MONGOLIAN
MINING
CORPORATION

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

2011
INTERIM REPORT

Contents

Company Profile

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

BOARD OF DIRECTORS

Executive Directors

Odjargal Jambaljamts (Chairman)
Battsengel Gotov (Chief Executive Officer)

Non-Executive Directors

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

Independent Non-Executive Directors

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Unenbat Jigjid
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Ng Sin Yee, Clare

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

COMPANY WEBSITE

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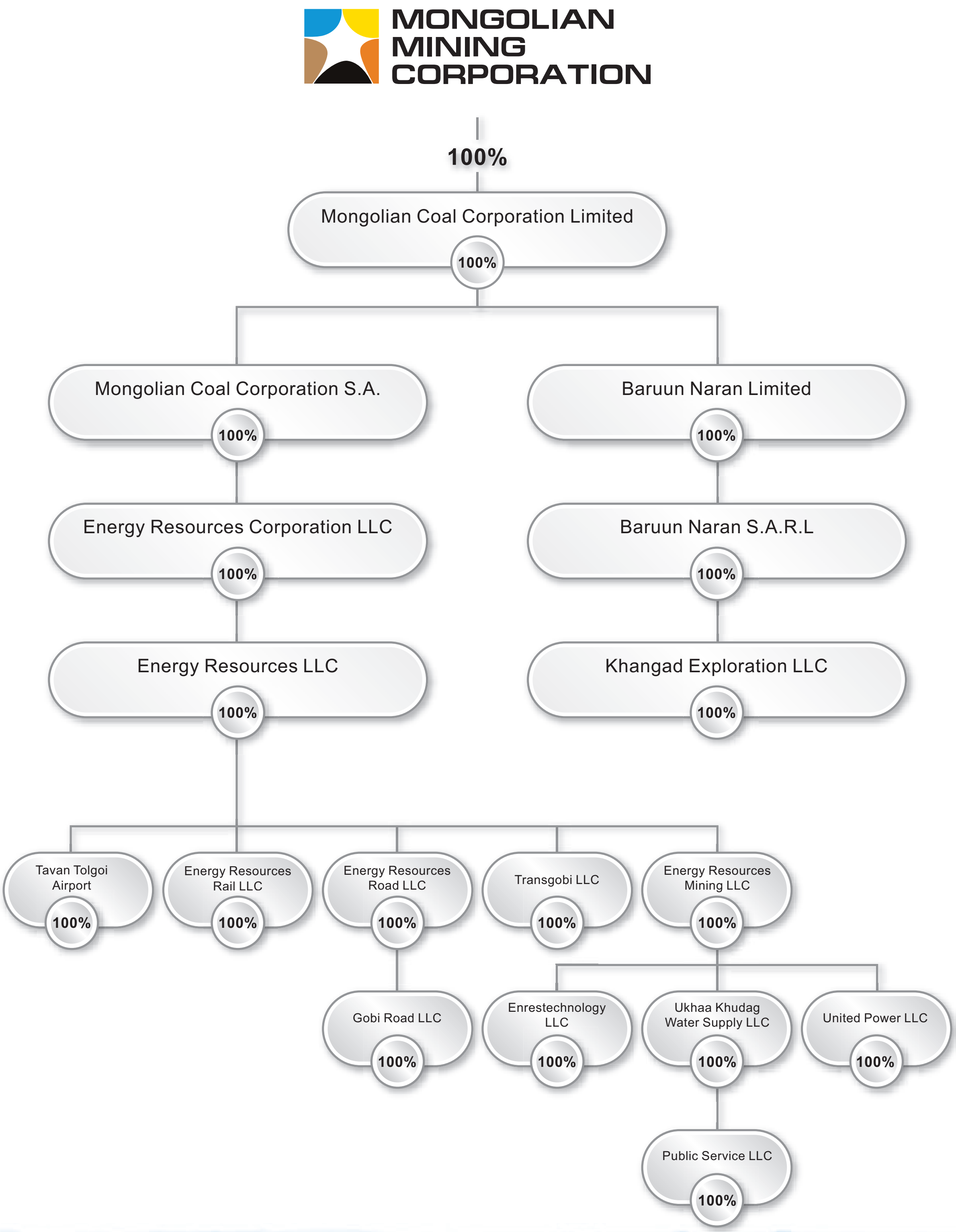
STOCK CODE

975


MONGOLIAN MINING CORPORATION
100%
Mongolian Coal Corporation Limited
100%
Mongolian Coal Corporation S.A.
100%
Energy Resources Corporation LLC
100%
Energy Resources LLC
100%
Baruun Naran Limited
100%
Baruun Naran S.A.R.L
100%
Khangad Exploration LLC
100%
Tavan Tolgoi Airport
100%
Energy Resources Rail LLC
100%
Energy Resources Road LLC
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Transgobi LLC
100%
Energy Resources Mining LLC
100%
Gobi Road LLC
100%
Enrestechnology LLC
100%
Ukhaa Khudag Water Supply LLC
100%
United Power LLC
100%
Public Service LLC
100%

Financial Highlights

	Six months ended 30 June 2011 USD'000	2010 USD'000	Change
Revenue	**136,172**	87,704	55.3%
Cost of revenue	**88,350**	51,305	72.2%
Gross profit	**47,822**	36,399	31.4%
Gross profit margin	**35.1%**	41.5%	-6.4%
Profit attributable to the equity shareholders of the Company	**19,826**	20,696	-4.2%
Net profit margin	**14.6%**	23.6%	-9.0ppt
Basic and diluted earnings per share	**0.54 cents**	0.69 cents	-21.7%

	At 30 June 2011 USD'000	At 31 December 2010 USD'000	Change
Total non-current assets	**1,129,660**	338,137	234.1%
Total current assets	**509,181**	715,133	-28.8%
Total current liabilities	**487,649**	131,679	270.3%
Total non-current liabilities	**406,491**	194,310	109.2%
Net assets	**744,701**	727,281	2.4%
Equity attributable to owners of the Company	**744,701**	727,281	2.4%

	Six months ended 30 June 2011 USD'000	2010 USD'000	Change
Net cash (used in)/generated from operating activities	**(57,956)**	32,140	(90,096)
Net cash used in investing activities	**(184,335)**	(65,109)	(119,226)
Net cash generated from financing activities	**31,534**	91,986	(60,452)

	At 30 June 2011	At 31 December 2010	Change
Current ratio	**1.0x**	5.4x	-4.4x
Debt to total asset	**34.9%**	23.8%	11.1ppt
Debt to equity	**76.7%**	34.5%	42.2ppt

	Six months ended 30 June 2011	2010	Change
Debt to earnings before interest, taxes, depreciation and amortisation ("EBITDA")	**7.2x**	5.8x	1.4x
Interest coverage ratio (Earnings before interest and taxes ("EBIT")/Interest)	**7.1x**	14.3x	-7.2x

	Six months ended 30 June 2011	2010	Change
OPERATIONAL			
Production volume (Mt)	**2.5**	1.5	66.7%
Strip ratio	**6.27**	5.26	+1.0 ppt
Cost per total material movement (United States Dollar ("USD")/bank cubic metre ("BCM"))	**4.54**	4.36	4.1%
Sales volume (Mt)	**1.42**	1.46	-2.7%
Estimated share in Mongolia's total coal export	**18.2%**	28%	-9.8ppt
Average selling price ("ASP") per tonne (USD)	**95.6**	59.9	59.6%

OVERVIEW

The most significant milestone achieved in the Company's long-term development and sustainable business growth objective during the period under review was the successful acquisition of the entire issued share capital of Baruun Naran Limited, formerly named as QGX Coal Limited ("QGX"), which holds the mining license 14993A for the BN coking coal mine (the "BN mine") through its wholly-owned subsidiary (the "Acquisition").

The BN mine is located in Umnugobi Aimag in southern Mongolia, which is approximately 500 km south of Ulaanbaatar, the capital of Mongolia and approximately 60 km east of Dalanzadgad, the provincial centre. It is located approximately 30 km south-west from the Company and its subsidiaries' (the "Group") UHG deposit.

We believe that this acquisition completed on 1 June 2011, provides the Group with a unique opportunity to control coking coal asset in advanced development stage that is strategically located adjacent to the UHG deposit. We believe that the asset will allow the Group to expand its existing footprint in Mongolia and to realise its growth while enhancing value for shareholders of the Company. The sizable coking coal resources and reserves estimated in the BN mine will create the potential to diversify the Group's coking coal products and to enhance revenue streams. The proximity between the BN mine and the UHG coking coal mine (the "UHG mine") will enable the creation of synergies such as the sharing of mining and transportation infrastructure and of coal marketing resources. We believe that the acquisition enables the Group to further expand its coking coal mining business and to solidify the Company's position as the leading coking coal miner in Mongolia.

We are proud to emphasise that in the second quarter of 2011, the first phase of the coal handling and preparation plant (the "CHPP"), with an annual processing capacity of 5 million tonnes was successfully commissioned by the relevant Mongolian governmental authorities and launched its commercial operations at the UHG mine as planned. The Company's CHPP is the first of its kind in Mongolia and was designed to be a customised solution to UHG coal to maximise the coking coal product yield and utilises modern equipment of well-known brands from Australia, USA, Europe, South Africa and China. We believe that the new CHPP will enable the Company to produce and sell washed hard coking coal products under the Company's UHG brand name, reduce logistics costs, expand its end-user customer base, and boost its competitiveness in the international market. Moreover, the significance of this project is driven higher as the Mongolian Government has implemented series of policies to further promote the growth of the mining and minerals processing industry in the country aiming to encourage value-added production.

