MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

HIGHLIGHTS

In 2011, the Group has successfully completed all major production and infrastructure development projects in line with its strategic objectives, resulting in the Company's transformation into a fully-fledged coal mining, processing, transportation, and marketing platform.

For the year ended 31 December 2011, the Group's production of run-of-mine ("**ROM**") coal reached approximately 7.1 million tonnes, surpassing the Group's original target of 7.0 million tonnes by approximately 0.1 million tonnes and representing a year-on-year increase of approximately 82.1% (2010: 3.9 million tonnes).

The Group's revenue amounted to approximately USD542.6 million for the year ended 31 December 2011, representing an increase of approximately USD265.1 million, or approximately 95.5% as compared to approximately USD277.5 million for the year ended 31 December 2010.

The profit attributable to the equity shareholders of the Company for the year ended 31 December 2011 was approximately USD119.1 million, representing an increase of approximately USD59.0 million, or approximately 98.2% as compared to approximately USD60.1 million for the year ended 31 December 2010.

Free cash flow generated from operations amounted to approximately USD21.0 million for the year ended 31 December 2011.

The basic earnings per share attributable to the equity shareholders of the Company amounted to approximately USD3.21 cents for the year ended 31 December 2011, as compared to approximately USD1.91 cents for the year ended 31 December 2010. The diluted basic earnings per share attributable to the equity shareholders of the Company amounted to approximately USD3.07 cents for the year ended 31 December 2011, as compared to approximately USD1.91 cents for the year ended 31 December 2010.

In view of the major production and infrastructure development projects committed or being planned by the Company, the Board decided not to pay any dividend for the year ended 31 December 2011 despite MMC's record earnings (dividend in 2010: nil).

The board (the "**Board**") of directors (the "**Directors**") of Mongolian Mining Corporation ("**MMC**" or the "**Company**") is pleased to announce the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	Note	**2011**	2010
		USD'000	*USD'000*
Revenue	*4*	**542,568**	277,502
Cost of revenue	*5*	**(336,368)**	(164,368)
Gross profit		**206,200**	113,134
Other revenue		**435**	511
Other net expenses		**76**	(187)
Administrative expenses		**(60,303)**	(38,685)
Profit from operations		**146,408**	74,773
Finance income	*6(a)*	**22,236**	12,335
Finance costs	*6(a)*	**(13,785)**	(4,214)
Net finance income	*6(a)*	**8,451**	8,121
Share of (losses)/profit of associates		**(119)**	2
Profit before taxation	*6*	**154,740**	82,896
Income tax	*7*	**(35,650)**	(22,757)
Profit for the year		**119,090**	60,139
Other comprehensive income for the year			
Exchange differences on re-translation		**(79,153)**	7,601
Total comprehensive income for the year		**39,937**	67,740
Profit attributable to the equity shareholders of the Company		**119,090**	60,139
Total comprehensive income attributable to the equity shareholders of the Company		**39,937**	67,740
Basic earnings per share	*8*	**3.21 cents**	1.91 cents
Diluted earnings per share	*8*	**3.07 cents**	1.91 cents

CONSOLIDATED BALANCE SHEET
As at 31 December 2011

	Note	2011 USD'000	2010 USD'000
Non-current assets			
Property, plant and equipment, net		**347,109**	76,646
Construction in process		**183,229**	232,784
Lease prepayments		**105**	118
Intangible assets	*11*	**681,352**	–
Interest in associate		**4,278**	19
Other non-current assets		**7,423**	26,889
Deferred tax assets		**9,698**	1,681
Total non-current assets		**1,233,194**	338,137
Current assets			
Inventories		**57,734**	7,876
Trade and other receivables	*12*	**109,322**	32,350
Cash at bank and in hand		**227,765**	674,907
Total current assets		**394,821**	715,133
Current liabilities			
Short-term borrowings and current portion of long-term borrowings		**333,568**	85,909
Trade and other payables	*13*	**118,680**	40,315
Current taxation		**17,508**	5,455
Convertible bond		**83,508**	–
Obligations under finance lease		**247**	–
Total current liabilities		**553,511**	131,679
Net current (liabilities)/assets		**(158,690)**	583,454
Total assets less current liabilities		**1,074,504**	921,591
Non-current liabilities			
Interest-bearing borrowings, less current portion		**144,661**	165,214
Long-term payables		**–**	16,811
Accrued reclamation obligations		**11,110**	6,904
Deferred tax liabilities		**149,656**	5,381
Obligations under finance lease		**213**	–
Total non-current liabilities		**305,640**	194,310
NET ASSETS		**768,864**	727,281
CAPITAL AND RESERVES			
Share capital		**37,050**	37,050
Reserves		**731,814**	690,231
TOTAL EQUITY		**768,864**	727,281

NOTES

1. CORPORATE INFORMATION

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.

Pursuant to a share purchase agreement dated 31 May 2011, the Group acquired the entire issued share capital of Baruun Naran Limited (formerly named as QGX Coal Limited) ("**QGX**"). Details of the acquisition are set out in Note 10.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated 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**"). 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 of Hong Kong Limited.

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

The IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. 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, except for IFRIC 20, *Stripping costs in the production phase of a surface mine,* the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position other than additional disclosure may arise.

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries and its interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Derivative financial instruments; and

– Share-based payments.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

The consolidated financial statements are presented in United States Dollar ("**USD**"), which is the presentation currency of the Group. The functional currency of the Group's Mongolian entities is Mongolian Togrog ("**MNT**") and of the Group's overseas entities is USD.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Reserves

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses. 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 depreciated and amortised based on the units produced.

(b) Useful lives of property, plant and equipment

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

(c) Impairment of assets

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

In relation to trade and other receivables (including value-added tax ("**VAT**") receivables), a provision for impairment is made and an impairment loss is recognised in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Management uses judgement in determining the probability of insolvency or significant financial difficulties of the debtor.

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

(d) Obligation for reclamation

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

(e) Recognition of deferred tax assets

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

(f) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgment is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(g) Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Group. It requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

(h) Capitalised stripping costs

The Group capitalises stripping (waste removal) costs incurred during the production phase to the extent that the actual waste to ore ratio is higher than the estimated ratio. This calculation requires the use of judgements and estimates relating to the expected tonnes of waste to be removed over the life of the mining area and the expected economically recoverable reserves to be extracted as a result. Changes in a mine's life and design will usually result in changes to the average life of mine strip ratio. These changes are accounted for prospectively.

4. REVENUE

The Group is principally engaged in the mining, transportation and sale of coal. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2011	2010
	USD'000	*USD'000*
Raw coking coal	**306,610**	277,444
Washed coking coal	**235,220**	–
Others	**738**	58
	542,568	277,502

During the year ended 31 December 2011, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD184,985,000, USD148,540,000 and USD73,563,000, respectively.

During the year ended 31 December 2010, the Group had four customers that individually exceeded 10% of the Group's turnover, being USD105,175,000, USD92,742,000, USD33,488,000 and USD27,335,000, respectively.

5. COST OF REVENUE

	2011	2010
	USD'000	*USD'000*
Mining costs	**120,326**	78,759
Processing costs	**21,738**	–
Transportation costs	**107,928**	60,626
Others*	**86,376**	24,983
	336,368	164,368

* Others include USD48,232,000 (2010: USD10,116,000) relating to the royalty tax on the coal sold.

6. PROFIT BEFORE TAXATION

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

(a) Net finance income:

	2011	2010
	USD'000	*USD'000*
Interest income	**(22,236)**	(294)
Foreign exchange gain, net	**–**	(12,041)
Finance income	**(22,236)**	(12,335)
Interest on bank and other borrowings	**18,403**	10,578
Fair value adjustment on derivative component of convertible bond	**(7,863)**	–
Interest on liability component of convertible bond	**3,371**	–
Transaction costs	**6,495**	3,655
Unwinding interest on		
– other long-term payables	**168**	159
– accrued reclamation obligations	**567**	332
Less: Interest expense capitalised*	**(9,229)**	(10,510)
Net interest expense	**11,912**	4,214
Foreign exchange loss, net	**1,873**	–
Finance costs	**13,785**	4,214
Net finance income	**(8,451)**	(8,121)

* Borrowing costs have been capitalised at a rate of 5% and 8% per annum for the years ended 31 December 2011 and 2010, respectively.

