MONGOLIAN
MINING
CORPORATION

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

INTERIM REPORT 2012

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Company Profile

Mongolian Mining Corporation ("**MMC**" or "**Company**") is the largest producer and exporter of high-quality hard coking coal in Mongolia. It owns and operates an open-pit coking coal mine at the Ukhaa Khudag ("**UHG**") deposit, located within the Tavan Tolgoi coal formation, and the Baruun Naran ("**BN**") coking coal deposit, both located in the South Gobi region of Mongolia.

MMC was listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") in October 2010 (Stock Code: 975), and was selected as a constituent stock of the Financial Times Stock Exchange Hong Kong Index in March 2012.

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Oyungerel Janchiv
Batsaikhan Purev
Philip Hubert ter Woort
Od Jambaljamts
Gantumur Lingov
Enkhtuvshin Gombo

Independent Non-Executive Directors

Ochirbat Punsalmaa
Unenbat Jigjid
Chan Tze Ching, Ignatius

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Ng Sin Yee, Clare

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Ng Sin Yee, Clare

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Central, Hong Kong

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Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

EBRD – 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
ING Group N.V.
Golomt Bank of Mongolia
Khan Bank of Mongolia
Trade and Development Bank of Mongolia

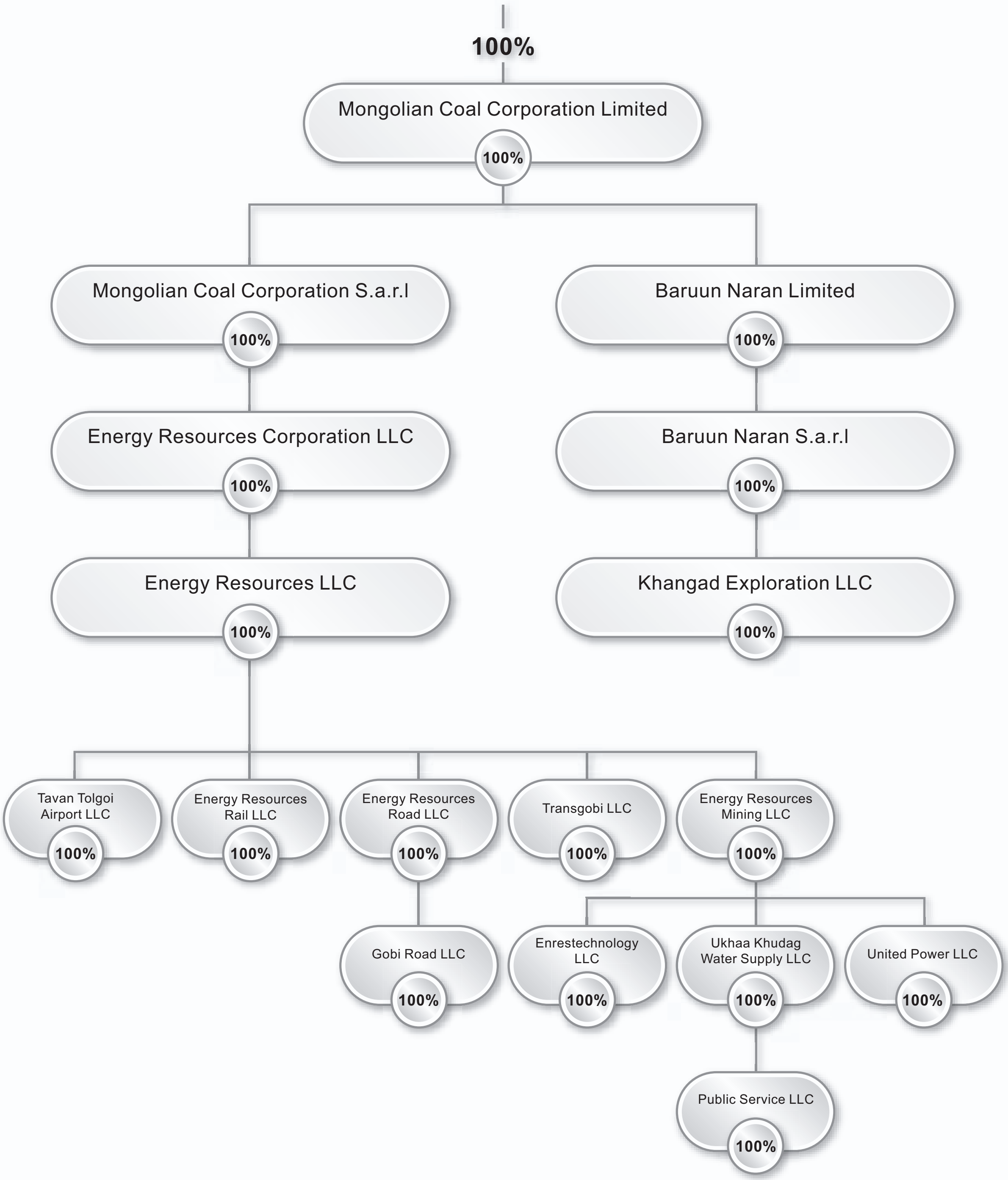
COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Group Structure



Financial Highlights

	Six months ended 30 June 2012 USD'000	2011 USD'000	Change
FINANCIAL			
Revenue	**233,033**	136,172	71.1%
Cost of revenue	**170,880**	88,350	93.4%
Gross profit	**62,153**	47,822	30.0%
Gross profit margin	**26.7%**	35.1%	-8.4 ppt
Profit attributable to the equity shareholders of the Company	**30,978**	19,826	56.2%
Net profit margin	**13.3%**	14.6%	-1.3 ppt
Basic earnings per share	**0.84 cents**	0.54 cents	+0.30 cents

	At 30 June 2012 USD'000	At 31 December 2011 USD'000	Change
Total non-current assets	**1,383,727**	1,233,194	12.2%
Total current assets	**706,478**	394,821	78.9%
Total current liabilities	**214,870**	553,511	-61.2%
Total non-current liabilities	**1,052,375**	305,640	244.3%
Net assets	**822,960**	768,864	7.0%
Equity attributable to equity shareholders of the Company	**822,960**	768,864	7.0%

	Six months ended 30 June 2012 USD'000	2011 USD'000	Change
Net cash used in operating activities	**(84,731)**	(57,956)	46.2%
Net cash used in investing activities	**(346,059)**	(184,335)	87.7%
Net cash generated from financing activities	**444,746**	31,534	1310.4%

	At 30 June 2012	At 31 December 2011	Change
Debt to total asset	**49.1%**	34.5%	14.6 ppt
Debt to Equity	**124.6%**	73.1%	51.5 ppt

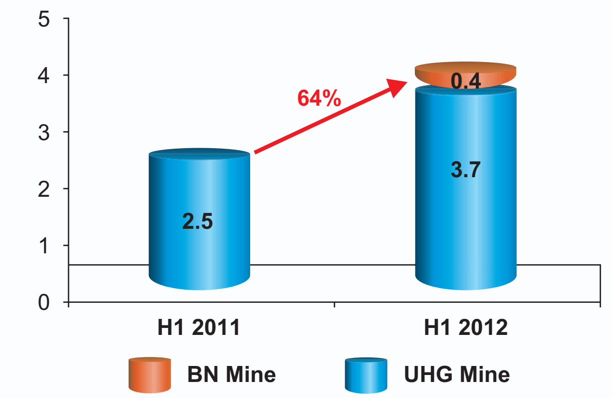
	Six months ended 30 June 2012	2011	Change
Debt to Earnings before interest, tax, depreciation and amortization ("**EBITDA**")*	**4.9x**	8.4x	-3.5x
Interest coverage ratio (EBITDA*/Finance cost)	**7.8x**	7.8x	–

	Six months ended 30 June 2012	2011	Change
OPERATIONAL			
Production volume (million tonnes ("**Mt**" or "**million tonnes**")	**4.1**	2.5	64.0%
UHG mine (Mt)	**3.7**	2.5	48.0%
BN mine (Mt)	**0.4**	–	
Strip ratio	**6.32**	6.27	0.8%
UHG mine	**6.44**	6.27	2.7%
BN mine	**5.27**	–	
Cost per total material movement (United States Dollar ("**USD**")/ bank cubic meter ("**BCM**"))	**4.20**	4.54	-7.5%

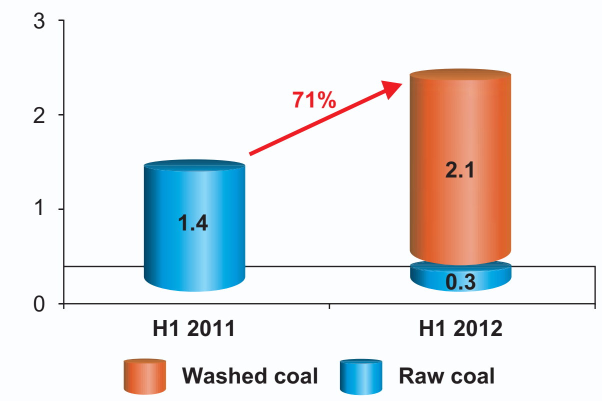
	Six months ended 30 June		
	2012	2011	Change
Sales volume	**2.4**	1.4	71.4%
Sales volume (Mt, raw coal)	**0.3**	1.4	-78.6%
Sales volume (Mt, washed hard coking coal)	**1.3**	–	–
Sales volume (Mt, middlings)	**0.8**	–	–
Estimated share in Mongolia's total coal export	**23.3%**	18.2%	5.1 ppt
Average selling price ("**ASP**") per tonne (USD, blended)	**98.1**	95.6	2.6%
ASP per tonne (USD, coking coal product)	**128.5**	95.6	34.4%
ASP per tonne (USD, washed hard coking coal)	**138.7**	155.0	-10.5%

* *Calculated on the last 12 months rolling basis*

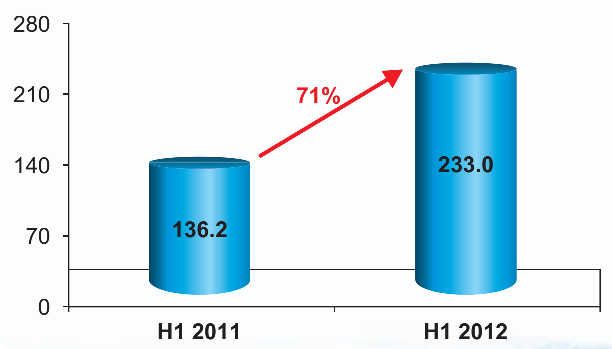
Run-of-mine ("**ROM**") production (Mt)



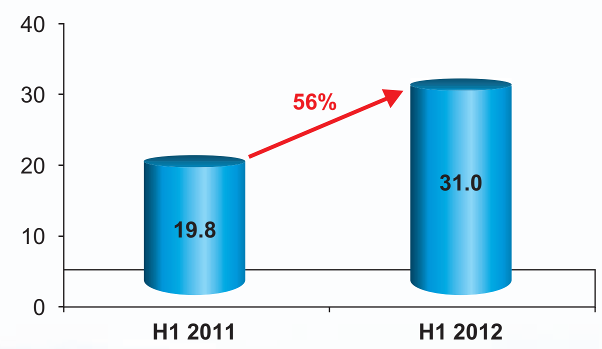
Coal sales volume (Mt)



Sales revenue (million USD)

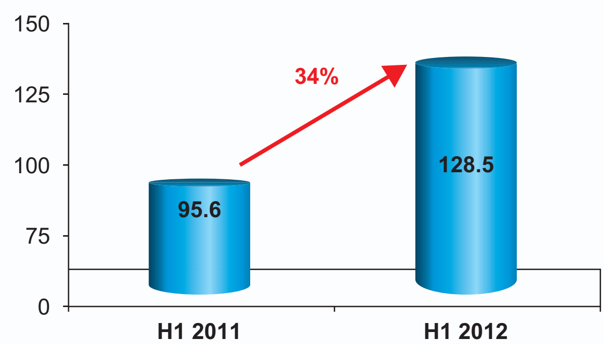


Net profit (million USD)