Management Discussion and Analysis

We will continue the planned expansion of our coal processing capacity by completing the second phase of the CHPP in the last quarter of 2011. The third phase is slated for completion by end of 2012, thus expanding our total processing annual capacity to 15 million tonnes.

During the period under review, we achieved our target with the production of approximately 2.5 million tonnes of run-of-mine ("ROM") coal, representing an increase of approximately 66.7% from the same period in the previous year (first half of 2010: 1.5 million tonnes).

For the six months ended 30 June 2011, the Group grew its revenue by approximately 55.3% to approximately USD136.2 million from USD87.7 million for the same period in the previous year. The increase was primarily attributable to an increase in the ASP and the relation of points of sale from pre-dominantly mine-gate to the Mongolian-Chinese border, which allows the Group to expand its customer base, to sell directly to end-users and to prepare for washed hard coking coal export.

We sold approximately 1.4 million tonnes of coking coal at an ASP of USD95.6 per tonne, representing an increase of approximately 59.6% from the same period of the previous year (first half of 2010: USD59.9 per tonne).

During the period, according to the data issued by the National Statistical Office of Mongolia, the Group exported approximately 1.4 million tonnes of coking coal, or about 18% of Mongolia's total coal exports.

Certain interruption in coal transportation operations was caused by the temporary suspension of all coal hauling on the road from the TT area to Tsagaan Khad ("TKH") (Mongolian border) for 23 days between 21 April to 14 May 2011. The fuel supply shortages affected also the performance of some transportation contractors in May-June 2011. As the Group maintained its mining operations as scheduled, this resulted in the increased inventory at UHG mine in addition to Group's intention to build up approximately four weeks ROM coal production tonnage as in-feed coal stockpile to support continuity of our CHPP operations. Therefore, management believes that the rescheduling of transportation volumes in the remaining months of the year will allow the Group to meet its transportation and sales objectives.

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2011 was approximately USD19.8 million, representing a change of approximately USD0.9 million, or approximately 4.2% as compared to approximately USD20.7 million for the six months ended 30 June 2010. The Company incurred approximately USD4.7 million one-off costs related to the acquisition of QGX. In the period under review, approximately USD12.8 million costs incurred based on the changes in the provisions of Mongolian tax law related to VAT for mineral resources exploitation activities and introduction of additional progressive royalty rate.

In the second half of 2011, an increased amount of washed hard coking coal will be exported using a newly built paved road. As a result, the management expects a higher margin and an improved efficiency due to VAT recoverability and for processed mineral products.

OPERATING ENVIRONMENT

Mongolian coal exports and Chinese coal imports dynamics

In the first six months of 2011, according to the data issued by the National Statistical Office of Mongolia, Mongolia exported around 7.7 million tonnes of coal, approximately 22% more than the 6.3 million tonnes exported in the same period in 2010. Virtually all of Mongolia's coal exports went to China. Based on historical figures from 2009 and 2010, coal export volume in the first half of the year represents around 38% of annual Mongolian coal export; therefore, this year's coal export from Mongolia to China is estimated to potentially reach approximately 20.0 million tonnes.

China imported approximately 19.2 million tonnes of coking coal during the six months ended 30 June 2011, representing a decrease of approximately 14% from approximately 22.3 million tonnes in the same period in 2010. This is in line with total coal import numbers – in the first six months of 2011, China imported approximately 70.5 million tonnes of coal, which represents decrease of approximately 13% compared to approximately 81.1 million tonnes in the same period in 2010.

As shown in the table below, Mongolian imports are counting for more than 41% of total Chinese coking coal imports.

Chinese coking coal import volumes by country of origin

(in million tonnes, source: China Coal Resource)

	Six months ended 30 June		
	June 2010	**June 2011**	Change
Total	22.3	**19.2**	-14%
Mongolia	5.8	**7.9**	+36%
Australia	9.7	**4.2**	-57%
USA	1.6	**2.7**	+66%
Canada	1.6	**1.5**	-9%
Russia	2.2	**1.4**	-37%
Indonesia	1.1	**1.2**	+12%

We believe coking coal imports from Mongolia to China will continue to grow as China demands more steel to fuel its urbanisation and infrastructure development.

Legal framework

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

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

On 21 July 2009, the Parliament of Mongolia has passed an Amendment to the Law on VAT of Mongolia, pursuant to which only exported "processed mineral products" become subject to zero rate VAT.

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

Fuel Supply Situation in Mongolia

In May and June 2011, Mongolia faced shortage of Russian fuel supply, which provides more than 98% of the entire Mongolian fuel usage. However, the Group managed to overcome this situation with minimal impact on its operations and projects being implemented. In the following months, the situation has been normalised. According to the public sources, the Mongolian government authorities agreed with the Russian supplier to guarantee a minimum of 40,000 tonnes per month of fuel supply to Mongolia, and in addition 10,000 tonnes per month to be supplied from China. The Group has taken the steps to agree with its fuel supplier to increase the capacity of onsite fuel storage facilities at UHG mine to 6 million litres and also provide additional storage facilities for up to 20 million litres of fuel, if required.

Coal Resources, Reserves and Exploration Activities

Ukhaa Khudag deposit

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

During the first six months of 2011, MMC's geological team has continued exploration activities with the following objectives in mind:

- To prove that the coal has actual lower in-situ ash content than was predicted by the geological model;

- To produce a bulk sample of the Seam 0 ply so as to enable coking coal sections to be identified and to explore blending possibilities that may produce hard coking coal products;

- To define oxidation limits for mine-planning purposes; and

- To undertake closed-spaced drilling prior to mining so as to determine localised geological structures and the locations of any oxidised coal to be mined as thermal coal.

Approximately 30,149 metres of drilling were carried out during the period under review, and geophysical logging and laboratory test work was also carried out on the samples collected. This exploration data will be used to update the geological and coal quality model, and hence the JORC-compliant resource and reserve estimates in 2012.

The preparation of a 2D Seismic programme for the western part of the deposit has been completed. This paves the way for on-site work to be carried out in second half of 2011 that aims to help the Group to identify coal seam continuity and structure. It will also help the Group to obtain new, valuable information on the potential of the deposit's underground resources.

Finally, a large-diametre, bulk-sample drilling programme has been completed on the Seam 0 ply, and the samples gathered have been submitted to Stewart Laboratories in Mongolia for washability and metallurgical testing.

UHG coal resources by type and category:

Category	Resources above -300 m			Resources below -300 m			Total Resources		
	Coking Coal	Thermal Coal	Total Coal	Coking Coal	Thermal Coal	Total Coal	Coking Coal	Thermal Coal	Total Coal
Measured	82.9	120.2	203.2	–	–	–	82.9	120.2	203.1
Indicated	153.4	51.9	205.3	50.7	37.9	88.6	204.1	89.8	293.9
Inferred	–	11.7	11.7	42.2	27.1	69.3	42.2	38.8	81.0
Total	**236.3**	**183.8**	**420.2**	**92.9**	**65.0**	**157.9**	**329.3**	**248.8**	**578.0**
Total Measured and Indicated	**236.3**	**172.1**	**408.5**	**50.7**	**37.9**	**88.6**	**287.0**	**210.0**	**497.0**

Baruun Naran Deposit

In June 2011, the Group acquired QGX, which ultimately owns the BN mine. The Group's mining license for the BN mine covers an area of approximately 4,486 hectares.

Drilling to date has defined 25 major coal seams, ranging from 1.4 to 16.2 metres in average true thickness. In addition, Seams T and H have been identified as being the deposit's most developed continuous and commercially attractive coking coal seams.

All major coal seams at the BN mine have been labeled alphanumerically from oldest to youngest. The major seam in any alphabetic group has been designated the "500" seam (e.g. "T500"). Moreover, subordinate seams, such as riders, leaders or splits, have been named numerically designated greater than "500" if occurring stratigraphically higher in the sequence (e.g. "T510"), lower than "500" if occurring stratigraphically lower in the sequence (e.g. "T400").

The geological model compiled by McElroy Bryan Geological Services ("MBGS") in June 2007, in accordance with National Instrument ("NI") 43-101 standards, the (Canadian) Standards of Disclosures for Mineral Projects, identified 252.9 million tonnes of measured and indicated geological resources.

The pre-feasibility study completed by Minarco MineConsult and dated 20 March 2008 estimated around 193 million tonnes of potential open-pit mineable coal, once again measured in accordance with NI 43-101 standards.

The study also indicated, inclusive of the indicative specifications shown below, that coking coal and thermal coal could be produced after processing the coal extracted from the BN mine:

	Coking Coal	Thermal Coal
Ash (%, ad)	11	20
VM (%, ad)	31	27
CSN	6-8	n/a
Calorific Value (kcal/kg, gar)	7,200-7,300	5,800-6,000
Sulphur (%, ad)	0.6	0.7

After conducting additional exploration drilling work, MBGS updated the geological model for the BN mine in February 2010 in accordance with JORC standards, identified approximately 282 million tonnes of JORC-compliant measured and indicated resources.

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

The Company anticipates that these estimates may change as it begins to conduct its own studies and analyses for the future development of the BN mine.

For the second half of 2011, the Group's geological team has scheduled the preparation of a 2D Seismic programme for the BN mine in order to help the Group to identify coal seam continuity and structures. Additional work pertaining to geotechnical studies has also been scheduled.

Moreover, a bulk-sampling programme is planned for the major coking coal seams, namely, T and H, and the samples collected will undergo pilot washing at the UHG CHPP.