(b) Staff costs:

	2011	2010
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**17,584**	9,706
Retirement scheme contributions	**2,201**	1,039
Equity-settled share-based payment expenses	**1,646**	–
	21,431	10,745

Pursuant to the relevant labour 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 11%-13% of the eligible employees' salaries.

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

(c) Other items:

	2011 *USD'000*	2010 *USD'000*
Depreciation and amortisation	**19,370**	3,204
Operating lease charges:		
Minimum lease payments		
– hire of plant and machinery	**1,049**	1,525
– hire of other assets (including property rentals)	**1,107**	283
	2,156	1,808
Net losses on disposal of property, plant and equipment	**438**	187
Auditors remuneration		
– audit services	**780**	330
– tax services	**195**	87
	975	417
Listing expenses allocated to profit or loss	**–**	5,572
Cost of inventories#	**336,368**	164,368

Cost of inventories includes USD29,961,000 (2010: USD4,674,000), 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. TAXATION

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

	2011 *USD'000*	2010 *USD'000*
Current tax		
Provision for the year		
– Mongolian Enterprise Income Tax	**49,367**	19,371
Deferred tax		
Origination and reversal of temporary difference	**(13,717)**	3,386
	35,650	22,757

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

	2011	2010
	USD'000	*USD'000*
Profit before income tax	**154,740**	82,896
Notional tax on profit before taxation	**35,725**	19,642
Tax effect of non-deductible items *(Note (iii))*	**1,508**	1,258
Tax effect of non-taxable items *(Note (iv))*	**(2,588)**	(242)
Tax loss not recognised	**1,005**	2,099
Actual tax expenses	**35,650**	22,757

Notes:

(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 2011 and 2010.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2011 and 2010.

(iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses during the years ended 31 December 2011 and 2010.

(iv) Non-taxable items mainly represent the unrealized exchange gains during the years ended 31 December 2011 and 2010.

8. EARNINGS PER SHARE

(a) Basic earnings per share

For the year ended 31 December 2011, the calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of USD119,090,000 and the weighted average of 3,705,036,500 ordinary shares, calculated as follows:

Weighted average number of ordinary shares:

	2011	2010
Issued ordinary shares at 1 January	**3,705,036,500**	–
Issued ordinary shares immediately after the group reorganisation completed on 17 September 2010 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	**3,705,036,500**	3,152,163,310

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the year ended 31 December 2010. The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to the equity shareholders of the Company of USD114,716,000 and the weighted average of 3,740,633,369 ordinary shares in issue during the year, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2011
	USD'000
Profit attributable to the equity shareholders of the Company	119,090
After tax effect of:	
– fair value adjustment on the derivative component of convertible bond	(7,863)
– interest on the liability component of convertible bond	3,371
– attributable transaction costs on the derivative component of convertible bond	118
Profit attributable to the equity shareholders of the Company (diluted)	114,716

(ii) Weighted average number of ordinary shares (diluted)

	2011
Weighted average number of ordinary shares as at 1 January	3,705,036,500
Effect of conversion of convertible bond	35,596,869
Weighted average number of ordinary shares (diluted) as at 31 December	3,740,633,369

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted earnings per share.

9. SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal. The majority of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sales of coal. Accordingly, no additional business and geographical segment information are presented.

10. ACQUISITION OF SUBSIDIARIES

The Group entered into a share purchase agreement with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited (collectively the "**Seller**") on 31 May 2011 ("**Share Purchase Agreement**") in relation to the acquisition of the entire issued share capital of Baruun Naran Limited (formerly named as QGX Coal Limited) ("**QGX**") (the "**Acquisition**"). QGX ultimately owns the Baruun Naran Coking Coal Mine ("**BN mine**"), which is located in southern Mongolia, Umnugobi Aimag (South Gobi province). The Acquisition was completed on 1 June 2011.

The consideration for the Acquisition includes:

(i) USD100,000,000 immediately paid by the Group to the Seller on 1 June 2011;

(ii) USD279,465,000 of the cash payable by the Group to the Seller is in the form of a promissory note with a 2-month period;

(iii) USD85,000,000 by the issue of the Convertible Bond by the Company to QGX Holdings Ltd, a subsidiary of Kerry Mining (Mongolia) Limited; and

(iv) USD21,874,000 of intercompany loans transferred to the Group, which were previously owned by QGX to the Seller (the "**Intercompany loans**").

The above consideration may be adjusted as follows:

(i) Approximately 18 months to 21 months from the date of the Share Purchase Agreement, an additional payment may be payable to the Seller or a claw back may be payable by the Seller in the amount of USD3 per tonne to the extent to which Total Reserves exceeds 150,000,000 tonnes or are less than 150,000,000 tonnes, respectively (the "**Reserve Adjustment**"). Under the Reserve Adjustment, the maximum amount payable to the Seller will be USD105,000,000 and the maximum amount payable by the Seller will be USD90,000,000; and

(ii) An additional life of mine payment of USD6 per tonne in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of Total Reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December (the "**Royalty Provision**").

Taking into account the Reserve Adjustment and the Royalty Provision, the total amount of payment to be received by the Seller for the Acquisition is not to exceed USD950,000,000 over the life of the BN mine.

In connection with the Acquisition, transaction costs of approximately USD4.3 million were incurred, which have been included in the Group's administrative expenses for the year ended 31 December 2011.

The following summarises the consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Identifiable assets acquired and liabilities assumed as at 1 June 2011:

	Carrying value	**Fair value adjustments**	**Fair value**
	USD'000	*USD'000*	*USD'000*
Property, plant and equipment	6,206	(149)	6,057
Construction in progress	18,582	–	18,582
Intangible assets	–	596,557	596,557
Other receivables	2,148	–	2,148
Cash and cash equivalents	805	–	805
Intercompany loans	(21,874)	–	(21,874)
Other payables	(3,739)	–	(3,739)
Deferred tax liabilities	–	(149,105)	(149,105)
Total net identifiable assets	2,128	447,303	449,431

Consideration transferred as at 1 June 2011:

	Fair value
	USD'000
Cash	100,000
Fair value of promissory note	279,465
Fair value of convertible bond	90,340
Fair value of contingent considerations	1,500
Less: Fair value of Intercompany loans	(21,874)
Fair value of total consideration	449,431

The initial fair value/acquisition accounting for QGX was determined provisionally. In accordance with IFRS3, adjustments to the fair value of the consideration and the assets acquired and liabilities assumed can be made during the 12 months from the date of acquisition.

An analysis of the payment for the acquisition of subsidiaries is as follows:

	1 June 2011
	USD'000
Cash consideration paid	100,000
Add: transaction costs in relation to the Acquisition	4,299
Less: cash and cash equivalents acquired	(805)
Fair value of total consideration	103,494

In June 2011, the Group obtained the short-term interest-bearing borrowings from Standard Bank Plc ("**Standard Bank**") of USD400,000,000, among which USD279,465,000 was paid by Standard Bank to the Seller directly to early settle the promissory note as mentioned above.

