,712,250 (S)	43.99% 9.71%
Dr. Oyungerel Janchiv (Note 2)	Corporate interest	423,000,000 (L)	11.42%
Mr. Batsaikhan Purev (Note 3)	Corporate interest	183,000,000 (L)	4.94%

(L) – long position (S) – short position

Notes:

1. *The shares are held by MCS Mining Group Limited.*

   Mr. Odjargal Jambaljamts is interested in 46.9% of MCS Holding LLC, which in turn holds the entire interest in MCS Group Limited, which holds the entire interest in MCS Mining Group Limited.

   On 13 October 2010, MCS Mining Group Limited, the controlling shareholder of the Company, as Chargor, and Standard Bank Asia Limited, as Security Agent, entered into a share charge (the "Share Charge") in respect of 359,712,250 shares (the "Charged Shares") of the Company, whereby the Chargor granted security over the Charged Shares in the Company in favour of the Security Agent.

2. *The shares are registered in the name of Petrovis Resources Inc.*

   Dr. Oyungerel Janchiv is interested in 33.4% of Petrovis LLC, which holds the entire interest in Petrovis Resources Inc.

3. *The shares are registered in the name of Shunkhlai Mining.*

   Mr. Batsaikhan Purev is interested in 50% of Shunkhlai Group LLC, which holds the entire interest in Shunkhlai Mining LLC, which in turn holds the entire interest in Shunkhlai Mining.

Save as disclosed above, as at 31 December 2010, so far as known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

The Share Option Scheme has been adopted on 17 September 2010, which became effective on the Listing Date ("the Adoption Date"). Option could be granted within a period of 10 years from the Adoption Date. Therefore, as at 31 December 2010, the remaining life of the Share Option Scheme was approximately 9 years and 9 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Eligibility

The Directors may invite any person belonging to any of the following classes of participants to take up options to subscribe for Shares:

(a) any employee or proposed employee (whether full time or part-time and including any executive Director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest;

(b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The basis of eligibility of any of the classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Company.

Grant of options

Unless terminated by a resolution adopted at general meeting, the Directors shall be entitled at any time within a period of 10 years commencing on the Adoption Date to make an offer to such participant as the Directors may select to subscribe for such number of Shares at the subscription price as the Directors shall determine.

The option period of an option within which the Shares must be taken up may not end later than 10 years from the date of offer ("Offer Date"), while the Directors may fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the option can be exercised upon the grant of an option to participant. HKD1.00 is payable on acceptance of the option within 28 days from the Offer Date.

Subscription price

The subscription price in respect of any option must be at least the highest of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the Offer Date; and

(c) the nominal value of the Shares.

Exercise of options

An option shall be exercisable in whole or in part by giving notice in writing to the Company accompanied by a payment for the full amount of the subscription price for the shares. An option shall be personal to the grantee and shall not be transferable or assignable.

Maximum number of shares available for subscription

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10 percent of the total number of Shares in issue on the Listing Date which amounts to 359,712,250 Shares, representing 9.71% of the issued share capital of the Company as at the date of this Annual Report.

The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital from time to time. No option may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded. The total number of Shares issued and to be issued upon exercise of all options granted to each Participant in any 12-month period shall not exceed 1 percent of the Shares of the Company then in issue.

For the period from the Adoption Date to 31 December 2010, no share option has been granted to any person under the Share Option Scheme.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

At no time during the year ended 31 December 2010 had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, so far as known to any Director or chief executive of the Company, shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	**Nature of interest**	**Total number of ordinary shares held**	**Percentage of total issued shares**
MCS Mining Group Limited (Notes 1 & 5)	Beneficial owner	1,629,669,000 (L) 359,712,250 (S)	43.99% 9.71%
MCS Group Limited (Notes 1 & 5)	Interest of controlled corporation	1,629,669,000 (L) 359,712,250 (S)	43.99% 9.71%
MCS Holding LLC (Notes 1 & 5)	Interest of controlled corporation	1,629,669,000 (L) 359,712,250 (S)	43.99% 9.71%
Ms. Batmunkh Dashdeleg (Notes 1 & 5)	Interest of spouse	1,629,669,000 (L) 359,712,250 (S)	43.99% 9.71%
Mr. Od Jambaljamts (Notes 1 & 5)	Interest of controlled corporation	1,629,669,000 (L) 359,712,250 (S)	43.99% 9.71%
Ms. Munkhsuren Surenkhuu (Notes 1 & 5)	Interest of spouse	1,629,669,000 (L) 359,712,250 (S)	43.99% 9.71%
Petrovis Resources Inc. (Note 2)	Beneficial owner	423,000,000 (L)	11.42%
Petrovis LLC (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each Total number of ordinary shares held	Percentage of total issued shares
Mongol Contract LLC (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%
Mr. Batbold Batochir (Note 2)	Interest of spouse	423,000,000 (L)	11.42%
Mr. Davaanyam Choindon (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%
Ms. Shagdardulam Sambalkhundev (Note 2)	Interest of spouse	423,000,000 (L)	11.42%
Tuya Danzandarjaa (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%
Kerry Mining (UHG) Limited (Note 3)	Beneficial owner	300,000,000 (L)	8.10%
Kerry Mining (Mongolia) Limited (Note 3)	Interest of controlled corporation	300,000,000 (L)	8.10%
Fexos Limited (Note 3)	Interest of controlled corporation	300,000,000 (L)	8.10%
Kerry Holdings Limited (Note 3)	Interest of controlled corporation	300,000,000 (L)	8.10%
Kerry Group Limited (Note 3)	Interest of controlled corporation	300,000,000 (L)	8.10%
Ancora Investments No.2 Limited (Note 4)	Nominee for another person (other than a bare trustee)	228,000,000 (L)	6.15%
Casafina Offshore Limited (Note 4)	Interest of controlled corporation	228,000,000 (L)	6.15%

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each Total number of ordinary shares held	Percentage of total issued shares
Graydens Development Ltd. (Note 4)	Interest of controlled corporation	228,000,000 (L)	6.15%
Ms. Veronica Lukito (Note 4)	Interest of controlled corporation	228,000,000 (L)	6.15%
Standard Bank Asia Limited (Note 5)	Person having a security interest in shares	359,712,250 (L)	9.71%
Standard Bank Group Limited (Note 5)	Interest of controlled corporation	381,712,250 (L)	10.30%

(L) – Long position (S) – Short position

Notes:

1. *The entire issued share capital of MCS Mining Group Limited is wholly owned by MCS Group Limited which in turn is a direct wholly-owned subsidiary of MCS Holding LLC. MCS Holding LLC is owned as to approximately 46.9% by Mr. Odjargal Jambaljamts, 27.0% by Mr. Od Jambaljamts, 7.2% by Ms. Enkhtsetseg Damdinsuren, 3.0% by Mr. Eldev-Ochir Lkhagvaa, 3.0% by Mr. Enkh-Amgalan Luvsantseren, 2.0% by Mr. Enkhtuvshin Dashtseren, 1.5% by Ms. Badamtsetseg Dash-Ulzii, 0.5% by Ms. Otgonchimeg Bazarragchaa, 0.5% by Ms. Chimgee Ochirvaani and 0.4% by Mr. Gankhuyag Adilbish and 8.0% by MCS Holding LLC as treasury stock. Mr. Odjargal Jambaljamts is the brother of Mr. Od Jambaljamts. Save as disclosed above, there is no relationship among the ten shareholders of MCS Holding LLC. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts. Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts. Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, Ms. Batmunkh Dashdeleg, Ms. Munkhsuren Surenkhun, MCS Holding LLC and MCS Group Limited are deemed to have an interest in the 1,629,669,000 shares held by MCS Mining Group Limited under the provisions of the SFO.*

