MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS

The Group's revenue amounted to USD247.8 million for the six months ended 30 June 2013, representing an increase of 6.4% as compared to USD233.0 million for the six months ended 30 June 2012.

For the six months ended 30 June 2013, the Group exported a total of 2.2 million tonnes of washed coking coal products compared to 1.3 million tonnes for the six months ended 30 June 2012, representing an increase of 72.1%. The Group sold 3.1 million tonnes of coal products in the first half of 2013, representing an increase of around 31.8% over the 2.4 million tonnes of coal products sold in the first half of 2012.

The loss attributable to the equity shareholders of the Company for the six months ended 30 June 2013 was USD25.2 million compared to a profit of USD31.0 million for the six months ended 30 June 2012.

The major contributing factors of the Group's net loss position are (i) a decrease in the average selling price ("**ASP**") of coking coal products and (ii) an increase in the Group's finance costs related to the guaranteed senior notes and other facilities and less interest expenses capitalized, since major part of the construction and development activities of the Group are completed, bringing total net finance cost to USD38.6 million.

The basic loss per share attributable to the equity shareholders of the Company amounted to USD0.68 cents for the six months ended 30 June 2013, as compared to basic earnings per share of USD0.84 cents for the six months ended 30 June 2012.

The Board does not recommend the payment of dividend for the six months ended 30 June 2013 (dividend for the six months ended 30 June 2012: nil).

Note: All numbers in this announcement are approximate rounded values for particular items.

The board (the "**Board**") of directors (the "**Directors**") of Mongolian Mining Corporation ("**MMC**" or the "**Company**") is announcing the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2013 together with the comparative figures for the corresponding period in 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2013 – unaudited

		Six months ended 30 June	
		2013	2012
	Note	***USD'000***	*USD'000*
Revenue	*5*	**247,849**	233,033
Cost of revenue	*6*	**(219,546)**	(170,880)
Gross profit		**28,303**	62,153
Other revenue		**201**	1,425
Other net income		**4,725**	1,285
Administrative expenses		**(17,764)**	(19,068)
Profit from operations		**15,465**	45,795
Finance income	*7(a)*	**8,186**	14,956
Finance cost	*7(a)*	**(46,817)**	(20,707)
Net finance cost	*7(a)*	**(38,631)**	(5,751)
Share of losses of associates		**(280)**	(120)
(Loss)/profit before taxation	*7*	**(23,446)**	39,924
Income tax	*8*	**(1,783)**	(8,946)
(Loss)/profit attributable to the equity shareholders of the Company for the period		**(25,229)**	30,978
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation		**(33,492)**	19,485
Total comprehensive income attributable to the equity shareholders of the Company for the period		**(58,721)**	50,463
Basic and diluted (loss)/earnings per share	*9*	**(0.68)cents**	0.84 cents

CONSOLIDATED BALANCE SHEET

at 30 June 2013 – unaudited

	Note	At 30 June 2013 *USD'000*	At 31 December 2012 *USD'000*
Non-current assets			
Property, plant and equipment, net	*10*	**546,900**	527,358
Construction in progress	*11*	**186,017**	242,838
Lease prepayments		**98**	103
Intangible assets	*12*	**767,761**	774,773
Interest in associates		**3,391**	3,808
Other non-current assets		**24,295**	26,727
Deferred tax assets		**20,104**	19,144
Total non-current assets		**1,548,566**	1,594,751
Current assets			
Inventories		**77,055**	90,290
Trade and other receivables	*13*	**297,095**	207,914
Cash at bank and in hand		**128,594**	284,322
Total current assets		**502,744**	582,526
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*14*	**141,818**	81,818
Trade and other payables	*15*	**202,568**	247,057
Current taxation		**734**	3,950
Convertible bond		**–**	85,000
Obligations under finance leases		**114**	210
Total current liabilities		**345,234**	418,035
Net current assets		**157,510**	164,491
Total assets less current liabilities		**1,706,076**	1,759,242
Non-current liabilities			
Interest-bearing borrowings, less current portion	*14*	**199,542**	249,113
Senior notes	*16*	**593,367**	592,891
Provisions		**15,362**	15,538
Deferred tax liabilities		**149,679**	149,574
Obligations under finance leases		**65**	113
Other non-current liabilities	*17*	**52,648**	–
Total non-current liabilities		**1,010,663**	1,007,229
NET ASSETS		**695,413**	752,013
CAPITAL AND RESERVES			
Share capital		**37,050**	37,050
Reserves		**658,363**	714,963
TOTAL EQUITY		**695,413**	752,013

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 Group is principally engaged in the mining, processing, 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 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with International Accounting Standard 34, *Interim financial reporting*, ("**IAS 34**") issued by the International Accounting Standards Board ("**IASB**").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included in the interim report to be sent to shareholders.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new International Financial Reporting Standards ("**IFRSs**") and amendments to IFRSs 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:

- Amendments to IAS 1, *Presentation of financial statements-Presentation of items of other comprehensive income*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- IFRIC 20, *Stripping costs in the production phase of a surface mine*
- Amendments to IFRS 7, *Financial instruments: Disclosures – Offsetting financial assets and financial liabilities*
- *Annual Improvements to IFRSs 2009-2011 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IAS 1, Presentation of financial statements-Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

IFRIC 20, Stripping costs in the production phase of a surface mine

IFRIC 20 was issued in October 2011. It provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when one of the two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory or improved access to further quantities of material that will be mined in future periods. The Group has adopted IFRIC 20 effective 1 January 2013.

Upon adoption of IFRIC 20, the Group assessed the stripping asset on the balance sheet as at 1 January 2012 and determined that there are identifiable components of the ore body with which this stripping asset can be associated. Accordingly, no opening consolidated balance sheet as at 1 January 2012 was presented as no opening balance adjustment was recorded.

In addition, the Group assessed the effect of the adoption of IFRIC 20 and determined that the effects to the Group's net profit for the six months ended 30 June 2012 and the Group's financial position as at 31 December 2012 are not material and does not require any restatement of the comparative figures in the interim financial report.

Amendments to IFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* ("**IAS 32**") and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32. The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments.

Annual Improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("**CODM**") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the last annual financial statements.

4 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 sale of coal. Accordingly, no additional business and geographical segment information are presented.

5 REVENUE

The Group is principally engaged in the mining, processing, 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 during the six months ended 30 June 2013 is as follows:

	Six months ended 30 June	
	2013	2012
	USD'000	*USD'000*
Washed hard-coking coal ("**HCC**")	**216,387**	174,984
Washed semi-soft coking coal ("**SSCC**")	**2,452**	2,658
Washed thermal coal ("**middlings**")	**26,025**	29,965
Raw coal ("**ROM coal**")	**2,985**	25,426
	247,849	233,033

6 COST OF REVENUE

	Six months ended 30 June	
	2013	2012
	USD'000	*USD'000*
Mining costs	**91,927**	51,848
Processing costs	**21,823**	21,123
Transportation costs	**55,238**	59,198
Others#	**50,558**	38,711
	219,546	170,880

Others include USD15,803,000 (six months ended 30 June 2012: USD18,652,000) relating to the royalty tax on the coal sold.

7 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Net finance cost:

	Six months ended 30 June	
	2013	2012
	USD'000	*USD'000*
Interest income	**(8,186)**	(7,118)
Net change in fair value of derivative component of convertible bond	**–**	(2,429)
Net change in fair value of derivative component of senior notes	**–**	(1,380)
Foreign exchange gain, net	**–**	(4,029)
Finance income	**(8,186)**	(14,956)
Interest on bank and other borrowings	**10,880**	10,428
Net change in fair value of derivative component of senior notes	**8,120**	–
Interest on liability component of convertible bond	**1,034**	3,178
Interest on liability component of senior notes	**27,101**	13,747
Transaction costs	**1,288**	2,261
Unwinding interest on		
– Other long-term payables	**25**	49
– Accrued reclamation obligations	**396**	280
Less: Interest expense capitalised	**(5,873)**	(9,236)
Net interest expense	**42,971**	20,707
Foreign exchange loss, net	**3,846**	–
Finance cost	**46,817**	20,707
Net finance cost	**38,631**	5,751

* Borrowing costs have been capitalised at a rate of 7.9% and 8.7% per annum for the six months ended 30 June 2013 and 2012, respectively.

(b) Staff costs:

	Six months ended 30 June	
	2013	2012
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**14,066**	14,730
Retirement scheme contributions	**865**	1,771
Equity-settled share-based payment expenses	**2,121**	3,633
	17,052	20,134

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 7% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

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

(c) Other items:

	Six months ended 30 June	
	2013	2012
	USD'000	*USD'000*
Depreciation and amortisation	**29,315**	21,438
Operating lease charges: minimum lease payments	**2,707**	2,358
Costs of inventories	**219,546**	170,880

8 INCOME TAX

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

	Six months ended 30 June	
	2013	2012
	USD'000	*USD'000*
Current tax	**3,344**	10,897
Deferred taxation	**(1,561)**	(1,951)
	1,783	8,946

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

	Six months ended 30 June	
	2013	2012
	USD'000	*USD'000*
(Loss)/profit before income tax	**(23,446)**	39,924
Notional tax on (loss)/profit before taxation	**3,139**	7,929
Tax effect of non-deductible expense *(Note (iii))*	**2,775**	988
Tax effect of non-taxable income	**(443)**	–
Tax losses not recognised	**208**	29
Tax losses not recognised in previous years but utilised in current period	**(3,896)**	–
Actual tax expenses	**1,783**	8,946

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 Mongolian National Togrog ("**MNT**") 3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2013 and 2012.

(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, Luxembourg and Gibraltar profits tax as it has no assessable income arising in or derived from Hong Kong, Luxembourg and Gibraltar during the six months ended 30 June 2013 and 2012.

(iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the six months ended 30 June 2013 and 2012.

9 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share for the six months ended 30 June 2013 is based on the loss attributable to equity shareholders of the Company for the period of USD25,229,000 (six months ended 30 June 2012: profit attributable to equity shareholders of the Company of USD30,978,000) and the 3,705,036,500 ordinary shares (six months ended 30 June 2012: 3,705,036,500 shares) in issue during the six months ended 30 June 2013.

(b) Diluted (loss)/earnings per share

For the six months ended 30 June 2013 and 30 June 2012, basic and diluted (loss)/earnings per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the additions of property, plant and equipment of the Group, representing mainly workshop and various mining structures, amounted to USD66,248,000 (six months ended 30 June 2012: USD188,126,000). Items of property, plant and equipment with net book value of USD502,000 were disposed of during the six months ended 30 June 2013 (six months ended 30 June 2012: USD204,000). As at 30 June 2013, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with a net book value of USD148,347,000, USD41,454,000 and USD4,566,000, respectively (31 December 2012: USD172,320,000, USD46,351,000 and USD5,034,000, respectively).