11. INTANGIBLE ASSETS

	Acquired mining right	**Operating paved road right**	**Total**
	USD'000	*USD'000*	*USD'000*
Cost:			
At 1 January 2011	–	–	–
Addition in relation to the Acquisition *(Note 10)*	596,557	–	596,557
Transfer from construction in progress	–	95,817	95,817
Exchange adjustments	–	(8,978)	(8,978)
At 31 December 2011	596,557	86,839	683,396
Accumulated amortisation:			
At 1 January 2011	–	–	–
Charge for the year	–	2,256	2,256
Exchange adjustments	–	(212)	(212)
At 31 December 2011	–	2,044	2,044
Carrying amount:			
At 1 January 2011	–	–	–
At 31 December 2011	596,557	84,795	681,352

Acquired mining right represents the mining right acquired during the acquisition of QGX (see Note 10). As QGX has not commenced the commercial production by 31 December 2011, there was no amortization related to the acquired mining right during the year ended 31 December 2011.

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. Under the terms of the Agreement, the Group will use its own funds to construct the paved road. In return, it enjoys an unrestricted use right to possess, use, operate the paved road for 10 years period after commission of the road. The Group will use the road primarily for the purpose of transporting coals from its mine site to the Mongolia-China border at Gashuun Sukhait, which is the gate to the designated delivery port of the majority of its customers. In addition, the paved road may be opened to public use subject to certain weight restrictions whereupon the Group may direct users. The Group has completed and commissioned the paved road on 6 October 2011.

12. TRADE AND OTHER RECEIVABLES

	2011	2010
	USD'000	*USD'000*
Trade receivables *(Note (a))*	**41,445**	288
Other receivables *(Note (c))*	**72,022**	32,062
	113,467	32,350
Less: allowance for doubtful debts *(Note (b))*	**(4,145)**	–
	109,322	32,350

Notes:

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. As at 31 December 2011, all of the trade receivables are aged within one year.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

As at 31 December 2011, an allowance for doubtful debts amounting to USD4,145,000 (2010: Nil) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date, which have been included in "administrative expenses" in the consolidated statement of comprehensive income.

(c) Other receivables

	2011	2010
	USD'000	*USD'000*
Amounts due from related parties *(Note (i))*	**455**	347
Prepayments and deposits *(Note (ii))*	**17,695**	7,014
VAT receivables *(Note (iii))*	**43,697**	23,920
Others *(Note (iv))*	**10,175**	781
	72,022	32,062

Notes:

(i) Amounts due from related parties are unsecured, interest free and have no fixed repayment terms.

(ii) As at 31 December 2011, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

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

(iv) At 31 December 2011, others mainly represent the reimbursement receivables due from Erdenes MGL LLC and Government of Mongolia of USD4.5 million each for the construction costs in relation to the expansion project of the border crossing in Mongolian side at Gashuun Sukhait, which are interest-free.

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

13. TRADE AND OTHER PAYABLES

	2011	2010
	USD'000	*USD'000*
Trade payables *(Note (i))*	**18,523**	4,772
Receipts in advance *(Note (ii))*	**9,160**	18,842
Amounts due to related parties *(Note (iii))*	**9,560**	5,329
Payables for purchase of equipment	**36,018**	3,913
Security deposit on construction work	**9,259**	128
Interest payables	**2,544**	3,776
Other taxes payables	**21,354**	326
Provision for contingent considerations	**1,500**	–
Others *(Note (iv))*	**10,762**	3,229
	118,680	40,315

Notes:

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

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

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

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

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

14. DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2011 (dividend in 2010: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Looking back for last twelve months, the Group is proud to emphasize that last year the Company has completed all major production and infrastructure development projects in line with its strategic objectives, thus accomplishing the transformation process to a fully-fledged coal mining, processing, transportation, and marketing platform.

In the second quarter of 2011, the first phase of the coal handling and preparation plant ("**CHPP**"), with an annual processing capacity of 5 million tonnes, was successfully commissioned by relevant Mongolian governmental authorities and launched its commercial operations at the Ukhaa Khudag ("**UHG**") mine as planned. The Company's CHPP is the first of its kind in Mongolia and was designed to be a customized solution to UHG coal to maximize the coking coal product yield and utilizes modern equipment of well-known brands from Australia, USA, Europe, South Africa and China.

The CHPP operations enables the Company to produce and sell washed coking coal products under the Company's brand names, reduce transportation and logistics costs and boost its competitiveness in the international market by expanding its end-user customer base. Moreover, the significance of this project is driven higher as 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.

The Group progressed as scheduled with planned expansion of its coal processing capacity by completing the construction and installation work at second phase of the CHPP in the last quarter of 2011. The second phase is expected to commence commercial operations after its commissioning in first quarter of 2012, thus bringing total processing annual capacity to 10 million tonnes. The third phase is currently under construction with targeted completion by end of 2012, thus expanding its total processing annual capacity to 15 million tonnes.

The next significant milestone achieved in the Company's long-term development and sustainable business growth objective during the period under review was the successful acquisition of the entire issued share capital of QGX, which holds the mining license 14993A for BN mine through its wholly-owned subsidiary.

The BN mine is located in Umnugobi Aimag in southern Mongolia, which is approximately 500 km south of Ulaanbaatar, the capital of Mongolia and approximately 60 km east of Dalanzadgad, the provincial center. It is located approximately 30 km south-west from the Group's UHG deposit.

The Group believes that this acquisition, completed on 1 June 2011, provides the Group with a unique opportunity to control a quality coking coal asset in an advanced development stage that is strategically located adjacent to the UHG deposit. The Group believes that the asset will allow the Group to expand its existing footprint in Mongolia, solidify the Company's position as the leading coking coal miner in Mongolia, and to realize its growth via acquisitions while enhancing value for shareholders of the Company by further expanding its coking coal business.

The BN mine was successfully commissioned by the state commission comprised of specialists from various government agencies of Mongolia on 1 February 2012.

During the period under review, the Group achieved the production of approximately 7.1 million tonnes of run-of-mine ("**ROM**") coal, thus surpassing the Group's original target of 7.0 million tonnes by approximately 0.1 million tonnes, representing an increase of approximately 82.1% from the previous year (2010: 3.9 million tonnes).

In 2011, the Group grew its revenue by approximately 95.5% to approximately USD542.6 million from the previous year (2010: USD277.5 million). The increase was primarily attributable to the increase in average selling price ("**ASP**") and also to increased sales volume.

The Group sold approximately 4.8 million tonnes of coal as a combination of raw and washed hard coking coal representing volume increase by approximately 23.1% from the previous year (2010: 3.9 million tonnes) at an ASP of USD113.9 per tonne, representing an increase of approximately 60.9% from the previous year (2010: USD70.8 per tonne). The increase in the Group's average selling price was due to (i) commencing sale of washed coal, (ii) shifting the delivery point of the Group's coal sales from UHG to TKH and GM, (iii) increase in the market price of coking coal. Because the Group started processing our coal in the second half of 2011, the amount of raw coal sales decreased from 3.9 million tonnes in 2010 to 3.3 million tonnes in 2011.

During the period under review, according to the data issued by the National Statistical Office of Mongolia, the Group exported approximately 4.8 million tonnes of coal or about 22.7% of Mongolia's total coal exports (2010: 23.7%).

The profit attributable to equity shareholders of the Company for 2011 was approximately USD119.1 million, representing an increase of approximately USD59.0 million, or approximately 98.2% as compared to approximately USD60.1 million for 2010.

Operating Environment

Mongolian coal exports and Chinese coal imports dynamics

In 2011, according to the data issued by the National Statistical Office of Mongolia, Mongolia exported around 21.1 million tonnes of coal, approximately 28.7%% more than the 16.4 million tonnes exported in 2010. Virtually all of Mongolia's coal exports went to China.

Last year China, the largest coal producer in the world, surpassed Japan to become the largest coal importer as well. In 2011, China imported 183.2 million tonnes coal, 7.2 million tonnes more than that by Japan, and rising around 11% year-on-year, showed data compiled from public sources. The increase in coal imports is mainly attributed to huge demand of the fuel from inland areas amid economic growth.