2. *The entire issued share capital of Petrovis Resources Inc. is owned by Petrovis LLC which is owned as to approximately 33.4% by Dr. Oyungerel Janchiv, 33.3% by Mr. Davaanyam Choindon and 33.3% by Mongol Contract LLC (which is wholly owned by Ms. Tuya Danzandarjaa). Mr. Batbold Batochir is the spouse of Dr. Oyungerel Janchiv. Ms. Shagdardulam Sambalkhundev is the spouse of Mr. Davaanyam Choindon. Ms. Tuya Danzandarjaa, Mongol Contract LLC, Mr. Davaanyam Choindon, Dr. Oyungerel Janchiv, Mr. Batbold Batochir, Ms. Shagdardulam Sambalkhundev and Petrovis LLC are deemed to have an interest in the 423,000,000 shares held by Petrovis Resources Inc. under the provisions of the SFO.*

3. *Kerry Mining (UHG) Limited ("KMUHG") is a direct wholly-owned subsidiary of Kerry Mining (Mongolia) Limited ("KMM") which is owned as to approximately 49.38% by Fexos Limited ("Fexos"). Fexos is a direct wholly-owned subsidiary of Kerry Holdings Limited ("KHL") which in turn is a direct wholly-owned subsidiary of Kerry Group Limited ("KGL"). The shares in which KMUHG are shown to be interested are also included in the shares in which KMM, Fexos, KHL and KGL are shown to be interested.*

4. *The entire issued share capital of Ancora Investments No.2 Limited is owned as to approximately 79.2% by Casafina Offshore Limited ("Casafina") and approximately 20.8% by Ancora Investments HK Ltd. Casafina is a wholly-owned subsidiary of Graydens Development Ltd ("Graydens") which in turn is wholly owned by Ms. Veronica Lukito. Ms. Veronica Lukito, Graydens and Casafina are deemed to have an interest in the 228,000,000 shares held by Ancora Investments No.2 Limited under the provisions of the SFO. Ancora Investments No.2 Limited ceased to be a substantial shareholder of the Company on 10 January 2011.*

5. *On 13 October 2010, MCS Mining Group Limited, the controlling shareholder of the Company, as Chargor, and Standard Bank Asia Limited, as Security Agent, entered into a share charge (the "Share Charge") in respect of 359,712,250 shares (the "Charged Shares") of the Company, whereby the Chargor granted security over the Charged Shares in the Company in favour of the Security Agent.*

Save as disclosed above, as at 31 December 2010, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2010, the non-exempted connected transactions of the Group were USD486,005 and the continuing connected transactions were USD32,181,277.

The details of connected transactions and continuing connected transactions for the year ended 31 December 2010 are set out on pages 39 to 47 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2010, the Group pledged accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, the Debt Service Reserve Account with Standard Bank Plc. for repayment of the loan from the European Bank of Reconstruction and Development ("EBRD"), off-take contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC, off-take contract with Color Future International Limited, off-take contract with Bayannaoer Puxing Mineral Co., Ltd, off-take contract with Pu Sheng Energy Co., Ltd, engineering, procurement, construction and management ("EPCM") agreement for the coal handling and preparation plant constructed at the UHG deposit with Sedgman LLC, Ukhaa Khudag ("UHG") mining license, power plant and wash plant and coal stockpile to banks for credit facilities in the aggregate amount of USD255 million granted to the Group.

EMOLUMENT POLICY

The emolument policy of the group is set to (1) recruit, retain and motivate qualified and experienced staff, including directors and senior management, (2) apply a responsible and sustainable remuneration practice, that is determined by reference to the performance of the individual, and the operational and financial results of the Group and is in line with the market practice and conditions, (3) ensure that no individual participates in deciding his/her own remuneration, and (4) ensure that the base salary levels and annual incentives are competitive in the market and comparable to the similar jobs in the peer companies.

The emolument of directors and senior management of the Group is determined by the remuneration committee of the board of directors and the emolument of staff is determined by the group management.

In addition to a base salary, the emolument of staff and directors and senior management is structured to include bonuses (such as a discretionary bonus) and benefits.

The Company has a Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company. For the year ended 31 December 2010, no share option has been granted to any person under the Share Option Scheme.

The required competencies, skills and performance of the individual concerned and the specific role and responsibilities of the relevant position are considered in determining the emolument of an individual director or member of senior management.

RETIREMENT SCHEME

The Group participates in retirement benefit schemes pursuant to the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 7%-13.5% of the eligible employees' salaries.

The Group has no other retirement schemes beyond the retirement contributions described above.

Particulars of the retirement scheme are set out in note 6 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE SHARES OF THE COMPANY

Since the listing date to 31 December 2010, the Company has not used any proceeds from the initial public offering of the shares of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the period from the Listing Date up to the date of this annual report.

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

On 13 October 2010, MCS Mining Group Limited, the controlling shareholder of the Company, as chargor (the "Chargor"), and Standard Bank Asia Limited, as security agent (the "Security Agent"), entered into a share charge (the "Share Charge") in respect of 359,712,250 shares of the Company (the "Charged Shares"), whereby the Chargor granted security over the Charged Shares in the Company in favour of the Security Agent.

ISSUE OF EQUITY SECURITIES

Shares were issued during the year through the initial public offering of the shares of the Company on the main board of the SEHK. The listing of shares commenced on 13 October 2010.

The Company issued by international placing and Hong Kong public offering 719,424,500 shares of USD0.01 each ("Offer Shares"), consisting of 597,122,500 new shares of the Company and 122,302,000 shares offered for sale by the selling shareholders of the Company.

On 18 October 2010, the Company issued 107,914,000 additional new shares, representing approximately 15% of the initial Offer Shares, through the exercise of the over-allotment option.

The initial Offer Shares and the over-allotment shares were issued at HKD7.02 per share.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The listing of the Company's shares commenced on 13 October 2010. Since the Listing Date and up to 31 December 2010, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 32 to the consolidated financial statements. In respect of those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the SEHK) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, and must have an expected market capitalization at the time of listing of not less than HK$50 million.

The Group applied to the SEHK to request the SEHK to exercise, and the SEHK exercised its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of the Company of 20% or such higher percentage of the issued share capital as would be held by the public in the event that the whole or a part of the over-allotment option is exercised (which discretion may be exercised in respect of issuers with an expected market capitalization at the time of listing of over HK$10,000 million) on the basis that the SEHK was satisfied that the number of the shares concerned and the extent of their distribution would enable the market to operate properly with the lower percentage, and on the condition that the Company would make appropriate disclosure of the lower prescribed percentage of public float in the prospectus of the Company dated 28 September 2010 and confirm sufficiency of public float in the successive annual reports after listing. At the time of the listing of the Company on 13 October 2010, the market capitalization exceeded HK$10,000 million.

The over-allotment option was fully exercised on 18 October 2010 in respect of an aggregate of 107,914,000 shares and accordingly the lower public float percentage of the Company accepted by the SEHK is approximately 22.3%. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules.

POST BALANCE SHEET EVENTS

There have been no post balance sheet events subsequent to 31 December 2010 which require adjustment to or disclosure in the annual report.

AUDITORS

Messrs. KPMG were engaged as auditors of the Company for the year ended 31 December 2010. Messrs. KPMG have audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing.