11 CONSTRUCTION IN PROGRESS

The construction in progress is mainly related to coal handling and preparation plant and other mining related machinery and equipment.

Included in construction in progress as at 31 December 2012 was an amount of USD60 million relating to the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia (the "**UHG-GS Railway**") under a Build-Operate-Transfer Concession Agreement (the "**Concession Agreement**") with the Government of Mongolia (the "**GoM**"). On 6 May 2013, the GoM, represented by the Ministry of Road and Transportation ("**MRT**"), the State Property Committee ("**SPC**"), Mongolian Railway ("**MTZ**"), and the Group (together, the "**Parties**") signed an agreement pursuant to which the Parties agreed upon the terms and conditions according to which the Concession Agreement is terminated, and the existing contracts and obligations for the construction of the UHG-GS Railway will be reassigned to MTZ and/or its designated entity. The compensation amount for all the costs incurred by the Group in relation to the construction of the UHG-GS Railway was confirmed and agreed to be MNT93,677,314,158, of which MNT9,347,290,047 related outstanding payables to the Engineering, Procurement and Construction ("**EPC**") contractor of the Project has been assumed by the GoM, after which the reimbursable amount totals to MNT84,330,024,111.

This amount is to be further decreased to MNT83,825,730,412 (equivalent to USD57,964,000), as a result of:

a. exclusion of withholding tax calculation amounting to MNT49,108,109 accrued to a contractor, due to the reason that the contractor is to receive the payment under the name of its Mongolian subsidiary;

b. exclusion of assets kept by the Group with net book value of MNT455,185,590.

Upon the termination of the Concession Agreement, the construction in progress relating to the UHG-GS Railway with the net book value of USD57 million was derecognised resulting in a gain of USD7 million credited to "other net income" in the consolidated statement of comprehensive income.

12 INTANGIBLE ASSETS

Intangible assets represent the acquired mining right and the operating right of paved road.

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2013 *USD'000*	At 31 December 2012 *USD'000*
Trade receivables *(Note (a))*	**76,523**	35,819
Other receivables *(Note (c))*	**228,501**	178,024
	305,024	213,843
Less: allowance for doubtful debts *(Note (b))*	**(7,929)**	(5,929)
	297,095	207,914

(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 30 June 2013, all 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 30 June 2013, an allowance for doubtful debts amounts to USD7,929,000 (31 December 2012: USD5,929,000) which was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

(c) Other receivables

	At 30 June 2013 *USD'000*	At 31 December 2012 *USD'000*
Amounts due from related parties *(Note (i))*	**632**	94
Prepayments and deposits *(Note (ii))*	**72,274**	64,598
VAT and other tax receivables *(Note (iii))*	**78,113**	83,071
Derivative financial instruments *(Note (iv))*	**4,300**	12,420
Amounts due from GoM in relation to the termination of the Concession Agreement *(Note (v))*	**57,964**	–
Others *(Note (vi))*	**15,218**	17,841
	228,501	178,024

Notes:

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

(ii) At 30 June 2013, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor and fuel supplier.

(iii) Value added tax ("**VAT**") and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Tax Authority of Mongolia. Based on current available information the Group anticipates full recoverability of such amounts.

(iv) It represented the embedded derivative in the senior notes.

(v) It represented the compensation amount receivable from the GoM upon the termination of Concession Agreement of UHG-GS Railway, after taking into account of liabilities assumed by the GoM. The Group is negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.

(vi) At 30 June 2013, this item mainly represents the reimbursement receivables due from Erdenes MGL LLC of USD3.5 million and the GoM of USD4.5 million for the construction costs in relation to the expansion project of the border crossing in Mongolian side at Gashuun Sukhait, which are interest-free. Based on current available information the Group anticipates full recoverability of such amounts.

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

14 BORROWINGS

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

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Bank loan (secured)	**306,364**	337,273
Less: Current portion	**(101,818)**	(81,818)
Less: Unamortised transaction costs	**(5,004)**	(6,342)
	199,542	249,113

At 30 June 2013, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH of USD98,182,000 (31 December 2012: USD103,636,000), USD22,909,000 (31 December 2012: USD26,182,000) and USD15,273,000 (31 December 2012: USD17,455,000), respectively, bearing interest of 6 months LIBOR + 3.25%~3.75%, were secured by the Group's property, plant and equipment and cash at bank.

At 30 June 2013, the Group's long-term interest-bearing borrowings from Standard Bank of South Africa Ltd. of USD170,000,000 (31 December 2012: USD190,000,000), bearing interest of LIBOR + 5.25%, were secured by the Group's cash at bank and inventory.

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

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Within 1 year or on demand	**101,818**	81,818
After 1 year but within 2 years	**141,818**	101,818
After 2 years but within 5 years	**62,727**	153,637
	306,363	337,273

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

	At 30 June 2013 *USD'000*	At 31 December 2012 *USD'000*
Bank loans		
– Unsecured	**40,000**	–
Current portion of long-term borrowings		
– Bank loan	**101,818**	81,818
	141,818	81,818

In the first half of 2013, the Group obtained USD20,000,000 short-term loan from Trade and Development Bank of Mongolia with interest rate of 9.0% per annum and USD20,000,000 short-term loan from Golomt Bank of Mongolia with interest rate of 9.0% per annum.

15 TRADE AND OTHER PAYABLES

	At 30 June 2013 *USD'000*	At 31 December 2012 *USD'000*
Trade payables *(Note (i))*	**79,410**	45,718
Receipts in advance *(Note (ii))*	**1,857**	1,745
Amounts due to related parties *(Note (iii))*	**16,758**	14,109
Payables for purchase of equipment	**20,453**	38,706
Interest payable	**16,924**	15,271
Other taxes payables	**8,858**	4,152
Promissory notes *(Note (iv))*	**105,000**	105,000
Others *(Note (v))*	**5,808**	22,356
	255,068	247,057
Less: Non-current portion of promissory notes	**52,500**	–
	202,568	247,057

Notes:

(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 payables for equipment, construction work and services provided, which are unsecured, interest-free and have no fixed terms of repayments.

(iv) On 27 November 2012, the Company issued two promissory notes to QGX Holdings Ltd., each in the amount of USD52,500,000, and shall bear interest at a rate of 3.0% per annum commencing on the issue date to the maturity date. The original maturity date was 22 November 2013. On 8 February 2013, an amendment agreement was signed by the Company and QGX Holdings Ltd. to extend the maturity date of two promissory notes from 22 November 2013 to 31 March 2014 and 31 December 2014, respectively.

(v) 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.

16 SENIOR NOTES

	USD'000
At 1 January 2012	–
Issuance of senior notes	604,920
Transaction costs	(13,213)
Interest charged during the year	41,417
Interest payable	(40,233)
At 31 December 2012	592,891
At 1 January 2013	**592,891**
Interest charged during the period	**27,101**
Interest payable	**(26,625)**
At 30 June 2013	**593,367**

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 and listed on the Singapore Exchange Securities Trading Limited. The senior notes bear interest at 8.875% per annum, payable semi-annually in arrears, and will be due in 2017.

The senior notes may be redeemed at the option of the Company upon giving not less than 30 days or no more than 60 days notice to the holders.

The Company has agreed, for the benefit of the holders of the senior notes, to pledge all of the capital stock of Mongolian Coal Corporation Limited owned by the Company and to cause Mongolian Coal Corporation Limited to pledge all of the capital stock of Mongolian Coal Corporation S.a.r.l. owned by Mongolian Coal Corporation Limited. The senior notes are guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.a.r.l., Energy Resources Corporation LLC, Energy Resources LLC, Energy Resources Mining LLC and Transgobi LLC.

The senior notes have 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 USD4,920,000, and the attributable transaction cost of USD107,000 were charged to the profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 30 June 2013 was USD4,300,000 which was presented as derivative financial instruments.

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account of attributable transaction costs of USD13,213,000.

Fair value of the derivative component was valued by the directors with reference to a valuation report issued by an independent business valuer based on the Binomial model.

17 OTHER NON-CURRENT LIABILITIES

It mainly represented the non-current portion of promissory notes with amount of USD52,500,000. Please refer to Note 15(iv).

18 DIVIDEND

The Board of the Company does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

19 POST BALANCE SHEET EVENT

On 16 August 2013, the GoM has resolved to purchase the Ukhaa Khudag – Gashuun Sukhait paved road ("**UHG-GS paved road**") from the Group in its cabinet meeting. As at the date of this interim financial report, the Company has not yet received any notification letter from the GoM in relation to this resolution.

MANAGEMENT DISCUSSION AND ANALYSIS

The first half of 2013 was marked by the Group's continued effort in consistently implementing previously communicated development strategy aiming to establish a fully integrated coking coal mining, processing, transportation and marketing platform. Doing this enables the Group to produce and sell washed coal products under its own brand name, further strengthening its position as a reliable supplier of high quality coking coal products whilst expanding its end-user customer base. This provides crucial competitive advantage of heightened value during challenging market conditions faced globally within the coking coal industry.

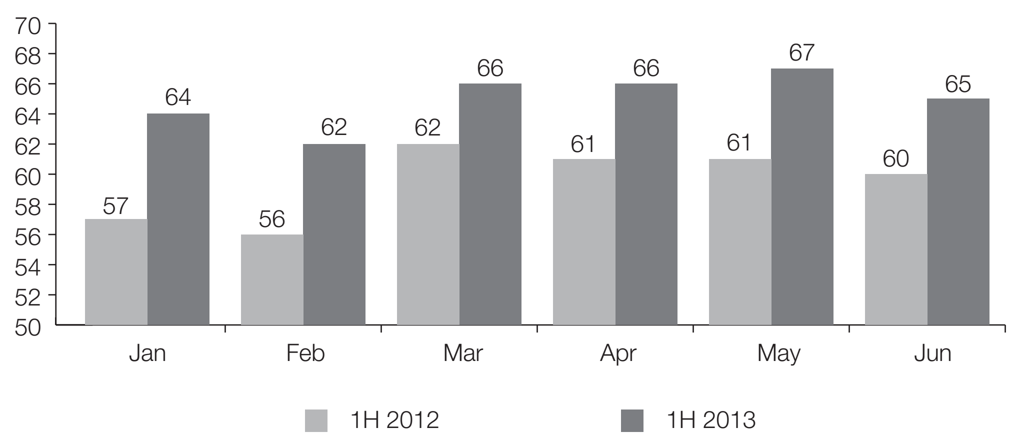
The Group has further solidified its position as the largest coal producer and exporter of washed coking coal in Mongolia. According to the data issued by the National Statistical Office ("**NSO**") of Mongolia, the Group exported 3.2 million tonnes of coal products in the first half of 2013, representing around 42% volume share in the total coal exports of Mongolia.