All this information will provide a valuable database for mine-planning purposes, which will be in line with the BN mine JORC-compliant reserves re-estimation set for the end of 2012 at the latest.

BN coal resources by type and category:

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

Mine Production

In the first six months of 2011, we reached our scheduled ROM production target of approximately 2.5 million tonnes. This is approximately 67% higher than the approximately 1.5 million tonnes mined in the same period of 2010, and around 2.5% higher than our production of 2.44 million tonnes in the second half of 2010. Below are historical semi-annual ROM coal production figures at the UHG mine (in metric tonnes):

Period	2009 H1	2009 H2	2010 H1	2010 H2	2011 H1
UHG ROM	380,144	1,460,796	1,490,462	2,442,124	2,503,679

For the six months ended 30 June 2011, our mining costs were approximately USD35.6 million. Of this, approximately 45% were primarily fuel, labour and other employee-related costs, as well as drilling and blasting expenses directly incurred by the Group. The remainder was incurred by our mining contractor and was primarily related to the depreciation, repair and maintenance of the mining equipment used at our UHG mine, as well as costs associated with major repair provisions, insurance and financing-related matters.

For the six months ended 30 June 2011, the Group's mining cost associated with coal sold was approximately USD24.9 per tonne. The cost component incurred by implementation of VAT law provisions for processed and raw minerals export is approximately USD3.1 per tonne. As the Group will be the only producer of washed hard coking coal in Mongolia, we are ideally positioned to benefit from the advantage of enjoying a zero rate VAT.

Based on our year-to-date performance, surpassing 600 thousand tonnes of ROM coal monthly production level for July, well-established cooperation with our mining contractor Leighton and with all planned major mining equipment delivered to UHG mine site, the Group's management is confident that its ROM coal production target of approximately 7.0 million tonnes for the full year of 2011 is achievable.

Coal Handling and Preparation Plant

Trial run of the first phase of the CHPP with a capacity of 5.0 million tonnes per annum ("Mtpa") has started on 12 May 2011, followed by commissioning by relevant Mongolian governmental authorities on 11 June 2011, and start-up of commercial coal processing operations. By 30 June 2011, a total of approximately 170 thousand tonnes of ROM coal was processed.

We are in on-going process of training up our personnel, continuous optimisation of our wash plant operations, with Sedgman providing experienced on-ground management under provisions of the Operation Management Contract.

The second and third 5.0 Mtpa phases of the CHPP are expected to be operational in the second half of 2011 and by the end of 2012, respectively, and will be a strong boast to the Group's washed hard coking coal production volume. As at 30 June 2011, construction of the second phase was approximately 62% completed. Thus, the commissioning is expected in the fourth quarter of 2011. Meanwhile, the Engineering, Procurement, Construction and Management Contract for the third phase is signed in August 2011.

The total estimated cost for this project is approximately USD343.8 million. The incurred cost related to this project as of the end of June 2011 was USD168.4 million.

Power Plant

We commenced construction of a 3x6 megawatt ("MW") on-site power plant in August 2009, which the Group has planned to commission in three units. The on-site power plant will use the by-product from coal mining and processing activities to generate power for our CHPP operations and also to provide excess power to other facilities at the mine site.

As of 30 June 2011, approximately 98% of this project had been completed and commissioning of the first and second units had started. These 6MW units are expected to go into operation in the third quarter of 2011. Meanwhile, the last unit is expected to be completed in the fourth quarter of 2011. The total estimated cost for this project is approximately USD57 million. The incurred cost related to this project as of the end of June 2011 was USD52.6 million.

The 3x6MW power plant, which is expected to be fully operational by the fourth quarter of 2011, will supply all the power consumption needs of the UHG mine, including the three phases of the CHPP.

Water Supply Facility

To support the operations of our CHPP, as well as our production capacity expansion, we commenced construction of a water supply facility in early 2010. The initial stage of the project, which was to supply up to 117 litres per second, has been completed, commissioned and fully operational in the second quarter of 2011.

The total estimated cost for this project is approximately USD48.7 million. The incurred cost related to this project as of the end of June 2011 was USD41.4 million.

The Group is planning to expand the existing 117 litres per second capacity of the water supply facility by approximately 100 litres per second in the near future. The hydrogeological study of the Naimdain Khundii area, which is located approximately 50 km north of the UHG mine, indicates water resources that should be able to accommodate this additional requirement.

Marketing and Sales

The Group sold to its customers in China 1.42 and 1.46 million tonnes of unwashed hard coking coal in the first half of 2011 and 2010 respectively.

For the six months ended 30 June 2011, the Company's ASP for coking coal was approximately USD95.6 per tonne, compared to approximately USD59.9 per tonne in the first half of 2010, representing approximately 59.6% increase. With the Company starting to sell washed hard coking coal product, the Company achieved an ASP of approximately USD155 per tonne for first batch shipped to its customer in China, providing approximately 62.1% increase from unwashed hard coking coal ASP.

The Company established cooperation with Shenhua Bayanuur Energy company and agreed to supply its washed hard coking coal products to Shenhua Wuhai Energy's coke plant operating in Wuhai. In addition, a sales contract has been signed with ThyssenKrupp MinEnergy GmbH for initial trial shipment of the Company's washed hard coking coal to European market.

Transportation and Logistics

In the first half of 2011, the Group's coal transport operations continued to consist of a truck-and-road model, with combined operations via its coal handling facility at TKH and directly from UHG to stockpiles at the Gangimaodu ("GM") (Chinese border) border port in China. In addition to our main coal delivery operations to GM in China, the Group delivered in June its first shipment of coal to Choir railway stations where they were then transported to the Trans Mongolia railway network and eventually to reach their final destinations in Europe and in other seaborne markets.

In the first half of 2011, the Group successfully expanded its trucking fleet with the addition of 200 new trucks and the placing of an order for a further 100, taking the total number to more than 400. With each newly procured truck designed to carry double trailers that carry twice the load of the existing single trailer trucks, the expanded fleet significantly increases the Group's trucking capacity. The expansion is in line with our strategy to improve the reliability and capacity of coal transport, and will provide us with greater control over our coal transport operations.

For the six months ended 30 June 2011, the Group's transportation cost associated with coal sold was approximately USD25.1 per tonne.

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

Paved Road

The construction of the paved road is progressing as scheduled, and the overall completion status of the project as at 30 June 2011 stood at approximately 86% with a total of 105 km of the designed alignment having been paved. The toll gates at four check-points along the alignment, toll control IT system and support structures are under construction, while maintenance planning, operational and legal documents for the road use are being prepared. The forecasted completion date for the project is in third quarter of 2011.

Border crossing at GS

Customs Clearance and Border Crossing

Certain challenges still exist in the border crossing process to maintain smooth operation every day at both the Chinese and Mongolian part of the crossing, which affect to some extent the overall performance of border crossing of exporters through GS and GM. In the first half of 2011, the Group has initiated in collaboration with other mining companies operating in the region and in coordination with governmental authorities at the GS border crossing point the construction of eight border crossing lanes in addition to the existing four lines, which then connects to the Group's paved road between UHG and GS and we believe that it will significantly increase existing border crossing throughput capacity.


Customs bonded yard at UHG

The customs bonded yard at the UHG mine is fully staffed and has commenced operations in May 2011, ready to conduct inland customs clearance of coal at the UHG mine site. Meanwhile, the Group has been cooperating with customs office to enable efficient monitoring system of trucks cleared at UHG, throughout the road between UHG and GM, using GPS tracking device with centralised control centre at the relevant customs offices. In the first half of 2011, the Group owns more than 300 trucks equipped with the device and successfully conducted number of shipments from UHG directly to GM. The Group shares the findings and results of those shipments with customs office and takes joint effort to further optimise the system in order to implement its strategy to conduct full scale export shipment directly from UHG to GM.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2011, turnover of the Group reached approximately USD136.2 million, representing an increase of approximately 55.3%, as compared with approximately USD87.7 million for the same period of 2010. The increase was attributable to increase in the ASP to reflect the general price rise, together with the change of delivery point since late 2010. From the fourth quarter of 2010, as agreed with its customers in the respective coal supply agreements, the Group started to deliver coal to its customers at delivered at frontier (DAF) GM, the border port on the Chinese side. Accordingly, the ASP increased to reflect the change in shipment term, in addition to the general price rise.

The sales volume recorded during the period under review amounted to approximately 1.42 million tonnes of raw coal and 0.001 million tonnes of washed hard coking coal as compared to 1.46 million tonnes of raw coal for the same period of 2010.

Cost of Revenue

Cost of sales consists of mining, processing, transportation and logistics costs, royalty and customs fees and VAT. Approximately USD88.4 million of costs of sales were incurred for the six months ended 30 June 2011, representing an increase of approximately 72.3% from USD51.3 million for the six months ended 30 June 2010. The increase in cost of sales was mainly due to increases in transportation cost, progressive royalty, VAT costs and fluctuation of foreign exchange rates during the period under review.

For the six months ended 30 June 2011, 2.5 million tonnes of coal were produced with a strip ratio of 6.27 and per BCM mining cost USD4.54 compared to 1.5 million tonnes produced in same period of 2010 with a strip ratio of 5.26 and per BCM mining cost USD4.36.

For the six months ended 30 June 2011, 1.42 million tonnes of coal were sold at GM compared to 1 million tonnes at UHG and 0.46 million tonnes coal sold at the TKH in same period of 2010. Due to the increase of sales volume at GM, transportation cost increased by USD26.0 million from USD9.9 million for the six months ended 30 June 2010 to USD35.9 million for the six months ended 30 June 2011.