Messrs. KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the board

Odjargal Jambaljamts
Chairman

Hong Kong, 22 March 2011

Independent Auditor's Report

Independent auditor's report
to the shareholders of Mongolian Mining Corporation
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Mongolian Mining Corporation (the "Company") and its subsidiaries (together referred to as the "Group") set out on pages 89 to 143, which comprise the consolidated and Company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended and have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2011

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 USD	2009 USD
Revenue	3	**277,501,594**	66,982,707
Cost of revenue	4	**(164,368,042)**	(38,682,328)
Gross profit		**113,133,552**	28,300,379
Other revenue		**511,513**	70,002
Other net expenses	5	**(187,023)**	(34,813)
Administrative expenses		**(38,685,208)**	(10,427,093)
Profit from operations		**74,772,834**	17,908,475
Finance income	6(a)	**12,335,090**	342,318
Finance costs	6(a)	**(4,214,161)**	(3,860,204)
Net finance income/(cost)	6(a)	**8,120,929**	(3,517,886)
Share of profits/(losses) of associate		**1,761**	(9,702)
Profit before taxation	6	**82,895,524**	14,380,887
Income tax	7	**(22,756,820)**	(4,110,723)
Profit for the year		**60,138,704**	10,270,164
Other comprehensive income for the year	12		
Exchange differences on re-translation		**7,601,079**	30,590
Total comprehensive income for the year		**67,739,783**	10,300,754
Profit attributable to the equity shareholders of the Company		**60,138,704**	10,270,164
Total comprehensive income attributable to the equity shareholders of the Company		**67,739,783**	10,300,754
Basic and diluted earnings per share	8	**1.91 cents**	0.34 cents

The notes on pages 94 to 143 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28(a).

Consolidated Balance Sheet

at 31 December 2010

	Note	2010 USD	2009 USD
Non-current assets			
Property, plant and equipment, net	14	**76,645,822**	30,357,991
Construction in progress	15	**232,784,317**	43,985,016
Lease prepayments	16	**118,226**	104,816
Interest in associate	18	**18,567**	14,521
Other non-current assets	19	**26,889,223**	8,371,548
Deferred tax assets	25(b)	**1,681,150**	328,038
Total non-current assets		**338,137,305**	83,161,930
Current assets			
Inventories	20	**7,876,479**	7,661,009
Trade and other receivables	21	**32,350,029**	20,036,053
Cash at bank and in hand	22	**674,906,686**	2,371,030
Total current assets		**715,133,194**	30,068,092
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	23	**85,909,090**	24,200,000
Trade and other payables	24	**40,314,966**	17,106,673
Current taxation	25(a)	**5,454,952**	794,999
Total current liabilities		**131,679,008**	42,101,672
Net current assets/(liabilities)		**583,454,186**	(12,033,580)
Total assets less current liabilities		**921,591,491**	71,128,350
Non-current liabilities			
Interest-bearing borrowings, less current portion	23	**165,214,302**	10,000,000
Long-term payables	26	**16,811,435**	15,214,753
Accrued reclamation obligations	27	**6,904,317**	1,704,998
Deferred tax liabilities	25(b)	**5,380,525**	367,231
Total non-current liabilities		**194,310,579**	27,286,982
NET ASSETS		**727,280,912**	43,841,368
CAPITAL AND RESERVES			
Share capital	28	**37,050,365**	–
Reserves	29	**690,230,547**	43,841,368
TOTAL EQUITY		**727,280,912**	43,841,368

Approved and authorised for issue by the board of directors on 22 March 2011.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 94 to 143 form part of these financial statements.

Balance Sheet

at 31 December 2010

	Note	2010 USD
Non-current assets		
Interests in subsidiaries	17	**299,598,894**
Total non-current assets		**299,598,894**
Current assets		
Trade and other receivables	21	**322,282**
Cash at bank and in hand	22	**340,561,636**
Total current assets		**340,883,918**
Current liabilities		
Trade and other payables	24	**39,268**
Total current liabilities		**39,268**
Net current assets		**340,844,650**
Total assets less current liabilities		**640,443,544**
NET ASSETS		**640,443,544**
CAPITAL AND RESERVES		
Share capital	28	**37,050,365**
Reserves	29	**603,393,179**
TOTAL EQUITY		**640,443,544**

Approved and authorised for issue by the board of directors on 22 March 2011.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 94 to 143 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Note	Share capital USD (Note 28(b))	Share premium USD (Note 29(a))	Other reserve USD (Note 29(b))	Exchange reserve USD (Note 29(c))	(Accumulated losses)/ retained earnings USD	Total equity USD
At 1 January 2009		–	–	25,819,268	(1,506,860)	(9,521,794)	14,790,614
Increase in other reserve	29(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
Shares issued upon incorporation	28(c)	–	–	–	–	–	–
Nominal value of share capital of new subsidiaries acquired	28(c)	–	–	(30,000,000)	–	–	(30,000,000)
Shares issued pursuant to capitalisation issue	28(c)	30,000,000	–	–	–	–	30,000,000
Shares issued pursuant to the initial public offering and upon the exercise of the over-allotment option, net of share issuing costs	28(c)	7,050,365	608,649,396	–	–	–	615,699,761
Total comprehensive income for the year		–	–	–	7,601,079	60,138,704	67,739,783
At 31 December 2010		**37,050,365**	**608,649,396**	**14,569,268**	**6,124,809**	**60,887,074**	**727,280,912**

The notes on pages 94 to 143 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 USD	2009 USD
Cash flows from operating activities			
Profit before taxation		**82,895,524**	14,380,887
Adjustments for:			
Depreciation and amortisation		**3,204,128**	1,864,804
Share of (profits)/losses of associate		**(1,761)**	9,702
Loss on disposal of property, plant and equipment		**187,023**	34,813
Net finance (income)/costs		**(8,280,011)**	194,487
Changes in working capital:			
Increase in inventories		**(215,470)**	(7,645,819)
Increase in trade and other receivables		**(8,091,809)**	(6,996,595)
Increase/(decrease) in trade and other payables		**15,087,711**	(4,561,137)
Cash generated from/(used in) operations		**84,785,335**	(2,718,858)
Income tax paid		**(15,144,800)**	(1,305,024)
Net cash generated from/(used in) operating activities		**69,640,535**	(4,023,882)
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(220,241,550)**	(58,562,528)
Proceeds from disposal of property, plant and equipment		**212,671**	459,682
Amount due from related party		**–**	(2,300,789)
Time deposits		**(344,644,544)**	(2,000,000)
Interest received		**294,354**	342,318
Net cash used in investing activities		**(564,379,069)**	(62,061,317)
Financing activities			
Proceeds from issue of shares		**617,716,188**	18,750,000
Proceeds from borrowings		**232,330,597**	53,330,597
Payments in advance from customers		**–**	14,668,390
Repayment of borrowings		**(11,530,597)**	(22,130,597)
Interest paid		**(6,821,852)**	(1,934,686)
Payment of transaction costs on issue of shares		**(2,016,427)**	–
Other borrowing costs paid		**(6,183,287)**	–
Net cash generated from financing activities		**823,494,622**	62,683,704
Net increase/(decrease) in cash and cash equivalents		**328,756,088**	(3,401,495)
Cash and cash equivalents at the beginning of the year		**371,030**	3,790,797
Effect of foreign exchange rate changes		**(864,976)**	(18,272)
Cash and cash equivalents at the end of the year	22	**328,262,142**	371,030

The notes on pages 94 to 143 form part of these financial statements.

Notes to Consolidated Financial Statements

1 CORPORATE INFORMATION

Mongolian Mining Corporation (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. The Company and its subsidiaries are principally engaged in the mining, transportation and sale of coal.

Pursuant to a group reorganisation completed on 17 September 2010 (the "Reorganisation") to rationalise the group structure for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company's shares were listed on the Stock Exchange on 13 October 2010. Details of the Reorganisation are set out in the prospectus of the Company dated 28 September 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements of the Company and of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), promulgated by the International Accounting Standards Board ("IASB"). The IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and related interpretations. The financial statements also comply 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. A summary of the significant accounting policies adopted by the Group (as defined below) is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and its interest in an associate.

The Group adopts the use of a principle similar to that for a reverse acquisition, rather than following its legal form, in the preparation of its financial statements for the years ended 31 December 2010 and 2009. The directors consider that Energy Resources LLC is the accounting parent during the years ended 31 December 2010 and 2009. Details of the companies comprising the Group are set in note 17.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with the 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 the IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

(c) Subsidiaries and non-controlling interests

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.

An interest in a subsidiary is consolidated into the consolidated financial statements 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 statements. 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.