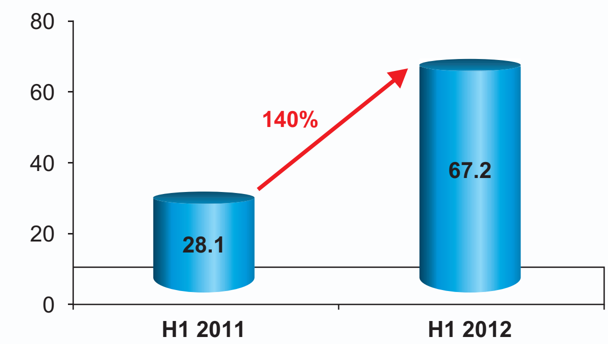


Financial Highlights

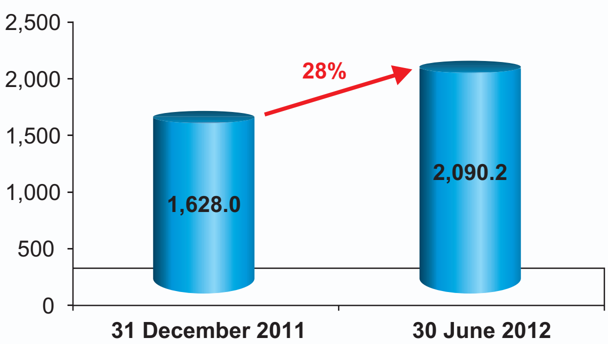
ASP – coking coal products (USD/t)



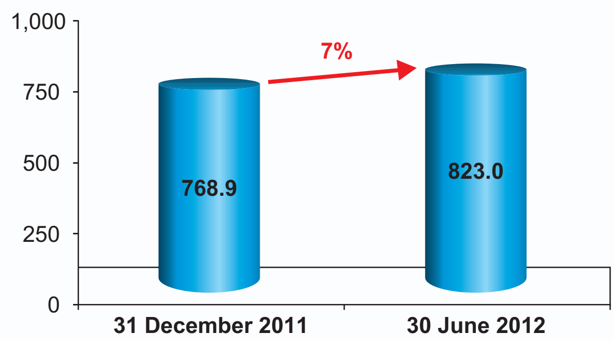
EBITDA (million USD)



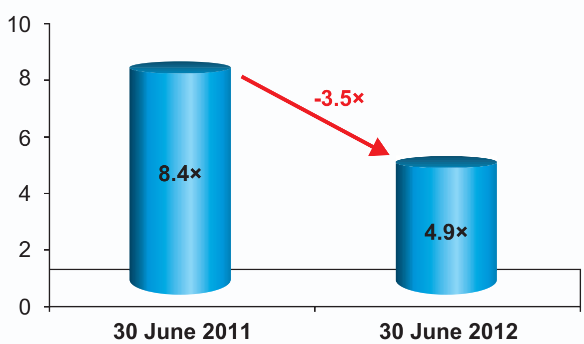
Total assets (million USD)



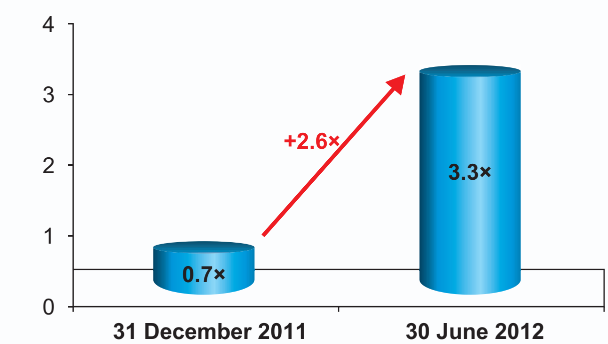
Net assets (million USD)



Debt to EBITDA*



Current ratio



* *Calculated on the last 12 months rolling basis*

Management Discussion and Analysis

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 commencement of the construction of Ukhaa Khudag – Gashuun Sukhait railway base infrastructure ("**UHG-GS Railway**").

In May 2012, the Group has entered into a Build-Operate-Transfer ("**BOT**") Concession Agreement with Government of Mongolia ("**GoM**") to build and operate the railway base infrastructure between UHG coking coal mine and Gashuun Sukhait border check point of Mongolia. The UHG-GS Railway is expected to increase efficiency and reliability of the Group's coal transportation operations while bringing further reduction in cost of transportation to the Group. Moreover, the Group believes that the railway will improve safety in coal transportation operations and significantly reduce impact on the environment.

The Group expects that the UHG-GS Railway construction will be completed in the second half of 2014 and is anticipated to be fully operational in 2015. In the meantime, UHG-GS paved road will continue to serve as the Group's primary transportation infrastructure and provide the Group with a reliable coal transportation link to its customers located in China.

In March 2012, the Group successfully issued USD600.0 million Guaranteed Senior Notes, rated B1/B+, due in 2017 ("**Senior Notes**") bearing an interest at 8.875%, which was the largest ever bond out of Mongolia and the first 144A issuer from Mongolia. At the same time, Moody's Investors Service, Inc. ("**Moody's**") has assigned a B1 corporate family rating and Standard and Poor's Ratings Services ("**S&P**") its 'B+' long-term corporate credit rating to the Group with the stable outlook, respectively. This was an important milestone in the development of the Group's capital structure and the proceeds from the Senior Notes are expected to be allocated mainly to the financing of the Group's UHG-GS Railway construction project.

The Group is proud to emphasize that MMC continued with solidifying its position as the leading coking coal miner in Mongolia by the successful implementation of development plans in line with the Group's strategy to expand its coal mining, processing, transportation and logistics operations and to deliver to the market washed coal products under its own brand name.

The Group's coal mining operations have continued to ramp up as scheduled. During the period under review, the Group achieved a ROM coal production at the UHG mine of approximately 3.7 million tonnes, an increase of 48.0% over the 2.5 million tonnes mined there during the corresponding period in 2011.

Meanwhile, in line with the Group's long-term vision to diversify its business portfolio by transforming from single asset based company to multiple assets operations, in February 2012 it has successfully launched the commercial coal mining operations at the BN mine after official permits were received from the relevant Mongolian governmental authorities.

During the period under review, the Group achieved ROM coal production at its BN mine of approximately 0.4 million tonnes (first half of 2011: nil).

The Group believes that the close proximity of UHG and BN mines provides unique opportunity for synergic development by sharing coal handling and processing facilities and increasing the utilization of coal transportation and logistics infrastructure, thus reducing requirements for development capital expenditure. In addition, operational synergies such as joint functional and operational management and marketing platform will be also achieved.

As a part of its development strategy, the Group launched coal handling and preparation plant ("**CHPP**") operations which enables the Group to produce and sell washed coal products under the MMC's brand name, reduce logistics costs, expand its end-user customer base, and boost its competitiveness in the international market.

To match its coal production expansion, the Group has also been increasing its coal handling and processing capacity. After commissioning the second phase of the CHPP by relevant Mongolian governmental authorities in February 2012, the Group's current coal handling and processing capacity has reached 10 million tonnes on an annual basis.

The Group will continue the planned expansion of its coal processing capacity by completing the third phase of the CHPP. The third phase is slated for completion by end of 2012, thus expanding the Group's total annual processing capacity to 15 million tonnes.

During the period under review, the Group's CHPP processed approximately 3.0 million tonnes of total ROM coal (first half of 2011: 0.2 million tonnes) delivered from UHG and BN mines and produced approximately 2.1 million tonnes of total washed coal products as a combination of washed hard coking coal, washed semi-soft coking coal and middlings.

For the six months ended 30 June 2012, the Group sold approximately 2.4 million tonnes of coal, as a combination of raw coking coal, washed hard coking coal, washed semi-soft coking coal and middlings, representing an increase of 71.4% over the 1.4 million tonnes of coal sold during the corresponding period in 2011.

For the six months ended 30 June 2012, the Group sold approximately 1.3 million tonnes of washed hard coking coal, 0.03 million tonnes of semi-soft coking coal and 0.3 million tonnes of raw coking coal. The ASP for the coking coal products was approximately USD128.5 per tonne, thus representing 34.4% increase over the corresponding period in 2011 (first half of 2011: USD95.6 per tonne).

In the first half of 2012, the Group sold approximately 0.8 million tonnes of its middlings at the ASP of approximately USD37.6 per tonne.

While remaining focused at Chinese market as a primary destination for its coal products and expanding its relations with its Chinese customers, during the period under review as a part of long-term objective to diversify customer base, the Group has successfully delivered initial bulk shipments of approximately 53.3 thousand tonnes of its washed premium hard coking coal via Russian Far East port Nakhodka to the customers at seaborne market, namely Sumitomo Corporation in Japan, Mesco Steel in India and China Steel in Taiwan.

During the period under review, according to the data issued by the National Statistical Office of Mongolia, the Group exported approximately 2.4 million tonnes of coal, or around 23.3% of Mongolia's total coal exports (first half of 2011: 18%).

For the six months ended 30 June 2012, the Group grew its revenue by 71.1% to approximately USD233.0 million from USD136.2 million for the same period in the previous year. The increase was primarily attributable to the increase of total sales volume and higher proportion of washed coal products sales compared to raw coal sales.

During the period under review, the Group increased its EBITDA by 139.6% to approximately USD67.2 million from USD28.1 million for the same period in the previous year. The increase was primarily attributable to the increase of total sales volume and higher ASP achieved for coal sold.

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2012 was approximately USD31.0 million, representing a change of USD11.2 million, or 56.2% as compared to USD19.8 million for the six months ended 30 June 2011.

OPERATING ENVIRONMENT

Dynamics of Mongolian coal exports and Chinese coal imports

In the first half of 2012, according to the data issued by the National Statistical Office of Mongolia, Mongolian coal exports reached approximately 10.3 million tonnes, representing a 33.8% increase over the 7.7 million tonnes in the same period last year. The vast majority of Mongolia's coal exports went to China.

During the period under review, a number of factors affected coal supply and demand dynamics at Chinese and international markets. The Chinese government tightened monetary policy to curb inflation and rising property prices has shown effect, resulting in overall slower economic growth. The situation was compounded by the slowing global economy and financial crisis in Europe, further hampering Chinese steel exports. As the growth of major steel consumption industry sectors, such as construction, ship building and machinery manufacturing slowed down, the Chinese steel industry continued to face difficulties to maintain its production output, products pricing and profitability levels. Additionally, Australian mining companies are returning to post-flood, full production capacity and coking coal supply overtakes demand due to a stagnating global economy. Also falling demand in North America drove increasing amount of coking coal supply from this region to Asian markets, leading to a further decline in seaborne coking coal prices. This excessive seaborne coking coal supply drove seaborne prices to the levels lower than China's domestic prices.

The weaker demand from coke and steel makers and increasing supply of coal from seaborne market resulted in a continuous decrease of Chinese domestic coking coal prices in the first half of 2012 by approximately 5-10% compared to the same period of previous year. This trend is expected to continue in the second half of 2012, although the recent steps taken by the Chinese government to ease monetary policy are expected to stabilize demand and maintain country's GDP growth at targeted 7.5% in 2012.

During the period under review, according to public sources, China imported approximately 139.9 million tonnes of coal. The country continued to be the world's second-largest coking coal importer with approximately 27.6 million tonnes of coking coal imported in the first half of 2012 representing 43.8% increase compared to the corresponding period in previous year (first half of 2011: 19.2 million tonnes).

Moreover, as detailed in the table below, Mongolia preserved its position as the largest supplier of coking coal to China, with its exports accounting for approximately 33.7% of China's total coking coal imports (first half of 2011: 41.2%).

China's coking coal import volumes by country of origin (in million tonnes):
(Source: China Coal Resource)

	For the six months ended 30 June		
	2012	2011	Change %
Total	**27.6**	19.2	43.8
Mongolia	**9.3**	7.9	17.7
Australia	**6.7**	4.2	59.5
Canada	**3.5**	1.5	133.3
United States	**3**	2.7	11.1
Russia	**2.5**	1.4	78.6
Others	**2.6**	1.5	73.3

With China's coal demand expected to remain stable and maintain this trend in the second half of 2012, and with the throughput capacity expansions completed at major coal-exporting border-crossing points between Mongolia and China at Gashuun Sukhait-Ganqimaodu and Shiveekhuren-Ceke, it is expected that this will facilitate the continuing increase in Mongolian coal export volumes to China.

Legal framework

The approval of Law on Regulation of Foreign Investment in Business Entities which Operate in Sectors of Strategic Importance and amendments made in Environmental Laws were major regulatory changes passed and implemented by Mongolian Parliament during the period under review.

On 17 May 2012, the Parliament of Mongolia passed the Law on Regulation of Foreign Investment in Business Entities which Operate in Sectors of Strategic Importance, which came into effect on the same date. Pursuant to this law, the sectors of strategic importance include the minerals, banking and finance, media and communication sectors.