During the period under review, royalty and VAT costs increased approximately by USD12.8 million due to newly adopted progressive royalty and VAT tax law changes.

During the period under review, cost of sales increased due to Mongolian National Togrog ("MNT") appreciation versus USD by approximately 13.6% which was changed from 1,410 to 1,241.

Gross Profit and Gross Profit Margin

The Group's gross profit for the six months ended 30 June 2011 was approximately USD47.8 million, representing an increase of USD11.4 million or approximately 31.43% from the gross profit of approximately USD36.4 million recorded for the six months ended 30 June 2010. During the period under review, the gross profit margin was approximately 35.1%, compared with approximately 41.5% for the same period in 2010.

General and Administrative Expenses

During the period under review, administrative expenses were approximately USD23.9 million, representing an increase of approximately USD13.2 million as compared with approximately USD10.7 million in same period of 2010. The higher administrative expenses were mainly due to the following factors: the extensive expansion of operations, the hiring of additional staff, the costs related to the acquisition, social and environmental expenses, and fluctuation of foreign exchange rates.

During the period under review, USD4.7 million costs were incurred related to the acquisition of QGX.

Net Finance Income/Costs

Net finance income for the six months ended 30 June 2011 was approximately USD3.8 million, representing an increase of approximately USD3.0 million, as compared to a net finance income of approximately USD0.8 million in same period of 2010. The increase in net finance income was primarily due to the interest income, mitigated by the foreign exchange loss, during the period under review.

Income Tax Expenses

Income tax expenses for the period under review amounted to approximately USD8.1 million, representing an increase of approximately USD2.4 million or approximately 40.7%, as compared with approximately USD5.8 million in same period of 2010. The substantial increase in income tax expenses for the six months ended 30 June 2011 was due to the increase of taxable income.

Profit for the Period

As a result of the foregoing, the profit attributable to the equity shareholders of the Company for the period under review was approximately USD19.8 million, representing a decrease of approximately USD0.9 million or approximately 4.2%, as compared with approximately USD20.7 million in same period of 2010. The net profit margin was approximately 14.6% for the period, as compared with approximately 23.6% in 2010. The net profit margin decrease is due to increase in cost of sales, foreign exchange rate changes and administrative expenses as noted above.

Liquidity, Financial Resources and Capital Structure

The Group used approximately USD58.0 million cash from its operation during the period under review, as compared with approximately USD32.1 million generated for the six months ended 30 June 2010.

The Group invested approximately USD184.3 million during the period under review in its mining and infrastructure development, including, among other things, CHPP, an 3x6MW power plant, a water supply facility and a paved road, together with cash paid in relation to the acquisition of QGX. The Group financed its mining and infrastructure development with short and long term loans and proceeds from the Hong Kong Public Offering and the International Placing (the "Global Offering").

As at 30 June 2011, the total bank and other borrowings of the Group were approximately USD580.0 million. Of this sum total, approximately USD416.7 million are repayable within one year while the remaining borrowings are repayable by May 2016, with effective weighted average interest rates ranging from 6% to 8%. All borrowings are at floating rates.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 30 June 2011 was approximately 34.9%. All borrowings are in USD. Cash and cash equivalents are held in currencies of MNT, USD, Renminbi ("RMB"), Euro and Hong Kong Dollar.

The Group implements its treasury policies and procedures that covers liquidity, funding, investments, foreign exchange risk and interest rate risk etc.

Acquisition

On 1 June 2011, the Group obtained control of QGX and Baruun Naran S.a.r.l. (formerly named QGX Coal S.a.r.l.) and Khangad Exploration LLC (collectively "BN") by acquiring QGX.

Foreign Exchange Risk

The functional currency of the Company and the investment holding companies is USD and the functional currency of other group entities located in Mongolia is MNT. Therefore, the Group is subject to the risk of loss or gain due to USD and RMB fluctuations. The Group's sales revenue has been and is expected to be priced and settled in USD and RMB. Although the majority of our assets and operational expenses are denominated in MNT, a large portion of those, including fuel and capital expenditure, are import costs and thus linked to USD and RMB prices. Therefore, the Group believes that there exists a natural hedge that partially offsets foreign exchange risk. The Group's long term liabilities are denominated in USD. For the six months ended 30 June 2011, the Group had approximately USD4.2 million in net realised and unrealised exchange losses, which is due to month to month foreign exchange rate fluctuations during the period under review. The Group will continue to monitor exposure to foreign exchange risk and consider hedging instruments, provided that such hedging instruments for MNT become available and not overly expensive compared to the underlying exposures.

Pledge of Assets of the Group

As at 30 June 2011, the Group pledged Energy Resources LLC's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia; Energy Resources Corporation LLC's time deposit accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, Khas Bank of Mongolia, Savings Bank of Mongolia and Ulaanbaatar City Bank of Mongolia; Debt Service Reserve Account with Standard Bank for European Bank for Reconstruction and Development ("EBRD") loan repayment; accounts with Standard Bank for Standard Bank loan repayment; off-take contract with Inner Mongolia Qinghua Group of China; coal mining agreement with Leighton; engineering, procurement, construction and management for the CHPP constructed at the UHG deposit with Sedgman; power plant and wash plant phase 1; Mining License; and approximately 21.47% of the share capital of Energy Resources LLC to banks for credit facilities in the aggregate amount of USD580 million granted to the Group.

Contingent Liabilities

As at 30 June 2011, the Group did not have significant contingent liabilities.

Use of Net proceeds from the Company's Global Offering

The Group raised approximately USD616 million net proceeds from Global Offering, including full exercise of Over-allotment option and after deducting the underwriting commissions and other expenses related to Global Offering process, and our original plans to use proceeds from Global Offering were as following:

- approximately USD257 million for financing our mine and transportation infrastructure development projects, which included approximately USD125 million to finance a portion of our railway project and approximately USD80 million for our coal handling and washing plant;
- approximately USD206 million for acquisitions of companies with existing exploration rights and additional mining assets; and
- approximately USD52 million to fund working capital needs and other general corporate purposes.

As at 30 June 2011, the Group used approximately USD616 million of the proceeds from the Global Offering as following:

- approximately USD105 million to fund expansion of our coal handling and washing plant and infrastructure development projects;
- approximately USD75 million was used to repay loan from Standard Bank PLC for funding paved road project;
- approximately USD379 million to fund the acquisition of 100% interests in BN mine; and
- approximately USD57 million to working capital needs.

Operating Lease Commitments

As at 30 June 2011, the Company had contracted obligations consisting of operating leases which totalled approximately USD5.4 million with approximately USD3.0 million due within one year and approximately USD2.4 million due between two and five years. Lease terms range from 1 to 5 years, with fixed rentals.

Capital Commitments

As at 30 June 2011, the Company had capital commitment of capital expenditure for an amount of approximately USD168.7 million, out of which USD54.1 million was contracted for and USD114.6 million was authorised but not contracted for.

Financial Instruments

The convertible bond of USD85 million has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD10,292,000 and the attributable transaction cost of USD118,000 were charged to the profit or loss for the six months ended 30 June 2011. The liability component was initially recognised at amortised cost of USD79,133,000, after taking into account attributable transaction costs of USD915,000.

Employees

As at 30 June 2011, the number of employees of the Group reached 1,619 compared with 931 employees as at 30 June 2010. Total employee remuneration for the six months ended 30 June 2011 and 2010 were USD7.8 million and USD2.9 million respectively.

Dividend

For the six months ended 30 June 2011, the Company did not declare or pay any dividend (dividend for the six months ended 30 June 2010: nil).

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

For the six months ended 30 June 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Review by the Audit Committee

An audit committee comprising three independent non-executive Directors including Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius and a non-executive Director, Ms. Enkhtuvshin Gombo, has been established by the Company. The audit committee has reviewed the unaudited financial statements of the Group for the six months ended 30 June 2011.

As one of the leading mining companies of Mongolia with strong commitment to responsible mining, MMC is devoted to creating sustainable, long-term economic and social opportunities while at the same time ensuring high profits for our shareholders. During the reporting period, the Company adopted two major policies, the Sustainable Development ("SD") Policy and the Corporate Social Responsibility ("CSR") Policy, both showcasing our approach and strong commitment towards sustainability.

Whilst identifying key principles which guide our operations in the areas of sustainability, the documents address the ways in which our CSR and community based objectives should be achieved in line with the globally accepted standards. By working in compliance with the documents in place, maintaining high standards for protecting human health and the environment, and working in close cooperation with the local communities, the Company is aiming to create long-term value to the communities in which we operate as well as the country's economy as a whole. The documents also ensure that good corporate governance is a critical component of our ability to achieve success in the areas of sustainability.

Corporate Social Responsibility

To have a broader representation of the civil society at large in achieving the sustainability objectives, the Company's CSR team works in close cooperation with its Sustainable Policy Advisory Council established in October 2010. Comprised of 8 advisory members with strong reputation in the country and representing various sectors of the society, the Council provides recommendations on development, adoption and implementation of key polices and documents in the areas of SD and CSR.

Community programmes and initiatives

- The Company approved the Community Grievance Procedure which encourages communities to engage in direct and open dialogue with the Company. By taking into account opinions shared by the members of local communities, the procedure will help the Company enhance its business activities.