Non-controlling interests (previously known as “minority interests”) represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(k) or (l) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an interest in an associate (see note 2(d)).

In the Company's balance sheet, an interest in a subsidiary is stated at cost less impairment losses (see note 2(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(u)).

(d) Associates

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

An interest in an associate is accounted for in the consolidated financial statements 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 2(h)(i)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year 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 consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates (continued)

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 interest 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.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an interest in an associate (see note 2(d)).

(e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(h)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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 2(h)(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

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.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leased assets (continued)

(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 2(h)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

(h) Impairment of assets

(i) Impairment of interests in subsidiaries, interest in associate and trade and other receivables

Interests in subsidiaries, interest in associate and trade 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(i) Impairment of interests in subsidiaries, interest in associate and trade and other receivables (continued)

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

– For interests in subsidiaries and associate (including those recognised using the equity method) (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(h)(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 2(h)(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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 in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(h)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(i) Inventories

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 processing 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories (continued)

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.

(j) 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 2(h)(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.

(k) 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.

(l) 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.

(m) 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.

(n) 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax

Income tax for the year 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, 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 interests 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

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.

(p) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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, which is included in the mining structures. 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.

(r) 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.

(s) Translation of foreign currencies

The presentation currency of the Group is USD. The functional currency of the Company and the investment holding companies is USD and the functional currency of other group entities located in Mongolia is Mongolian Togrog ("MNT"). Foreign currency transactions during the year 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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.

(u) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than interests in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties

For the purposes of the financial statements, 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.

(w) 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.

3 REVENUE

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

During the year ended 31 December 2010, the Group had four customers that individually exceeded 10% of the Group's turnover, being USD105,175,119, USD92,741,584, USD33,487,879 and USD27,335,246 respectively. 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.

Details of concentrations of credit risk arising from these customers are set out in note 30(b).

4 COST OF REVENUE

	2010	2009
	USD	USD
Mining costs	**78,759,099**	24,500,450
Transportation costs	**60,626,319**	7,999,950
Others	**24,982,624**	6,181,928
	164,368,042	38,682,328

5 OTHER NET EXPENSES

	2010	2009
	USD	USD
Net loss on disposal of property, plant and equipment	**187,023**	34,813

6 PROFIT BEFORE TAXATION

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

(a) Net finance (income)/cost:

	2010 USD	2009 USD
Interest income	**(294,354)**	(342,318)
Foreign exchange gain, net	**(12,040,736)**	–
Finance income	**(12,335,090)**	(342,318)
Interest on bank and other borrowings	**10,578,421**	1,934,686
Transaction costs	**3,654,532**	–
Unwinding interest on		
– Other long-term payables	**159,082**	70,585
– Accrued reclamation obligations	**332,045**	264,605
Less: Interest expense capitalised	**(10,509,919)**	(1,751,343)
Net interest expense	**4,214,161**	518,533
Foreign exchange loss, net	**–**	3,341,671
Finance costs	**4,214,161**	3,860,204
Net finance (income)/cost	**(8,120,929)**	3,517,886

* *Borrowing costs have been capitalised at a rate of 8% and 4% per annum for the years ended 31 December 2010 and 2009 respectively.*

(b) Staff costs:

	2010 USD	2009 USD
Salaries, wages, bonuses and benefits	**9,706,123**	2,849,398
Retirement scheme contributions	**1,038,908**	191,786
	10,745,031	3,041,184

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.

6 PROFIT BEFORE TAXATION (continued)

(c) Other items:

	2010 USD	2009 USD
Depreciation and amortisation	**3,204,128**	1,864,804
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	**1,525,589**	1,135,288
– hire of other assets (including property rentals)	**282,674**	307,760
	1,808,263	1,443,048
Auditors' remuneration		
– audit services	**330,000**	90,323
– tax services	**86,700**	–
	416,700	90,323
Listing expenses allocated to profit or loss	**5,572,432**	–
Cost of inventories#	**164,368,042**	38,682,328

\# *Cost of inventories includes USD4,673,898 (2009:USD3,729,971), 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.*

7 INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	2010 USD	2009 USD
Current tax		
Provision for the year		
– Mongolian Enterprise Income Tax (Note 25(a))	**19,371,341**	2,100,023
Deferred tax		
Origination and reversal of temporary difference (Note 25(b))	**3,385,479**	2,010,700
	22,756,820	4,110,723

7 INCOME TAX (continued)

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

	2010 USD	2009 USD
Profit before income tax	**82,895,524**	14,380,887
Notional tax on profit before taxation	**19,642,312**	2,990,330
Tax effect of non-deductible items (Note (iii))	**1,257,701**	1,134,672
Tax effect of non-taxable items (Note (iii))	**(242,420)**	(83,199)
Tax loss not recognised	**2,099,227**	68,920
Actual tax expenses	**22,756,820**	4,110,723

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 2010 and 2009.*

(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 years ended 31 December 2010 and 2009.*

(iii) *Non-deductible items and non-taxable items mainly represent the unrealised exchange losses and gains during the years ended 31 December 2010 and 2009, respectively.*

8 EARNINGS PER SHARE

For the year ended 31 December 2009, the calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of USD10,270,164 and 3,000,000,000 ordinary shares, which is the share capital of the Company immediately after the Reorganisation and assumed to be outstanding throughout the year ended 31 December 2009.

For the year ended 31 December 2010, the calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of USD60,138,704 and the weighted average of 3,152,163,310 ordinary shares, calculated as follows:

Weighted average number of ordinary shares

	2010
Issued ordinary shares immediately after the Reorganisation and assumed to be outstanding throughout the year	**3,000,000,000**
Effect of issue of new shares pursuant to the initial public offering and upon the exercise of the over-allotment option	**152,163,310**
Weighted average number of ordinary shares at 31 December	**3,152,163,310**

8 EARNINGS PER SHARE (continued)

The Company did not have any potential dilutive shares throughout the entire year ended 31 December 2010. Accordingly, diluted earnings per share is the same as basic earnings per share.

9 DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed are as follows:

	Year ended 31 December 2010			
	Salaries, allowances and benefits in kind USD	Discretionary bonuses USD	Retirement scheme contributions USD	Total USD
Executive directors				
Odjargal Jambaljamts *(Chairman)*	144,563	134,040	20,189	298,792
Battsengel Gotov	138,247	1,313,323	105,186	1,556,756
Badamtsetseg Dash-Ulzii	3,105	–	225	3,330
Non-executive directors				
Gantumur Lingov	4,658	–	338	4,996
Enkhtuvshin Gombo	4,658	–	338	4,996
Enkh-Amgalan Luvsantseren	7,245	–	525	7,770
Oyungerel Janchiv	7,245	–	525	7,770
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	7,245	–	525	7,770
Independent non-executive directors				
Ochirbat Punsalmaa	6,210	–	450	6,660
Unenbat Jigjid	6,986	–	506	7,492
Chan Tze Ching, Ignatius	14,479	–	–	14,479
Total	344,641	1,447,363	128,807	1,920,811

9 DIRECTORS' REMUNERATION (continued)

	Year ended 31 December 2009			
	Salaries, allowances and benefits in kind USD	Discretionary bonuses USD	Retirement scheme contributions USD	Total USD
Executive directors				
Odjargal Jambaljamts *(Chairman)*	12,186	–	521	12,707
Battsengel Gotov	65,459	39,976	7,640	113,075
Badamtsetseg Dash-Ulzii	–	–	–	–
Non-executive directors				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo	–	–	–	–
Enkh-Amgalan Luvsantseren	51,035	20,844	4,847	76,726
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

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 year ended 31 December 2010. Philip Hubert ter Woort waived all his emoluments during the year ended 31 December 2010.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2010	2009
Directors	**2**	2
Non-directors	**3**	3
	5	5

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

The emoluments of the directors are disclosed in note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2010	2009
	USD	USD
Basic salaries, allowances and benefits in kind	**204,146**	189,489
Discretionary bonuses	**310,772**	63,439
Retirement scheme contributions	**37,313**	17,605
	552,231	270,533

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

	2010	2009
Nil to HK$1,000,000	**–**	5
HK$1,000,001 to HK$ 2,000,000	**3**	–
HK$2,000,001 and above	**2**	–

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 year ended 31 December 2010.