As the world's largest steel producer and consumer, China has become a net coking coal importer for three straight years since 2009. China imported approximately 44.7 million tonnes of coking coal in 2011, thus remaining as the second largest coking coal importer, despite slight decrease of approximately 5.5% compared to approximately 47.3 million tonnes imported in 2010.

As shown in the table below, in 2011, Mongolia has become the largest supplier of coking coal to China and Mongolian imports account for 44.7% of total Chinese coking coal imports (2010: 31.7%).

Chinese coking coal import volumes by country of origin
(in million tonnes, source: China Coal Resource)

	2011	2010	Change %
Total	44.7	47.3	-5.5%
Mongolia	20.0	15.0	+33.3%
Australia	10.3	17.4	-40.8%
USA	4.3	3.5	+22.9%
Russia	3.7	4.6	-19.6%
Canada	3.2	3.5	-8.6%

China's coal imports are expected to maintain stable growth and coal exports will keep at a low level in 2012, taking into account domestic and overseas coal supply, demand situation and the government policies, according to an industry analysts' report.

Legal framework

Effective from 1 January 2011, the amendment to the 2006 Minerals Law introduced progressive surtax royalty rate in addition to the previous flat-rate royalty at 5%. The amendment provides the maximum and minimum rate of the progressive royalty rate payable in addition to the flat-rate royalty rate 5% which varies by the market price and level of processing. However, the 2.5% royalty rate for coal for domestic consumption and common minerals has not been affected by the amendment.

By adding Articles 47.4 to 47.8 to the Minerals Law, the royalty will be calculated from the sales of the elements extracted from hard rock mineral deposit and other mineral deposits. The sales value of the mineral products, other than gold and silver, which are sold, shipped for sale, or used, is defined based on the monthly model price stipulated on the Ministry of Mineral Resources and Energy website. Yet the sales value of coal for domestic consumption and common minerals is calculated on the basis of the price determined by the National Statistical Office of Mongolia. In addition, the royalty rate payable under the Minerals Law will be increased if the market price for the mineral in question reaches certain threshold. Besides the market price, level of the proposed progressive royalty will also depend on the level of processing of the minerals. The more processed the minerals are, the lower the progressive royalty rate shall be. For example, the progressive royalty rate for coal would be from 1% to 5% if coal price goes above the threshold price of USD25 per tonne. However, if coal is further processed, the progressive royalty rate is much less, amounting to 1% to 3%. In case of washed or processed coal, the threshold price is much higher, being USD100 per tonne. If coal price is above USD100 to USD130, the washed coal will be subject to 1% progressive royalty rate. According to the Amendment, the progressive royalty rate shall be imposed on either of ore, processed mineral or end product depending on the level of processing so as to avoid double taxation.

On 21 July 2009, the Parliament of Mongolia has passed an Amendment to the Law on VAT of Mongolia, pursuant to which only exported "processed mineral products" become subject to zero rate VAT. Before the amendment, there was no distinction between processed and raw mineral products and all kind of mineral products that are exported which were subject to zero rate VAT regardless of its level of processing. As such, an exporter of mineral products could have the VAT refunded at 10% rate on the purchases of services and goods paid for its operation to produce exported minerals. However, after the enactment of the Amendment as mentioned previously, only so-called processed mineral products, i.e. processed minerals become subject to zero-rate VAT. This means that an exporter of mineral products, other than "processed mineral products" for export, are not entitled to have the VAT paid on the purchases of goods and services used for its mining operation refunded. As a result, operating costs of an exporter of mineral ore or unprocessed mineral are to increase.

Fuel Supply Situation in Mongolia

In May and June 2011, Mongolia faced shortage of Russian fuel supply, which supplies more than 98% of the entire Mongolian fuel usage. However, the Group managed to overcome this situation with minimal impact on its operations and projects being implemented. In the following months, the situation has been normalized. According to the public sources, the Mongolian government authorities agreed with the Russian supplier to guarantee a minimum of 40,000 tonnes per month of fuel supply to Mongolia, and in addition 10,000 tonnes per month to be supplied from China.

The Group has taken the steps to agree with its fuel supplier to increase the capacity of onsite fuel storage facilities at UHG mine to 6 million liters and also provide additional storage facilities for up to 20 million liters of fuel, if required.

Coal Resources, Reserves and Exploration Activities

Ukhaa Khudag deposit

Covering a licensed area of approximately 2,960 hectares, the Group's UHG deposit area, as at 31 December 2011, had 489.8 million tonnes and 275.0 million tonnes of JORC-compliant measured and indicated coal resources and proved and probable reserves respectively.

UHG coal resources by type and category (in million tonnes):

Category	Resources above -300 m			Resources below -300 m			Total Resources		
	Coking	Thermal	Total	Coking	Thermal	Total	Coking	Thermal	Total
Measured	126.1	69.8	195.9	–	–	–	126.1	69.8	195.9
Indicated	164.2	41.1	205.3	50.7	37.9	88.6	214.9	79.0	293.9
Inferred	–	11.7	11.7	42.2	27.1	69.3	42.2	38.8	81.0
Total	290.3	122.6	412.9	92.9	65.0	157.9	383.2	187.6	570.8
Total Measured and Indicated	290.3	110.9	401.2	50.7	37.9	88.6	341.0	148.8	489.8

During 2011, approximately 67,414 meters of drilling and approximately 25km of two dimensional seismic work were completed with associated downhole geophysical logging of all boreholes and laboratory test work out on all samples collected.

This exploration data will be used to update the geological and coal quality model, and hence the JORC-compliant resource and reserve estimates in 2012.

Baruun Naran deposit

In June 2011, the Group acquired the entire issued capital of QGX, which ultimately owns the BN mine. The Group's mining license for the BN mine covers an area of approximately 4,482 hectares. McElroy Bryan Geological Services Pty Ltd prepared the geological model for the BN mine in February 2010 in accordance with JORC standards, and identified approximately 281.7 million tonnes of JORC-compliant measured and indicated resources.

BN coal resources by type and category (in million tonnes):

	Resources above -300 m			Resources below -300 m			Total Resources		
Category	**Coking**	**Thermal**	**Total**	**Coking**	**Thermal**	**Total**	**Coking**	**Thermal**	**Total**
Measured	97.1	71.8	168.9	21.0	19.2	40.2	118.1	91.0	209.1
Indicated	18.6	24.4	43.0	16.2	13.4	29.6	34.8	37.8	72.6
Inferred	–	–	–	–	0.5	0.5	–	0.5	0.5
Total	115.7	96.2	211.9	37.2	33.1	70.3	152.9	129.3	282.2
Total Measured and Indicated	115.7	96.2	211.9	37.2	32.6	69.8	152.9	128.8	281.7

In March 2011, SRK Consulting completed a reserve estimation report for the BN mine, identifying approximately 185.3 million tonnes of open-pit mineable, JORC-compliant proven and probable coal reserves.

The Company anticipates this reserve estimate may change and has begun to conduct its own studies and analyses for the future development of the BN mine, with the aim of preparing a life-of-mine ("**LOM**") mining study and JORC-compliant reserves re-estimation by the end of 2012.

Mine Production

In 2011, the Group reached approximately 7.1 million tonnes ROM coal production from UHG mine surpassing the scheduled ROM production target of 7.0 million tonnes. This is around 82.1% higher than the 3.9 million tonnes mined in 2010. The stripping ratio was approximately 5.16 BCM/tonne compared to approximately 5.06 BCM/tonne in previous year.

Below are historical ROM coal production figures at the UHG mine (in tonnes):

Period	**2009**	**2010**	**2011**
UHG ROM	1,840,940	3,932,586	7,077,324

In 2011, the Group's total mining costs for coal sold were approximately USD120.3 million. Of this, approximately 38.4% were primarily fuel, labor and other employee-related costs, as well as drilling and blasting expenses directly incurred by the Group. The remainder was incurred by the Group's mining contractor and was primarily related to the depreciation, repair and maintenance of the mining equipment used at the Group's UHG mine, as well as costs associated with major repair provisions, insurance and financing-related matters.