- Vegetable gardening provides a supplementary source of food and income for the local people. However, it is not a common practice in the Gobi region, partly because of the harsh climate. To support vegetable gardening in Tsogttsetsii soum, a forest belt that spreads over a 5 hectares area has been established 8 km northwest of the soum centre. The forest belt provides protection from wind and reduces sand drifts, thus creating more favourable conditions for vegetable gardening. In total, 6,300 trees of 6 different species have been planted in two strips that run along two opposite sides of the vegetable gardening area. Local people and mine workers planted the trees on a voluntary basis to support the Company's initiative aiming at promoting SD of the community based on small-scale agricultural businesses. The forest belt will be extended to 15 hectares in 2014.

- The Company organises training for local people and herders to improve their knowledge of environmental protection, safety and hygiene on a regular basis. During the first half of 2011, 273 people received training in household waste management, household sanitation, prevention of fire hazards and domestic injuries, emergency preparedness and traffic safety, and prevention from communicable diseases due to population influx. To ensure the participation of herders, the training sessions were organised at the bag centre closest to their homes.

– Jointly with the National Ensemble of Song and Dance of Mongolia, the Company organised six-day training for the local communities with an aim to teach *Gobi Shankh* three famous traditional long songs which are famous among the local people and typical to the Gobi region. Successful participants received certificates enabling them to teach and train long songs to the local community, and hundreds of copies of compact discs were distributed during the "Gobi Festival-2011" exhibition, a traditional annual event organised by the Umnugobi aimag administration. The Company has also funded the establishment of a "Mongolian traditional script model classroom" at Umnugobi aimag secondary school to help promote learning and use of Mongolian traditional script by providing an exemplary learning environment.

– The Company organised two weeks' capacity building training in cooperation with *Development Solutions*, Ulaanbaatar (the capital city of Mongolia) based non-governmental organisation, and EBRD business advisory service programme. We believe that assisting South Gobi small and medium enterprises ("SME") to become sustainable business entities capable of meeting food safety standards and quality requirements will positively influence the process of integrating local SMEs/vendors into the supply chain for mining companies operating in the region. The Company also organised introductory training courses on intensive livestock farming, crop farming, berry and fodder growing for herders in 3 soums jointly with the Umnugobi Aimag Agriculture and SME Department.

To improve the working and living environment of its workers, the Company conducted the second Fatigue Survey among mine operators. Following up on the findings of the survey and the subsequent recommendations, a working group was established to develop a mitigation action plan. In addition, second Camp Satisfaction Survey was conducted among staff working at the UHG mine site. These in-house surveys form the basis of our continuous improvement in order to be an employer of choice.

The Company is in the process of obtaining the ISO 9001 and 14001 and OHSAS 18001 management certificates. The Company will conduct preliminary work in the form of a study to identify gaps between the Company's current management system and the changes necessary to meet ISO requirements. Based on the results of gap analysis, an action plan will be developed to instill an ISO compliant management system.

Disclosure of Information

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2011.

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 be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

STATEMENT OF COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2011.

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

Under the facility agreement between the Company and Standard Bank dated 24 June 2011 (the "Facility Agreement"), MCS Holding LLC ("MCS") shall not cease to beneficially hold, directly or indirectly, at least 33% of the issued share capital of the Company without prior written consent of Standard Bank. The Company also covenants under the Facility Agreement to furnish Standard Bank with its audited consolidated financial statements within a period of 120 days from the end of each financial year.

In accordance with the loan agreements made among Energy Resources LLC (the "Borrower") and EBRD as dated 12 May 2010, amended and restated on 11 August 2010 and further amended on 8 October 2010, FMO as dated 11 August 2010 and further amended on 8 October 2010, and DEG as dated 11 August 2010 and further amended on 8 October 2010 (the "Loan Agreements"), MCS covenants that it shall not cease at any time to own, directly or indirectly, more shares of the Borrower than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Borrower without the prior written consent of EBRD, FMO and DEG (the "Lenders"). MCS, as a sponsor, signed side letters with the Lenders where the Borrower covenants to furnish the Lenders with its audited consolidated financial statements and the auditors' confirmation of the Borrower's compliance with the financial ratios as required in the Loan Agreements within a period of 150 days from the end of each financial year.

As at 30 June 2011, MCS Mining Group Limited, a wholly-owned subsidiary of MCS, held approximately 43.99% of the issued share capital of the Company (31 December 2010: 43.99%).

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

As at 30 June 2011, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares and underlying shares of the Company

		Ordinary shares of USD0.01 each	
Name of Director	Nature of interest	Total number of shares held	Percentage of total issued share capital
Odjargal Jambaljamts *(Note 1)*	Interest in controlled corporation	1,629,699,000	43.99%
Oyungerel Janchiv *(Note 2)*	Interest in controlled corporation	423,000,000	11.42%
Batsaikhan Purev *(Note 3)*	Interest in controlled corporation	119,923,500	3.24%

Short positions in the shares and underlying shares of the Company

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of shares held**	**Percentage of total issued share capital**
Odjargal Jambaljamts *(Note 1)*	Interest in controlled corporation	336,650,250	9.09%

Notes:

(1) The shares are held by MCS Mining Group Limited.

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

On 9 June 2011, MCS Mining Group Limited, the controlling shareholder of the Company, entered into a new charge over shares of the Company with Standard Bank Plc in respect of 336,650,250 shares (the "Charged Shares") of the Company, whereby MCS Mining Group Limited granted security over the Charged Shares in the Company in favour of Standard Bank Plc.

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

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

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

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

Save as disclosed above, as at 30 June 2011, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

As at 30 June 2011, so far as was known to the Directors and chief executive of the Company, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares and underlying shares of the Company

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	Nature of interest	Total number of ordinary shares held	Percentage of total issued share capital
MCS Mining Group Limited *(Note 1)*	Registered owner	1,629,699,000	43.99%
MCS Group Limited *(Note 1)*	Interest of controlled corporation	1,629,699,000	43.99%
MCS Holding LLC *(Note 1)*	Interest of controlled corporation	1,629,699,000	43.99%
Od Jambaljamts *(Note 1)*	Interest of controlled corporation	1,629,699,000	43.99%
Batmunkh Dashdeleg *(Note 1)*	Interest of spouse	1,629,669,000	43.99%
Munkhsuren Surenkhuu *(Note 1)*	Interest of spouse	1,629,669,000	43.99%
Petrovis Resources Inc. *(Note 2)*	Registered owner	423,000,000	11.42%
Petrovis LLC *(Note 2)*	Interest of controlled corporation	423,000,000	11.42%
Davaanyam Choindon *(Note 2)*	Interest of controlled corporation	423,000,000	11.42%
Mongol Contract LLC *(Note 2)*	Interest of controlled corporation	423,000,000	11.42%
Tuya Danzandarjaa *(Note 2)*	Interest of controlled corporation	423,000,000	11.42%
Batbold Batochir *(Note 2)*	Interest of spouse	423,000,000	11.42%
Shagdardulam Sambalkhundev *(Note 2)*	Interest of spouse	423,000,000	11.42%
Kerry Mining (UHG) Limited *(Note 3)*	Registered owner	300,000,000	8.10%
Kerry Mining (Mongolia) Limited *(Note 3)*	Interest of controlled corporation	300,000,000 60,714,285 *(Note 4)*	9.74%
Fexos Limited *(Note 3)*	Interest of controlled corporation	300,014,640 60,714,285 *(Note 4)*	9.74%
Kerry Holdings Limited *(Note 3)*	Interest of controlled corporation	300,014,640 60,714,285 *(Note 4)*	9.74%
Kerry Group Limited *(Note 3)*	Interest of controlled corporation	333,885,391 60,714,285 *(Note 5)*	10.65%

Short positions in the shares and underlying shares of the Company

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	Nature of interest	Total number of ordinary shares held	Percentage of total issued share capital
MCS Mining Group Limited *(Notes 1 & 6)*	Registered owner	336,650,250	9.09%
MCS Group Limited *(Notes 1 & 6)*	Interest of controlled corporation	336,650,250	9.09%
MCS Holding LLC *(Notes 1 & 6)*	Interest of controlled corporation	336,650,250	9.09%
Od Jambaljamts *(Notes 1 & 6)*	Interest of controlled corporation	336,650,250	9.09%
Batmunkh Dashdeleg *(Notes 1 & 6)*	Interest of spouse	336,650,250	9.09%
Munkhsuren Surenkhuu *(Notes 1 & 6)*	Interest of spouse	336,650,250	9.09%

Notes:

(1) The entire issued share capital of MCS Mining Group Limited is wholly owned by MCS Group Limited which in turn is a direct wholly-owned subsidiary of MCS Holding LLC. MCS Holding LLC is owned as to approximately 46.9% by Mr. Odjargal Jambaljamts and 27.0% by Mr. Od Jambaljamts. Mr. Odjargal Jambaljamts is also a director of MCS Holding LLC. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts. Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.

(2) The entire issued share capital of Petrovis Resources Inc. is owned by Petrovis LLC which is owned as to approximately 33.4% by Dr. Oyungerel Janchiv, 33.3% by Mr. Davaanyam Choindon and 33.3% by Mongol Contract LLC (which is wholly owned by Ms. Tuya Danzandarjaa). Dr. Oyungerel Janchiv is the co-chairperson of Petrovis LLC. Mr. Batbold Batochir is the spouse of Dr. Oyungerel Janchiv. Ms. Shagdardulam Sambalkhundev is the spouse of Mr. Davaanyam Choindon.

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

(4) Each of KMM, Fexos, KHL and KGL was deemed interested in 60,714,285 underlying shares held by KMM. Such underlying shares represent the number of shares of the Company that may be issued upon exercise of the conversion rights attaching to the convertible bonds issued by the Company to KMM's subsidiary. Please refer to the announcement of the Company dated 1 June 2011 for further details.