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes loss of USD5,256,217 (2009: Nil) which has been dealt with in the financial statements of the Company.

12 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2010 and 2009.

13 SEGMENT REPORTING

The Group has one business segment, the mining, transportation and sale of coal in Mongolia. Accordingly, no business and geographical segment information are presented.

14 PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings USD	Plant and equipment USD	Motor vehicles USD	Office equipment USD	Mining structures and mining rights USD	Total USD
Cost:						
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 (Note 15)	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	782,077	996,386	2,013,449	1,874,956	21,740,059	27,406,927
Transfer from construction in progress (Note 15)	14,796,702	123,814	–	2,625	–	14,923,141
Disposals	(64,161)	(34,270)	(133,024)	(242,089)	–	(473,544)
Exchange adjustments	1,796,491	312,591	1,508,775	340,353	4,127,589	8,085,799
At 31 December 2010	**21,131,115**	**2,931,122**	**12,594,149**	**3,401,011**	**42,124,038**	**82,181,435**
Accumulated amortisation and depreciation:						
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 disposal	(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 year	624,315	215,925	1,706,243	423,494	232,082	3,202,059
Written back on disposal	(5,089)	(4,018)	(34,367)	(30,376)	–	(73,850)
Exchange adjustments	65,915	27,401	350,918	49,296	32,753	526,283
At 31 December 2010	**798,417**	**310,880**	**3,499,760**	**564,764**	**361,792**	**5,535,613**
Carrying amount:						
At 31 December 2010	**20,332,698**	**2,620,242**	**9,094,389**	**2,836,247**	**41,762,246**	**76,645,822**
At 31 December 2009	3,706,730	1,461,029	7,727,983	1,302,816	16,159,433	30,357,991

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

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

(b) Mining structures and mining rights at 31 December 2010 include deferred stripping costs of USD19,909,013 (2009: USD1,040,773).

(c) The addition of mining structures and mining rights include rehabilitation cost of USD4,251,408 (see note 27).

(d) As at 31 December 2010, no interest-bearing borrowings were secured by the Group's property, plant and equipment. As at 31 December 2009, 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 (see note 23).

15 CONSTRUCTION IN PROGRESS

	The Group	
	2010	2009
	USD	USD
At 1 January	**43,985,016**	15,128,658
Additions	**183,984,639**	47,522,302
Transfer to property, plant and equipment (Note 14)	**(14,923,141)**	(16,751,628)
Exchange adjustments	**19,737,804**	(1,914,316)
At 31 December	**232,784,318**	43,985,016

The construction in progress is mainly related to the coal handling and preparation plant, power plant, paved road and mining related machinery and equipment. As at 31 December 2010, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant and power plant with net book value of USD102,152,928 and USD46,401,835, respectively (2009: Nil, see note 23).

According to the Resolution of the Government of Mongolia dated 31 March 2010 and the Built-Operate-Transfer agreement signed between the Government of Mongolia and the Group dated 9 June 2010, the Government of Mongolia granted the Group the land use rights, and to build and operate the paved road running from the mine site to the Mongolia-China border at Gashuun Sukhait. Included in the Group's construction in progress as of 31 December 2010, there was a balance of USD37.3 million (2009: Nil) relating to the construction of the paved road. For the year ended 31 December 2010, majority of the works in connection with the construction of paved road is sub-contracted to third parties. As the pricing for toll fees and to whom the paved road is to be provided have not been determined, the application of IFRIC 12 has not been adopted at balance sheet date, and the Group's paved road project was grouped under construction in progress and stated at cost less accumulated impairment loss as at 31 December 2010. The Group will reclassify the balance relating to the construction of the paved road from construction in progress according to the terms when the pricing for toll fees and to whom the paved road is to be provided become available in the future.

16 LEASE PREPAYMENTS

	The Group	
	2010	2009
	USD	USD
Cost:		
Balance at the beginning of the year	**108,251**	123,225
Exchange adjustments	**15,987**	(14,974)
Balance at the end of the year	**124,238**	108,251
Accumulated amortisation:		
Balance at the beginning of the year	**3,435**	832
Charge for the year	**2,069**	2,711
Exchange adjustments	**508**	(108)
Balance at the end of the year	**6,012**	3,435
Net book value:	**118,226**	104,816

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

17 INTERESTS IN SUBSIDIARIES

	The Company
	2010
	USD
Unlisted shares, at cost	**–**
Amount due from subsidiaries	**299,598,894**
	299,598,894

17 INTERESTS IN SUBSIDIARIES (continued)

Particulars of subsidiaries at 31 December 2010 are as follows:

Name of company	Place of incorporation	Issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong	HK$1	100%	–	Investment holding
Mongolian Coal Corporation S.A.	Luxembourg	Euro31,000	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	USD100,000	–	100%	Investment holding
Energy Resources LLC	Mongolia	USD26,200,370	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia	MNT10,700,000,000	–	100%	Railway project management
Energy Resources Mining LLC	Mongolia	USD1,000	–	100%	Mining and technical management
Transgobi LLC	Mongolia	MNT9,122,641,836	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia	MNT3,475,379,000	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia	MNT3,466,163,000	–	100%	Coal plant management
Ukhaa Khudag Water Supply LLC	Mongolia	MNT 1,000,000	–	100%	Water exploration and supply management
United Power LLC	Mongolia	MNT 3,025,219,000	–	100%	Power supply project management
Gobi Road LLC	Mongolia	MNT 1,000,000	–	100%	Construction of road
Energy Resources Road LLC	Mongolia	MNT 1,000,000	–	100%	Transportation of coal and construction of road
Public Service LLC	Mongolia	MNT 20,000,000	–	100%	Provision of public utility services

18 INTEREST IN ASSOCIATE

	The Group	
	2010	2009
	USD	USD
Share of net assets	**18,567**	14,521

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.

19 OTHER NON-CURRENT ASSETS

	The Group	
	2010	2009
	USD	USD
Prepayments in connection with construction work, equipment purchases and others (Note (i))	**26,881,727**	8,263,196
Others	**7,496**	108,352
	26,889,223	8,371,548

Note:

(i) The prepayments in connection with construction work, equipment purchases and others are mainly related to the power plants and the railway project.

Included in the Group's other non-current assets was a balance of approximately USD8.7 million relating to the prepaid amounts of the Group's railway construction project on the project feasibility studies. The Parliament of Mongolia has recently passed a resolution approving a formal policy on railway development in Mongolia. According to the policy, railway development will be conducted in various stages. As a consequence, the timing for the start of the Group's pronounced railway construction project will be determined at a later time. As at 31 December 2010, the Group had yet to obtain such determination from the Government of Mongolia. According to the current available information, the Group anticipates final determination will be reached in 2011. The directors are of the opinion that the Group will get the support from the Government of Mongolia to construct its railway and therefore no impairment is deemed necessary in relation to the prepaid balances.

20 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2010	2009
	USD	USD
Coal	**6,606,658**	6,918,360
Materials and supplies	**1,269,821**	742,649
	7,876,479	7,661,009

As at 31 December 2010, the Group's long-term interest-bearing borrowings were secured by the total carrying amount of the Group's coal inventory (see note 23).

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2010	2009	**2010**
	USD	USD	**USD**
Trade receivables (Note (a))	**288,136**	8,502,157	**–**
Other receivables (Note (b))	**32,061,893**	11,533,896	**322,282**
	32,350,029	20,036,053	**322,282**

(a) Ageing analysis

Included in 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 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 30(b).