INDUSTRY OVERVIEW

Chinese steel sector performance

According to the World Steel Association ("**WSA**"), China's crude steel production reached 389 million tonnes in the first half of 2013, which represented 9% year-on-year increase compared to 356 million tonnes reported in the first half of 2012 (Figure 1).

Figure 1. China's crude steel production monthly volumes (in million tonnes):



Source: WSA

According to the China Iron and Steel Association ("**CISA**"), for the first half of 2013, China's output of pig iron, crude steel and steel products each expanded to 357.5 million tonnes, 389.9 million tonnes and 517.0 million tonnes, up by 5.7%, 7.4% and 10.2% year on year, respectively.

As a reflection of the overall economic situation and market conditions in the Group's principal market, China's major steel companies continued to report facing challenges, impacted by weak demand amid an economic slowdown.

CISA members saw their sales revenues reach about RMB1.8 trillion, up by 0.9% year-on-year basis. The profits of CISA members hit RMB2.27 billion with an average profit margin of 0.1%, the lowest among all industries, and 35 out of 86 CISA members have reported losses during this period. At the end of June 2013, the prices of steel products fell by 6.5% compared with the beginning of this year, and down by 14.7% year-on-year basis.

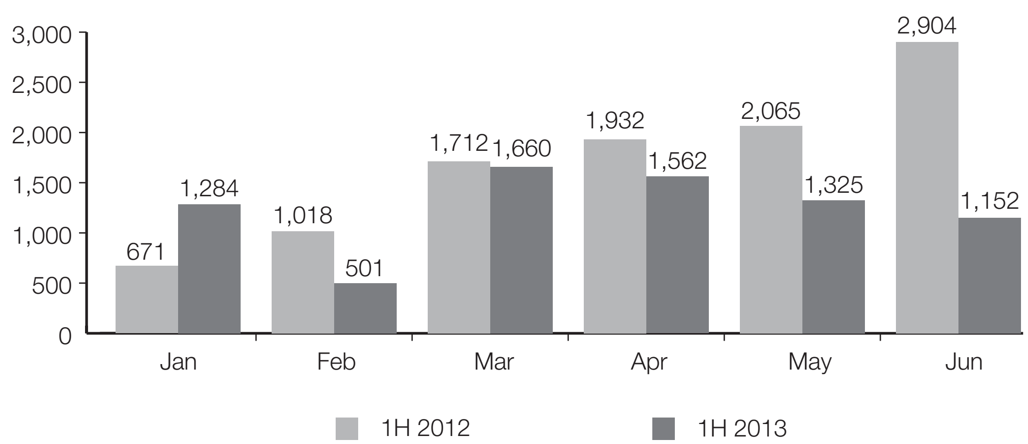
As China has been pushing forward economic reforms, the CISA warned that the oversupply in the steel sector will continue amid the country's economic slowdown. Moreover, Chinese steelmakers are facing increased pressure from the liquidity crunch and growing funding costs as government authorities intensify the campaign against overcapacity in the sector. The State Council ordered financial institutions to stop providing new credit lines to industries mired in oversupply, including the steel sector.

The Chinese government has pledged to stabilize growth whilst pressing economic reform and paying closer attention to the transition of the economic growth model. The Chinese government policy is leaning toward relying more on economic transformation and upgrading, while coordinating the efforts of stabilizing economic growth, promoting restructuring and advancing reforms.

Chinese coking coal imports and Mongolian coking coal exports dynamics

As reported by the NSO, Mongolian coal exports (including lignite) declined by 27% year-on-year basis to 7.5 million tonnes in the first half of 2013 from 10.3 million tonnes reported for the same period in 2012, as shown in the graph below (Figure 2). The Group was the only coal exporter in Mongolia to report year-on-year increase in volume, by 32% according to NSO data, while all other Mongolian exporters have seen substantial decline of 45% in aggregate.

Figure 2. Mongolian coal export monthly volumes (in thousand tonnes):



Source: NSO

Coking coal trade dynamics in the first half of 2013 were largely impacted by continuing decline in seaborne coking coal prices amid global oversupply. Falling seaborne coking coal prices have driven up the "appetite" of Chinese coking coal consumers for seaborne coking coal, resulting in increased import volumes. This is particularly the case of steel mills located in coastal areas, who were able to take advantage of weaker seaborne prices for coking coal, as well as comparatively cheaper logistics.

According to Chinese customs clearance statistics, China imported around 35.3 million tonnes of coking coal in the first half of 2013 compared to 27.6 million tonnes in the first half of 2012. As such, Chinese coking coal imports increased by 28% year-on-year basis compared to the corresponding period in 2012, whereas conversely, first half coking coal import volumes from Mongolia have fallen by 36% from last year's 9.3 million tonnes to 6.0 million tonnes (Table 1).

Table 1. China's coking coal import volumes by country of origin (in million tonnes):

	Six months ended 30 June		
	2013	2012	**Change**
			%
Total	**35.3**	27.6	28%
Mongolia	**6.0**	9.3	(36)%
Australia	**13.3**	6.7	99%
Canada	**5.7**	3.5	60%
Russia	**4.3**	2.5	72%
United States	**3.6**	3.0	20%
Others	**2.6**	2.7	(7)%

Source: China Coal Resource, China Customs

OPERATING ENVIRONMENT

Legal framework

The first half of the year was marked by continuing efforts by Mongolian regulators to improve the investment climate by adjusting existing legal and regulatory frameworks underpinning the business environment in Mongolia. As such, a number of laws and regulations were proposed, adopted and/ or amended, which may have implication on the legal framework of the Group's operations.

The GoM submitted to the Parliament of Mongolia (the "**Parliament**") an Amendment to the Law on Regulation of Foreign Investment Business Entities Operating in Sectors of Strategic Importance (the "**Strategic Entity Foreign Investment Law**"). This amendment was adopted by the Parliament on 19 April 2013 and as a consequence the previous requirement for Parliamentary hearing and approval for investments exceeding the threshold set at MNT100 billion for foreign persons/entities was eliminated.

In addition, as part of its move to streamline implementation of the Strategic Entity Foreign Investment Law, the GoM passed Resolution No.75 on 2 March 2013, containing detailed procedures for approval procedures required under this law. The procedures seek to showcase the integrity of the country's investment policy by providing clear details on the GoM's approval, screening and decision-making process required for strategic investments that fall within the scope of this law.

It was reported that the Parliament will discuss the proposal submitted by the GoM to terminate Strategic Entity Foreign Investment Law and Foreign Investment Law and adopt instead an all-encompassing Law on Investment, which aims to provide to all investors unified legal and regulatory framework, including tax stabilization and investment protection.

On 7 June 2013, the Parliament approved the Law on Custom Taxes Exemption and the Law on VAT Exemption. Both of these laws aim to provide financial relief for businesses engaged in coal, oil and oil shale-derived petroleum production. The new laws provide tax exemptions for imported technological equipment, spare parts and specific construction materials required for such production. The laws shall remain effective until 31 December 2018.

Following an introductory meeting held jointly by the GoM and the working group of the Extractive Industry Transparency Initiative, the GoM is intending to submit a draft Law on Extractive Industry Transparency to the Parliament. The proposed law aims to increase the transparency with regard to financial contributions made by extractive industry to the government and government-linked entities.

Also, the Parliament has started hearings of the draft resolution on the State Policy in Mineral Sector. While affirming the importance of mining sector in the broader national economy, the document sets out guiding principles and directions for the mining industry growth.

On 2 November 2012, the Parliament approved the Law on Termination of the Laws on Ratification of Intergovernmental Conventions for Avoidance for Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital made with Luxembourg, the Netherlands, the United Arab Emirates and Kuwait. These laws will trigger termination clauses of these Conventions which could have a potential impact on taxation applied for dividends paid by Mongolian registered entities to their respective holding companies in the above mentioned jurisdictions starting from 1 January 2014.

However, Mongolia and Luxembourg have agreed to negotiate a new tax treaty on the avoidance on double taxation. The Deputy Prime Minister and Minister for Foreign Affairs and Immigration of Luxembourg, Mr. Jean Asselborn, paid an official visit to Mongolia on 30 July 2013 for bilateral meetings with Mongolia's Deputy Prime Minister, Mr. Terbishdagva Dendev, and Minister of Foreign Affairs, Mr. Bold Luvsanvandan. During this meeting, Mr. Jean Asselborn called for a new agreement on avoidance of double taxation between Luxembourg and Mongolia to allow better access of investment funds and other financial services from Luxembourg to Mongolia. In this context, the Mongolian officials agreed to open negotiations upon adopting the new Law on Investment by the Parliament.

In order to put in place a more precise documentation for water utilization within the mining industry, on 16 May 2013, the Minister of Environment and Green Development issued an Order on Metering System of Water Utilization. In addition, on 2 July 2013, the Citizens' Representatives Khural (Council) of Umnugobi aimag (province), resolved to stop water utilization by the mining industry from 1 January 2016, with an aim to preserve the water resources for potable and pastoral purposes. Accordingly, issue of permits and licenses to conduct exploration and drilling of wells for the purpose of water utilization by the mining industry is restricted commencing from 1 August 2013.

Political framework

The main political event in Mongolia in first half of the year was the Presidential elections held on 26 June 2013. The Democratic Party nominee, incumbent President Mr. Elbegdorj Tsakhia, was re-elected, defeating both Mongolian People's Party nominee Mr. Bat-Erdene Badmaanyambuu and Mongolian People's Revolutionary Party nominee Ms. Udval Natsag.

The winner Mr. Elbegdorj won 50.2% of the popular votes, while candidate Mr. Bat-Erdene and Ms. Udval received 41.9% and 6.5% of the popular votes, respectively. Mr. Elbegdorj's re-election reaffirmed current dominance of the Democratic Party ("**DP**") in Mongolian politics, with DP nominees taking the positions including President, Parliament Speaker and Prime-Minister.

BUSINESS OVERVIEW

Coal resources and exploration activities

Ukhaa Khudag (UHG) deposit

The Mining License MV-11952 ("**UHG Mining License**") covering the UHG deposit has an area of approximately 2,960 hectares. Over the last four years (2009-2012), the Group's geological team has conducted extensive exploration activities at the UHG deposit. Approximately 166,385 metres of drilling was carried out during this period of exploration with 1,435 boreholes completed and geophysical logged. The laboratory test work was also carried out on a total 32,556 analytical coal samples collected.