Pursuant to Article 6.1, the following transactions involving privately-owned foreign investors will require GoM's approval, if as a result of transaction foreign entity will acquire 33% or more of the shares in a business entity operating in sector of strategic importance.

Also GoM's approval will be required regardless of the percentage of equity interest, if as a result of a proposed transaction and acquisition of an interest in a business entity operating in sector of strategic importance:

– a foreign investor has the right to solely appoint the executive management or a majority of the board and veto decisions of the executive management or board of directors;

– determine or implement management decisions and/or operations;

– may potentially give rise to a monopoly (to either the seller or buyer) over mineral products on international or domestic commodity markets; or

– may directly or indirectly influence the market or the price of mineral products exported from Mongolia.

Any acquisition or operations by a state-owned foreign investor or by an international organization will require the approval of the GoM.

Moreover, as defined by Article 3.7, if foreign investments in such business entities exceed 49% and the transaction value exceeds the threshold of MNT100 billion (equivalent to approximately USD75 million at current exchange rate), Parliament approval for such investment by any foreign entity is required.

The exact details of the approval procedure will be determined by the GoM. However, the law defines that a foreign investor wishing to enter into a transaction to which the law applies must first make a request for approval to the relevant government agency. The agency must submit its proposal to the GoM on whether to grant approval within 45 days of receipt, and in turn the GoM has 45 days to make a final decision on whether to approve the transaction. Within 5 days after GoM's decision is made, the agency must inform the applicant about the final outcome.

On 17 May 2012, the Parliament of Mongolia also amended a number of environmental laws, such as the Law on Environmental Resource Utilization Fee and the Law on Environmental Impact Valuation, whose amendments came into effect on 22 June 2012.

In accordance with the changes, the water utilization cost is expected to increase from the second half of 2012. Pursuant to the amendment, the water utilization fee will be calculated based on the eco-economic value of the water. For underground water utilized by mining and mineral resource processing entities, the exact fee percentage will range from 20-60% of the eco-economic value of the water.

However, any such water reused for industrial operations will be made exempt from the water utilization fee.

Political Landscape

Since political changes in Mongolia and country's transition to democracy and free market economy in early 90's and first multi-party parliamentary elections held in 1990, on 28 June 2012 Mongolians voted in the seventh parliamentary election, which was the main political event occurred in the country during the period under review.

More than 550 candidates and 15 political parties and coalitions competed in this nationwide elections for 76 seats of the State Great Khural (Ulsyn Ikh Khural), Mongolian Parliament. According to the Election Law, 48 mandates in 26 election districts were filled according to the most popular votes for individual candidates as a party/coalition nominees or independents. The remaining 28 seats, meanwhile, were filled based on the party/coalition preference voting totals nationwide, and with 5% threshold implied to enter Parliament.

As it was declared by Election General Committee, the Democratic Party won 31 seats, the Mongolian People's Party won 25 and the Justice Coalition won 11, and the Civil Will-Green Party won two. Three independent candidates also succeeded in getting elected. Of the four remaining seats, reelections are expected for two mandates due to the failure of the candidates to achieve the more than 28% popular-vote threshold as stipulated by the law. Meanwhile, the results of the final two seats are presently under dispute and awaiting court decisions.

Thus, out of the 72 successfully-elected candidates, 71 took their oaths of office in July 2012 and officially began their terms in newly elected Parliament.

Mr. Altankhuyag Norov was appointed as Prime Minister of Mongolia by securing majority in Parliament formed by Democratic Party, Justice Coalition and Civil Will-Green Party representatives. Thus newly designated Prime Minister will present his proposal to form the Cabinet for approval by Parliament.

Occupational Health and Safety

In the first half of 2012, the Group has continued with implementation of its policy to recognize the safety of personnel and equipment as its highest priority.

During the period under review, no fatalities were reported within the Group's coal mining, processing and transportation operations with total 3,196,643 man hours recorded.

The Lost Time Injury Frequency Rate ("**LTIFR**"), an injury frequency rate expressed as the number of injuries per million hours worked was 1.0, meeting the Group's objective set to be lower than 1.5 for the whole year of 2012. In comparison, Queensland Government publicly reported that the average LTIFR at surface coal mining operations in Queensland, Australia was 2.7 for the period from 1 July 2010 to 30 June 2011.

As of 30 June 2012, the Group had conducted a total of 18,956 man hours of safety training involving Group's personnel, contractors and visitors.

Coal Resources, Reserves and Exploration Activities

UHG deposit

Covering an area of approximately 2,960 hectares, according to JORC-compliant resources and reserves estimation reports prepared by Norwest, the Group's UHG licensed area, as of 31 May 2010, had approximately 581 million tonnes and 286 million tonnes of JORC-compliant measured, indicated and inferred coal resources and proven and probable reserves, respectively.

Over the last four years (2009-2012), the Group's geological team has conducted extensive exploration activities at UHG deposit with the following objectives in mind:

– To define oxidation limits for mine-planning purposes by determining the locations of any oxidized coal to be mined as thermal coal;

– To undertake close-spaced (50mx50m) open-hole drilling and geophysical logging prior to mining so as to determine localized geological structures for future short and mid-term mine planning purpose;

– To undertake close-spaced (100mx100m) core drilling to produce coal samples for testing and analysis for key quality parameters such as but not limited to moisture, ash, volatile matters, sulphur and phosphorous content, calorific value, caking index (G), crucible swelling number (CSN), and Sapozhnikov plastometer indexes (X and Y);

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

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

– To complete the 2D seismic program to identify the continuity of coal seams and potential fault areas impacting the mining methodology and development schedules.

Approximately 166,385 meters of drilling was carried out during this period of exploration with 1,435 boreholes completed and geophysical logged. The laboratory test work was also carried out on a total 32,556 analytical coal samples collected.

The Group collaborated with Velseis Processing to interpret data collected from 71 km of high resolution 2D seismic in-field measurement program, which was carried out by Polaris Seismic International and used to identify coal seams continuity and structure, as well as to obtain new, valuable information on the potential of the deposit's underground resources.

Finally, a large-diameter, bulk-sample drilling program has been completed on the Seam 0 plies, and the samples gathered have been analyzed by ALS Laboratories in Mongolia for washability and metallurgical testing.

All this exploration data was used to update the geological and coal quality model, and hence the JORC-compliant resource estimates as of 30 June 2012. Independent peer audit was conducted by Mr. Todd Sercombe from GasCoal Pty Ltd which confirmed the compliance of the Group's work carried out to update the UHG geological model, thus Competent Person JORC-compliant estimates for coal resources, estimated on an air-dry basis.

The updated UHG coal resources by depth and category (in million tonnes):

Total Coal Resources	Resources Category				
Depth Limits	Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
From -100m to subcrop	114.3	55.3	26.2	169.6	195.8
From -200m to -100m	93.5	55.2	25.8	148.7	174.5
From -300m to -200m	80.1	51.0	16.8	131.1	147.9
From -400m to -300m	49.7	33.2	11.4	82.9	94.3
Below -400m	41.8	34.3	12.2	76.1	88.3
Sub-Total above -300m	287.9	161.5	68.8	449.4	518.2
Sub-Total below -300m	91.5	67.5	23.6	159.0	182.6
Total	**379.4**	**229.0**	**92.4**	**608.4**	**700.8**

MMC geologists working on core samples

Based on air-dry raw coal qualities, seam groups were defined as a coal with moderate-high coking potential or coal with low coking potential. For above 300m to base of weathering it was estimated 373.3 Mt of coal with moderate-high coking potential, 196.2 million tonnes in measured category, 130.6 million tonnes in indicated category, and 46.5 million tonnes in inferred category, respectively. In addition, 145.1 million tonnes of coal resources were determined as a coal with low coking potential. 91.8 million tonnes in measured category, 31.0 million tonnes in indicated category, and 22.3 million tonnes in inferred category, respectively.

For coal resources located below 300m depth limit, it was estimated 105.3 million tonnes of coal with moderate-high coking potential, 56.8 million tonnes in measured category, 38.4 million tonnes in indicated category, and 10.1 million tonnes in inferred category, respectively. In addition, 77.1 million tonnes of coal resources were determined as a coal with low coking potential, 34.6 million tonnes in measured category, 29.0 million tonnes in indicated category, and 13.5 million tonnes in inferred category, respectively.

This geological model will serve as a base to update the Group's long-term mining schedule at UHG mine, and hence the preparation of updated JORC-compliant reserve estimation with expected completion in early 2013.

Note: *Technical information in UHG coal resources estimation report has been compiled by Mr. Gary Ballantine, Executive General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 22 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Minerals Resources and Reserves (JORC) 2004. Mr. Ballantine consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resources presented in this report are considered to be a true reflection of the UHG coal resources as at 30 June 2012 and have been carried out in accordance with the principles and guidelines of the Australian Code for Reporting of Coal Resources and Coal Reserves published in September 2004 (JORC Code). For the Executive Summary of UHG JORC-Resources estimation report as of 30 June 2012, please refer to the Appendix I in this Interim Report.*

BN deposit

The Group's mining license for the BN mine covers an area of approximately 4,482 hectares. McElroy Bryan Geological Services Pty Ltd prepared the geological model for the BN mine in February 2010 in accordance with JORC standards, identifying approximately 282.2 million tonnes of JORC-compliant measured, indicated and inferred coal resources, based on a density calculated for a 6% moisture content. Based on the coal seams determined by SRK Consulting to be either coking or thermal coal in the reserve estimate, the split between coking and thermal coal resources is approximately 152.9 million tonnes as a coking coal and 129.3 million tonnes as thermal coal. In March 2011, SRK Consulting completed a reserve estimation report for the BN mine, identifying approximately 185 million tonnes of open-pit mineable, JORC-compliant proven and probable coal reserves.

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

Total Coal Resources	Resources Category				
Depth Limits	Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
From -100m to subcrop	45.5	9.0	–	54.5	54.5
From -200m to -100m	65.5	15.1	–	80.6	80.6
From -300m to -200m	57.9	19.0	–	76.9	76.9
From -400m to -300m	40.2	29.5	0.5	69.7	70.2
Below -400m	–	–	–	–	–
Sub-Total above -300m	168.9	43.1	–	212.0	212.0
Sub-Total below -300m	40.2	29.5	0.5	69.7	70.2
Total	**209.1**	**72.6**	**0.5**	**281.7**	**282.2**

The Group anticipates that this reserves estimate may change, as it began its own analyses for the future development of the BN mine and have engaged Minarco to conduct technical studies and prepare a life-of-mine ("**LOM**") mining study and JORC-compliant reserves re-estimation with expected completion in the second half of 2012.

Mining and processing operations

ROM coal mining operations

UHG coal mine

BN coal mine

During the period under review, the Group continued with its coal mining operations at UHG mine and started its coal mining operations at BN mine in February 2012 as an official mining permission from relevant Mongolian government authorities was obtained on 30 January 2012.

In the first half of 2012, the Group's combined ROM coal production at the UHG and BN mines reached approximately 4.1 million tonnes, around 64.0% more than the 2.5 million tonnes mined during the same period of 2011. Below are historical semi-annual ROM coal production tonnages (in '000 tonnes):

Period	H1 2009	H2 2009	H1 2010	H2 2010	H1 2011	H2 2011	H1 2012
UHG ROM coal	380	1,461	1,490	2,442	2,504	4,574	3,698
BN ROM coal	–	–	–	–	–	–	436
Total ROM coal	**380**	**1,461**	**1,490**	**2,442**	**2,504**	**4,574**	**4,134**

During the period under review, the strip ratio at the UHG mine was approximately 6.44 BCM/ROMt and at BN mine 5.27 BCM/ROMt, representing the overall strip ratio of 6.32 BCM/ROMt (first half of 2011: 6.27 BCM/ROMt). Similar to previous years, mining operation in the first half of the year was focused on waste pre-stripping to uncover coal, and it is expected to be lower on a full year basis. The management expectation for the full year strip ratio in 2012 is in the range of 5.10-5.20 BCM/ROMt.

Based on the year-to-date performance, the management is expecting the operational adjustment of the Group's ROM coal production at UHG mine to its CHPP in-feed ROM coal consumption while keeping targeted level of approximately four to six weeks in-feed ROM coal inventory at stockpile. Therefore, it is projected that the total ROM coal output at UHG mine will be in the range of the 9.0-10.0 million tonnes for the full year of 2012.

With the expected ROM coal production full year target of 1.0 million tonnes at the BN mine in 2012, management is confident of achieving a total ROM coal production in range of 10.0-11.00 million tonnes for the full year of 2012.