21 TRADE AND OTHER RECEIVABLES (continued)

(b) Other receivables

	The Group		The Company
	2010	2009	**2010**
	USD	USD	**USD**
Amounts due from related parties (Note (i))	**346,770**	3,038,127	**–**
Security deposit (Note (ii))	**–**	1,000,000	**–**
Prepayments	**7,014,079**	958,485	**–**
Value-added tax ("VAT") receivables (Note (iii))	**23,919,662**	5,738,084	**–**
Payment on behalf of the customers	**–**	489,038	**–**
Others	**781,382**	310,162	**322,282**
	32,061,893	11,533,896	**322,282**

Note:

(i) At 31 December 2010, amounts due from related parties mainly represent the prepaid road maintenance fee to Coal Road LLC amounting to USD338,068.

(ii) The balance in 2009 represented 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. Further details are stated in note 30(b).

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

22 CASH AT BANK AND IN HAND

	The Group		The Company
	2010	2009	**2010**
	USD	USD	**USD**
Cash in hand	**98,857**	39,111	**–**
Cash at bank	**674,807,829**	2,331,919	**340,561,636**
Cash at bank and in hand	**674,906,686**	2,371,030	**340,561,636**
Less: time deposits with original maturity over three months	**(346,644,544)**	(2,000,000)	**(325,000,000)**
Cash and cash equivalents in the consolidated cash flow statement	**328,262,142**	371,030	**15,561,636**

As at 31 December 2010, certain of the Group's borrowings were secured by the Group's cash at bank of USD199,890,217 (2009: USD Nil) (see note 23).

23 BORROWINGS

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

	The Group	
	2010	2009
	USD	USD
Bank loan (secured)	**180,000,000**	30,000,000
Less: Current portion	**(10,909,090)**	(20,000,000)
Less: Unamortised transaction costs	**(3,876,608)**	–
	165,214,302	10,000,000

At 31 December 2010, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development ("EBRD"), Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH of USD120,000,000 (2009: Nil), USD36,000,000 (2009: Nil) and USD24,000,000 (2009: Nil), respectively, bearing interest of 6 months LIBOR + 4.75%~6.85% and were secured by the Group's construction in progress (see note 15) and cash at bank and in hand (see note 22).

23 BORROWINGS (continued)

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

	The Group	
	2010	2009
	USD	USD
Bank loans		
– Secured	**75,000,000**	1,200,000
– Unsecured	**–**	1,000,000
Other borrowings		
– Third parties	**–**	2,000,000
Current portion of long-term borrowings		
– Bank loan	**10,909,090**	20,000,000
	85,909,090	24,200,000

As at 31 December 2009, certain of the Group's short-term interest-bearing borrowings were secured by certain of the Group's property, plant and equipment (see note 14).

At 31 December 2009, the Group's long-term interest-bearing borrowings from Standard Bank was USD30,000,000, bearing an interest of 3 months London Interbank Offered Rate ("LIBOR") + 7%~8% and was secured by the Group's coal inventory. During the year ended 31 December 2010, additional borrowings of USD45,000,000 have been drawn-down. The outstanding loan balances with Standard Bank as at 31 December 2010 was USD75,000,000, bearing an interest of 3 months LIBOR + 7%~8% and was secured by the Group's coal inventory (see note 20). The Group submitted its early repayment request to Standard Bank in December 2010 to repay USD75,000,000 of its long-term borrowings in early 2011; accordingly, the Group classified the related principal amount from long-term interest-bearing borrowings to short-term interest-bearing borrowings as at 31 December 2010.

23 BORROWINGS (continued)

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

	The Group	
	2010	2009
	USD	USD
Within 1 year or on demand	**10,909,090**	20,000,000
After 1 year but within 2 years	**21,818,180**	10,000,000
After 2 years but within 5 years	**95,454,540**	–
After 5 years	**51,818,190**	–
	180,000,000	30,000,000

24 TRADE AND OTHER PAYABLES

	The Group		The Company
	2010	2009	**2010**
	USD	USD	**USD**
Amounts due to subsidiaries	**–**	–	**39,268**
Trade payables (Note (i))	**4,771,753**	1,622,798	**–**
Receipts in advance (Note (ii))	**18,842,139**	8,537,178	**–**
Amounts due to related parties (Note (iii))	**5,329,346**	2,052,326	**–**
Payables for purchase of equipment	**3,913,285**	4,162,332	**–**
Interest payable	**3,775,577**	19,008	**–**
Others (Note (iv))	**3,682,866**	713,031	**–**
	40,314,966	17,106,673	**39,268**

Note:

(i) All trade payables are due and payable on presentation or within one month.

(ii) Receipts in advance represent payments in advance made by third-party customers in accordance with the terms set out in respective sales agreements.

(iii) Amounts due to related parties represent the management service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayment (see note 32(a)).

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

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.

25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Tax payable in the consolidated balance sheet represents:

	The Group	
	2010	2009
	USD	USD
At the beginning of the year	**794,999**	–
Provision for the year (Note 7(a))	**19,371,341**	2,100,023
Income tax paid	**(15,144,800)**	(1,305,024)
Exchange adjustments	**433,412**	–
At the end of the year	**5,454,952**	794,999

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Tax losses	Unrealised profits on intra-group transactions	Depreciation and amortisation	Unrealised foreign exchange gain on long-term borrowings	Total
	USD	USD	USD	USD	USD
Deferred tax arising from:					
At 1 January 2009	2,239,228	–	375	–	2,239,603
Credited/(charged) to					
profit or loss (Note 7(a))	(1,971,611)	177,947	(217,036)	–	(2,010,700)
Exchange adjustments	(267,617)	(439)	(40)	–	(268,096)
At 1 January 2010	–	177,508	(216,701)	–	(39,193)
Credit/(charged) to					
profit or loss (Note 7(a))	751,650	494,245	(228,488)	(4,402,886)	(3,385,479)
Exchange adjustments	59,704	51,926	(36,604)	(349,729)	(274,703)
At 31 December 2010	**811,354**	**723,679**	**(481,793)**	**(4,752,615)**	**(3,699,375)**

25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised (continued)

	The Group	
	2010	2009
	USD	USD
Net deferred tax assets recognised on the consolidated balance sheet	**1,681,150**	328,038
Net deferred tax liability recognised on the consolidated balance sheet	**(5,380,525)**	(367,231)
	(3,699,375)	(39,193)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD8,949,308 as at 31 December 2010 (2009: USD605,026) 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 generated before 31 December 2009 will expire in two years after the tax losses generated under current tax legislation. According to the new amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Other entities will still apply to the two years policy.

Expiry of unrecognised tax losses:

	The Group	
	2010	2009
	USD	USD
Year of expiry		
2011	**552,401**	605,026
2012	**368,168**	–
2013	**–**	–
2014	**2,759,075**	–
	3,679,644	605,026

Under current tax legislations, the tax losses amounting to USD5,269,664 do not expire.

26 LONG-TERM PAYABLES

	The Group	
	2010	2009
	USD	USD
Receipt in advance from a customer (Note i)	**16,811,435**	14,658,194
Payable for mining right (Note ii)	**–**	556,559
	16,811,435	15,214,753

Note:

(i) Receipt in advance represents an advance payment made by a third-party customer in relation to a long-term sales contract with this customer within a ten-year period starting from 2009.

(ii) In September 2008, the Group entered into an agreement with the Government agency of Mongolia to reimburse it in relation to the exploration expenditures incurred by the Government of Mongolia at the Ukhaa Khudag ("UHG") deposit prior to the registration of the UHG mining license. Pursuant to the agreement, the payable for mining right should be settled annually within a five-year period starting from 2009. Nevertheless, the Group made full settlement of the outstanding payable balance in 2010.