(5) Out of KGL's corporate interest in 333,885,391 shares of the Company, 33,870,751 shares of the Company were held through its wholly-owned subsidiaries (other than KHL), 300,014,640 shares of the Company were held through companies in which KGL, through KHL, controls more than one-third of the voting power (other than those wholly owned subsidiaries as aforementioned).

(6) On 9 June 2011, MCS Mining Group Limited, the controlling shareholder of the Company, entered into a new charge over shares of the Company with Standard Bank Plc in respect of the Charged Shares of the Company, whereby MCS Mining Group Limited granted security over the Charged Shares in the Company in favour of Standard Bank Plc.

Other than as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2011.

Change of Information of Director

Change of information of Director since the date of the 2010 Annual Report is set out below:

– Mr. Gantumur Lingov, non-executive Director, was appointed as the Acting Managing Director of MCS Holding LLC with effect from 1 May 2011.

Share Option Scheme

The Share Option Scheme ("SOS") was adopted by the Company on 17 September 2010, which became effective from 13 October 2010 (the "Adoption Date"). Options could be granted within a period of 10 years from the Adoption Date. No share option has been granted or agreed to be granted to any person under the SOS since the Adoption Date.

Independent Review Report
to the Board of Directors of Mongolian Mining Corporation
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 36 to 57 which comprises the consolidated balance sheet of Mongolian Mining Corporation (the "Company") as at 30 June 2011 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, "Interim financial reporting", issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standards 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

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

24 August 2011

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2011 – unaudited

	Note	Six months ended 30 June 2011 USD'000	2010 USD'000
Revenue	5	**136,172**	87,704
Cost of revenue	6	**(88,350)**	(51,305)
Gross profit		**47,822**	36,399
Other revenue		**304**	109
Other net income/(cost)		**63**	(158)
Administrative expenses		**(23,867)**	(10,687)
Profit from operations		**24,322**	25,663
Finance income	7(a)	**11,552**	2,631
Finance cost	7(a)	**(7,711)**	(1,800)
Net finance income	7(a)	**3,841**	831
Share of losses of associates		**(201)**	(15)
Profit before taxation	7	**27,962**	26,479
Income tax	8	**(8,136)**	(5,783)
Profit attributable to the equity shareholders of the Company for the period		**19,826**	20,696
Other comprehensive income for the period			
Exchange differences on translation of financial statements of subsidiaries		**(2,406)**	1,941
Total comprehensive income attributable to the equity shareholders of the Company for the period		**17,420**	22,637
Basic and diluted earnings per share	9	**0.54 cents**	0.69 cents

The notes on pages 40 to 57 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2011 – unaudited

	Note	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Non-current assets			
Property, plant and equipment, net	10	**263,949**	76,646
Construction in progress	11	**224,628**	232,784
Lease prepayments	12	**117**	118
Intangible assets	13	**596,557**	–
Interest in associates		**3,402**	19
Other non-current assets	14	**36,129**	26,889
Deferred tax assets		**4,878**	1,681
Total non-current assets		**1,129,660**	338,137
Current assets			
Inventories	15	**46,777**	7,876
Trade and other receivables	16	**64,212**	32,350
Cash at bank and in hand	17	**398,192**	674,907
Total current assets		**509,181**	715,133
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	18	**416,709**	85,909
Trade and other payables	19	**59,904**	40,315
Current taxation		**10,798**	5,455
Obligations under finance leases		**238**	–
Total current liabilities		**487,649**	131,679
Net current assets		**21,532**	583,454
Total assets less current liabilities		**1,151,192**	921,591
Non-current liabilities			
Interest-bearing borrowings, less current portion	18	**154,821**	165,214
Convertible bond	20	**90,332**	–
Long-term payables	21	**–**	16,811
Provisions	22	**8,682**	6,904
Deferred tax liabilities		**152,433**	5,381
Obligations under finance leases		**223**	–
Total non-current liabilities		**406,491**	194,310
NET ASSETS		**744,701**	727,281
CAPITAL AND RESERVES			
Share capital	23	**37,050**	37,050
Reserves	23	**707,651**	690,231
TOTAL EQUITY		**744,701**	727,281

The notes on pages 40 to 57 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2011 – unaudited

	Note	Share capital USD'000 (Note 23(b))	Share premium USD'000 (Note 23(c))	Other reserve USD'000 (Note 23(c))	Exchange reserve USD'000 (Note 23(c))	Retained earnings USD'000 (Note 23(c))	Total equity USD'000
At 1 January 2011		**37,050**	**608,650**	**14,569**	**6,125**	**60,887**	**727,281**
Changes in equity for the six months ended 30 June 2011:							
Total comprehensive income for the period		**–**	**–**	**–**	**(2,406)**	**19,826**	**17,420**
At 30 June 2011		**37,050**	**608,650**	**14,569**	**3,719**	**80,713**	**744,701**
At 1 January 2010		–	–	44,569	(1,476)	748	43,841
Changes in equity for the six months ended 30 June 2010:							
Total comprehensive income for the period		–	–	–	1,941	20,696	22,637
At 30 June 2010		–	–	44,569	465	21,444	66,478
Changes in equity for the six months ended 31 December 2010:							
Share issued upon incorporation		–	–	–	–	–	–
Nominal value of share capital of new subsidiaries acquired		–	–	(30,000)	–	–	(30,000)
Shares issued pursuant to capitalisation issue		30,000	–	–	–	–	30,000
Shares issued pursuant to the global offering and upon the exercise of the over-allotment option, net of share issuing costs	23(b)	7,050	608,650	–	–	–	615,700
Total comprehensive income for the period		–	–	–	5,660	39,443	45,103
At 31 December 2010		37,050	608,650	14,569	6,125	60,887	727,281

The notes on pages 40 to 57 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2011 – unaudited

	Note	Six months ended 30 June 2011 USD'000	 2010 USD'000
Cash (used in)/generated from operations		**(49,949)**	33,368
Tax paid		**(8,007)**	(1,228)
Net cash (used in)/generated from operating activities		**(57,956)**	32,140
Net cash used in investing activities		**(184,335)**	(65,109)
Net cash generated from financing activities		**31,534**	91,586
Net (decrease)/increase in cash and cash equivalents		**(210,757)**	58,617
Cash and cash equivalents at the beginning of the period		**328,262**	371
Effect of foreign exchange rates changes		**(518)**	118
Cash and cash equivalents at the end of the period	17	**116,987**	59,106

The notes on pages 40 to 57 form part of this interim financial report.

Notes to Unaudited Interim Financial Report

1 CORPORATE INFORMATION

Mongolian Mining Corporation (the "Company") was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as the "Group") are principally engaged in the mining, transportation and sale of coal.

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

2 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, including compliance with International Accounting Standard 34, "Interim financial reporting", ("IAS 34") issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 24 August 2011.

The Group adopts the use of a principle similar to that for a reverse acquisition, rather than following its legal form, in the preparation of its financial statements for the six months ended 30 June 2011 and 2010. The directors consider that Energy Resources LLC is the accounting parent during the six months ended 30 June 2011 and 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and related interpretations.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. The interim financial report has also been reviewed by the Company's auditors, 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 on page 35.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2010 are available from the Company's registered office. The Company's auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2011.

3 NEW AND REVISED IFRSs

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

- IAS 24 (revised 2009), Related party disclosures
- Improvements to IFRSs (2010)

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

The developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

4 SEGMENT REPORTING

The Group has one business segment, the mining, transportation and sales of coal. The majority of its customers are located in China. Accordingly, no business and geographical segment information are presented.

5 REVENUE

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

During the six months ended 30 June 2011, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD53,276,000, USD38,196,000 and USD21,266,000 respectively. During the six months ended 30 June 2010, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD38,189,000, USD26,668,000 and USD18,875,000 respectively.

6 COST OF REVENUE

	Six months ended 30 June	
	2011	2010
	USD'000	USD'000
Mining costs	**35,602**	32,031
Transportation costs	**35,874**	9,924
Others	**16,874**	9,350
	88,350	51,305

7 PROFIT BEFORE TAXATION

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

(a) Net finance income:

	Six months ended 30 June	
	2011	2010
	USD'000	USD'000
Interest income	**(11,552)**	(118)
Foreign exchange gain, net	**–**	(2,513)
Finance income	**(11,552)**	(2,631)
Interest on bank and other borrowings	**5,868**	2,651
Fair value adjustment of Convertible Bond (Note 20)	**605**	–
Interest on liability component of Convertible Bond (Note 20)	**442**	–
Transaction costs	**1,897**	1,562
Unwinding interest on		
– Other long-term payables	**–**	127
– Accrued reclamation obligations (Note 22)	**274**	110
Less: Interest expense capitalised	**(5,591)**	(2,650)
Net interest expense	**3,495**	1,800
Foreign exchange loss, net	**4,216**	–
Finance cost	**7,711**	1,800
Net finance income	**(3,841)**	(831)

* *Borrowing costs have been capitalised at a rate of 6% and 9% per annum for the six months ended 30 June 2011 and 2010 respectively.*

(b) Staff costs:

	Six months ended 30 June	
	2011	2010
	USD'000	USD'000
Salaries, wages, bonuses and benefits	**6,911**	2,548
Retirement scheme contributions	**882**	327
	7,793	2,875

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 10%-13% 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.