In 2011, the Group's unit mining cost associated with coal sold was approximately USD25.3 per tonne. The cost component incurred by implementation of VAT law provisions for processed and raw minerals export is approximately USD3.0 per tonne. As the Group currently is the only producer of washed hard coking coal in Mongolia, the Group is ideally positioned to benefit from the advantage of enjoying a zero rate VAT.

Based on the Group's year-to-date performance, surpassing 900,000 tonnes of monthly average ROM coal production level for last quarter of 2011, well-established cooperation with the Group's mining contractor Leighton and with all planned major mining equipment delivered to UHG mine site, the Group's management is confident that its ROM coal production target of 10.7 million tonnes for UHG mine in 2012 is achievable.

Coal Handling and Preparation Plant

Trial run of the first phase of the CHPP with a capacity of 5.0 million tonnes per annum ("**Mtpa**") commenced on 12 May 2011, followed by commissioning by relevant Mongolian governmental authorities on 11 June 2011, and start-up of commercial coal processing operations. The second and third 5.0 Mtpa phases of the CHPP are expected to be operational in the first quarter of 2012 and by the end of 2012, respectively, and will significantly boost the Group's washed hard coking coal production volume. As at 31 December 2011, construction of the second phase was approximately 100% completed. Thus, the commissioning is expected in the first quarter of 2012. Meanwhile, the third phase construction was approximately 30% completed according to the progress report.

The total estimated cost for this project is approximately USD343.8 million. The incurred cost related to this project as of the end 2011 was USD220.9 million.

By 31 December 2011, a total of approximately 2.5 million tonnes of ROM coal was processed to produce approximately 2.0 million tonnes of total product in 78.7% average total yield. The washed hard coking coal production was approximately 1.6 million tonnes and middlings (high calorific value thermal coal) production was approximately 0.4 million, representing approximately 63.3% primary product yield and approximately 15.4% secondary by-product yields respectively.

The Group is in on-going process of training up its personnel, continuous optimization of its wash plant operations, with Sedgman providing experienced on-ground management under provisions of the Operation Management Contract.

In 2011, the Group's total coal processing costs for coal sold were approximately USD21.7 million. Excluding power generation and distribution cost and water extraction and distribution cost, total processing costs for coal sold were approximately USD12.4 million during 2011.

In 2011, the Group's unit processing cost associated with washed coal sold was approximately USD14.4 per tonne. Excluding power generation and distribution cost and water extraction and distribution cost, unit processing cost associated with washed coal sold was approximately USD8.3 per tonne during 2011.

Power Plant

The Group completed the construction and commissioning of a 3x6 megawatt ("**MW**") on-site power plant in 2011. The fully operational on-site power plant with combined 18MW capacity is using the by-product from coal mining and processing activities to generate power for its CHPP operations and to also provide power to other facilities at the mine site.

The total incurred cost for this project is approximately USD55.8 million.

In 2011, the Group's total power generation and distribution costs, included in the processing costs, for coal sold were approximately USD7.4 million.

In 2011, the Group's unit power generation and distribution cost associated with washed coal sold was approximately USD4.8 per tonne.

Water Supply Facility

To support the operations of the Group's CHPP, as well as its production capacity expansion, the Group completed the construction and commissioned the initial stage water supply facility in 2011, which is fully operational and is capable to supply up to 117 liters per second.

The total incurred cost for this project including hydrogeological exploration and study work is approximately USD39.2 million.

The Group is planning to expand the existing capacity of the water supply facility by approximately 100 liters per second in 2012, based at outcomes of its hydrogeological study of the Naimdain Khundii area, which is located approximately 50 km north of the UHG mine.

The total estimated cost for this expansion project including hydrogeological exploration and study work is approximately USD43.8 million. The incurred cost related to this project as of the end of 2011 was USD10.7 million.

In 2011, the Group's total water extraction and distribution costs, included in the processing costs, for coal sold were approximately USD1.9 million.

In 2011, the Group's unit water extraction and distribution cost associated with washed coal sold was approximately USD1.3 per tonne.

Marketing and Sales

The Group sold to its customers in China 3.3 and 1.5 million tonnes of raw hard coking coal and washed hard coking coal in 2011 respectively.

In 2011, the Company's ASP for coal sold was approximately USD113.9 per tonne, compared to approximately USD70.8 per tonne in 2010, representing approximately 60.9% increase. With the Company starting to sell washed hard coking coal product, the Company achieved ASP of approximately USD155.6 per tonne, which is approximately 63.8% higher compared to USD95.0 per tonne for unwashed hard coking coal ASP.

The Company established cooperation with Shenhua Bayannaoer Energy Company and agreed to supply its washed hard coking coal products to Shenhua Wuhai Energy's coke plant operating in Wuhai, thus expanding its end-user customer base in China.

At the same time, the Company has taken steps to explore alternative access to seaborne market. The logistics arrangements were explored for washed hard coking coal tracking from UHG to Choir station and shipped further to customers via railway. The sales contract has been signed under Free Carrier ("**FCA**") Choir terms for USD155 per tonne with ThyssenKrupp MinEnergy GmbH for initial trial shipment and delivery of 48 wagons washed hard coking coal to European market. In addition, the Company has entered contract under Free on Board ("**FOB**") Nakhodka terms for USD282 per tonne with Sumitomo Metal Industries Ltd. to deliver approximately 20 thousand tonnes of washed hard coking coal.

Historically, Chinese hard coking coal ("**HCC**") price has been less volatile than Australian seaborne price. It is also only moderately correlated to the Australian seaborne price. The lower price volatility of Chinese HCC price is due to the substantial and relatively stable coking coal demand in China, whilst the Australian seaborne market is much more susceptible to global macroeconomic shocks. Since the beginning of 2011, Chinese HCC price has been steadily fluctuating in range RMB1500 to 1600 per tonne (17% VAT inclusive, Cost and Freight ("**CFR**") Tangshan), despite the sharp increase in first half of 2011 and following drop in Australian HCC price. As most of Mongolian coal production is exported to China, and Mongolian coal constitutes a majority and an increasing portion of Chinese coking coal imports, it is expected that Mongolian coking coal prices should be driven by Chinese coal market dynamics and will be largely independent of Australian seaborne price movements when Australian prices are above Chinese coal prices.

Transportation and Logistics

In 2011, the Group's coal transport operations continued to consist of a truck-and-road model, with combined operations via its coal handling facility at Tsagaan Khad ("**TKH**") and directly from UHG to stockpiles at the Gangimaodu ("**GM**") border port in China. To assess the feasibility of expanding its product penetration to other markets, in June 2011 the Group conducted trial exports by railway to Germany and to the far eastern Russian port of Nachodka for shipment to seaborne markets, which in the future could possibly include Japan, South Korea and India.

In 2011, the Group successfully expanded its trucking fleet with the addition of 300 new trucks, taking the total number to more than 400. With each newly procured truck designed to carry double trailers that carry twice the load of the existing single trailer trucks, the expanded fleet significantly increases the Group's trucking capacity. The expansion is in line with the Group's strategy to improve the reliability and capacity of coal transport, and will provide the Group with greater control over its coal transport operations.

In 2011, the Group's total transportation costs and logistics costs for coal sold were approximately USD107.9 million and USD8.9 million, respectively. Of the transportation costs approximately 72.8% was cost associated with fees paid to transportation contractors and the remainder was incurred by the Group's own transportation operations.

In 2011, the Group's unit transportation and logistics cost associated with coal sold was approximately USD22.7 and USD1.4 per tonne, respectively.