27 ACCRUED RECLAMATION OBLIGATIONS

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the balance sheet date, 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 2010 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	The Group	
	2010	2009
	USD	USD
At the beginning of the year	**1,704,998**	1,640,380
Adjustment of estimations	**4,251,408**	–
Accretion expense	**332,045**	264,605
Exchange adjustments	**615,866**	(199,987)
At the end of the year	**6,904,317**	1,704,998

Accrued reclamation costs increased during the year as a result of the reduction in the discount rate.

28 CAPITAL AND DIVIDENDS

(a) The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2010.

(b) Share capital

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 ordinary shares of USD0.01 each. On 18 May 2010, MCS Mining Group Limited acquired its initial share of one share of USD0.01. By an ordinary resolution passed at the annual general meeting held on 23 August 2010, the Company's authorised ordinary share capital was increased to USD60,000,000 by the creation of an additional 5,995,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2010 and 2009 (note 29(b)).

The Company

	2010	
	No. of shares	**USD**
Authorised:		
Ordinary shares	**6,000,000,000**	**60,000,000**

		2010	
	Note	**No. of shares**	**USD**
Ordinary shares, issued and fully paid:			
At 1 January		–	–
Shares issued immediately after the Reorganisation	(i)	**3,000,000,000**	**30,000,000**
Shares issued pursuant to the initial public offering and upon the exercise of the over-allotment option	(ii)	**705,036,500**	**7,050,365**
At 31 December		**3,705,036,500**	**37,050,365**

28 CAPITAL AND DIVIDENDS (continued)

(c) Issue of shares

(i) Upon the incorporation of the Company, one share was subscribed by the initial subscriber (see note 28 (b)). On 14 September 2010, MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding LLC, Tengeriin Tsag Group LLC, Energy Resources Corporation LLC and the Company entered into a share swap agreement, pursuant to which each of MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding LLC and Tengeriin Tsag Group LLC transferred its respective shares in Energy Resources LLC to Energy Resources Corporation LLC, in consideration of which the Company allotted and issued, credited as fully paid, 1,715,999,999, 423,000,000, 183,000,000, 150,000,000, 300,000,000 and 228,000,000 shares to MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively.

(ii) On 13 October 2010, an aggregate of 597,122,500 ordinary shares of USD0.01 each were issued and offered for subscription at a price of HK$7.02 per share upon the listing of the Company's share on the Stock Exchange. On 21 October 2010, an aggregate of 107,914,000 ordinary shares of USD0.01 each were issued and offered for subscription at a price of HK$7.02 per share upon the exercise of the over-allotment option. The Group raised approximately HK$4,778,014,855 in total (equivalent to USD615,699,761), net of the related expenses.

(d) 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.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2010 was 24% (2009: 30%).

29 RESERVES

(a) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(b) Other reserve

Other reserve includes the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of interests in subsidiaries.

Increase in other reserve during the year ended 31 December 2009 represented the subscription of share capital by the then shareholders of Energy Resources LLC.

(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 to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 2(s).

(d) Distributability of reserves

As at 31 December 2010, there was no amount available for distribution to equity shareholders of the Company.

30 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.

30 FINANCIAL INSTRUMENTS (continued)

(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. In addition, the Group also adopts the policy of requesting prepayment from some of its customers on its coal sales to reduce the exposure of credit risks. At 31 December 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.

VAT receivables include amounts that have been accumulated to date in various subsidiaries. According to the prevailing tax rules and regulations in Mongolia, a tax payer may offset future taxes and royalties payable to the Government against VAT amounts receivable from the Government of Mongolia. In July 2009, the Mongolian Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT and any VAT amounts impacted will be prospective from the effective date of the law on 16 August 2009. On 10 November 2010, the Government defined products which qualify as finished mineral products. In the year ended 31 December 2010, the Group offset current income taxes owing of USD2,604,138 against its VAT receivable balance. In the year ended 31 December 2010, the Group also received a cash refund of USD3,314,395 for the VAT receivable balance. Based on currently available information, the Group anticipates full recoverability of amounts due on account at 31 December 2010. Verification by the Mongolian Government Taxation Authority of the collectability of the funds is conducted on an annual basis and any outstanding VAT receivable amounts at 31 December 2010, except those possibly impacted by the law change, will be available to the Group to offset future taxes and royalties or will be refunded by the Government of Mongolia Taxation Authority.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

30 FINANCIAL INSTRUMENTS (continued)

(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 RMB, USD and HK$.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in USD, translated using the spot rate at the year end date.

The Group

	Exposure to foreign currencies (expressed in United States Dollars)					
	2010			2009		
	Renminbi	**United States Dollars**	**Hong Kong Dollars**	Renminbi	United States Dollars	Hong Kong Dollars
	USD	**USD**	**USD**	USD	USD	USD
Trade and other receivables	**39,928**	**292,903**	**–**	7,159	9,506,695	–
Cash and cash equivalents	**3,103,016**	**268,285,580**	**2,216,430**	801	2,169,753	–
Trade and other payables	**(9,090,788)**	**(16,278,866)**	**(14,669)**	(4,490,481)	(4,927,791)	–
Short-term borrowings and current portion of long-term borrowings	**–**	**(85,909,090)**	**–**	–	(24,200,000)	–
Long-term borrowings	**–**	**(165,214,302)**	**–**	–	(10,000,000)	–
Long-term payables	**(16,811,435)**	**–**	**–**	(14,658,194)	–	–
Net exposure arising from recognised assets and liabilities	**(22,759,279)**	**1,176,225**	**2,201,761**	(19,140,715)	(27,451,343)	–

30 FINANCIAL INSTRUMENTS (continued)

(c) Foreign currency exchange risk (continued)

(ii) Sensitivity analysis

A 5% strengthening/weakening of another currency against functional currencies defined in note 2(s) as at the respective balance sheet dates would have (decreased)/increased profit after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

	2010	2009
	USD	USD
Profit for the year		
5% increase in RMB	**792,115**	717,402
5% decrease in RMB	**(792,115)**	(717,402)
5% increase in USD	**(44,029)**	1,029,540
5% decrease in USD	**44,029**	(1,029,540)
5% increase in HK$	**(108,883)**	–
5% decrease in HK$	**108,883**	–

(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 expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

At 31 December 2010, it was 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 USD1,566,447 (2009: a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Groups profit after taxation and retained profits by approximately USD240,000).

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 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 exposure 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.

30 FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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:

The Group

	2010 Contractual undiscounted cash outflow					
	Within 1 year USD	After 1 year but within 2 years USD	After 2 years but within 5 years USD	After 5 years USD	Total contractual undiscounted cash flow USD	Balance sheet carrying amount USD
Borrowings (Note 23)	**96,834,842**	**31,324,453**	**115,705,700**	**52,883,554**	**296,748,549**	**251,123,392**
Trade and other payables (Note 24)	**40,314,966**	**–**	**–**	**–**	**40,314,966**	**40,314,966**
Long-term payables (Note 26)	**–**	**–**	**16,811,435**	**–**	**16,811,435**	**16,811,435**
	137,149,808	**31,324,453**	**132,517,135**	**52,883,554**	**353,874,950**	**308,249,793**

	2009 Contractual undiscounted cash outflow					
	Within 1 year USD	After 1 year but within 2 years USD	After 2 years but within 5 years USD	After 5 years USD	Total contractual undiscounted cash flow USD	Balance sheet carrying amount USD
Borrowings (Note 23)	26,167,703	10,309,229	–	–	36,476,932	34,200,000
Trade and other payables (Note 24)	17,071,358	35,315	–	–	17,106,673	17,106,673
Long-term payables (Note 26)	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 FINANCIAL INSTRUMENTS (continued)

(f) Fair values

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

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 consolidated balance sheet are not materially different from their fair values as at 31 December 2010.

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

The amounts of borrowings and long-term payables carried on the consolidated balance sheet are not materially different from their fair values as at 31 December 2010.