The Group collaborated with Velseis Processing Pty Ltd to interpret data collected from 71 km of high resolution 2D seismic in-field measurement program, which was carried out by Polaris Seismic International Ltd and used to identify coal seams 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 has been completed on the Seam 0 plies, and the samples gathered have been analyzed by ALS Laboratories in Mongolia for washability and metallurgical testing. The exploration data from the exploration activities was used to update the geological and coal quality model, and subsequently the UHG Mining License area JORC Coal Resource estimate as at 30 June 2012, based on an in situ density at an air-dry basis (Table 2).

An independent peer audit was conducted by Mr. Todd Sercombe from GasCoal Pty Ltd which confirmed the compliance of the Group's work carried out to update the UHG geological model, thus JORC Coal Resource estimates for UHG Mining License area.

Table 2. UHG Mining License area Coal Resource by depth and category as at 30 June 2012 (Note):

Total Coal Resource Depth limit from topographic surface	**Resource Category (million tonnes)** Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to 100m	114	55	26	170	196
From 100m to 200m	94	55	26	149	175
From 200m to 300m	80	51	17	131	148
From 300m to 400m	50	33	11	83	94
Below 400m	42	34	12	77	88
Sub-Total above 300m	288	162	69	449	519
Sub-Total below 300m	92	68	24	159	183
Total	**379**	**229**	**92**	**608**	**701**

Note:

(i) Technical information in the UHG coal resource estimation report has been compiled by Mr. Gary Ballantine, Executive General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 23 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2004 Edition). Mr. Ballantine consents to the inclusion in the release of the matters based on this technical information in the form and context in which it appears. The estimates of the Coal Resource presented in this report are considered to be a true reflection of the UHG coal resource as at 30 June 2012 and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2004 Edition).

(ii) Due to rounding, discrepancy may exist between sub-totals and totals.

Baruun Naran (BN) deposit

The Group's geological team completed an exploration program in 2011-2012 under exploration license 4326X covering Tsaihkar Khudag ("**THG**") area. Approximately 10,092 metres of drilling was carried out during this period of exploration with 34 boreholes completed and geophysical logged. The laboratory test work was also carried out on a total 3,804 analytical coal samples collected.

As a result, an application was submitted to the Mineral Resources Authority of Mongolia ("**MRA**") and Mining License MV-017336 ("**THG Mining License**") with 8,340 hectares area was granted to the Group on 24 June 2013 in addition to the existing Mining License 14493A ("**BN Mining License**") with 4,482 hectares area, both covering Baruun Naran coking coal deposit area ("**BN Deposit**"), located in Khankhongor soum (county) of Umnugobi aimag (province).

McElroy Bryan Geological Services Pty Ltd was commissioned to update the BN Mining License area JORC Coal Resources as at 30 June 2012. This was estimated to be 282 million tonnes of JORC Measured, Indicated and Inferred Coal Resources, based on an in situ density at an assumed 6% moisture content (Table 3).

Table 3. BN Mining License area Coal Resource by depth and category as at 30 June 2012 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (million tonnes) Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to 100m	45	9	–	54	54
From 100m to 200m	66	15	–	81	81
From 200m to 300m	58	19	–	77	77
From 300m to 400m	40	30	1	70	70
Below 400m	–	–	–	–	–
Sub-Total above 300m	168	43	–	212	212
Sub-Total below 300m	40	30	1	70	70
Total	**207**	**73**	**1**	**281**	**282**

In addition, based on exploration results obtained from a drilling project completed during 2012, McElroy Bryan Geological Services Pty Ltd provided a JORC resources statement for the THG Mining License area as at 30 April 2013. The THG Mining License area was estimated to contain 55 Mt of Inferred Coal Resources, based on an in situ density at an assumed 6% moisture content (Table 4).

Table 4. THG Mining License area JORC Coal Resource by depth and category as at 30 April 2013, (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (million tonnes) Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to 100m	–	–	13	–	13
From 100m to 200m	–	–	20	–	20
From 200m to 300m	–	–	15	–	15
From 300m to 400m	–	–	7	–	7
Below 400m	–	–	–	–	–
Sub-Total above 300m	–	–	48	–	48
Sub-Total below 300m	–	–	7	–	7
Total	**–**	**–**	**55**	**–**	**55**

Notes:

(i) Technical information in the BN and THG Coal Resource estimation reports has been compiled by Mr. Paul Harrison, Senior Geologist, McElroy Bryan Geological Services Pty. Ltd. Mr. Harrison is a member of the Australasian Institute of Mining and Metallurgy (Member #110251) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2004 Edition). Mr. Harrison consents to the inclusion in the release of the matters based on this technical information in the form and context in which it appears. The estimates of the Coal Resource presented in these reports are considered to be a true reflection of the BN Coal Resource as at 30 June 2012 and THG Coal Resource as at 30 April 2013; and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2004 Edition).

(ii) Due to rounding, discrepancy may exist between sub-totals and totals.

Open-cut coal reserves

RungePincockMinarco Limited ("**RPM**") was commissioned in late 2012 to update the Group's long-term mining schedules at UHG and BN by preparing an integrated life-of-mine ("**LOM**") mining study and hence the preparation of updated JORC Coal Reserve estimations for the UHG and BN deposits.

From an integrated reserve perspective, the total pro-forma combined ROM Coal Reserve under the Group's control has increased from 460 million tonnes as at 31 December 2011 to 480 million tonnes as at 31 December 2012, representing an increase of 20 million tonnes, excluding the depletion of reserves as consequence of mining ROM coal at the UHG and BN mines in 2012.

Importantly, within ROM Coal Reserve quantity, the overall coking coal component has increased by 63 million tonnes, including mining depletion during 2012, with thermal coal reserve component decreasing correspondingly by 33 million tonnes.

The Coal Reserve estimates have been based on the open cut, multi seam, truck and excavator mining methods currently used at the UHG and BN, with both ex-pit and/or in-pit dumping of waste as each pit schedule allowed. The categorization of seams by coking or thermal coal product was provided by Mr. John Trygstad from Norwest Corporation ("**Norwest**") as part of the integrated LOM study completed by RPM. Through the application of estimated mining and metallurgical factors, the mineable in situ coal within the pit shell was converted to ROM and product coal quantities. Whittle pit optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating a range of coal selling prices. This three dimensional approach provides a series of pit shells where each increment reflects different economic scenarios such as changes to depth, mining cost or coal price. From this, the mine schedules were able to be sequenced effectively to maximize value derived from open-pit mining operations. The practical pit designs including ramp accesses to coal were then created within the selected optimized pit shells, representative of the stated revenue assumptions with the study. The pit optimization algorithms used were limited to a vertical depth of 300 metres for the UHG deposit and 350 metres for the BN deposit, based upon current geotechnical knowledge regarding slope stability criteria of each deposit.

The open-cut ROM Coal Reserve estimations for the UHG coal deposit were estimated as at 31 December 2012, based on an as received basis with 5% total moisture (Table 5).

Table 5. UHG ROM Coal Reserve (Note):

ROM Coal Reserve	**Reserve Category (million tonnes)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	155	81	236
Thermal	64	16	80
Total	**218**	**97**	**315**

The UHG ROM Coal Reserve as previously reported by Norwest was estimated 275 million tonnes as at 31 December 2011. The reserves reported by RPM are estimated at 315 million tonnes as at 31 December 2012. Compared to previously reported reserves, including 9 million tonnes attributable to the coal mining depletion during the period between 31 December 2011 and 31 December 2012, an additional 49 million tonnes from coal resources identified on 30 June 2012 resource estimate were also determined as economically open-pit mineable.

The open-cut ROM Coal Reserve for the BN coal deposit was estimated as at 31 December 2012, based on an as received basis with 6% total moisture (Table 6).

The BN ROM Coal Reserve as previously reported by SRK Consulting (Australasia) Pty Ltd ("**SRK**") was estimated at 185 million tonnes as at 31 March 2011. As an outcome of independent technical studies, it was confirmed that the final total reserve was approximately 189 million tonnes applying the same reserve calculation parameters, as it was defined and stipulated in the relevant Share Purchase Agreement ("**SPA**"). After the Acquisition in June 2011, the Group has begun to conduct its own studies and analyses for the future development of the BN mine in synergy with the UHG mining schedule. As such the Group has guided RPM to re-estimate the BN ROM Coal Reserve using modified reserve calculation parameters, including mine design, scheduling and cost estimation parameters based on the Group's actual operating experience at UHG mine. Also as part of this re-estimation, the BN coal quality was reviewed on the basis of integrating BN and UHG coal mining, blending and processing operations.

Table 6. BN ROM Coal Reserve (Note):

ROM Coal Reserve	**Reserve Category (million tonnes)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	118	22	140
Thermal	23	2	25
Total	**141**	**24**	**165**

The Coal Reserve estimate reported by RPM was 165 million tonnes as at 31 December 2012, and this estimate does not include any coal from the THG Mining License area, as estimated Coal Resource within this mining license area is only defined to inferred category at this stage. There is around 1 million tonnes attributable to the coal mining depletion during the period between 31 March 2011 and 31 December 2012, the resulting difference between the SRK and RPM estimations is an overall decrease of 19 million tonnes of BN ROM Coal Reserves, driven by changes to modified reserve calculation parameters. However, using this integrated mining, blending and processing approach, the estimated coking coal component of the reserve at BN has increased by 19 million tonnes, whilst quantity of thermal coal has decreased. As a result, the proportion of a coking coal in total BN ROM Coal Reserve has increased to almost 85%.

Moreover, RPM has developed an integrated LOM mining study inclusive of complementary coal mining, blending and processing schedules for the UHG and BN mines, demonstrating the potential to conduct sustainable operations with up to 15.8 million tonnes per annum combined ROM coking coal output from the Group's UHG and BN mines for the period between 2013 and 2040, for mine life of 28 years. Also the thermal coal production volumes from the UHG and BN mines have been scheduled ramp up in 2016 to match expected construction completion for UHG-GS railway project.

Note:

(i) The estimate of Coal Reserve presented above has been carried out in accordance with the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (December, 2012 Edition). Technical information in the UHG and BN Coal Reserve estimation reports has been compiled by Mr. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RungePincockMinarco and has extensive experience in the mining industry, working for over 30 years with major mining companies, mining contractors and consultants. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined in the 2012 Edition of the JORC Code. Mr. Eisenmenger consents to the inclusion in the release of the matters based on this technical information in the form and context in which it appears.

(ii) Due to rounding, discrepancy may exist between sub-totals and totals.