Coal handling and processing operations

During the period under review, the Group's CHPP processed approximately 3.0 million tonnes of total ROM coal (first half of 2011: 0.2 million tonnes) delivered from UHG and BN mines and produced approximately 2.1 million tonnes of total washed coal products as a combination of washed hard coking coal, washed semi-soft coking coal and middlings.

CHPP in operation

The CHPP production tonnages for in-feed ROM coal primary and secondary products in the first half of 2012 are tabulated below:

	In-feed ROM coal ('000 tonnes)	Primary product ('000 tonnes)	Secondary product ('000 tonnes)	Total product ('000 tonnes)	Primary yield (%)	Secondary yield (%)	Total yield (%)
UHG	2,719	1,347	542	1,889	50%	20%	70%
BN	309	198	17	215	64%	6%	70%
Total	**3,028**	**1,545**	**559**	**2,104**	**51%**	**19%**	**70%**

Following the commissioning of the second wash plant module by relevant Mongolian governmental authorities in February 2012, the Group's current coal handling and processing capacity has now reached 10 million tonnes on an annual basis.

The Group continued with the planned expansion of its coal processing capacity by building and installation work for the third phase of the CHPP. The third module is slated for completion by end of 2012, thus expanding the Group's total processing annual capacity to 15.0 million tonnes.

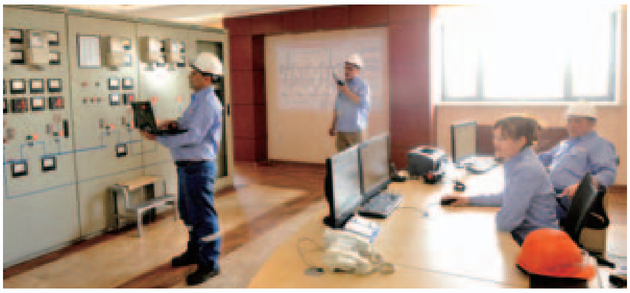
The total estimated cost for entire CHPP project is approximately USD343.8 million. The incurred cost related to this project as of 30 June 2012 was USD275.6 million.

Staff of CHPP

Power and water supply

The Group's on-site coal-fired 3x6 megawatt ("**MW**") power plant located at UHG site ("**UHG Power Plant**") was utilized as a main source of power for its CHPP operations and other facilities at the mine site. It also provides power to local community in the surrounding area. At the same time, 4x2MW diesel generators are acting as a backup and supportive power generation source.

UHG Power Plant



Dispatch center of the UHG Power Plant

Moreover, the state-funded construction of 220kV power transmission line from the central power grid to the South Gobi area is progressing and according to information from government sources, this line is expected to reach Tavan Tolgoi area by the end of this year. Thus, it is expected that this line will serve as an additional power backup source by establishing the connection link with the Group's main substation at UHG.

As of 30 June 2012, the Group's total power generation amounted to approximately 30.6 million kilowatt-hours ("**kWh**"), of which approximately 85% was generated by UHG Power Plant.

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

The Group started construction work in May 2012 to expand this capacity by approximately 112 liters per second, based on the findings of its hydrogeological exploration work and technical study of the Naimdain Khundii area, located approximately 50 km north of the UHG mine. This construction work is scheduled to be completed by the end of 2012.


Maiga mountain water reservoir

The total estimated cost for this expansion project, including the hydrogeological exploration cost, is approximately USD43.8 million. The incurred cost related to this project as of 30 June 2012 was USD31.1 million.

As of 30 June 2012, the Group's total water extracted was approximately 1.2 million cubic meters with 1.0 million cubic meters of water being consumed and the balance stored in the Group's water storage facilities at UHG site.

Transportation and Logistics

In the first half of 2012, the Group continued its truck-and-road model to transport coal products from the UHG mine to the Ganqimaodu ("**GM**") border port in China via its coal handling facility in Tsagaan Khad ("**TKH**"), Mongolia. At the same time, during the period under review, the Group continued with its efforts to conduct trial export shipments to various seaborne market destinations, including Japan, Taiwan and India.


UHG-GS paved road

For the six months ended 30 June 2012, the Group has increased its coal transportation volume of coal exported to China by 64.3% to 2.3 million tonnes (first half of 2011: 1.4 million tonnes).


GS border crossing check point expansion

With approximately 400 trucks under the Group's full ownership, of which 300 are double trailers, the Group has successfully achieved its objective to increase its control over the coal transport and logistics chain and reduce its dependency on third-party contractors. Thus, during the period under review, the Group's own transportation fleet handled more than 50% of all its coal movements from UHG to TKH, which represents almost 5-fold increase on year-on-year basis.

In the first half of 2012, the paved road between the UHG mine and Mongolia's Gashuun Sukhait ("**GS**") border checkpoint started to serve as the Group's primary infrastructure for transporting its products, enabling the Group to achieve significant transportation reliability and efficiency improvements.

Meanwhile, the Group also opened the road for the third-party movement of coal and other freight under a commercial toll fee arrangement, thus generating net income of approximately USD1.8 million.

On 12 January 2012, in order to alleviate bottlenecks at the border crossing and support its ramp-up plan, the Group, jointly with Erdenes MGL, successfully commissioned the expansion of the GS border-crossing checkpoint on the Mongolian side. The expansion brought a significant increase in GS's annual border-crossing capacity from 10-12 million tonnes per annum ("**Mtpa**") to 25-30 Mtpa. This translates into a peak capability of this border-crossing point to handle up to 1,200 trucks per day in each direction.

In the first half of 2012, according to Mongolian Customs data, the GS border-crossing checkpoint handled approximately 5.9 million tonnes of coal exports to China, representing a year-on-year increase of 47.5% over the approximately 4.0 million tonnes in the same period of last year.

UHG-GS Railway project

Government Policy

In June 2010, the Parliament of Mongolia passed a resolution approving a formal policy document on railway development in Mongolia. According to this policy, in the next decade Mongolia plans to expand its existing railway network by staged development of various railway projects, including the Group's UHG-GS Railway.

The President of Mongolia, His Excellency Mr. Elbegdorj Tsakhia, highlighted the importance of the urgent development of railway infrastructure in South Gobi region in an official letter issued on 15 February 2012 to the GoM concerning the infrastructure and other development aspects in the Gobi region, including the need for commencement of construction of planned railway projects in 2012.

The GoM made series of decisions throughout the second quarter of 2012 to enter the negotiations on the concession terms with stakeholders involved in the proposed railway development projects in South Gobi region.

Concession Agreement

On 31 May 2012, the Group entered into and executed the BOT Concession Agreement with GoM, represented by the Ministry of Road, Transportation, Construction, and Urban Development, the State Property Committee, and the Railway Authority of Mongolia.

The BOT Concession Agreement allows the Group to build and operate the railway base infrastructure between UHG coking coal mine and GS border check point of Mongolia for the period of 19 years of the concession term, with key terms including:

– the Group has been granted a right to construct the UHG-GS Railway;

– the Group has been granted a right to operate the UHG-GS Railway for a period up to 19 years from the date of the commissioning of the railway base infrastructure;

– the UHG-GS Railway will be built using a 1,520 millimeter gauge;

– Upon expiration of the concession term, Group shall transfer 51% of its shareholding in Energy Resources Rail LLC ("**ER Rail**"), an indirect wholly-owned subsidiary of the Company, to the GoM in accordance with the conditions set forth in the Concession Agreement; and

– Upon transfer 51% of its shareholding in ER Rail to the GoM, the Group has an option to swap certain portion of the remaining shares in ER Rail for 10 percent of shares in a state owned company, which will own an integrated railway base infrastructure network between Sainshand – Tavantolgoi – Ukhaa Khudag – Gashuun Sukhait.

The other main terms of the Concession Agreement include:

– the Group has preemptive right to use the capacity, in particular up to 20 Mtpa of available capacity of the UHG-GS Railway;

– an open access by third party will be available for the use of any excess capacity on UHG-GS Railway;

– the Group has the right to set and charge tariff under commercial principle on non-discriminatory basis during the concession period; and

– the provision with regard to direct agreement, step in rights and other financing related terms by direct lenders to the project and other regulation on termination compensation.

The Group has secured the land possession rights for the land strip underlying its planned UHG-GS Railway of 6,740 hectares for 60 years commencing 7 August, 2009. Under relevant laws and regulations, the Group is obligated to pay land fees on a quarterly basis. The land fee associated with the land possession rights for the Group's UHG-GS Railway is MNT27.2 million (or approximately USD20,330) per year.

Design and Construction

The UHG-GS Railway will be a 25-tonne axle load single line, diesel electric, heavy haul freight railway of approximately 240 km in length with estimated capacity of up to 30 Mtpa and will be used to transport coal into China and ultimately to other international seaborne markets through GS.

In March 2009, the Group completed a feasibility study and this study estimated the total cost of constructing the Group's UHG-GS Railway at USD698.8 million, based on 15 Mtpa initial capacity and 1,435mm gauge design. The cost estimation is expected to change as the Group commenced works to update its feasibility study and construction cost estimations for the Group's UHG-GS Railway and revise design to convert to 1,520mm gauge and 30 Mtpa throughput capacity. This work is expected to be fully completed in the third quarter of 2012.

The formal groundbreaking ceremony to commence the construction of the UHG-GS Railway was held on 6 June 2012 at UHG mine site.

Railway groundbreaking ceremony – 6 June 2012

As of 30 June 2012, the Group had commenced mobilization and early works campaign on civil works front in order to clear out local and central government permits and approvals, prepare site and setup, explore and open up stone material quarries and water sources, deploy camps and key equipment on site. In June 2012, the Group initiated competitive bidding process to select engineering, procurement and construction ("**EPC**") contractor for the construction of UHG-GS Railway. The final outcome of bidding process is expected in the third quarter of 2012.

The Group expects that the construction of UHG-GS Railway will be completed in the second half of 2014 and is anticipated to be fully operational in 2015. Once completed, the UHG-GS Railway is envisioned to serve as the Group's primary transportation link to China. The UHG-GS Railway is expected to increase efficiency and reliability of its coal transportation operations while bringing further reduction in cost of transportation to the Group. Moreover, the Group believes that the railway will improve safety in coal transportation operations and significantly reduce impact on the environment.

Marketing and Sales

MMC signs a long-term cooperation agreement with China Datang Overseas Investment Co.,Ltd, – 9 April 2012

For the six months ended 30 June 2012, the Group sold approximately 2.4 million tonnes of coal, representing an increase of 71.4% over the 1.4 million tonnes of coal sold during the corresponding period in 2011.

During the period under review, the Group sold approximately 1.3 million tonnes of washed hard coking coal, 0.03 million tonnes of semi-soft coking coal and 0.3 million tonnes of raw coking coal. The ASP for the Group's coking coal products was approximately USD128.5 per tonne, thus representing approximately 34.4% increase over the corresponding period in 2011 (first half of 2011: USD95.6 per tonne). The Group continued to strengthen its relations with end-user customers based in China. In addition, the Group has successfully launched pilot shipments to seaborne market customers. In January 2012, the Group exported approximately 19.1 thousand tonnes of premium washed hard coking coal to the Japanese market in partnership with Sumitomo Corporation via the Russian Far Eastern port of Nakhodka. Subsequently, in March 2012, the Group delivered approximately 16.4 thousand tonnes of premium washed hard coking coal under free-on-board ("**FOB**") Nakhodka terms to Mesco Steel, thus introduced its premium quality coking coal to India, the market that is becoming one of the leading coking coal importing countries recently. In May 2012, a third shipment from Nakhodka delivered approximately 17.8 thousand tonnes of premium washed hard coking coal to China Steel Corporation, helping to raise the potential demand for Mongolian premium coking coal among Taiwan's leading steel mills. Furthermore, the Group has plans to investigate the possibility to deliver its coking coal products to its end-user customers on the seaborne market via Chinese ports located at Bohai rim.

In the first half of 2012, the Group also started to sell its BN washed semi-soft coking coal to China. A total of approximately 31.7 thousand tonnes of this product was shipped to the Inner Mongolia Qinhua Group, Pusheng International Trade (Holdings) Company and China Panjin Oil Field Taicheng Industrial. The Group is still assessing the different options for BN washed coal marketing strategy, either to produce uniform washed semi-soft coking coal product by washing blended ROM coal from major coking coal seams T and H, or to produce distinguished washed products from each of T and H seams at stand alone basis, as results of initial test bulk washing at our CHPP indicates that H seam may provide after washing high volatile hard coking coal product with unique coking properties.