7 PROFIT BEFORE TAXATION (continued)

(c) Other items:

	Six months ended 30 June	
	2011	2010
	USD'000	USD'000
Depreciation and amortisation	**3,737**	1,370
Operating lease charges: minimum lease payments	**810**	692
Costs of inventories	**88,350**	51,305

8 INCOME TAX

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

	Six months ended 30 June	
	2011	2010
	USD'000	USD'000
Current tax	**13,456**	6,151
Deferred tax	**(5,320)**	(368)
	8,136	5,783

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

	Six months ended 30 June	
	2011	2010
	USD'000	USD'000
Profit before income tax	**27,962**	26,479
Notional tax on profit before taxation	**6,578**	6,033
Tax effect of non-deductible expense (Note (iii))	**1,171**	258
Tax effect of non-taxable income (Note (iii))	**–**	(902)
Tax loss not recognised	**387**	394
Actual tax expenses	**8,136**	5,783

Notes:

(i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT 3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2011 and 2010.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the six months ended 30 June 2011 and 2010.

(iii) Non-deductible items and non-taxable items mainly represent the unrealised exchange losses and gains during the six months ended 30 June 2011 and 2010, respectively.

9 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2011 is based on the profit attributable to equity shareholders of the Company for the period of USD19,826,000 (six months ended 30 June 2010: USD20,696,000) and the number of shares in issue during the six months ended 30 June 2011 of 3,705,036,500 ordinary shares (six months ended 30 June 2010: 3,000,000,000 shares, which is the share capital of the Company immediately after the Reorganisation and assumed to be outstanding throughout the period ended 30 June 2010). The Convertible Bond (see Note 20) is anti-dilutive and therefore not included in calculating diluted earnings per share. As a result, earnings per share and diluted earnings per share are the same.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the additions of property, plant and equipment (including acquisition of subsidiaries (see Note 24) and transfer from construction in progress) of the Group amounted to USD195,134,000 (six months ended 30 June 2010: USD23,007,000). Items of property, plant and equipment with net book value of USD137,000 were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: USD178,000). As at 30 June 2011, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant module I with a net book value of USD114,480,000 (31 December 2010: nil).

11 CONSTRUCTION IN PROGRESS

The construction in progress is mainly related to coal handling and preparation plant, power plant, paved road and mining related machinery and equipment. As at 30 June 2011, certain of Group's borrowings were secured by the Group's coal handling and preparation plant module II and power plant with net book value of USD53,326,000 and USD52,629,000, respectively (31 December 2010: USD102,153,000 and USD46,402,000, respectively, see Note 18).

According to the Resolution of the Government of Mongolia dated 31 March 2010 and the Built-Operate-Transfer agreement signed between the Government of Mongolia and the Group dated 9 June 2010 (the "Agreement"), the Government of Mongolia granted the Group the land use rights, and the rights to build and operate the paved road running from the mine site to the Mongolia-China border at Gashuun Sukhait. Included in the Group's construction in progress as of 30 June 2011, there was a balance of USD66.4 million (31 December 2010: USD37.3 million) relating to the construction of the paved road. Under the terms of the Agreement, the Group will use its own funds to construct the paved road. In return, it enjoys an unrestricted use right to possess, use, operate the paved road for 10 years period after commission of the road. The Group will use the road primarily for the purpose of transporting coals from its mine site to the Mongolia-China border at Gashuun Sukhait, which is the gate to the designated delivery port of the majority of its customers. In addition, the paved road may be opened to public use subject to certain weight restrictions whereupon the Group may direct users. The paved road was under construction at 30 June 2011 and was grouped under construction in progress and stated at cost less impairment loss. The Group will reclassify the balance relating to the construction of the paved road from construction in progress upon completion and commission of the paved road.

12 LEASE PREPAYMENTS

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

13 INTANGIBLE ASSETS

Intangible assets represent the mining right arising from the Acquisition (as defined in Note 24).

14 OTHER NON-CURRENT ASSETS

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Prepayments in connection with construction work, equipment purchases and others (Note (i))	**36,129**	26,882
Others	**–**	7
	36,129	26,889

Note:

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

Included in the Group's other non-current assets was a balance of approximately USD12.7 million relating to the prepaid amounts of the Group's railway construction project on the project feasibility studies. The Parliament of Mongolia has recently passed a resolution approving a formal policy on railway development in Mongolia. According to the policy, railway development will be conducted in various stages. As a consequence, the timing for the start of the Group's pronounced railway construction project will be determined at a later time. At 30 June 2011, the Group has yet to obtain such determination from the Government of Mongolia. According to the current available information, the Group anticipates final determination will be reached in the second half of 2011. The directors are of the opinion that the Group will get the support from the Government of Mongolia to construct its railway and therefore no impairment is deemed necessary in relation to the prepaid balances.

15 INVENTORIES

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Coal	**45,083**	6,607
Materials and supplies	**1,694**	1,269
	46,777	7,876

As at 31 December 2010, the Group's short-term interest-bearing borrowings were secured by the total carrying amount of the Group's coal inventory. Such short-term interest-bearing borrowings were early repaid in January 2011 (see Note 18).

16 TRADE AND OTHER RECEIVABLES

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Trade receivables (Note (a))	**3,216**	288
Other receivables (Note (b))	**60,996**	32,062
	64,212	32,350

(a) Ageing analysis

Trade receivables are due from the date of billing. The ageing analysis of trade receivables is as follows:

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Amount past due	**3,216**	288

As at 30 June 2011, all of the trade receivables are past due but not impaired as there has not been any significant change in credit quality of the trade receivables.

(b) Other receivables

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Amounts due from related parties	**782**	347
Prepayments and deposits (Note (i))	**25,129**	7,015
Value-added tax ("VAT") receivables (Note (ii))	**26,360**	23,920
Interest receivable	**6,071**	–
Others	**2,654**	780
	60,996	32,062

Notes:

(i) At 30 June 2011, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

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

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

17 CASH AT BANK AND IN HAND

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Cash in hand	68	99
Cash at bank	398,124	674,808
Cash at bank and in hand	398,192	674,907
Less: time deposits with original maturity over three months	(281,205)	(346,645)
Cash and cash equivalents in the condensed consolidated cash flow statement	116,987	328,262

As at 30 June 2011, certain of the Group's borrowings were secured by the Group's cash at bank of USD323,818,000 (31 December 2010: USD199,890,000) (see Note 18).

18 BORROWINGS

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

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Bank loan (secured)	180,000	180,000
Less: Current portion	(21,818)	(10,909)
Less: Unamortised transaction costs	(3,361)	(3,877)
	154,821	165,214

At 30 June 2011, 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 USD120,000,000 (31 December 2010: USD120,000,000), USD36,000,000 (31 December 2010: USD36,000,000) and USD24,000,000 (31 December 2010: USD24,000,000), respectively, bearing interest of 6 months LIBOR + 4.75%~6.85%, were secured by the Group's property, plant and equipment (see Note 10), construction in progress (see Note 11) and cash at bank (see Note 17).

18 BORROWINGS (continued)

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

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Bank loans		
– Secured	**394,891**	75,000
Current portion of long-term borrowings		
– Bank loan	**21,818**	10,909
	416,709	85,909

As at 30 June 2011, the Group's short-term interest-bearing borrowings from Standard Bank of USD400,000,000, bearing interest of 6 months LIBOR + 3.25%, were secured by the Group's cash at bank. The attributable transaction cost amounts to USD5,109,000.

As at 31 December 2010, the Group's short-term interest-bearing borrowings were secured by the Group's coal inventory (see Note 15), which were early repaid in January 2011.

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

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Within 1 year or on demand	**21,818**	10,909
After 1 year but within 2 years	**21,818**	21,818
After 2 years but within 5 years	**136,364**	95,455
After 5 years	**–**	51,818
	180,000	180,000

19 TRADE AND OTHER PAYABLES

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Trade payables (Note (i))	**8,495**	4,772
Receipts in advance (Note (ii))	**19,524**	18,842
Amounts due to related parties (Note (iii))	**3,521**	5,329
Payables for purchase of equipment	**16,179**	3,913
Interest payable	**2,686**	3,776
Transaction cost payable arising from the Acquisition (Note 24)	**4,656**	–
Others (Note (iv))	**4,843**	3,683
	59,904	40,315

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 management service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments.

(iv) Others represent transaction cost payable arising from the issuance of Convertible Bond (see Note 20), accrued expenses, payables for staff related costs, royalty fees, other deposits and other tax payables.

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

20 CONVERTIBLE BOND

	Liability component USD'000	Derivative component USD'000	Total USD'000
At 1 January 2011	–	–	–
Issuance of Convertible Bond (Note 24)	80,048	10,292	90,340
Transaction costs	(915)	–	(915)
Interest charged during the period (Note 7(a))	442	–	442
Interest payable	(140)	–	(140)
Fair value adjustment (Note 7(a))	–	605	605
At 30 June 2011	79,435	10,897	90,332

On 1 June 2011, the Company issued the USD85,000,000 aggregate principal amount convertible bond ("Convertible Bond") to QGX Holdings Ltd. ("Bondholder"), related to the acquisition of QGX (see Note 24).

The Convertible Bond bears interest at 2.0% per annum. If the Group's consolidated leverage ratio exceeds 5.5:1, the interest rate of the Convertible Bond shall increase to 4.0% per annum. The initial maturity date of the Convertible Bond is 1 December 2012 and shall be extended but no later than 21 months from 1 June 2011.

If the total proved and probable reserves (as defined under the Australian Code for Reporting of Mineral Resources and Ore Reserves) contained in the Baruun Naran Coking Coal Mine (the "Total Reserves")) are less than 150,000,000 tonnes ("Reserves Shortfall"), the principal amount of the Convertible Bond shall be reduced by an amount equal to USD3.00 per tonne of such Reserves Shortfall, subject to a cap of USD85,000,000.