Production and transportation

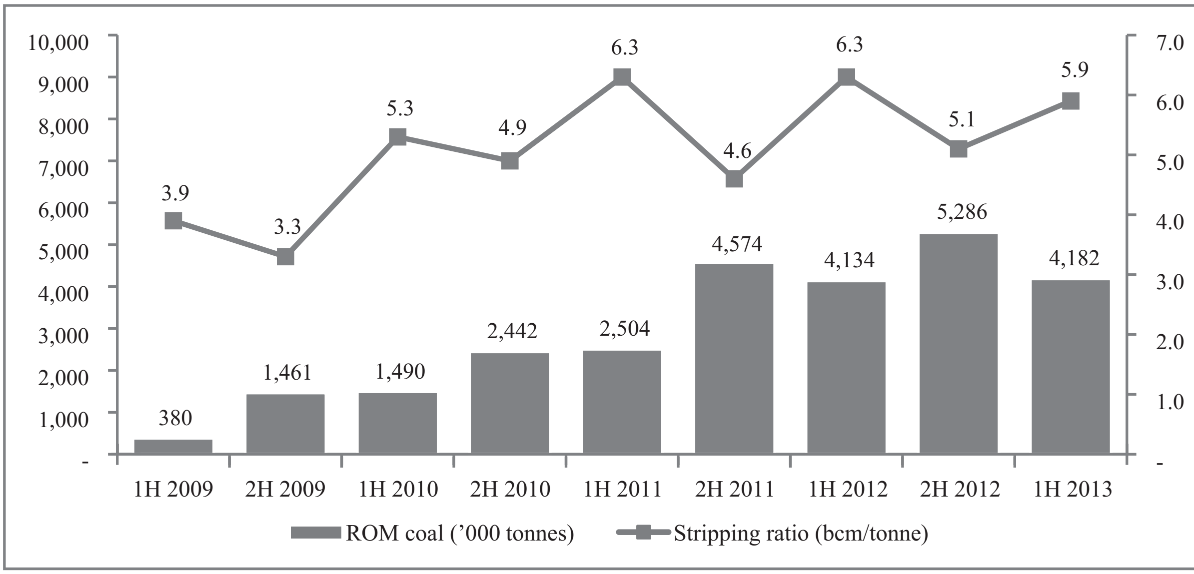
Coal mining and processing

Coal mining

During the first half of 2013, the Group has focused on minimizing actual cash costs and operational cash outflows. Consequently, management has continued the efforts to combine and streamline the operational activities related to site-based operations. The mining operations at UHG and BN mines were integrated under unified management, including mining, maintenance and technical services, as well as functional operational support such as administration, safety and environment.

Total ROM coal production in the first half of 2013 was 4.2 million tonnes with actual stripping ratio 5.9 bcm/tonne compared to 4.1 million tonnes with actual stripping ratio 6.3 bcm/tonne in the corresponding period in 2012 (Figure 3).

Figure 3. The Group's historical semi-annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bank cubic metres per ROM coal tonne):



The mining operations at the BN mine were temporarily reduced in the first half of the year, and the mining equipment and personnel from the BN mine were relocated to work at the UHG mine allowing demobilization of all rental equipment in use at the UHG mine. Additional synergies were realized immediately with reduced overhead staffing, as well as postponement of mining operations and maintenance staff hiring and training. These changes were made whilst being able to maintain previously forecast ROM coal production. The coal mining operation at the BN mine is scheduled to increase in the second half of the year, in an integrated approach with regard to planning, management and staffing, leveraging on the support base of the UHG mine with indirect staffing levels reduced as a consequence.

Coal processing

During the first half of 2013, the Group has processed 5.1 million tonnes of ROM coal, representing 70.0% and 15.9% increase in ROM coal feed volumes compared to the first half and the second half of 2012, respectively. This increase was primarily due to improved Coal Handling and Preparation Plant ("**CHPP**") availability, which is a notable achievement, considering that as effective from 1 January 2013, the Operational Management Contract ("**OMC**") with Sedgman LLC was ended, and the Group has taken responsibility for direct management of all matters related to its CHPP operations.

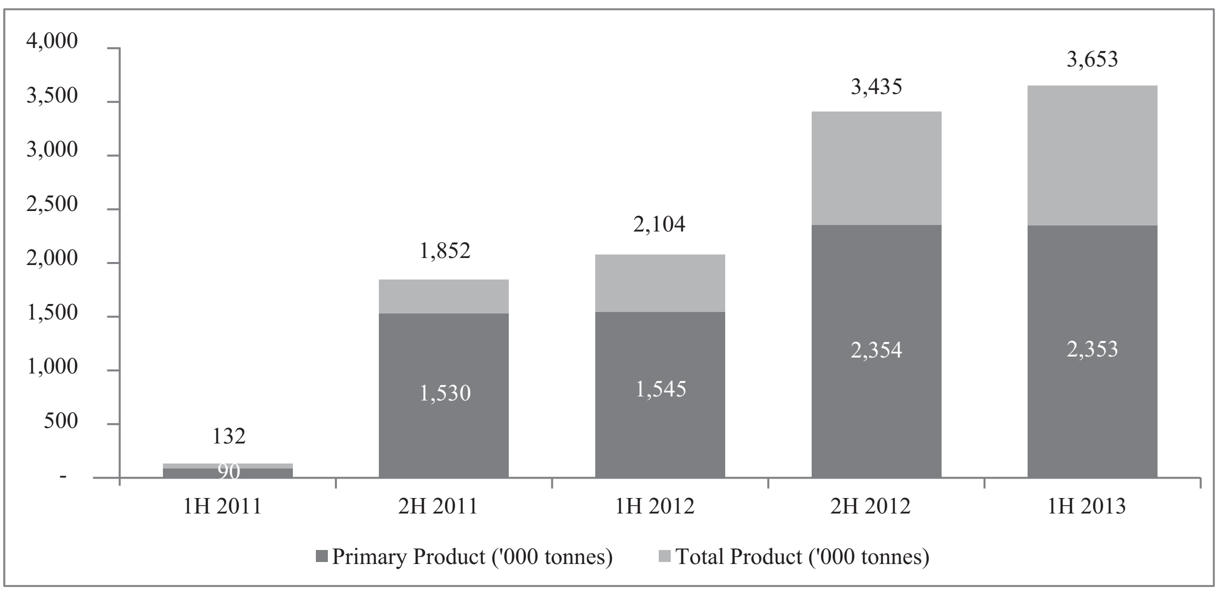
At the end of 2012, significant quantity of ROM coal inventories had accumulated on stockpiles, with a large portion of this coal being not of suitable qualities for standalone washing to produce coal products meeting customer requirements. As part of the efforts to reduce operational cash outflows, ROM coal mining volumes were adjusted while more ROM coal from existing inventories were directed to secure uninterrupted coal feed to CHPP for processing and further transportation and export sales.

After detailed analysis of stockpiled ROM coal qualities, a controlled proportion of this lower grade ROM coal was blended to in-feed ROM coal while maintaining washed coking coal product specifications meeting contractual requirements. Certain reduction in primary product yield was expected, however this was offset by a reduction in the coal required to be uncovered and mined, as such reducing total operational cash outflow required to sustain continuous ROM coal feed to the CHPP in the first half of the year.

In the first half of 2013, the total product yield was 72% and primary product yield was down to 46%, with the difference accounting for the increased in secondary product yield (Figure 4).

However, the primary product yield is expected to return to normal levels above 50% in the second half of the year, with the majority of the lower grade ROM coal from stockpiles already processed, and typical higher grade ROM coal will be supplied from the mining operations as a feed coal for CHPP.

Figure 4. The Group's historical semi-annual total and primary processed coal production volumes (in thousand tonnes):



The third module of the CHPP at the UHG mine was successfully commissioned by relevant authorities on 13 June 2013 for coal processing operations, and full production capacity is expected to be available from the second half of 2013. The third module of the CHPP has the capacity to process around 5.0 million tonnes of ROM coal per annum based on the design capacity feed rate of 850 tonnes of ROM coal per hour and minimum 6,000 operating hours per calendar year. Thus, the third module of the CHPP will enable the Company to boost its coal handling and processing capacity to at least 15.0 million tonnes per annum.

Transportation and logistics

In the first half of the year, the Group continued to focus on maximizing the utilization of its transport and logistics assets and infrastructure. The Group maintained sufficient handling and transportation capacity to move all coal products from the UHG and BN mines to the Ganqimaodu ("**GM**") border port in China through the UHG-GS paved road and via custom bonded stockpile facility at Tsagaan Khad ("**TKH**") on the Mongolian side of the border.

The Group's strategy was to maximize the utilization of its own double trailer truck fleet for coal transportation on the long-haul section between UHG and TKH, and maintain third party contractor fleet for its cross-border transportation on the short-haul section between TKH and GM.

As a result, the Group's own fleet has transported virtually all of the 3.5 million tonnes of coal products moved in the first half of 2013 on the long-haul section between UHG and TKH. Furthermore, in the same period the Group was able to achieve almost 67% increase in double trailer truck fleet utilization by increasing the monthly average to 20 roundtrips per truck in this particular sector, compared to monthly average of 12 roundtrips per truck in the corresponding period in the previous year.

UHG-GS Railway

During the reporting period, the Group has negotiated with the GoM per Resolution 121 of the GoM, dated 3 November 2012, which is in relation to the consolidation of various railway projects in Mongolia into a unified railway project (the "**Project**") to be managed and implemented under government authority. In this matter, the GoM was represented by MRT, SPC and MTZ – a state owned enterprise appointed by the GoM to execute the Project. In these negotiations, the Group was successful in reaching an understanding with regard to conditions of settlement, which are outlined in an agreement (the "**Agreement**") signed and executed on 6 May 2013.

Pursuant to the Agreement, the Parties agreed upon the terms and conditions according to which the Concession Agreement, entered by and between the GoM and the Group dated on 31 May 2012, is terminated. The major terms under the Agreement are as follows:

– The compensation amount for all the costs incurred by the Group in relation to the construction of the UHG-GS Railway is confirmed and agreed to be MNT84,330,024,111 or about USD58.3 million based on the Bank of Mongolia official exchange rate as at 30 June 2013;

– The Parties will enter into negotiation regarding potential investment in the Project. Depending on the outcome of the negotiation, the above compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the Project and/or reimbursed;

– The Group will be granted an access to 50% of the capacity of the UHG-GS Railway; and

– The existing contracts and obligations for the construction of the UHG-GS Railway will be reassigned to MTZ and/or its designated entity.

The reimbursement amount is to be further decreased to MNT83,825,730,412 (equivalent to USD58.0 million based on the Bank of Mongolia official exchange rate as at 30 June 2013), as a result of:

a. exclusion of withholding tax calculation amounting to MNT49,108,109 accrued to a contractor, due to the reason that the contractor is to receive the payment under the name of its Mongolian subsidiary;

b. exclusion of assets kept by the Group with net book value of MNT455,185,590.