During the period under review, the significant break-through was achieved in terms of marketing the Group's middlings as a high calorific value thermal coal. Thus, the Group entered into a long term cooperation agreement for its middlings with China Datang Overseas Investment Co. Ltd., one of China's largest energy producers, and a sales and purchase agreement with China Panjin Oil Field Taicheng Industrial, another sizeable Chinese end-user of thermal coal. Furthermore, the Company started selling its middlings locally as a feed for boiler to Oyu Tolgoi, one of the biggest mining projects in Mongolia.

In the first half of 2012, the Group sold approximately 0.8 million tonnes of its middlings at the ASP of approximately USD37.6 per tonne. The middlings are generated as a by-product from washing coking coal, and will represent additional stable revenue sources based on long-term cooperation agreement entered with end-user customers such as China Datang Overseas Investment Co. Ltd.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2012 reached USD233.0 million, representing an increase of 71.1%, as compared with USD136.2 million for the same period of 2011. The increase was driven by quantitative factors such as an increase in sales volume and qualitative factors such as an increasing proportion of washed coking coal in sold coal product type.

During the period under review, the Group has sold approximately 97.8% of total export sales volume to its China-based customers and 2.2% to seaborne market customers. For the six months ended 30 June 2012, the Group derived approximately 94.6% and 5.4% of total coal export sales revenue from its Chinese customers and seaborne market customers, respectively.

For the six months ended 30 June 2012, the Group sold approximately 1.3 million tonnes of washed hard coking coal, 0.03 million tonnes of semi-soft coking coal and 0.3 million tonnes of raw coking coal. The ASP for the Group's coking coal products was approximately USD128.5 per tonne, thus representing approximately 34.4% increase over the corresponding period in 2011 (first half of 2011: USD95.6 per tonne).

In the first half of 2012, the Group delivered trial shipments of washed hard coking coal to seaborne market customers under FOB Nakhodka terms, and achieved ASP USD236.5 per tonne, which is approximately 76.0% higher compared to ASP USD134.4 per tonne achieved for washed hard coking coal delivered to China-based customers. The trial shipments were important exercise to test logistic arrangements and deliver sizeable amount of Group's premium hard coking coal to customers at seaborne market for industrial testing purpose. However, the commercial attractiveness will remain limited by undeveloped infrastructure and long transportation distances, as it is resulting in higher cost of revenue for coal sold under FOB Nakhodka terms.

The Group sold approximately 0.8 million tonnes of its middlings at the ASP of approximately USD37.6 per tonne during the period under review.

The breakdown of sales revenue and volumes by destination, sold coal product type and ASP for individual coal product types for the periods indicated, are tabulated below:

	Six months ended 30 June 2012				Six months ended 30 June 2011			
	Raw Coking Coal	Washed Hard Coking Coal	Washed Semi-Soft Coking Coal	Middlings	Raw Coking Coal	Washed Hard Coking Coal	Washed Semi-Soft Coking Coal	Middlings
Sales volume ('000 tonnes)	**286.1**	**1,261.9**	**31.7**	**796.9**	1,423.0	0.8	–	–
China market ('000 tonnes)	**286.1**	**1,208.6**	**31.7**	**796.9**	1,423.0	0.8	–	–
Seaborne market ('000 tonnes)	**-**	**53.3**	**-**	**-**	–	–	–	–
Sales Revenue (USD'000)	**25,425**	**174,984**	**2,658**	**29,965**	135,979	126	–	–
China market (USD'000)	**25,425**	**162,392**	**2,658**	**29,965**	135,979	126		
Seaborne market (USD'000)	**-**	**12,592**	**-**	**-**	–	–	–	–
ASP (USD per tonne)	**88.9**	**138.7**	**83.8**	**37.6**	95.6	155.0	–	–
China market (USD per tonne)	**88.9**	**134.4**	**83.8**	**37.6**	95.6	155.0	–	–
Seaborne market (USD per tonne)		**236.5**						

During the period under review, the Company derived more than 10% of the Company's total revenue from three customers, with the purchase amount of approximately USD73.1 million, USD71.5 million and USD27.1 million, respectively. During the same period in 2011, the Company also derived more than 10% of the Company's total revenue from three customers, with the purchase amounts of approximately USD53.3 million, USD38.2 million and USD21.3 million, respectively.

Cost of Revenue

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

Cost of revenue increased from approximately USD88.4 million in the six months period ended 30 June 2011 to approximately USD170.9 million in the six months period ended 30 June 2012 and the primary reason for the change in cost of revenue is increase in the sales volume, increase in taxes, royalties and fees in connection with the increase in sales volume and costs associated with coal processing.

In the first half of 2012, the unit cost of revenue was approximately USD71.9 per tonne (first half of 2011: USD61.9 per tonne). The following table presents, for the periods indicated, individual costs of revenue in terms of amount and percentages of the Company's total cost of revenue:

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	USD'000	**%**	**USD per tonne**	USD'000	%	USD per tonne
Cost of revenue	**170,880**	**100.0**	**71.9**	88,350	100.0	61.9
Cash cost	**155,707**	**91.1**	**65.5**	86,985	98.5	60.9
Depreciation and amortization	**15,173**	**8.9**	**6.4**	1,365	1.5	1.0
Mining costs	**51,848**	**30.3**	**21.8**	35,602	40.3	24.9
Cash cost	**50,944**	**29.8**	**21.4**	35,463	40.1	24.8
Depreciation and amortization	**904**	**0.5**	**0.4**	139	0.2	0.1
Processing costs *(Notes (i) and (ii))*	**21,123**	**12.4**	**8.9**	–	–	–
Cash cost	**15,199**	**8.9**	**6.4**	–	–	–
Depreciation and amortization	**5,924**	**3.5**	**2.5**	–	–	–
Transportation costs	**59,198**	**34.6**	**24.9**	35,874	40.6	25.1
Cash cost	**54,665**	**32.0**	**23.0**	34,736	39.3	24.3
Depreciation and amortization	**4,533**	**2.6**	**1.9**	1,138	1.3	0.8
Others *(Note (iii))*	**38,711**	**22.7**	**16.3**	16,874	19.1	11.9
Cash cost	**34,899**	**20.4**	**14.7**	16,786	19.0	11.8
Depreciation and amortization	**3,812**	**2.3**	**1.6**	88	0.1	0.1

Notes:

(i) Processing costs included the coal handling costs of USD14.0 million incurred in CHPP, the power generation and distribution costs of USD5.4 million incurred in UHG Power Plant and the water extraction and distribution costs of USD1.7 million incurred in Water Supply Facility related to the washed coal sold during the period under review. The unit handling cost, unit power generation and distribution cost and unit water extraction and distribution costs associated with washed coal sold during the period under review were approximately USD6.7, USD2.6 and USD0.8 per tonne, respectively.

(ii) No processing costs reported for six months ended 30 June 2011, as the Group sold only approximately 811 tonnes of washed hard coking coal. The processing costs of approximately USD52.1 thousand associated with this washed hard coking coal sold were combined under mining costs related for coal sold during this period.

(iii) Others include USD18.7 million relating to the royalty and USD2.9 million relating to custom fee on the coal sold during the period under review, compared to USD11.0 million and USD2.2 million during the same period in 2011, respectively. During the period under review our effective royalty rate was 8.0% (in the first half of 2011: 8.1%).

The following table presents the individual costs of revenue for coal sold to Chinese market and seaborne market, respectively:

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	USD'000	**%**	**USD per tonne**	USD'000	%	USD per tonne
Cost of revenue China market *(Note (i))*	**158,316**	**100.0**	**68.1**	88,350	100.0	61.9
Mining cost	**49,954**	**31.6**	**21.5**	35,602	40.3	24.9
Processing cost	**20,259**	**12.8**	**8.7**			
Transportation and logistics cost	**50,289**	**31.8**	**21.6**	35,874	40.6	25.1
Others	**37,814**	**23.8**	**16.3**	16,874	19.1	11.8
Cost of revenue seaborne market *(Note (ii))*	**12,564**	**100.0**	**235.7**	–	–	–
Mining cost	**1,894**	**15.1**	**35.5**	–	–	–
Processing cost	**865**	**6.9**	**16.2**	–	–	–
Transportation and logistics cost	**8,909**	**70.9**	**167.2**	–	–	–
Others	**896**	**7.1**	**16.8**	–	–	–

Notes:

(i) *Cost of revenue for coal products sold to China-based customers under DAP GM terms or FOT TKH terms which includes transportation and logistics costs incurred to deliver product from UHG to GM or TKH.*

(ii) *Cost of revenue for coal products sold to seaborne market customers under FOB Nakhodka terms which include transportation and logistics costs incurred to deliver product from UHG to Nakhodka and load on the customers designated sea transportation vessels.*

During the period under review, the mining unit cost associated with coal sold decreased by approximately 12.4% from USD24.9 per tonne reported in the first half of 2011 to USD21.8 per tonne. The mining unit cost, represented as cost per total material movement, was USD4.2 per BCM in the first half of 2012 or approximately 7.5% lower compared to USD4.5 per BCM reported for the corresponding period in last year.

The strip ratio at the UHG mine was approximately 6.44 BCM/ROMt and at BN mine 5.27 BCM/ROMt, representing the overall strip ratio of 6.32 BCM/ROMt (first half of 2011: 6.27 BCM/ROMt).

As of 30 June 2012, the transportation unit cost associated with coal sold was USD24.9 per tonne compared to USD25.1 per tonne reported for the corresponding period in last year. The transportation cost USD167.2 per tonne for coal sold under FOB Nakhodka terms is significantly higher compared to USD21.6 per tonne transportation cost for coal sold to Chinese market. The increased transportation efficiency between UHG and TKH reached by utilization of paved road and double-trailers trucks, which reduced the third party transportation volume, resulted in approximately 13.9% decrease in the transportation cost for coal sold at Chinese market in the first half of 2012. For cross-border transportation between TKH and GM, the Group was mostly utilizing third party contractors, therefore the Group sees next potential in reduction of transportation costs by reducing the dependency on third party contractors in the cross-border transportation between TKH and GM.

As of 30 June 2012, the processing unit cost associated with coal sold was USD8.9 per tonne. The ASP of washed hard coking coal of USD138.7 per tonne was approximately USD49.8 per tonne or 56.0% higher compared to USD88.9 USD per tonne for raw coking coal. In addition, the processing cost is partially offset by savings in value added tax ("**VAT**"), as according to regulations 10% VAT is paid for all goods and services procured in Mongolia and in case of exporting washed coal, the Company is entitled to VAT rebates, thus decreasing the operating costs accordingly.

In the first half of 2012, the other cost of revenue includes costs related to royalty, custom and air pollution fees and site operational costs including TKH logistics costs and paved road amortization costs. The unit royalty cost was approximately USD7.8 per tonne, unit custom and air pollution fees cost was approximately USD2.1 per tonne and site operational unit cost, including TKH logistics costs, was USD3.8 per tonne (first half of 2011: USD7.7 per tonne, USD2.2 per tonne and USD2.0 per tonne, respectively). The Group started to utilize the UHG-GS paved road for its coal transportation starting from the last quarter of 2011, and during period under review, unit cost associated with paved road maintenance and amortization was USD2.2 per tonne.

Gross Profit and Gross Profit Margin

The Company's gross profit for the six months ended 30 June 2012 were approximately USD62.2 million, representing an increase by 30.0% from the gross profit of USD47.8 million for the six months ended 30 June 2011. The increase was primarily attributable to the higher revenue driven by increase in total sales volume, commencement of sales of washed hard coking coal (which commands higher prices than raw coal), and increase in the ASP.

During the period under review, the gross profit margin was approximately 26.7%, compared with 35.1% for the same period in 2011. The reason for the change in gross profit margin was mainly attributable to increase in cost of revenue attributable to processing and transportation costs for sold coal during the period under review. Management expects that the unit processing and transportation costs will decrease in the second half of the year, as they expect higher sales volume and revenue, while the depreciation and amortization components related to processing and transportation costs of coal sold will remain at similar level.

General and Administrative Expenses

During the period under review, administrative expenses were approximately USD19.1 million, compared to USD23.9 million in the same period in 2011, representing a reduction of approximately 20.1%. The reduction in administrative expenses is primarily due to (i) no management fee charged under provisions of Management Agreement with MCS Holding LLC as this agreement has expired effective from 1 January 2012, (ii) no acquisition related one-off expenses were incurred, and (iii) less expenses related to geological exploration work.