Paved Road

In 2011 the Group, together with other coal transportation companies in the region, contributed the maintenance of the coal haul gravel road between UHG and Gashuun Sukhait ("**GS**"). There was a temporary halt of coal transportation between 21 April 2011 and 14 May 2011 as instructed by governmental agencies. This temporary suspension reaffirmed that the Company's strategy to develop and sustain an international-standard coal transportation link to market is in line with the governmental agency's growing focus on the safety and environmental conditions of the gravel roads used for increasing mineral commodities transportation in Mongolia.

The construction of the paved road was completed and commissioned in last quarter of 2011. By the end of 2011, the Group was utilizing paved road for its own coal transportation operations. Meantime, the negotiations were initiated and have progressed with other mining companies operating in the region to share excess capacity of the paved road and the Group expect to have third party access on the paved road in first quarter of 2012 under commercial toll fee arrangement.

The total incurred cost for this project is approximately USD86.8 million.

Customs Clearance and Border Crossing

According to Mongolian Customs data, in 2011 GS border crossing point handled approximately 11.0 million tonnes of coal exports to China, representing approximately 37.5% your-on-year increase (2010: 8.0 million tonnes).

In November 2011, the Group together with Erdenes MGL LLC, completed an expansion of the Mongolian side of the border crossing at GS, in order to alleviate bottlenecking at the border crossing and support its ramp-up plan. The expansion will increase the current border crossing capacity at GS from approximately 10 Mtpa to 25-30 Mtpa. It consisted of adding eight truck crossing lines and associated facilities and infrastructure to the existing four lines and will now be able to handle 1,200 trucks in a single direction per day, compared to 400 per day prior to the expansion. The commissioning of the additional lanes is expected in the first quarter of 2012.

The customs bonded yard at the UHG mine is fully staffed and has commenced operations in 2011, ready to conduct inland customs clearance of coal at UHG mine site. Meanwhile, the Group has been cooperating with customs office to enable efficient monitoring system of trucks cleared at UHG, throughout the road between UHG and GM, using GPS tracking device with centralized control center at the relevant customs offices. In 2011, the Group had more than 300 trucks equipped with the device and successfully conducted number of shipments from UHG directly to GM.

OUTLOOK AND BUSINESS STRATEGIES IN 2012

MMC has been in the midst of a phase of rapid growth ever since mining operations commenced at the UHG deposit in April 2009. MMC is confident that it will benefit from increasing economies of scale in its operations as it moves forward in implementing its strategy to increase annual production volume.

Looking ahead, MMC will continue to ramp up its coal mine production as planned and, at the same time, optimise its existing resources and reserves. With the completion of its CHPP, MMC is able to produce washed coal with a consistent high quality.

MMC believes that these efforts will significantly increase its market recognition and competitiveness. MMC plans to sell its 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 look at strategic long-term partnerships to expand its relations and presence in China.

At the same time, MMC will also strive to supply its coal to the international seaborne markets as part of its long-term diversification strategy.

MMC's growth strategy is to expand its coal mine production and boost its sales of washed coking coal. With its average monthly ROM coal production of more than 900,000 tonnes for the last quarter of 2011 resulting in a pro-rated annualised production rate reaching more than 10.0 million tonnes by the end of the period under review, MMC is confident of achieving its target of 10.7 million tonnes of ROM coal production at UHG mine by the end of 2012. In addition, the Group's second mine at the BN deposit will commence its operations with targeting approximately 1.0 million tonnes of ROM coal production in 2012. MMC will aim to maximize synergies between operations at UHG and BN mines.

The operations of its CHPP, the second phase of which will commence in the first quarter of 2012 and the construction of the third phase with expected completion by the end of 2012, will not only accelerate MMC's growth but also enhance our sales mix and this achieving a relatively higher unit gross profit margin the expanding profit margin of MMC's business in 2012 and beyond.

The Group believes that the full utilization of the completed paved road will bring cost saving advantages and improve MMC's transportation capability between its UHG deposit and the GS-GM border crossing. The expansion of through-put capacity at GS border point will allow the Group to continue to increase its coal export volumes to China.

The outlook for coking coal demand in China remains positive and in particular Mongolia has grown as a significant coking coal supplier to China, accounting for approximately 44.7% of total import volume in 2011. MMC will leverage this trend and continue to solidify its position as a leading coking coal producer and exporter in Mongolia.

Finally, to support its business expansion, MMC will continue to look at improvements of its transport and logistics infrastructure. MMC will explore opportunities to acquire additional resources, primarily coking coal and iron ore assets.

To mitigate the Group's operational and financial risks, the Group has obtained an insurance coverage from leading global insurers including Zurich, Munich Re and Swiss Re on property damage for the Group's mining properties and infrastructure, including the Group's paved road. The insurance also covers the business interruption. The property damage and business interruption insurance became effective on 1 January 2012. The Group has also obtained Directors and officers, as well as Prospectus insurance which became effective on 14 February 2012.

FINANCIAL REVIEW

Revenue

The Group's revenue increased 95.5% from USD277.5 million in 2010 to USD542.6 million in 2011. The increase in revenue was primarily attributable to increases in ASP and sales volumes.

The Company began selling washed coking coal in June 2011 and sold approximately 1.5 million tonnes of washed hard coking coal in 2011 (2010: nil), while the sales volume of its raw coal was 3.3 million tonnes in 2011 (2010: 3.9 million tonnes).

The Group's ASP increased 60.9% from approximately USD70.8 per tonne in 2010 to approximately USD113.9 per tonne in 2011.

In 2011, the Group derived more than 10% of the Group annual revenue from three customers, who were invoiced approximately USD185.0 million, USD148.6 million and USD73.6 million, respectively. In 2010, the Group derived more than 10% of its annual revenue from four customers, who were invoiced approximately USD105.2 million, USD92.7 million, USD33.5 million and USD27.3 million respectively.

Cost of Revenue

The Group's cost of revenue consists primarily of mining costs, processing costs, transportation costs, and other costs. Processing costs primarily include the costs associated with the operations of its CHPP including power and water costs.

The increase in mining, processing and transportation volume resulted in increased cost of revenue from approximately USD164.4 million in 2010 to approximately USD336.4 million in 2011.

In 2011, the Group produced approximately 7.1 million tonnes of coal with a strip ratio of approximately 5.16 BCM/tonne and per BCM total movement cost of approximately USD4.52 compared to approximately 3.9 million tonnes produced in 2010 with a strip ratio of approximately 5.06 and per BCM total movement cost of approximately USD4.00.

In 2011, the Group sold approximately 4.8 million tonnes of coal at TKH and GM compared to approximately 2.8 million tonnes of coal sold in 2010 at TKH and GM. Due to the increased sales volume at the Sino-Mongolian border, its transportation costs increased from approximately USD60.6 million in 2010 to approximately USD107.9 million 2011.

The following table presents, for the periods indicated, individual costs of revenue in terms of amount and percentages of the Group's total cost of revenue:

	Year ended December 31					
	2011			**2010**		
	USD'000	***%***	***USD per tonne***	*USD'000*	*%*	*USD per tonne*
Mining costs	**120,326**	**35.8**	**25.3**	78,759	47.9	20.1
Processing costs *(Note (i))*	**21,738**	**6.4**	**4.5**	–	–	–
Transportation costs	**107,928**	**32.1**	**22.7**	60,626	36.9	15.5
Others *(Note (ii))*	**86,376**	**25.7**	**18.1**	24,983	15.2	6.3
Total *(Note (iii))*	**336,368**	**100.0**	**70.6**	164,368	100.0	41.9
Sales volume ('000 tonne)			**4,762.6** *(Note (iv))*			3,920.4

Notes:

(i) Processing costs included the handling costs of USD12.4 million incurred in CHPP, the power generation and distribution costs of USD7.4 million incurred in Power Plant and the water extraction and distribution costs of USD1.9 million incurred in Water Supply Facility related to the washed coal sold in 2011. The unit handling cost, unit power generation and distribution cost and unit water extraction and distribution cost associated with washed coal sold during 2011 were approximately USD8.3, USD4.8 and USD1.3 per tonne, respectively.