Following execution of the Agreement, the Group has entered into additional discussion and negotiation with the GoM on potential investment into the Project in which the Group has an option to convert its compensation amount into equity of the special purpose enterprise where the GoM invites potential international and domestic investors. In the meantime, related project documents and contracts along with some project personnel have been transferred from the Group to MTZ and its contractors.

Occupational health and safety

The Group's commitment to develop and implement world class occupational health and safety policies, plans and procedures continued in the first half of 2013. The Group has conducted 4,424 individual training sessions (a total of 17,592 man-hours recorded) with its employees, contractors and visitors.

During the reporting period, over 3.77 million man-hours of work were recorded across the Group operations, with only 3 Lost Time Injuries ("**LTIs**") recorded in the period. The resultant Lost Time Injury Frequency Rate ("**LTIFR**") of 1.06 compares favorably to industry statistics publicly reported in major coal producing jurisdictions such as Queensland and New South Wales, where both recorded LTIFR figures of greater than 2.86 for the most recent annual reporting periods released with regard to surface coal mining operations.

Under the dry climatic conditions in the Southgobi desert, the dust generation is the most visible environmental impact on the Group's operations. The dust levels monitoring is conducted routinely at the UHG and BN mines and surrounding areas for both occupational health and environmental compliance matters. All monitoring results obtained during the first half of 2013 indicate that, as previously, operations are in compliance with the relevant Mongolian national standards. However, this does not stop the Group's pro-active work with regard to further minimizing dust generation.

Marketing and sales

As part of the Group's strategic objective to supply quality products to end-users, the Group continued to strengthen existing relations with its customers in China as well as initiate relations with new customers in order to further diversify its revenue sources. Additionally, the Group is actively looking at strategic long-term partnerships to expand its network and presence in China.

The Group sold 3.1 million tonnes of coal products in the first half of 2013, representing an increase of around 31.8% over the 2.4 million tonnes of coal products sold in the corresponding period of the previous year. As the Group shifted towards washed coal production and sales, in the first half of 2013, the Group exported a total 2.2 million tonnes of washed coking coal products, representing around 72.1% increase compared to 1.3 million tonnes reported for the first half of 2012.

According to data issued by NSO, the Group coal exports represented around 42% of total Mongolian coal exports in the first half of the year, compared to the Group's share of total Mongolian coal exports of 27% reported for the full year of the 2012. Moreover, compared to the total Chinese coking coal imports of around 35.3 million tonnes in the first half of 2013, it is estimated that the Group has supplied more than 6.3% of the total Chinese coking coal imports.

Business outlook

The recovery of the demand for coking coal in China and globally will remain highly uncertain in the second half of 2013. Although a stronger than expected rebound in China's exports in July signaled that the world's second largest economy may be stabilizing after a slowdown in the first half of the year, that has prompted the government to support activity ensuring delivery of its official 7.5% growth target for 2013. China's steel purchasing managers' index, a key lead indicator (calculated as a new orders less inventories), surged to a 40-month high of 52.5 in July up from 46.8 in May. This has occurred in parallel with the construction steel market experiencing strong destocking according to the published reports.

The Group aims to further optimize its allocation of resources and through the synergy brought by the integration of mining, processing, logistics and transportation operations, the Group will strive to expand its business scale and improve its margins in efforts to return to profitability.

The Group will continue to monitor and assess the market situation and to prioritize the focus on cost control, operational efficiency and productivity, expanding its market share, as such continue to enhance the Group's core competitiveness and strive to accomplish its production targets for the year.

FINANCIAL REVIEW

Revenue

The Group recorded a total revenue of USD247.8 million for the six months ended 30 June 2013, representing an increase of 6.4% as compared with USD233.0 million for the six months ended 30 June 2012. The revenue of USD216.4 million was generated from washed hard coking coal sales, representing 87.3% of the total revenue for the six months ended 30 June 2013 (first half of 2012: USD175.0 million and 75.1%, respectively), and the remaining portion was from the sales of middlings, washed semi-soft coking coal and small portion of raw thermal coal, which is a non-caking coal mainly used for power generation. For the sales of hard coking coal, the Group successfully shifted to completely washed coal product base.

The increase in the total revenue was mainly attributable to increase in sales volume, and the Group's sales volume for the six months ended 30 June 2013 reached approximately 3.1 million tonnes of coal products, representing an increase of around 0.7 million tonnes or 31.8% compared to 2.4 million tonnes of coal products sold for the six months ended 30 June 2012 (Table 7).

The most significant sales volume growth at around 72.1% was achieved for washed coking coal products. For the six months ended 30 June 2013, the group exported approximately 2.2 million tonnes of washed hard coking coal and 0.03 million tonnes of semi-soft coking coal (first half of 2012: 1.3 million tonnes and 0.03 million tonnes, respectively).

In addition, the Group exported its high calorific value thermal coal produced as a by-product of washing raw coal, and sold to its customers in China around 0.8 million tonnes of middlings for the six months ended 30 June 2013 (first half of 2012: 0.8 million tonnes); raw coal sales volume was approximately 0.1 million tonnes for the six months ended 30 June 2013 (first half of 2012: 0.3 million tonnes).

Table 7. Sales volume, revenue and ASP:

	Six months ended 30 June		
	2013	2012	Change
Sales volume ('000 tonnes)	**3,131.6**	2,376.6	31.8%
Washed hard coking coal (HCC)	**2,191.7**	1,261.9	73.7%
Washed semi-soft coking coal (SSCC)	**34.4**	31.7	8.5%
Washed thermal coal (middlings)	**790.8**	796.9	-0.8%
Raw coal *(Note)*	**114.7**	286.1	-59.9%
Revenue ('000 USD)	**247,849**	233,033	6.4%
Washed hard coking coal (HCC)	**216,387**	174,984	23.7%
Washed semi-soft coking coal (SSCC)	**2,452**	2,658	-7.8%
Washed thermal coal (middlings)	**26,025**	29,965	-13.1%
Raw coal *(Note)*	**2,985**	25,426	-88.3%
Average selling price (USD/tonne)	**79.1**	98.1	-19.3%
Washed hard coking coal (HCC)	**98.7**	138.7	-28.8%
Washed semi-soft coking coal (SSCC)	**71.2**	83.8	-15.0%
Washed thermal coal (middlings)	**32.9**	37.6	-12.5%
Raw coal *(Note)*	**26.0**	88.9	-70.7%

Note: Raw coal sold in the first half of 2013, represents raw thermal coal, which is a non-caking coal mainly used in power generation, and it differs from raw hard coking coal reported in the first half of 2012.

During the period under review, the Group's pricing followed the negative trend apparent for all coking coal products in the global market. As a result, the ASP for the Group's washed hard coking coal was approximately USD98.7 per tonne for the six months ended 30 June 2013, which is around 28.8% lower compared to USD138.7 per tonne in first half of 2012.

For the six months ended 30 June 2013, the Group derived more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD77.5 million, USD47.4 million, USD42.2 million and USD41.1 million, respectively. In the first half of 2012, the Group derived more than 10.0% of its revenue from three customers, with the purchase amounts of approximately USD73.1 million, USD71.5 million and USD27.1 million, respectively.

Cost of Revenue

The Group's cost of revenue consists primarily of mining costs, processing and handling costs, transportation and logistics costs, and costs related to site administration, stockpile and transportation loss, and governmental royalties and fees.

The increase in the Group's mining, processing, transportation and sales volumes resulted in increased cost of revenue from USD170.9 million in the first half of 2012 to approximately USD219.5 million in the first half of 2013.

The mining cost consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment together with base and performance fees paid to the mining contractor, drill and blasting contractor fees, and costs paid to fuel suppliers. For the six months ended 30 June 2013, the Group's mining costs were approximately USD91.9 million (first half of 2012: USD51.8 million). Mining unit cost was USD18.6 per ROM tonne for the six months ended 30 June 2013, compared to USD18.0 in the first half of 2012.

For calculation of mining costs, new accounting standard IFRIC 20 was adopted effective from 1 January 2013, for accounting of the stripping activity in the production phase of a surface mine. IFRIC 20 requires that the costs of stripping activity which provides a benefit in the form of improved access to ore is recognized as a non-current 'stripping activity asset' where the following criteria are met:

i) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

ii) the entity can identify the component of the ore body for which access has been improved; and

iii) the costs relating to the stripping activity associated with that component can be measured reliably.

Therefore, with the adoption of IFRIC 20, the Group identified components of the mine in accordance with the mine plan, and started accounting mining unit costs based on the strip ratio applicable to each component of the mine. Average accounting strip ratio for components mined during the six months ended 30 June 2013 was 2.94 BCM per tonne, whereas prior to the adoption of IFRIC 20, average accounting strip ratio was 3.18 BCM per tonne.

The mining cost is not only recorded in the income statement, but also the costs of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average strip ratio, which is capitalized in the balance sheet as mining structure.

The processing cost primarily includes the costs associated with the operations of CHPP including power and water costs. During the period of six months ended 30 June 2013, the Group's processing cost was approximately USD21.8 million (first half of 2012: USD18.6 million), and of which approximately USD10.2 million is related to the depreciation and amortization of the CHPP, USD3.4 million incurred in the UHG Power Plant for the power generation and distribution, and USD1.3 million incurred in the UHG Water Supply Facility for the water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne decreased by USD2.7 or 37.5% from USD7.2 per ROM tonne in the first half of 2012 to USD4.5 per ROM tonne in the first half of 2013. The decrease was achieved due to the economy of scales and shift to owner operation of CHPP by eliminating the operation management previously performed by contractor (Table 8).

Table 8. Total processing cost and unit processing cost per ROM coal tonne:

	Six months ended 30 June			
	2013	2012	**2013**	2012
	USD'000	*USD'000*	***USD/ROM tonne***	*USD/ROM tonne*
Total processing costs	**21,823**	18,594	**4.5**	7.2
Consumables	**1,831**	1,232	**0.4**	0.5
Maintenance and spares	**1,158**	942	**0.2**	0.4
Power	**3,440**	3,774	**0.7**	1.4
Water	**1,333**	1,128	**0.3**	0.4
Staff	**2,339**	1,188	**0.5**	0.5
Contractor fee	**–**	2,976	**–**	1.1
Ancillary and support	**1,495**	1,430	**0.3**	0.6
Depreciation and amortization	**10,227**	5,924	**2.1**	2.3

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the period of six months ended 30 June 2013, the Group's handling cost was approximately USD7.2 million (first half of 2012: USD2.5 million). Unit handling cost increased by USD1.2 or 109.1% from USD1.1 per tonne in the first half of 2012 to USD2.3 per tonne in the first half of 2013.