Net Finance Cost/(Income)

Net finance cost for the six months ended 30 June 2012 was approximately USD5.8 million (for the first half of 2011: net finance income of USD3.8 million). Net finance cost for the six months ended 30 June 2012 was primarily due to interest expenses related to the Senior Notes and other credit facilities.

Income Tax Expenses

The Company's income tax expenses increased from USD8.1 million for the six months ended 30 June 2011 to approximately USD8.9 million for the six months ended 30 June 2012, representing approximately 22.4% effective tax rate for the six months ended 30 June 2012 (for the first half of 2011: 29.1%). The increase in the income tax expenses was due to the increase of taxable income.

Profit for the Period

As a result of the foregoing, the profit attributable to equity shareholders of the Company for the period under review increased by approximately 56.2%, from USD19.8 million for the six months ended 30 June 2011 to approximately USD31.0 million for the six months ended 30 June 2012, representing net profit margin of 13.3% for the six months ended 30 June 2012 (for the first half of 2011: 14.6%). The primary reason of increase in profit for the period was commencement of sales of washed hard coking coal, increase in sales volume and decrease in general and administrative expenses.

Liquidity and Capital Resources

For the period of six months ended 30 June 2012, the Company's cash needs had been related primarily to costs associated with mining and infrastructure development, which includes construction of CHPP modules 2 and 3, additional water facility, paved road construction between BN and UHG mines and railway construction.

The Company's cash resources were funded by (i) the successful issuance of USD600 million Guaranteed Senior Notes due 2017, (ii) up to USD300 million facility agreement with Standard Bank Plc (the "**Standard Bank Facility**") and (iii) operating activities.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 30 June 2012 was approximately 49.1% (31 December 2011: 34.5%). All borrowings are in USD. Cash and cash equivalents are held in currencies of MNT, USD, Renminbi, Euro and Hong Kong Dollar. The Company's policy is to regularly monitor current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Indebtedness

As of 30 June 2012, the Company had approximately USD1,025.4 million of outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Guaranteed Senior Notes, (ii) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), (iii) Standard Bank Facility up to USD300 million, and (iv) USD85 million Convertible Bonds.

The USD600 million Senior Notes, rated B1 by Moody's and B+ by S&P, bear fixed interest rate of 8.875% per annum payable semi-annually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 30 June 2012, the outstanding principal amount was USD600 million. Upon the occurrence of a sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company to any person, other than one or more the beneficial owners of less than 30% of the total voting power of the Company, the Company must make an offer to repurchase all the Senior Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

The EBRD, FMO and DEG Loan Agreements bear interest semi-annually at the rate of six-month LIBOR plus a margin of 3.25%-3.75% per annum. Pursuant to the Amendment and Consent Agreement dated 5 March 2012, the margin per annum was reduced from 4.75%-6.85% to 3.25%-3.75%. USD120 million principal amount of the loans is repayable in 11 semi-annual installments ending on 15 May 2016 and USD60 million principal amount of the loans is repayable on two equal installments on 15 May 2015 and 15 May 2016, respectively. As of 30 June 2012, the outstanding principal amount was USD158.2 million. Under the EBRD, FMO and DEG Loan Agreement, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the Company than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Company or the Company may not cease to be majority directly owned by the entities domiciled in Mongolia.

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

The USD85 million Convertible Bonds will mature on 1 December 2012. The maturity date is extendable to 1 March 2013 subject to conditions specified in the share purchase agreement with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited (collectively the "**Seller**") dated 31 May 2011 ("**Share Purchase Agreement**"). The Convertible Bonds are convertible into shares at the bondholder's option in the four days prior to the maturity date at a conversion rate of HKD10.92 per share.

Credit Risk

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

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

For the six months ended 30 June 2012, the Company had approximately USD29.3 million in trade receivables, USD138.3 million in other receivables and USD4.1 million for allowance of doubtful debts. For the six months ended 30 June 2011, the Group had USD3.2 million in trade receivables and USD61.0 million in other receivables. The Company holds monthly Credit Committee meetings to review, assess and evaluate Company's overall credit quality and the recoverable amount of each individual trade credit on an ongoing basis. Based on the Company's continuous effort and implementation of the credit policy, the credit risk has been significantly reduced. Nevertheless, management continues to monitor the exposures, including but not limited to the current ability to pay, taking into account the information specific to the customer as well as pertaining to the economic environment in which the customer operates, on a continuous basis.

With regard to other receivables of USD138.3 million, it is mainly related to VAT and other tax receivables of USD60.9 million. Tax authority audited and approved the Group's VAT tax refund and the Group has started offsetting the VAT refund with its other tax payments. The remaining amounts are deposits, advances, prepayments and other receivables of USD77.4 million in the ordinary course of business. Management believes that there is no issue in collectability of such receivables.

Foreign Exchange Risk

During the six months ended 30 June 2012 and 2011, 100.0% of the revenue and approximately 40.5% and 57.3% of the purchases were denominated in currencies other than MNT, the functional currency of the Company's Mongolian entities.

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as of 30 June 2012 and 31 December 2011 amounted to approximately USD328.0 million and USD119.9 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as of 30 June 2012 and 31 December 2011 amounted to approximately USD155.8 million and USD179.5 million, respectively.

For the six months ended 30 June 2012 and 2011, approximately 68.6% and 71.9% of the revenues were denominated in USD with the remaining denominated in RMB.

For the six months ended 30 June 2012, approximately 51.4%, 14.6% and 35.8% of the cost of revenue, operating expenditures and capital expenditures, respectively, were denominated in USD, with the remaining denominated in MNT. For the six months ended 30 June 2011, 60.1%, 19.4% and 59.9% of the cost of revenue, operating expenditures and capital expenditures, respectively, were denominated in USD, 1.0% and 0.2% of operating expenditures and capital expenditures, respectively, were denominated in RMB, with the remaining denominated in MNT.

Although the majority of the Company's assets and operational expenses are denominated in MNT, a large portion of those, including fuel and capital expenditure, are import costs and thus linked to USD and RMB prices. Therefore, the Company believes that there exists a natural hedge that partially offsets foreign exchange risk.

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

Significant investment held

As at 30 June 2012, the Group did not have any significant investment held.

Material acquisitions and disposals of subsidiaries and associated companies

For the six months period ended 30 June 2012, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Pledge of Assets of the Group

As at 30 June 2012, the Company pledged Energy Resources LLC's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, Debt Service Reserve Account with Standard Bank Plc for EBRD loan repayment, Collection and Cash Collateral accounts with Standard Bank for Standard Bank facility repayment, coal sales contracts with Inner Mongolia Qinghua Group of China, Inner Mongolia Fuji Energy Co., Ltd, Winsway Resources Holdings Private Limited, Shenhua Bayannaor Energy Co., Ltd; coal stockpile of Energy Resources LLC; coal mining agreement with Leighton; engineering, procurement, construction and management for the CHPP constructed at the UHG deposit with Sedgman; UHG Power Plant; CHPP modules 1 and 2; water facilities; share of Mongolian Coal Corporation Limited and Mongolian Coal Corporation Sarl for credit facilities and the Senior Notes in the aggregate amount of USD942.4 million.

Contingent Liabilities

As at 30 June 2012, the Company has a contingent liability in respect of the consideration adjustments for an acquisition of the entire issued share capital of Baruun Naran Limited (formerly named QGX Coal Limited), indirect wholly-owned subsidiary of the Company (the "**Acquisition**") pursuant to the Share Purchase Agreement, which may arise from the reserve adjustment and the royalty provision. Under the reserve adjustment, 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 USD3.0 per tonne to the extent to which the total reserves exceeds 150 million tonnes or are less than 150 million tonnes, respectively. The maximum amount payable to the Seller will be USD105 million and the maximum amount payable by the Seller will be USD90 million. Under the royalty provision, an additional life of mine payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semiannual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December. 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 million over the life of the BN mine, including the original Acquisition consideration of USD464.5 million.

Operating Lease Commitments

As at 30 June 2012, the Company had contracted obligations consisting of operating leases which totaled approximately USD6.9 million with USD5.6 million due within one year and USD1.3 million due between two and five years. Lease terms range from one to five years, with fixed rentals.

Capital Commitments

As at 30 June 2012, the Company had capital commitment of capital expenditure for an amount of approximately USD195.1 million, out of which USD72.7 million was contracted for and USD122.4 was authorized but not contracted for.

Financial Instruments

The USD85 million Convertible Bonds have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognized at its fair value of USD10.3 million and the attributable costs of USD0.1 million was charged to the profit and loss for the six months ended 30 June 2012. The liability component was initially recognized at amortized cost of USD79.1 million, after taking into account USD0.9 million as attributable costs.

The Company has a share option scheme, which was adopted on 17 September 2010 whereby the Board is authorized, at its discretion, to grant to eligible participants options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. Under the share option scheme, the Company granted 3,000,000 and 32,200,000 options to directors and employees on 12 October 2011, respectively. The exercise price is HKD6.66. The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. For the six months ended 30 June 2012, USD3.6 million was recognized in administrative expenses and capital reserve in relation to the equity-settled share-based transactions.

The Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD4.9 million, and the attributable transaction costs of USD0.11 million were charged to the profit or loss for the six months ended 30 June 2012. The fair value of the derivative component as at 30 June 2012 was USD6.3 million which was presented as derivative financial instruments. The liability component was initially recognised at amortised cost of USD591.7 million, after taking into account USD13.2 million as attributable costs.

Employees

As at 30 June 2012, the number of employees of the Group reached 2,425 compared with 1,619 employees as at 30 June 2011. Total employee remuneration for the six months ended 30 June 2012 and 2011 were USD20.1 million and USD7.8 million, respectively.

Remuneration Policy and Training Schemes

The Company has established remuneration policy for directors and senior management to determine the policy and procedures for setting the remuneration packages, assessing performance and approving service contracts of directors and senior management of the Company. The remuneration package for directors and senior management comprises of base salary, annual incentive scheme such as a performance-based bonus long-term incentives such as share options and other allowances and benefits such as retirement scheme contributions, health and other allowances.

Furthermore, the Company has remuneration policy for employees of the Company which focus on the recruitment, retention and motivation of highly skilled employees and the application of a responsible and sustainable remuneration practice that is determined by reference to the performance of the individual, operational and financial results of the Group. The remuneration package for employees includes of base salary, short & long-term incentives such as share options and other allowances and benefits such as contributions, health and other allowances. Annual incentive scheme applies to back office employees while a monthly and quarterly incentive scheme applies to operational employees.

The training scheme of the Company works as supportive part of the business function consisting of 3 training sections, general skill training, vocational training and professional development training depending on employees required skills and their position grade. Each year a training plan made for each individual to keep up best performance available. After the skills and training demand has been determined, the line or functions management shall put the guidance onto the employee's individual development plan. Each line managers and executives with Human Resources unit reviews employees skill and performance result collided with training. Each training application has to be reviewed by their line managers and executives. When employee is in long term and vocational training at the company request, a contract can be made for keeping his/her currently held position or restart date can be given after the completion of his/her studies. When employee is in training on his/her own request; an appropriate contract can be made between employee and the Company.

Dividend

In view of the major production and infrastructure development projects committed or being planned by the Company, the Board decided not to pay any dividend for the six months ended 30 June 2012 (dividend for the six months ended 30 June 2011: nil).

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

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Review by the Audit Committee

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

The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2012.

Corporate Social Responsibility

Children of Muruudul school and kindergarten complex established by MMC

Environmental team specialists working at nursery field

Accountable for the social, economic and environmental impacts of its activities, the Group strives to not only grow but also create lasting value for both the communities in which it operates and society as a whole.

With the Group's commitment to the environment, its employees, its host communities and other aspects of society, the Group aims to be a leading contributor to sustainable local development in the South Gobi region.

In line with its sustainable development and Corporate Social Responsibility ("**CSR**") policies, the Group is committed to proactively creating recruitment opportunities for the local community as well as engaging domestic suppliers. The Group continues to cooperate with more than 700 domestic suppliers and as of 30 June 2012, approximately 32% of the Group's 2,425 employees were successfully recruited from its host communities.

MMC's housing project in Tsogttsetsii soum

Also, in addition to the direct economic contributions the Group made through taxes, royalties, salaries, wages and its direct business with local entities during the period under review, the Group engaged in a number of CSR initiatives based on the priorities and needs of the Company's stakeholders. The sustainable development initiatives and activities that the Group undertook during the period under review are summarized below.