(ii) Others include USD48,232,000 (2010: USD10,116,000) relating to the royalty tax on the coal sold.

(iii) Besides mining cost in income statement, there is a capitalized cost of pre-stripped overburden, sitting on balance sheet. Pre-stripped overburden belongs to the coal to be mined, processed, transported and sold in the future.

(iv) Sales volume includes 1.5 million tonnes of washed coking coal sold in 2011.

Effective from 1 January 2011, the Group pays 5% royalty on the sale value of all extracted minerals pursuant to its mining license that are sold, shipped for sale, or otherwise used, and additional royalty products rates. The royalty rate is based on the monthly comparative price stipulated on the website of Ministry of Mineral Resources and Energy and applies a progressive rate. An additional royalty rate calculated based on the degree to which coal is processed is also payable. The level of the progressive royalty rate depends on the level of processing of the minerals. The more processed the minerals are, the lower the progressive royalty rate is.

For example, the progressive royalty rate for unwashed coal is from 1% to 5%, if coal price is above the threshold price of USD25 per tonne. In comparison, for processed coal, the additional progressive royalty rate is lower, being 1% to 3%, if coal price is above the threshold price of USD100 per tonne.

The Group incurred approximately USD10.1 million and approximately USD48.2 million as royalty to the Government of Mongolia for the years ended 31 December 2010 and 2011, respectively. This is representing approximately 8.9% effective royalty rate for 2011 (2010: 3.6%).

Gross Profit and Gross Profit Margin

The Group's gross profit for the year ended 31 December 2011 was approximately USD206.2 million, representing an increase of approximately USD93.1 million or 82.3% from the gross profit of approximately USD113.1 million recorded for the year ended 31 December 2010. During the year under review, the gross profit margin achieved was approximately 38.0%, compared with approximately 40.8% in 2010. This change in gross profit margin is primarily attributable to the implementation of progressive royalty rates for processed and raw coal and VAT law provisions for processed and raw minerals export.

Administrative Expenses

The Group's administrative expenses relate primarily to management fees, staff costs, depreciation and amortization of office equipment, consultancy and professional fees and other expenses. The following table presents, for the periods indicated, individual administrative expenses in terms of amount and as a percentage of the Group's total administrative expenses:

	Year ended 31 December			
	2011		**2010**	
	USD'000	*%*	*USD'000*	*%*
Management fee *(Note (i))*	**10,406**	**17.2**	6,262	16.2
Staff costs	**8,980**	**14.9**	6,593	17.0
Consultancy and professional fees	**17,413**	**28.9**	9,110	23.5
Depreciation and amortization	**3,427**	**5.7**	1,375	3.6
Allowance for doubtful debts	**4,145**	**6.9**	–	–
Others *(Note (ii))*	**15,932**	**26.4**	15,345	39.7
Total	**60,303**	**100.0**	38,685	100.0

Notes:

(i) As the Management Agreement with MCS has expired at the end of 2011, the Group will not pay a management fee starting 2012.

(ii) Others include meal allowances, travelling expenses, rental fee, community support expenses and other expenses.

The Group's administrative expenses increased from approximately USD38.7 million in 2010 to approximately USD56.2 million in 2011. The Group's higher administrative expenses were mainly due to (i) an increase in headcount; (ii) management fee increases related to the Group's higher EBITDA; (iii) costs related to the Group's acquisition of the BN deposit; (iv) allowance for the doubtful debts and (v) geology exploration work conducted at its UHG deposit.

Net Finance Income

The Group's net finance income increased from approximately USD8.1 million in 2010 to approximately USD8.5 million in 2011. The increase in net finance income was primarily due to the increased interest income arising from the time deposit but partially offset by the increased interest expenses arising from borrowing and foreign exchange loss arising from MNT depreciation against USD.

Income Tax Expenses

The Group's income tax expenses increased from approximately USD22.8 million in 2010 to approximately USD35.7 million in 2011, representing approximately 23.0% effective tax rate in 2011 (2010: 27.5%). The increase in the Group's income tax expenses was due to increase of taxable income.

Income tax expenses for the year ended 31 December 2011 and 2010 can be reconciled to profit before income tax as follows:

	Year ended 31 December	
	2011	2010
	USD'000	*USD'000*
Profit before income tax	**154,740**	82,896
Notional tax on profit before taxation	**35,725**	19,642
Tax effect of non-deductible items *(Note (i))*	**1,508**	1,258
Tax effect of non-taxable items *(Note (ii))*	**(2,588)**	(242)
Tax loss not recognized	**1,005**	2,099
Actual tax expenses	**35,650**	22,757

Notes:

(i) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses during the years ended 31 December 2011 and 2010.

(ii) Non-taxable items mainly represent the unrealized exchange gains during the years ended 31 December 2011 and 2010.

Profit for the Year

As a result of the foregoing, the Group's profit attributable to its equity shareholders increased approximately 98.2% from approximately USD60.1 million in 2010 to approximately USD119.1 million in 2011, representing net profit margin approximately 21.9% in 2011 (2010: 21.7%).

Liquidity and Capital Resources

Historically, the Group's cash needs have been related primarily to costs associated with mining and infrastructure development, which have included construction of CHPP, coal fired 3x6 MW power plant, water supply facility, 245 kilometers paved road from the UHG mine, as well as expert studies conducted in connection with the development of mines and related infrastructure. The Group also acquired BN deposit in the first half of 2011. The Group's cash resources have come from shareholder financings, the Group's initial public offering, bank loans and operating activities. The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The following table sets below certain information regarding the Group's combined cash flows for the periods indicated:

	Year ended 31 December	
	2011	2010
	(USD'000)	*(USD'000)*
Net cash generated from operating activities	**20,985**	69,641
Net cash used in investing activities	**(215,417)**	(564,380)
Net cash (used in)/generated from financing activities	**(79,871)**	823,495
Net (decrease)/increase in cash and cash equivalents	**(274,303)**	328,756
Cash and cash equivalents at beginning of the year	**328,262**	371
Effect of foreign exchange rate changes	**(12,953)**	(865)
Cash and cash equivalents at end of the year	**41,006**	328,262

Indebtedness

The table below sets the Group's borrowings as of the dates indicated and the maturity profile of such borrowings:

	2011	2010
	(USD'000)	*(USD'000)*
Indebtedness		
Bank loans (Secured)	**482,091**	255,000
Less: unamortised transaction cost	**(3,862)**	(3,877)
Sub-total	**478,229**	251,123
Convertible bond (Unsecured)	**83,508**	–
Total	**561,737**	251,123
Maturity profile of bank loans:		
Due within one year	**334,818**	85,909
Due after one year, but within two years	**21,818**	21,818
Due after two years	**125,455**	147,273
Total	**482,091**	255,000

As of 31 December 2011, the Group had approximately USD561.7 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), (ii) USD400 million facility agreement with Standard Bank, (iii) USD85 million 2.0% QGX Convertible Bonds and (iv) USD13 million line of credit with Khan Bank of Mongolia ("**Khan Bank**"). As of today, the Group is in the progress of agreeing a bank facility amounting to USD300 million from an international bank to provide finance for general corporate purposes and working capital need.

The EBRD, FMO and DEG Loan Agreements bear interest semi-annually at the rate of six-month LIBOR plus a margin of 4.75% – 6.85% per annum. USD120 million principal amount of the loans are repayable in 11 semi-annual installments ending on 15 May 2016 and USD60 million principal amount of the loans are repayable in two equal installments on 15 May 2015 and 15 May 2016. As of 31 December 2011, the outstanding principal amount was USD169.1 million.

The USD85 million QGX Convertible Bonds will mature on 1 December 2012. The maturity date is extendable to 1 March 2013 subject to a reserve adjustment. The QGX Convertible Bonds are convertible into shares at the bondholder's option in the four days prior to the maturity date at a conversion rate of HKD10.92 per share.