The management has been taking actions to reduce the overall stockpile volume and to improve the operating cash flows and to minimize payments by reducing mining volume in certain periods, hence higher volume of ROM coal stockpiles brought forward from last year was blended in processing with substitution of freshly mined ROM coal for producing washed coal products, and the Group was able to generate cash inflows by selling higher volume of washed coal products. Therefore, re-handling of stockpiled coal resulted in an increase of the handling costs during the period.

Transportation costs include costs related to the transportation of ROM coal from the BN mine to the CHPP located at the UHG mine, the transportation of coal products from UHG to TKH, and the transportation of coal products to the selling point destinations as stipulated under sales contracts, including fees paid to third party transportation contractors.

During the period of six months ended 30 June 2013, the Group's transportation costs were USD55.2 million (first half of 2012: USD59.2 million), of which USD0.1 million was related to the transportation of ROM coal from BN mine to CHPP, USD25.6 million was related to long-haul (UHG-TKH) transportation; USD29.5 million to short-haul (TKH-GM) cross-border transportation for coal products sold to China-based customers under delivery at place ("**DAP**") GM terms, which includes costs of transportation and logistics associated with the direct delivery of products from UHG to GM.

The Group successfully decreased its overall transportation costs in the UHG-GM section by USD4.0 per tonne or 18.5% from USD21.6 per tonne in the first half of 2012, to USD17.6 per tonne in the first half of 2013. The management focused on maximising the utilisation of the Group's own transportation fleet and improving efficiency in its main long-haul transport (UHG-TKH) section. As a result, the transportation cost using its own fleet in the long-haul (UHG-TKH) section has been reduced from USD11.0 per tonne in the first half of 2012 to USD8.1 per tonne in the first half of 2013, which represents USD2.9 or 26.4% decrease per tonne period-on-period basis.

The Group's own transport fleet carried the majority (99.3%) of its total coal products while the remaining small volume (0.7%) was transported by third party contractors, bringing the combined cost of transportation to USD8.2 per tonne in the first half of 2013, down by USD4.4 per tonne compared to USD12.6 per tonne in the first half of 2012.

For the short-haul (TKH-GM) section, where the Group utilised a contracted fleet for the majority of its transportation, the Group's transportation costs were USD9.4 per tonne in the first half of 2013, compared to USD9.0 per tonne recorded in the first half of 2012, representing an increase of USD0.4 per tonne or 4.4%.

The logistics cost is mainly related to costs for paved road operations, maintenance and amortization costs and also costs associated with operating product stockpiles at UHG and TKH. For the six months ended 30 June 2013, the Group's logistics cost was approximately USD10.7 million (first half of 2012: USD12.2 million), and of which approximately USD3.6 million related to the amortization of UHG-GS paved road. The paved road operations, maintenance and amortization costs are partially offset by toll fee revenue generated from third party cargo on commercial terms in accordance with conditions stipulated in the Build-Operate-Transfer agreement entered between GoM and the Group in May 2010.

The site administration cost is primarily related to the site support facilities such as the airstrip operations, and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations at UHG and BN mines, both located in South Gobi province. For the six months ended 30 June 2013, the Group's site administration cost was approximately USD4.5 million, compared to USD1.6 million in the first half of 2012. The Group is implementing policies to shift the employees' work place and to promote relocation to the site base for the purposes of increasing operational efficiency at site. This in turn resulted in an increase of the site administration cost, however on the other hand, it reduces general administrative expenses.

The following table presents, for the periods indicated, the Group's total and individual costs of revenue in terms of amount and also unit costs of revenue calculated on a per total product sold basis (Table 9):

Table 9. Total and individual costs of revenue:

	Six months ended 30 June			
	2013	2012	**2013**	2012
	USD'000	*USD'000*	***USD/tonne***	*USD/tonne*
Cost of revenue	**219,546**	170,880	**70.1**	71.9
Mining cost	**91,927**	51,848	**29.4**	21.8
Variable cost	**50,641**	20,917	**16.2**	8.8
Fixed cost	**34,903**	30,027	**11.2**	12.6
Depreciation and amortization	**6,383**	904	**2.0**	0.4
Processing cost	**21,823**	18,594	**7.0**	7.8
Variable cost	**7,762**	7,076	**2.5**	3.0
Fixed cost	**3,834**	5,594	**1.2**	2.3
Depreciation and amortization	**10,227**	5,924	**3.3**	2.5
Handling cost	**7,165**	2,529	**2.3**	1.1
Transportation cost	**55,238**	59,198	**17.6**	24.9
Logistics cost	**10,695**	12,161	**3.4**	5.1
Variable cost	**3,222**	4,154	**1.0**	1.8
Fixed cost	**3,899**	4,577	**1.3**	1.9
Depreciation and amortization	**3,574**	3,430	**1.1**	1.4
Site administration cost	**4,486**	1,593	**1.4**	0.7
Transportation and stockpile losses	**5,859**	1,261	**1.9**	0.5
Royalty and fees	**22,353**	23,696	**7.1**	10.0
Royalty	**15,803**	18,652	**5.0**	7.9
Air pollution fee	**3,034**	2,129	**1.0**	0.9
Custom fee	**3,516**	2,915	**1.1**	1.2

For the six months ended 30 June 2013, the Group recorded transportation and stockpile net loss of USD5.9 million compared to net loss of USD1.3 million recorded in the first half of 2012, which were included in the mining, processing, transportation and other costs (Table 10).

Table 10. Transportation and stockpile losses by amounts and volumes:

	Six months ended 30 June			
	2013	2012	**2013**	2012
	USD'000	*USD'000*	***tonne'000***	*tonne'000*
Transportation and stockpile losses	**5,859**	1,261	**201.7**	28.0
Transportation loss	**288**	993	**(5.2)**	23.7
Washed coal	**283**	966	**(5.3)**	22.9
Raw coal	**5**	27	**0.1**	0.8
Stockpile loss	**5,571**	268	**206.9**	4.3
Washed coal	**2,804**	418	**52.9**	8.0
Raw coal	**2,767**	(150)	**154.0**	(3.7)

For the six months ended 30 June 2013, total transportation loss was around USD0.3 million, compared to USD1.0 million in the first half of 2012. The inventory losses are assessed based on periodic survey measurements of the Group's ROM coal inventories of ROM coal stockpiles at the UHG and BN mines, and also coal products inventories of product stockpiles at UHG and TKH. For the six months ended 30 June 2013, the Group recorded unrealised inventory loss of USD2.8 million for ROM coal stockpile at UHG compared to unrealised gain of USD0.2 million recorded in the first half of 2012. The stockpile loss of washed coal was USD2.8 million for the six months ended 30 June 2013, compared to USD0.4 million in the first half 2012. The increase observed for stockpile loss in the first half of 2013 is primarily related to increased sales volume. Also to some extend the increases related to moisture loss due to the increase in the proportion of washed coal product sales and moisture losses.

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid according to the applicable laws and regulations in Mongolia. The progressive royalty rate, in the range of 5-8% for processed coal products and 5-10% for raw coal, was based on the monthly reference price determined by the Ministry of Mineral Resources and Energy of Mongolia at the time. However, during the period between 1 January 2013 and 1 April 2013, the contract prices were used for calculating royalty rates based on the GoM issued Resolution No.74 dated 6 October 2012, which was temporarily suspending the use of the monthly reference price system. The Group's effective royalty rate for the six months ended 30 June 2013 was around 6.4% (first half of 2012: 8.0%).

Gross Profit and Gross Profit Margin

The Group's gross profit for the six months ended 30 June 2013 was approximately USD28.3 million, representing a decrease of approximately USD33.9 million or 54.5% from the gross profit of approximately USD62.2 million recorded for the six months ended 30 June 2012. For the six months ended 30 June 2013, the gross profit margin was approximately 11.4%, compared with approximately 26.7% for the six months ended 30 June 2012.

The decrease of gross profit and gross profit margin was mainly driven by a decrease of ASP for coking coal products supplied by the Group due to challenging market conditions in China, as demand from steel mills and coke plants was affected by global economic conditions.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortization of office equipment 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 (Table 11):

Table 11. Administrative expenses:

	Six months ended 30 June			
	2013		2012	
	USD'000	***%***	*USD'000*	*%*
Staff costs	**4,698**	**26.4**	5,197	27.3
Consultancy and professional fees	**1,805**	**10.2**	2,409	12.6
Depreciation and amortization	**1,255**	**7.1**	1,746	9.2
Allowance for doubtful debts	**2,275**	**12.8**	–	–
Share option	**2,121**	**11.9**	3,633	19.1
Others	**5,610**	**31.6**	6,083	31.8
Total	**17,764**	**100.0**	19,068	100.0

For the six months ended 30 June 2013, the Group's administrative expenses decreased by approximately USD1.3 million or 6.8% from USD19.1 million for the six months ended 30 June 2012 to approximately USD17.8 million for the six months ended 30 June 2013. The Group's administrative expenses for the six months ended 30 June 2013 by each category have all decreased compared to the six months ended 30 June 2012, except for the allowance for doubtful debts, which is a provision for potential credit related circumstances due to challenging market conditions in China, as demand from steel mills and coke plants was affected by global economic conditions.

Net Finance Cost

Net finance cost for the six months ended 30 June 2013 was approximately USD38.6 million (30 June 2012: USD5.8 million). Net finance cost for the six months ended 30 June 2013 was primarily due to (i) interest expenses and net changes in fair value related to the Senior Notes and other credit facilities and (ii) less interest expenses capitalized during the first half of 2013 compared to the first half of 2012, since major part of the construction and development activities of the Group are completed.

Income Tax Expenses

The Group's income tax expenses decreased from USD8.9 million for the six months ended 30 June 2012 to approximately USD1.8 million for the six months ended 30 June 2013 due to lowered profitability of the Company during the period.

Loss/Profit for the Period

As a result of foregoing, the loss attributable to equity shareholders of the Company for the six months ended 30 June 2013 was approximately USD25.2 million (30 June 2012: profit USD31.0 million). Major contributing factors of the Group's net loss position are (i) a decrease of ASP of coking coal products and (ii) an increase in the Group's finance costs related to the Guaranteed Senior Notes and other facilities, total net finance cost is approximately USD38.6 million.

Liquidity and Capital Resources

For the six months ended 30 June 2013, the Company's cash needs had been primarily related to repayment of USD85 million Convertible Bond to QGX Holdings Ltd and costs associated with construction of CHPP module 3.

The Company's cash resources were funded mainly by proceeds of USD600 million Guaranteed Senior Notes issued in 2012.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 30 June 2013 was 45.6% (31 December 2012: 46.3%). All borrowings are in USD. Cash and cash equivalents are held in currencies of MNT, USD, RMB, EUR and HKD. The Company's policy is to monitor regularly current end expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Indebtedness

As of 30 June 2013, the Company had USD934.7 million of outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Guaranteed Senior Notes, (ii) Standard Bank Facility up to USD300 million, (iii) 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**"), (iv) USD20 million short term loan from Trade and Development Bank of Mongolia, and (v) USD20 million short term loan from Golomt Bank of Mongolia.