Pursuant to the bond conversion terms, the initial conversion price shall be HKD10.92 per share and may change, subject to adjustment in certain circumstances and events. The Group can choose to satisfy its obligation to convert the Convertible Bond through either (i) delivery of shares or (ii) payment of cash.

The Convertible Bond has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD10,292,000 and the attributable transaction cost of USD118,000 were charged to the profit or loss for the six months ended 30 June 2011. The liability component was initially recognised at amortised cost of USD79,133,000, after taking into account the attributable transaction costs of USD915,000.

Fair value of the derivative component was valued by the directors with the reference to a valuation report issued by American Appraisal China Limited, an independent business valuer, based on the Black-Scholes option pricing model.

21 LONG-TERM PAYABLES

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Receipt in advance from a customer	–	16,811

Receipt in advance as at 31 December 2010 represented an advance payment made by a third party customer in relation to a long-term sales contract with this customer within a ten-year period starting from 2009. The Group fully settled the receipt in advance by selling the coal in the first half of 2011 according to the mutual agreement with the third party customer.

22 PROVISIONS

	Accrued reclamation obligations USD'000	Others USD'000	Total USD'000
At 1 January 2011	6,904	–	6,904
Accretion expense (Note 7(a))	274	–	274
Reserve Adjustment (Note 24)	–	1,500	1,500
Exchange adjustments	4	–	4
At 30 June 2011	7,182	1,500	8,682

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the balance sheet date, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 30 June 2011 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

(b) Share capital

Authorised:

	At 30 June 2011		At 31 December 2010	
	No. of shares	USD'000	No. of shares	USD'000
Ordinary shares	**6,000,000,000**	**60,000**	6,000,000,000	60,000

Ordinary shares, issued and fully paid:

	At 30 June 2011		At 31 December 2010	
	No. of shares	USD'000	No. of shares	USD'000
At 1 January	**3,705,036,500**	**37,050**	3,000,000,000	30,000
Shares issued pursuant to the initial public offering and upon the exercise of the over-allotment option	–	–	705,036,500	7,050
At 30 June/31 December	**3,705,036,500**	**37,050**	3,705,036,500	37,050

(c) Reserves

(i) Share premium

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

(ii) Other reserve

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

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the companies now comprising the Group to the Group's presentation currency.

24 ACQUISITION OF SUBSIDIARIES

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

The consideration for the above acquisition includes:

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

(ii) USD279,465,000 of the cash payable by the Group to the Seller is in the form of a promissory note with a 2-month period, which has been settled by the Group as at 30 June 2011;

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

(iv) USD21,874,000 of intercompany loans transferred to the Group, which were previously owed by QGX to the Seller (the “Intercompany loans”).

The above consideration may be adjusted as follows:

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

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

24 ACQUISITION OF SUBSIDIARIES (continued)

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

In connection with the Acquisition, transaction costs of approximately USD4.7 million were incurred, which have been included in the Group's administrative expenses for the six months ended 30 June 2011.

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

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

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

Consideration transferred as at 1 June 2011:

	Fair value USD'000
Cash	**100,000**
Fair value of promissory note	**279,465**
Fair value of Convertible Bond (Note 20)	**90,340**
Fair value of contingent considerations (Note 22)	**1,500**
Less: Fair value of Intercompany loans	**(21,874)**
Fair value of total consideration	**449,431**

The initial fair value/acquisition accounting for QGX was determined provisionally. In accordance with IFRS 3, adjustments to the fair value of the consideration and the assets acquired and liabilities assumed can be made during the 12 months from the date of acquisition.

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the six months ended 30 June 2011. During the six months ended 30 June 2011, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS Holding LLC ("MCS")	Shareholder
Uniservice Solution LLC ("Uniservice Solution", formerly named as "Officenet LLC"))	Subsidiary of MCS
MCS Property LLC ("MCS Property")	Subsidiary of MCS
MCS Electronics LLC ("MCS Electronics")	Subsidiary of MCS
Anun LLC ("Anun")	Subsidiary of MCS
MCS International LLC ("MCS International")	Subsidiary of MCS
Erchim Suljee LLC ("Erchim Suljee")	Subsidiary of MCS

Particulars of significant transactions between the Group and the above related parties during the six months ended 30 June 2011 are as follows:

	At 30 June 2011 USD'000	At 30 June 2010 USD'000
Ancillary services (Note (i))	**9,503**	10,397
Lease of property, plant and equipment (Note (ii))	**438**	112
Purchase of equipment and construction work (Note (iii))	**9,918**	10,708
Finance leases of equipment (Note (iv))	**142**	–

Notes:

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

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

25 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

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

(iv) Finance leases of equipment represent expenditure relating to the lease of equipment from MCS Electronics through finance lease. The rental charges are based on comparable or prevailing market rates, where applicable.

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

Amounts due from/(to) related parties

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Other receivables (Note 16)	**782**	347
Other accruals and payables (Note 19)	**(3,521)**	(5,329)
Obligations under finance leases	**(461)**	–

(b) Key management personnel remuneration

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

	At 30 June 2011 USD'000	At 30 June 2010 USD'000
Salaries and other emoluments	**1,111**	308
Discretionary bonus	**433**	271
Retirement scheme contributions	**81**	42
	1,625	621

Total remuneration is included in "staff cost" (see Note 7(b)).

26 COMMITMENTS

(a) Capital commitments

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

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Contracted for	**54,051**	80,079
Authorised but not contracted for	**114,633**	102,592
	168,684	182,671

(b) Operating lease commitments

(i) At 30 June 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2011 USD'000	At 31 December 2010 USD'000
Within 1 year	**2,964**	1,340
After 1 year but within 5 years	**2,387**	825
	5,351	2,165

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

(c) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 22 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

Glossary and Technical Terms

"Adoption date"	13 October 2010, the date of the Share Option Scheme was adopted and became effective
"aimag"	The highest level of Mongolian administrative subdivision (essentially equivalent to a province), of which there are 21 in Mongolia
"ASP"	Average selling price
"bag"	The smallest administrative unit in rural districts of Mongolia
"BCM"	Bank cubic metre
"BN"	Baruun Naran
"BN deposit"	Means our BN coal deposit located in the TT formation
"BN mine"	Means the area of the BN deposit that can be mined by open pit mining methods
"CHPP"	Coal handling and preparation plant
"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "Group", "our Group", "MMC", "we", "us", "our" or "Mongolian Mining Corporation"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010 and except where the context indicates otherwise (i) our subsidiaries; and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
"CSR"	Corporate social responsibility
"DAF"	Delivered At Frontier, the seller's obligation ends when they have delivered the goods to the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import and the named point and place at the frontier but before the customs border of the adjoining country. The buyer is responsible for customs clearance, duties, taxes, and delivery to final destination at the country of import
"Director(s)"	Director(s) of the Company

"EPCM"	Engineering, Procurement, Construction and Management, a form of contract where the contractor will design and install the equipment, procure and install the necessary materials, and be responsible of managing the process of the installation
"Ger"	A ger is a portable, felt-covered, wood lattice-framed dwelling structure traditionally used by nomads. A ger is more home-like in shape and build, with thicker walls than that of a tent
"GM"	Gangimaodu, border port in China
"Group"	the Company and its subsidiaries
"GS"	Gashuun Sukhait, the Mongolia side of the China-Mongolia border crossing
"HKICPA"	Hong Kong Institute of Chartered Public Accountants
"HKS"	Hong Kong Standards
"IAS 34"	International Accounting Standards 34
"IASB"	International Accounting Standards Board
"IFRSs"	International Financial Reporting Standards
"indicated mineral resource"	That part of a mineral resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed
"ISO"	International Organisation for Standardisation
"JORC"	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited

Glossary and Technical Terms

"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"MNT"	Mongolian National Togrog, the lawful currency of Mongolia
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers
"Mt"	Million tonnes
"Mtpa"	Million tonnes per annum
"MW"	Megawatt
"OHSAS"	Occupational Health and Safety Assessment Series
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"probable reserve"	The economically mineable part of an indicated, and in some circumstances, a measured mineral resource
"proven reserve"	The economically mineable part of a measured mineral resource
"QGX"	Baruun Naran Limited (formerly named QGX Coal Limited) ("QGX") (the "Acquisition"). QGX ultimately owns the BN mine

"raw coal"	Generally means coal that has not been washed and processed
"RE 2410"	Review Engagements 2410
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SD"	Sustainable development
"SFO"	Securities and Futures Ordinance
"share(s)"	Ordinary share(s) of USD0.01 each in the share capital of the Company
"SME"	Small and medium enterprises
"SOS"	Share Option Scheme
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"strip ratio"	The ratio of the amount of waste removed (in BCM) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"TT" or "Tavan Tolgoi"	Means the coal formation located in South Gobi, Mongolia which includes our UHG deposit
"thermal coal"	Also referred to as "steam coal" or "steaming coal," thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal

Glossary and Technical Terms

"TKH"	Tsagaan Khad
"tonne"	Metric ton
"Tsogttsetsii"	Tsogttsetsii soum is the location where TT sits
"UHG"	Ukhaa Khudag
"UHG deposit"	Means our Ukhaa Khudag deposit located in the TT coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	Means the aboveground (<300m) portion of our UHG deposit
"USD"	United States Dollar
"VAT"	Value added tax
"washed coal"	Coals that have been washed and processed to reduce its ash content