Capital Commitments and Capital Expenditures

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

	2011	2010
	USD'000	*USD'000*
Contracted for	**14,827**	80,079
Authorised but not contracted for	**80,075**	102,592
	94,902	182,671

The following table shows the Group's historical capital expenditures for the periods indicated:

	Year ended 31 December	
	2011	2010
	USD'000	*USD'000*
Capital Expenditures:		
BN mine	**11,740**	–
CHPP	**142,252**	80,218
Road	**49,470**	47,929
Railway	**7,256**	2,135
Water supply	**7,718**	20,658
Power plant	**15,501**	34,190
Property (camp, airport and workshop)	**11,850**	8,118
Trucks and equipment	**44,081**	4,957
Others	**6,266**	6,836
Total	**296,134**	205,041

Note: Others include capital expenditures for explorations and studies.

Credit Risk

The Group closely monitors the credit exposure. Credit risk is primarily attributable to cash at bank, trade and other receivables.

Substantially all of the Group's cash at bank are deposited in the reputable banks which management assessed the credit risk to be insignificant.

With regard to trade receivables, the Group has established a credit management committee which comprises the senior management team members of the Group. The committee has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the committee evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. At the end of the reporting period, the Group believes that adequate allowance for doubtful debts has been made in the consolidated financial statements and the Group considers that the Group's credit risk is significantly reduced. Nevertheless, management continues to monitor the exposures, including but not limited to the current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates, on an ongoing basis.

With regard to other receivables, they are mainly VAT receivables, deposits and prepayments and management believes that no impairment allowance is necessary based on past experience.

Foreign Exchange Risk

During the two years ended 31 December 2011, 100% of the revenue and approximately 36% and 27% of the purchases were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as of 31 December 2010 and 2011 amounted to approximately USD273.6 million and USD119.9 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as of 31 December 2010 and 2011 amounted to approximately USD251.1 million and USD179.5 million, respectively.

For the two years ended 31 December 2011, approximately 62.1% and 66.6% of the revenues were denominated in USD with the remaining denominated in RMB.

For the year ended 31 December 2010, approximately 34%, 28% and 26% of the cost of revenue, operating expenditures and capital expenditures were denominated in USD, 5% and 1% of operating expenditures and capital expenditures were denominated in RMB, with the remaining denominated in MNT. For the year ended 31 December 2011, approximately 28%, 27% and 23% of the cost of revenue, operating expenditures and capital expenditures were denominated in USD, with the remaining denominated in MNT.

Although the majority of the Group's 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 have not entered into any derivative instruments to manage foreign exchange fluctuations. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The presentation currency of the Group is USD. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. Due to the depreciation of MNT against USD by approximately 11% in 2011, the significant negative exchange reserve arose during 2011 when translating the financial statements of other group entities with MNT as their functional currency to the Group's presentation currency.

Contingent Liabilities

Contingent liability in respect of the consideration adjustments for the Acquisition.

As at 31 December 2011, the Group has a contingent liability in respect of the consideration adjustments for the Acquisition which may arise from the Reserve Adjustment and the Royalty Provision. Details of the Reserve Adjustment and the Royalty Provision are provided in Note 10.

Pledge of Assets of the Group

As at 31 December 2011, the Group pledged accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia and Ulaanbaatar City Bank of Mongolia, Debt Service Reserve Account and other accounts with Standard Bank, offtake contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton, engineering, procurement, construction and management ("**EPCM**") agreement for the CHPP constructed at the UHG deposit with Sedgman, UHG Mining License, approximately 21.47% of the issued shares of Energy Resources LLC, power plant and wash plant phase 1, and 150 coal hauling trucks to banks for credit facilities in the aggregate amount of approximately USD561.7 million granted to the Group.

Use of Net proceeds from the Company's IPO

As at 31 December 2011, the Group had used approximately USD616 million of the proceeds from the initial public offering of the Shares as follows:

– approximately USD105 million to fund expansion of its CHPP and infrastructure development projects;

– approximately USD75 million to repay loan from Standard Bank for funding paved road project;

– approximately USD379 million to fund the acquisition of 100% interest in BN mine; and

– approximately USD57 million to working capital needs.

Operating Lease Commitments

As at 31 December 2011, the Company had contracted obligations consisting of operating leases which totalled approximately USD9.4 million with approximately USD7.1 million due within one year and approximately USD2.3 million due between two and five years. Lease terms range from 1 to 5 years, with fixed rentals.

Financial Instruments

The convertible bond of USD85 million has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD10,292,000 and the attributable transaction cost of USD118,000 were charged to the profit or loss for the year ended 31 December 2011. The liability component was initially recognised at amortised cost of USD79,133,000, after taking into account attributable transaction costs of USD915,000.

The Company has a share option scheme which was adopted on 17 September 2010 whereby the Board of the Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group. Under the share option scheme, the Company granted 3,000,000 and 32,200,000 options to directors and employees on 12 October 2011, respectively. The exercise price is HKD6.66. The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. For the year ended 31 December 2011, USD1.6 million was recognised in administrative expenses and capital reserve in relation to the equity-settled share-based transactions.

Dividend

In view of the major production and infrastructure development projects committed or being planned by the Company, the Board decided not to pay any dividend for the year ended 31 December 2011 despite MMC's record earnings (dividend in 2010: nil).

Employees

As at 31 December 2011, the number of employees of the Group reached 2,177 compared with 1,161 employees as at 31 December 2010.

The Group's employees are remunerated by reference to the individual performance, experience, qualification and the prevailing salary trends in the local market, which is subject to review from time to time. With reference to the Group's financial and operational performance, employees may also enjoy other benefits such as discretionary bonus and share options pursuant to the Company's share option scheme.

Closure of the Register of Members

The register of members of the Company will be closed from Monday, 21 May 2012 to Thursday, 24 May 2012, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to the attendance of the forthcoming annual general meeting of the Company to be held on 24 May 2012, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 18 May 2012.

Purchase, Sale or Redemption of the Company's Listed Securities

For the year ended 31 December 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Code of Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange as its own code of corporate governance. The Company has complied with all the applicable code provisions as set out in the CG Code throughout the year ended 31 December 2011.

Review by Audit Committee

The annual results for the year ended 31 December 2011 have been reviewed by the audit committee of the Company. The audit committee comprises one non-executive Director, Ms. Enkhtuvshin Gombo and three independent non-executive Directors, namely Mr. Unenbat Jigjid, Mr. Ochirbat Punsalmaa and Mr. Chan Tze Ching, Ignatius. Mr. Chan Tze Ching, Ignatius is the chairman of the audit committee.

Subsequent Events

On 5 March 2012, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an amendment and consent agreement with the European Bank for Reconstruction and Development, FMO (Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., Entrepreneurial Development Bank of Netherlands), and DEG (Deutsche Investitions-und Entwicklungsgesellschaft mbH, The German Investment and Development Company).

Pursuant to the Amendment and Consent Agreement, the margin per annum will be reduced to 3.25%-3.75%, and certain securities of the loan will be released, namely the pledge of mining license 11952A of the UHG mine and pledge of shares in Energy Resources LLC, in replacement of security over fixed assets such as Company's CHPP expansion which was commissioned in February 2012 and the water supply infrastructure assets.

There have been no other events subsequent to 31 December 2011 which require adjustment to or disclosure in the annual results announcement.

Publication of Information on the Stock Exchange's Website and the Company's Website

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2011 will be despatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 6 March 2012

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Gantumur Lingov, Ms. Enkhtuvshin Gombo, Mr. Enkh-Amgalan Luvsantseren, Dr. Oyungerel Janchiv, Mr. Philip Hubert ter Woort and Mr. Batsaikhan Purev, being the non-executive Directors, and Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.