The USD600 million Senior Notes, currently rated at Caa1 by Moody's Investor Service, Inc. ("**Moody's**") and B by Standard and Poor's Ratings Services ("**S&P**"), bear fixed interest rate of 8.875% per annum payable semi-annually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 30 June 2013, the outstanding principal amount was USD600 million. Upon occurrence of a sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or series of related transactions, of all or substantially all of the properties or assets of the Company to any person, other than one or more of the beneficial owners of less than 30% of the total voting power of the Company, the Company must make an offer to repurchase all the Senior Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

The Standard Bank Facility was drawn down in the amount of USD200 million in March 2012 and the remaining available facility of USD100 million was cancelled by the Company. The loan bears an interest of LIBOR plus 5.25% margin per annum. The loan is repayable in 10 quarterly installments starting from December 2012 and ending in March 2015. As of 30 June 2013, the outstanding principal amount was USD170 million. Under the Standard Bank Facility, the Company shall not issue any shares if such issue results in (i) the creation of a new share class of the issued share capital of the Company and (ii) a change of control by controlling shareholder of the Company, ceasing to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

The EBRD, FMO and DEG Loan Agreements bear interest semi-annually at the rate of six-month LIBOR plus 3.25%-3.75% margin per annum. USD120 million principal amount of the loan is repayable in 11 semi-annual installments ending on 15 May 2016 and USD60 million principal amount of the loan is repayable in two equal installments on 15 May 2015 and 15 May 2016, respectively.

As of 30 June 2013, the outstanding principal amount was USD136.4 million. Under the EBRD, FMO and DEG Loan Agreements, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the Company than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Company or the Company may not cease to be majority directly owned by the entities domiciled in Mongolia.

The Trade and Development Bank of Mongolia loan is a short term loan maturing in December 2013. The loan bears interest of 9.0% per annum. As of 30 June 2013, the outstanding principal amount was USD20 million.

The Golomt Bank of Mongolia loan is a short term loan maturing in September 2013. The loan bears interest of 9.0% per annum. As of 30 June 2013, the outstanding principal amount was USD20 million.

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.

For the six months ended 30 June 2013, the Group had approximately USD76.5 million in trade receivables, USD228.5 million in other receivables and USD7.9 million for allowance of doubtful debts. For the year ended 31 December 2012, the Group had USD35.8 million in trade receivables and USD178.0 million in other receivables and USD5.9 million for allowance of doubtful debts.

The Company holds monthly Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit on an ongoing basis. 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 of USD228.5 million, it is mainly related to USD78.1 million VAT and other tax receivables, USD58.0 million from GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax authority audit and approval of the VAT tax refund, the Group mainly offsets the VAT refund with its other tax payments. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. Management believes that there is no issue in collectability of such receivables.

Foreign Exchange Risk

During the six months ended 30 June 2013 and 2012, 100% of the revenue and approximately 65.5% and 40.5% of the purchases respectively 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 30 June 2013 and 31 December 2012 amounted to approximately USD125.2 million and USD282.4 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as of 30 June 2013 and 31 December 2012 amounted to approximately USD176.4 million and USD147.3 million, respectively.

For the six months ended 30 June 2013 and 2012, approximately 63.8% and 68.6% of the revenues were denominated in USD with the remaining denominated in RMB.

For the six months ended 30 June 2013, approximately 12.8% and 78.0% of operating expenditures and capital expenditures, respectively, were denominated in USD, while 0.3% of capital expenditures were denominated in RMB, and 1.7% of capital expenditures were denominated in currencies other than USD, RMB and MNT, with the remaining denominated in MNT. For the six months ended 30 June 2012, approximately 14.6% and 35.8% of 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. Also, the majority of the Group's finance costs are denominated in USD. Therefore, the Group believes that there exists a natural hedge that partially offsets foreign exchange risk.

The Group has 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.

Pledge of Assets of the Group

As at 30 June 2013, the Company pledged Energy Resources LLC's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, its Debt Reserve Account with Standard Bank Plc for loan repayment, coal sales contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC; engineering, procurement and construction management ("**EPCM**") contract for the CHPP constructed at the UHG site with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; water facilities for the EBRD, FMO and DEG Loan Agreements.

The Company pledged its Collection and Cash Collateral accounts with Standard Bank Plc, coal sales contracts with Winsway Resources Holdings Private Limited, Shenhua Bayannaoer Energy Co., Ltd, Bayannur Conglin Mining Co., Ltd, Wulate Zhongqi Jingshun Da Color Steel Engineering Co., Ltd and Inner Mongolia Fuji Energy Co., Ltd, coal stockpile of Energy Resources LLC for a Standard Bank Facility.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.a.r.l. are shared among a Standard Bank Facility and the Senior Notes.

The total amount of indebtedness covered with the above pledges is USD894.7 million.

Contingent Liabilities

a) As at 30 June 2013, the Company has a contingent liability in respect of the consideration adjustments for an acquisition of the entire issued share capital of Baruun Naran Limited (formerly named QGX Coal Limited), indirect wholly-owned subsidiary of the Company (the "**Acquisition**") pursuant to the Share Purchase Agreement, which may arise from the royalty provision. Under the royalty provision, an additional life of mine payment of USD6 per tonne may be payable 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 the 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.

   Under the royalty provision for excessive coal production at BN mine pursuant to the Share Purchase Agreement and the Settlement Agreement, the specified semi-annual ROM coal production has to exceed approximately 5.0 million tonnes. Therefore, the probability of royalty provision is considered to be very low.

b) The Group received two decisions (the "**Decisions**"), dated 26 December 2012, made by the state customs inspectors of the General Customs Office of Mongolia regarding the results of the post-clearance audit made in relation to import activities for construction of coal handling and preparation plant module I and II. The Group was claimed for additional customs duties of USD1,370,000, VAT of USD2,877,000 and related penalty of USD1,274,000. The Group does not agree with the Decisions and commenced a defense action against the Decisions in the Capital Administrative Court of Mongolia.

The first instance court decisions are anticipated to be available in the third quarter of 2013. The Group believes that it has legal grounds not to agree with the Decisions and will provide all reasonable arguments. However it is difficult to estimate the outcome of the litigation at this early stage.

If the Group were to be found liable to the claim, based upon final court's decision, the under-paid customs duties and VAT would result in an increase in the cost of the Group's property, plant and equipment and the penalty would be charged to the Group's profit or loss.

c) The Group received a claim of approximately USD36,120,000 on 28 March 2013, filed in a district court of Ulaanbaatar by the Lawyer's Association for Environment ("**LAE**") regarding allegations against the Group in relation to possible damages to the environment due to its coal hauling operation.

The first instance court hearing was held on 8 August 2013 and the court ruled in favour of LAE. The Group does not agree with the decision and will file an appeal to the appeal court in due course and will defend vigorously.

The Group believes that it has legal grounds to appeal to all instances of court and would provide all reasonable arguments for such appeal(s). However, it is difficult to predict the final outcome. If the Group were to be found liable to the claim, the claimed amount would be charged to the Group's profit or loss.

Financial Instruments

The Company has a share option scheme, which was adopted on 17 September 2010 ("**Share Option Scheme**") whereby the Board is authorized, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

Under the Share Option Scheme, the Company granted two batches of Share Options to its directors and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to directors and employees respectively with the exercise price of HKD6.66. On 28 November 2012, the Company granted 5,000,000 and 17,750,000 Share Options to directors and employees respectively with the exercise price of HKD3.92.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the six months ended 30 June 2013, USD2.1 million was recognized in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

The Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognized at its fair value of USD4.9 million, and the attributable transactions costs of USD0.11 million were charged to the profit or loss for the year ended 31 December 2012.

The fair value of the derivative component as at 30 June 2013 was USD4.3 million which was presented as derivative financial instruments. The liability component was initially recognized at amortized cost of USD591.7 million, after taking into account USD13.2 million as attributable costs.

Capital Commitments

As at 30 June 2013, the capital commitments outstanding at the respective balance sheet dates were as follows (Table 12):

Table 12. Capital commitments:

	As at 30 June 2013 *USD'000*	As at 31 December 2012 *USD'000*
Contracted for	**31,297**	35,409
Authorized but not contracted for	**68,763**	69,427
Total	**100,060**	104,836

Operating Lease Commitments

As at 30 June 2013, the Company had contracted obligations consisting of operating leases which totaled approximately USD3.1 million with approximately USD2.1 million due within one year and approximately USD1.0 million due between two and five years. Lease terms range from 1 to 5 years, with fixed rentals.

Significant Investment Held

As at 30 June 2013, the Company did not hold any significant investment.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the six months ended 30 June 2013, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

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

For the six months ended 30 June 2013, the Company did not purchase, sell or redeem any of the Company's listed securities.

Subsequent Event

The GoM at its cabinet meeting held on 16 August 2013 resolved to implement certain measures to support coal exports from Mongolia. One of such measures was to purchase by the GoM (i) the UHG-GS paved road from Gobi Road LLC, an indirect wholly-owned subsidiary of the Company, and (ii) the infrastructure built by Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, at GS border checkpoint of Mongolia with an aim to decrease transportation costs, an important factor for coal export support.

As at the date of this announcement, the purchase amount payable to the Group by the GoM in respect of the above resolutions has not yet been discussed.

Employees

As at 30 June 2013, the number of employees of the Group was 2,376 compared with 2,425 employees as at 30 June 2012.

The Group's employees are remunerated with 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 bonuses and share options pursuant to the Company's share option scheme.

Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2013 (dividend for the six months ended 30 June 2012: nil).

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 to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2013.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by relevant employees (the "**Employees Written Guidelines**") who are likely to possess inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting of the Company ("**AGM**"). Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director to attend and answer questions on his behalf at the 2013 AGM due to important business engagement. The Company has complied with all other applicable code provisions as set out in the CG code.

Review by Audit Committee

The Audit Committee of the Company currently comprises one non-executive Director, Ms. Enkhtuvshin Gombo, and three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius, Mr. Unenbat Jigjid, and Mr. Ochirbat Punsalmaa. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The Audit Committee has reviewed the interim results of the Company for the six months ended 30 June 2013.

Publication of the 2013 Unaudited Consolidated Interim Results and 2013 Interim Report on the websites of the Stock Exchange and the Company

This interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.mmc.mn), and the 2013 Interim Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

For and On Behalf of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 27 August 2013

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo, Dr. Oyungerel Janchiv 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.