31 COMMITMENTS

(a) Capital commitments

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

	2010	2009
	USD	USD
Contracted for	**80,078,925**	81,096,544
Authorised but not contracted for	**102,592,118**	–
	182,671,043	81,096,544

31 COMMITMENTS (continued)

(b) Operating lease commitments

(i) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2010 USD	2009 USD
Within 1 year	**1,340,130**	890,161
After 1 year but within 5 years	**825,372**	1,061,431
	2,165,502	1,951,592

(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 27 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 could be material but cannot be estimated reasonably at present.

32 MATERIAL 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 year. During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS Holding LLC ("MCS")	Shareholder
Officenet LLC ("Officenet")	Subsidiary of MCS
MCS Property LLC ("MCS Property")	Subsidiary of MCS
MCS Electronics LLC ("MCS Electronics")	Subsidiary of MCS
MCS Anun LLC ("Anun")	Subsidiary of MCS
MCS International LLC ("MCS International")	Subsidiary of MCS
Erchim Suljee LLC ("Erchim Suljee")	Subsidiary of MCS

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2010 are as follows:

	2010 USD	2009 USD
Interest income (Note (i))	**42,360**	72,522
Interest expenses (Note (ii))	**–**	157,762
Ancillary services (Note (iii))	**25,152,291**	5,284,905
Purchase of goods (Note (iv))	**385,989**	829,630
Lease of property, plant and equipment (Note (v))	**1,177,038**	1,446,472
(Repayment of loans from)/loans provided to related parties (Note (vi))	**(2,306,480)**	2,306,480
Purchase of equipment and construction work (Note (vii))	**42,408,518**	11,672,642

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

(ii) Interest expense in 2009 represented interest incurred in respect of borrowings from MCS. The applicable interest rates range 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, where 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, where applicable.

32 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

(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 provided loans to MCS and MCS Electronics in 2009 and collected back the loans in 2010.

(vii) Purchase of equipment and construction work represents expenditure relating 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.

Except for the loans provided to and from the related parties and the corresponding interest income and expenses which were terminated before 31 January 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

	2010 USD	2009 USD
Other receivables (Note 21(b)(i))	**346,770**	3,038,127
Other accruals and payables (Note 24(iii))	**(5,329,346)**	(2,052,326)

(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 9, and certain of the highest paid employees as disclosed in note 10, is as follows:

	2010 USD	2009 USD
Salaries and other emoluments	**893,986**	786,013
Discretionary bonuses	**1,898,145**	223,008
Retirement scheme contributions	**201,279**	69,860
	2,993,410	1,078,881

33 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 on a 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 the 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 to provide for the 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.

33 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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 requires 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 net profit in future years.

34 ULTIMATE CONTROLLING PARTY

As at 31 December 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.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB issued a number of amendments and interpretations and one new standard which were not in effect for the year ended 31 December 2010 and so have not been adopted in these financial statements. These include the following which may become relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 32, Financial instruments: Presentation-Classification of right issues	1 February 2010
IFRIC 19, Extinguishing financial liabilities with equity instruments	1 July 2010
Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards-Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Revised IAS 24, Related party disclosures	1 January 2011
Amendments to IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement	1 January 2011
Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards-Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
Amendments to IFRS 7, Financial instruments: Disclosures-Transfers of Financial assets	1 July 2011
Amendments to IAS 12, Income taxes-Deferred tax: Recovery of underlying assets	1 January 2012
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.

Financial Summary

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	2010 USD	2009 USD	2008 USD	2007 USD
Revenue	**277,501,594**	66,982,707	–	–
Cost of revenue	**(164,368,042)**	(38,682,328)	–	–
Gross profit	**113,133,552**	28,300,379	–	–
Other revenue	**511,513**	70,002	80,989	–
Other net expenses	**(187,023)**	(34,813)	(8,575)	(3,506,536)
Administrative expenses	**(38,685,208)**	(10,427,093)	(4,043,792)	(442,629)
Profit/(loss) from operations	**74,772,834**	17,908,475	(3,971,378)	(3,949,165)
Finance income	**12,335,090**	342,318	12,856	6,629
Finance costs	**(4,214,161)**	(3,860,204)	(1,139,261)	(30,026)
Share of profits/(losses) of associate	**1,761**	(9,702)	29,735	–
Profit/(loss) before taxation	**82,895,524**	14,380,887	(5,068,048)	(3,972,562)
Income tax	**(22,756,820)**	(4,110,723)	1,488,616	942,658
Profit/(loss) attributable to the equity shareholders of the Company	**60,138,704**	10,270,164	(3,579,432)	(3,029,904)
Basic and diluted earnings/(losses) per share	**1.91 cents**	0.34 cents	(0.12 cents)	(0.10 cents)

SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

	2010 USD	2009 USD	2008 USD	2007 USD
Assets and liabilities				
Total assets	**1,053,270,499**	113,230,022	35,926,149	1,984,972
Total liabilities	**(325,989,587)**	(69,388,654)	(21,135,535)	(2,967,588)
Net assets/(liabilities)	**727,280,912**	**43,841,368**	**14,790,614**	**(982,616)**
Equity attributable to equity shareholders of the Company	**727,280,912**	**43,841,368**	**14,790,614**	**(982,616)**

Glossary and Technical Terms

"aimag"	The highest level of Mongolian administrative subdivision (essentially equivalent to a province), of which there are 21 in Mongolia
"BCM"	Bank cubic meter
"BOT"	A type of contract arrangement in which a private sector entity builds an infrastructure project, operates it and eventually transfers ownership of the project to the government
"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "Group", "our Group", "we", "us", "our" or "Mongolian Mining Corporation"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010 and except where the context indicates otherwise (i) our subsidiaries; and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
"DAF"	Delivered At Frontier, the seller's obligation ends when they have delivered the goods to the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import and the named point and place at the frontier but before the customs border of the adjoining country. The buyer is responsible for customs clearance, duties, taxes, and delivery to final destination at the country of import
"EPCM"	Engineering, Procurement, Construction and Management, a form of contract where the contractor will design and install the equipment, procure and install the necessary materials, and be responsible of managing the process of the installation
"Ganqimaodu"	The China side of the China-Mongolia border crossing
"Ger"	A ger is a portable, felt-covered, wood lattice-framed dwelling structure traditionally used by nomads. A ger is more home-like in shape and build, with thicker walls than that of a tent
"Group"	the Company and its subsidiaries

Glossary and Technical Terms

"GS"	Gashuun Sukhait, the Mongolia side of the China-Mongolia border crossing
"HCC"	Hard coking coal
"indicated mineral resource"	That part of a mineral resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed
"inferred mineral resource"	That part of a mineral resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
"JORC"	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"metallurgical coal"	Coal used in the process of manufacturing steel. It is also known as coking coal
"middlings"	Partially refined coal
"mineral reserve"	The economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined

"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Mt"	Million tonnes
"Mtpa"	Million tonnes per annum
"MW"	Megawatt
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"probable reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
"raw coal"	Generally means coal that has not been washed and processed
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)

Glossary and Technical Terms

"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic meters) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"target market region" or "TMR"	Includes most of the Chinese territory immediately adjacent to Mongolia's southern border with China's Inner Mongolia and Gansu provinces, extending as far west as the Xinjiang provincial border. Eastward it extends to cover Liaoning province, and southward to Jiangsu province, including the three major coal exporting ports of Qinhuangdao, Tianjin and Huanghua
"Tavan Tolgoi"	Means the coal formation located in South Gobi, Mongolia which includes our UHG deposit
"thermal coal"	Also referred to as "steam coal" or "steaming coal," thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonization properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"TKH"	Tsagaan Khad
"tonne"	Metric ton
"Tsogttsetsii"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"UHG"	Ukhaa Khudag
"UHG deposit"	Means our Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	Means the aboveground (<300m) portion of our UHG deposit
"washed coal"	Coals that have been washed and processed to reduce its ash content


MONGOLIAN
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