Stakeholder engagement activities

– As transparency is essential for the Group to build and maintain successful ties with the communities in which the Group operates, the Group takes its duty of keeping the public fully informed about its activities very seriously. In this endeavour, the Group provides avenues for and encourages its stakeholders, and the local population in particular, to voice any concerns that they may have through comments and suggestions at all times. During the period under review, the Group also provided opportunities for local communities to participate in environmental monitoring activities, such as the measurement of water, dust and noise levels in their areas of residence. Moreover, in cooperation with local herders, the Group monitored the movements of wild animals along the coal transportation road to ensure their safety.

- During the period under review, the Company organized a consultative forum involving Community Relations Officers from 15 mining companies that operate in the South Gobi region. Besides acting as a platform for information exchange on refining and helping to foster day-to-day cooperation among the Community Relations Officers in the mining sector, the initiative's broader aim was to increase awareness of and improve responsible mining and CSR principles among industry peers.

- To commemorate the 90th anniversary of the mining sector in Mongolia, the Company initiated the "*Mining Experts' Knowledge Sharing Programme*" during the period under review. The programme involved a series of monthly lectures and focused seminars given by the country's most respected and experienced industry professionals to the Company's staff. Its purpose was to enable the industry gurus to share their many years of hands-on experience and pass on their invaluable knowledge to the younger generation, as well as to give the staff feedback and recommendations on how they can help to improve the Company's on-going mining operations.

Community development initiatives

To maximize the benefits to the communities in which the Group operates, its community development programmes and initiatives reflect the priorities of the various host communities and are based on regular social baseline studies and assessments.

- Through a public-private partnership agreement, the Group is financing the construction of a new school, kindergarten and dormitory complex in Tsogttsetsii soum that will open in autumn 2012. The stakeholders of this new educational institution, namely the local government and MMC, aim to develop it into a model school and kindergarten whose quality education is competitive both nationally and internationally. Besides the construction of the complex, the Group is committed to strengthening its management capacity, which will start with the hiring of an experienced education consultant for its first five years of operation.

- The Group's environmental team is establishing two 15-hectare forest belts in two soums of the South Gobi to biologically offset against soil erosion and desertification. Offering protection against the wind, the belts will create better farming conditions for local community members. During the period under review, 70 Tsogttsetsii soum households had begun to grow vegetables on the 3-hectare strip of land between the forest belts. The Company assisted in preparing an irrigation system for the land and also arranged training sessions with regard to farming. Moreover, to support the livelihood of the farmers, the Company hired an agronomist to assist them and intends to buy surplus vegetables for use at its UHG branch.

- During the period under review, the Group created new economic opportunities for herders affected by and resettled as a result of the Group's operations by improving their access to employment and supporting their start-up businesses. The Group engaged a local non-governmental organisation "*Coconet-Environment Protection Consulting Network for Community*" to develop and implement a three-year programme that will help support the herders' livelihood in a sustainable manner. The programme is being developed with reference to a comprehensive socio-economic survey conducted in 2011.

- Within the framework of the "*Good Neighborhood*" initiative, the Group provides various forms of in-kind assistance to the communities in which it operates. During the period under review, the Group provided hay and fodder to herders affected by its projects and hosted a gathering of 354 elders who live in its projects' impact areas to celebrate the Lunar New Year. The Group also supplied coal, free of charge to the Dalanzadgad power plant and other impacted soums for use during the winter.

– The Group considers education to be the best investment for the future and have remained steadfast in its commitment to expanding professional development programmes. During the period under review, the Group continued to fund "*For a Better Future*", an annual scholarship programme for undergraduate students in Ulaanbaatar and other Mongolian provinces. Merit-based scholarships were awarded to 41 candidates out of 300 applicants based on a two-tier assessment and interview process. The awardees receive a monthly stipend and are invited to pursue internship opportunities within the Group.

Cultural heritage protection

– The Group is firmly committed to preserving both the tangible and intangible cultural aspects of the communities in which it operates. To promote and protect the traditional way of life in the South Gobi region, which is indelibly linked to camel husbandry, and to spur interest in nomadic culture and the nomadic way of life among the younger generation, the Group sponsored a camel race in Khanbogd soum, South Gobi, during the period under review.

– In Mongolia, very few individuals can play the famous "*Tsetsii Jonon*" melody on the horse fiddle, a melody that strongly resembles the sound of a galloping horse. During the period under review, the Group hired a renowned horse fiddle player from Dundgobi Province to teach the melody to horse fiddle instructors in the Tsogttsetsii and Khankhongor soums, who will in turn teach it to their respective students. The Company has also helped to establish a horse fiddle band to promote and re-popularize the melody in the South Gobi region.

Cultivated field between the forest belts established by MMC

MMC's community relations officer meeting with a local herder

Recipients of MMC's annual scholarship program

At camel race organised by MMC

Local musicians learning Tsetsii Jonon melody on horse fiddle

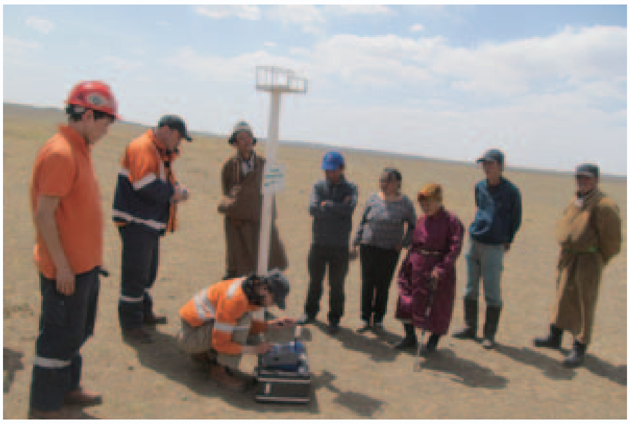
Environmental protection

As a responsible mining company, the Group continually assesses potential risks to the environment and takes proactive steps to manage them.

– To encourage its host communities' active involvement in its environmental protection efforts, the Group continued to conduct eco-awareness training sessions on tree planting, household sanitation, water consumption, the importance of soil conservation and the prevention of soil pollution and erosion during the period under review. As of 30 June 2012, a total of 313 community members had received a total of 208 man-hours of such training.

– The Group regularly organizes voluntary environmental protection activities and awareness campaigns for its employees. On National Tree Planting Day, which was on 12 May 2012, 1,268 of the Group's employees planted over 640 trees in and around the UHG project mine site and workers' camp. Also, the Company's '*Uram*' environmental awareness club organized an event on World Water Day to promote the sensible use of water among both its employees and the students of the Tsogttsetsii secondary school. The club also joined the global effort on Earth Day to increase the awareness and appreciation of the world's natural environment, turning off all the lights between 8:30 p.m. and 9:30 p.m.

Forest belt project



Dust monitoring carried out with local herders

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 ("**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 2012.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by 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 with the Employees Written Guidelines by the employees was noted by the Company.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting of the Company ("**AGM**"). Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director to attend and answer questions on his behalf at the 2012 AGM due to his engagement to oversee Company's railway project development activities coincided. The Company has complied with all other applicable code provisions as set out in the CG code.

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 2012, the interests or short positions of the Directors and chief executive of the Company in the shares and 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:

(a) Interests in Shares

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of shares held**	**Percentage of total issued share capital**
Mr. Odjargal Jambaljamts *(Note 1)*	Interest in controlled corporation	1,424,118,061(L)	38.44%
		534,439,609(S)	14.42%
Dr. Oyungerel Janchiv *(Note 2)*	Interest in controlled corporation	338,500,000(L)	9.14%
Mr. Batsaikhan Purev *(Note 3)*	Interest in controlled corporation	119,923,500(L)	3.24%
Mr. Enkh-Amgalan Luvsantseren *(Note 4)*	Interest in controlled corporation	11,811,657(L)	3.19%

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

Notes:

(1) Mr. Odjargal Jambaljamts through Novel Holdings Group Limited which is 100% owned by him, is interested in 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Mining Group Limited which in turn holds 1,239,459,042 shares in MMC. Novel Holdings Group Limited also has a direct interest and holds 184,659,019 shares in MMC in its name. On 9 June 2011, MCS Mining Group Limited, the controlling shareholder of the Company, entered into a new charge over the Shares with Standard Bank Plc (the "New Share Charge") in respect of 334,483,750 Shares (the "SB Charged Shares"), whereby MCS Mining Group Limited granted security over the SB Charged Shares in favour of Standard Bank Plc to secure loan facilities of USD150 million granted to MCS Holding LLC and its certain subsidiaries. As a result of the fall in the price of the Shares, MCS Mining Group Limited further charged 87,418,330 Shares and 75,857,848 Shares in favour of Standard Bank Plc on 27 October 2011 and 16 December 2011, respectively, pursuant to the terms of the New Share Charge.

On 18 November 2011, MCS Mining Group Limited entered into a share charge with International Finance Corporation ("IFC") in respect of 36,679,681 Shares (the "IFC Charged Shares"), whereby MCS Mining Group Limited granted security over the IFC Charged Shares in favour of IFC to secure loans of USD15 million granted to MCS Holding LLC and its certain subsidiaries.

On 28 December 2011, MCS Mining Group Limited transferred 19,706,308 Shares to IFC following the exercise by IFC of its right to convert the IFC Loan (as defined in the prospectus of the Company dated 28 September 2010) into Shares.

(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.

(4) The shares are registered in the name of Inter Group Mongolia Limited which is 100% owned by Mr. Enkh-Amgalan Luvsantseren.

(b) Interest in associated corporation

		Ordinary shares of USD0.01 each		
Name of Director	**Name of associated corporation**	**Nature of interest**	**Number of shares**	**Approximate percentage of issued shares of the relevant associated corporation**
Mr. Enkh-Amgalan Luvsantseren	MCS (Mongolia) Limited *(Note 1)*	Interest of controlled corporation	58,696 (L)	3.19%
	MCS Electronics LLC *(Note 2)*	Beneficial Owner	54,375 (L)	5%
	MCS Holding LLC *(Note 3)*	Beneficial Owner	43,223 (L)	3%
Mr. Odjargal Jambaljamts	MCS Global Limited *(Note 4)*	Interest of controlled corporation	892,136 (L)	49.84%
	MCS Holding LLC *(Note 3)*	Interest of controlled corporation	867,216 (L)	49.84%

(L) – long position

Notes:

1. *Mr. Enkh-Amgalan Luvsantseren through Inter Group Mongolia Limited which is wholly owned by him, is interested in 3.19% of MCS (Mongolia) Limited.*

2. *MCS Electronics LLC is owned as to 5% by Mr. Enkh-Amgalan Luvsantseren and 95% by MCS Holding LLC.*

3. *MCS Holding LLC is a wholly owned subsidiary of MCS Global Limited which in turn is a wholly owned subsidiary of MCS (Mongolia) Limited.*

4. *MCS Global Limited is a wholly owned subsidiary of MCS (Mongolia) Limited.*

(c) Interest in underlying Shares

Name of Director	Nature of interest	Ordinary shares of USD0.01 each Total number of underlying Shares held pursuant to share options of the Company ("Share Options") under the Share Option Scheme	Percentage of total issued share capital
Dr. Battsengel Gotov	Beneficial owner	3,000,000 (L)	0.08%

(L) – long position

Save as disclosed above, as at 30 June 2012, 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 2012, 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:

Interest in the Shares and underlying Shares

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each Total number of shares held	Percentage of total issued share capital
MCS Mining Group Limited *(Notes 1&3)*	Beneficial owner	1,239,459,042 (L) 534,439,609 (S)	33.45% 14.42%
MCS (Mongolia) Limited *(Notes 1&3)*	Interest of controlled corporation	1,239,459,042 (L) 534,439,609 (S)	33.45% 14.42%
Novel Holdings Group Limited *(Notes 1&3)*	Interest of controlled corporation	1,424,118,061 (L) 534,439,609 (S)	38.44% 14.42%
Trimunkh Limited *(Notes 1&3)*	Interest of controlled corporation	1,345,763,949 (L) 534,439,609 (S)	36.32% 14.42%
Ms. Batmunkh Dashdeleg *(Notes 1&3)*	Interest of spouse	1,424,118,061 (L) 534,439,609 (S)	38.44% 14.42%
Mr. Od Jambaljamts *(Notes 1&3)*	Interest of controlled corporation	1,345,763,949 (L) 534,439,609 (S)	36.32% 14.42%
Ms. Munkhsuren Surenkhuu *(Notes 1&3)*	Interest of spouse	1,345,763,949 (L) 534,439,609 (S)	36.32% 14.42%
Petrovis Resources Inc. *(Note 2)*	Beneficial owner	338,500,000 (L)	9.14%
Petrovis LLC *(Note 2)*	Interest of controlled corporation	338,500,000 (L)	9.14%
Mongol Contract LLC *(Note 2)*	Interest of controlled corporation	338,500,000 (L)	9.14%
Mr. Batbold Batochir *(Note 2)*	Interest of spouse	338,500,000 (L)	9.14%
Mr. Davaanyam Choindon *(Note 2)*	Interest of controlled corporation	338,500,000 (L)	9.14%
Ms. Shagdardulam Sambalkhundev *(Note 2)*	Interest of spouse	338,500,000 (L)	9.14%
Ms. Tuya Danzandarjaa *(Note 2)*	Interest of controlled corporation	338,500,000 (L)	9.14%
Kerry Mining (UHG) Limited *(Note 4)*	Beneficial owner	300,000,000 (L)	8.10%
Kerry Mining (Mongolia) Limited *(Note 4)*	Interest of controlled corporations	300,000,000 (L) 60,714,285 (L) *(Note 5)*	9.74%
Fexos Limited *(Note 4)*	Interest of controlled corporations	300,014,640 (L) 60,714,285 (L) *(Note 5)*	9.74%
Kerry Holdings Limited *(Note 4)*	Interest of controlled corporations	300,014,640 (L) 60,714,285 (L) *(Note 5)*	9.74%
Kerry Group Limited *(Note 4)*	Interest of controlled corporations	349,093,642 (L) *(Note 6)* 60,714,285 (L) *(Note 5)*	11.06%

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

Notes:

(1) *The entire issued share capital of MCS Mining Group Limited is wholly-owned by MCS (Mongolia) Limited. MCS (Mongolia) Limited is owned as to approximately 49.84% by Novel Holdings Group Limited which in turn is wholly-owned by Mr. Odjargal Jambaljamts and 28.69% by Trimunkh Limited which in turn is wholly-owned by Mr. Od Jambaljamts. MCS Mining Group Limited holds 1,234,459,042 shares in MMC. Novel Holdings Group Limited and Trimunkh Limited each also has a direct interest and holds 184,659,019 shares and 106,304,907 shares, respectively, in MMC in their names. 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 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) *On 9 June 2011, MCS Mining Group Limited, the controlling shareholder of the Company, entered into the New Share Charge in respect of the SB Charged Shares, whereby MCS Mining Group Limited granted security over the SB Charged Shares in favour of Standard Bank Plc for USD150 million. As a result of the fall in the price of the Shares, MCS Mining Group Limited further charged 87,418,330 Shares and 75,857,848 Shares in favour of Standard Bank Plc on 27 October 2011 and 16 December 2011, respectively, pursuant to the terms of the New Share Charge.*

On 18 November 2011, MCS Mining Group Limited entered into a share charge with IFC in respect of the IFC Charged Shares, whereby MCS Mining Group Limited granted security over the IFC Charged Shares in favour of IFC to secure loans of USD15 million granted to MCS Holding LLC. On 28 December 2011, MCS Mining Group Limited transferred 19,706,308 Shares to IFC following the exercise by IFC of its right to convert the IFC Loan (as defined in the prospectus of the Company dated 28 September 2010) into Shares.

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

(5) *Each of KMM, Fexos, KHL and KGL was deemed interested in 60,714,285 underlying Shares held by a subsidiary of KMM. Such underlying Shares represent the number of Shares 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.*

(6) *Out of KGL's corporate interest in 349,093,642 shares of the Company, 49,079,002 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).*

Save as disclosed above, as at 30 June 2012, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

Change of Information of Director

Change of information of Director since the date of the 2011 Annual Report is set out below:

– Mr. Odjargal Jambaljamts was appointed as director of Novel Holdings Group Limited with effect from 19 March 2012.

Share Option Scheme

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective from the Listing Date on 13 October 2010 (the "**Adoption Date**"). Option could be granted within a period of 10 years from the Adoption Date. Therefore, as at 30 June 2012, the remaining life of the Share Option Scheme was approximately 8 years and 3 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

For the six months period ended 30 June 2012, no share option has been granted to any person under the Share Option Scheme. For the six months period ended 30 June 2012, 850,000 share options lapsed in accordance with the terms of the Share Option Scheme.

Details of movements in the Company's share options during the six months ended 30 June 2012 are as follows:

1. Director

				Number of Share Options				
Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2012	Granted during the period ended 30 June 2012	Lapsed/ Cancelled during the period ended 30 June 2012	Exercised during the period ended 30 June 2012	Balance as at 30 June 2012
Dr. Battsengel Gotov	12 October 2011	*(Note 1)*	HKD6.66	3,000,000	–	–	–	3,000,000

2. Employees of the Group other than the Directors

			Number of Share Options				
Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2012	Granted during the period ended 30 June 2012	Lapsed/ Cancelled during the period ended 30 June 2012	Exercised during the period ended 30 June 2012	Balance as at 30 June 2012
12 October 2011	*(Note 1)*	HKD6.66	31,900,000	–	850,000 *(Note 2)*	–	31,050,000

Notes:

1. *The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:*

   (1) first 25% of the Share Options granted – 12 October 2012 to 12 October 2019
   (2) second 25% of the Share Options granted – 12 October 2013 to 12 October 2019
   (3) third 25% of the Share Options granted – 12 October 2014 to 12 October 2019
   (4) fourth 25% of the Share Options granted – 12 October 2015 to 12 October 2019

2. *850,000 Share Options lapsed in accordance with the terms of the Share Option Scheme during the six months ended 30 June 2012.*

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 48 to 71 which comprises the consolidated balance sheet of Mongolian Mining Corporation (the "**Company**") as at 30 June 2012 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and condensed consolidated cash flow statement 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 Standard 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 2012 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

7 August 2012

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2012 – unaudited

	Note	Six months ended 30 June 2012 USD'000	2011 USD'000
Revenue	5	**233,033**	136,172
Cost of revenue	6	**(170,880)**	(88,350)
Gross profit		**62,153**	47,822
Other revenue		**1,425**	304
Other net income		**1,285**	63
Administrative expenses		**(19,068)**	(23,867)
Profit from operations		**45,795**	24,322
Finance income	7(a)	**14,956**	11,552
Finance cost	7(a)	**(20,707)**	(7,711)
Net finance (cost)/income	7(a)	**(5,751)**	3,841
Share of losses of associates		**(120)**	(201)
Profit before taxation	7	**39,924**	27,962
Income tax	8	**(8,946)**	(8,136)
Profit attributable to the equity shareholders of the Company for the period		**30,978**	19,826
Other comprehensive income for the period			
Exchange differences on translation of financial statements of subsidiaries		**19,485**	(2,406)
Total comprehensive income attributable to the equity shareholders of the Company for the period		**50,463**	17,420
Basic and diluted earnings per share	9	**0.84 cents**	0.54 cents

The notes on pages 52 to 71 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2012 – unaudited

	Note	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Non-current assets			
Property, plant and equipment, net	10	**532,813**	347,109
Construction in progress	11	**142,077**	183,229
Lease prepayments	12	**108**	105
Intangible assets	13	**678,867**	681,352
Interest in associates		**4,197**	4,278
Other non-current assets	14	**13,589**	7,423
Deferred tax assets		**12,076**	9,698
Total non-current assets		**1,383,727**	1,233,194
Current assets			
Inventories	15	**91,880**	57,734
Trade and other receivables	16	**163,427**	109,322
Cash at bank and in hand	17	**451,171**	227,765
Total current assets		**706,478**	394,821
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	18	**51,818**	333,568
Trade and other payables	19	**71,695**	118,680
Current taxation		**8,101**	17,508
Convertible bond	20	**82,982**	83,508
Obligations under finance leases		**274**	247
Total current liabilities		**214,870**	553,511
Net current assets/(liabilities)		**491,608**	(158,690)
Total assets less current liabilities		**1,875,335**	1,074,504
Non-current liabilities			
Interest-bearing borrowings, less current portion	18	**298,752**	144,661
Senior notes	21	**591,846**	–
Provisions	23	**11,838**	11,110
Deferred tax liabilities		**149,738**	149,656
Obligations under finance leases		**201**	213
Total non-current liabilities		**1,052,375**	305,640
NET ASSETS		**822,960**	768,864
CAPITAL AND RESERVES			
Share capital	24	**37,050**	37,050
Reserves	24	**785,910**	731,814
TOTAL EQUITY		**822,960**	768,864

The notes on pages 52 to 71 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2012 – unaudited

	Note	Share capital USD'000 (Note 24(b))	Share premium USD'000 (Note 24(c))	Other reserve USD'000 (Note 24(c))	Exchange reserve USD'000 (Note 24(c))	Retained earnings USD'000 (Note 24(c))	Total equity USD'000
At 1 January 2012		**37,050**	**608,650**	**16,215**	**(73,028)**	**179,977**	**768,864**
Changes in equity for the six months ended 30 June 2012:							
Equity-settled share-based transactions	22	**–**	**–**	**3,633**	**–**	**–**	**3,633**
Total comprehensive income for the period		**–**	**–**	**–**	**19,485**	**30,978**	**50,463**
At 30 June 2012		**37,050**	**608,650**	**19,848**	**(53,543)**	**210,955**	**822,960**
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
Changes in equity for the six months ended 31 December 2011:							
Equity-settled share-based transactions	22	–	–	1,646	–	–	1,646
Total comprehensive income for the period		–	–	–	(76,747)	99,264	22,517
At 31 December 2011		37,050	608,650	16,215	(73,028)	179,977	768,864

The notes on pages 52 to 71 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2012 – unaudited

		Six months ended 30 June	
		2012	2011
	Note	**USD'000**	USD'000
Cash used in operations		**(68,147)**	(49,949)
Tax paid		**(16,584)**	(8,007)
Net cash used in operating activities		**(84,731)**	(57,956)
Net cash used in investing activities		**(346,059)**	(184,335)
Net cash generated from financing activities		**444,746**	31,534
Net increase/(decrease) in cash and cash equivalents		**13,956**	(210,757)
Cash and cash equivalents at the beginning of the period		**41,006**	328,262
Effect of foreign exchange rates changes		**1,209**	(518)
Cash and cash equivalents at the end of the period	17	**56,171**	116,987

The notes on pages 52 to 71 form part of this 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.

Pursuant to a share purchase agreement dated 31 May 2011, the Group acquired the entire issued share capital of Baruun Naran Limited ("**BN Limited**").

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, 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 7 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the new and revised International Financial Reporting Standards ("**IFRSs**") that are expected to be reflected in the 2012 annual financial statements (details of the new and revised IFRSs are set out in Note 3) and accounting policy on senior notes as follows:

At initial recognition the derivative component of the senior notes is measured at fair value and presented as part of derivative financial instruments. The initial carrying amount of the liability component of the senior notes is the residual value after separating the amount initially recognised as the derivative component. Transaction costs that relate to the issue of the senior notes are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss. At each balance sheet date, the fair value of the derivative component is remeasured and the gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

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 2011 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 IFRSs. IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and related interpretations.

2 BASIS OF PREPARATION (continued)

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 47.

The financial information relating to the financial year ended 31 December 2011 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 2011 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 6 March 2012.

3 NEW AND REVISED IFRSs

The IASB has issued certain amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*, is relevant to the Group's financial statements. The amendments to IFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

4 SEGMENT REPORTING

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

5 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised during the six months ended 30 June 2012 is as follows:

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Washed hard coking coal	**174,984**	126
Washed semi-soft coking coal	**2,658**	–
Middlings	**29,965**	–
Raw coking coal	**25,425**	135,979
Thermal coal	**1**	67
	233,033	136,172

During the six months ended 30 June 2012, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD73,086,000, USD71,531,000 and USD27,107,000 respectively. 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.

6 COST OF REVENUE

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Mining costs	**51,848**	35,602
Processing costs	**21,123**	–
Transportation costs	**59,198**	35,874
Others#	**38,711**	16,874
	170,880	88,350

Others include USD18,652,000 (six months ended 30 June 2011: USD10,971,000) relating to the royalty tax on the coal sold.

7 PROFIT BEFORE TAXATION

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

(a) Net finance cost/(income):

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Interest income	**(7,118)**	(11,552)
Net change in fair value of derivative component of convertible bond (Note 20)	**(2,429)**	–
Net change in fair value of derivative component of senior notes (Notes 16 and 21)	**(1,380)**	–
Foreign exchange gain, net	**(4,029)**	–
Finance income	**(14,956)**	(11,552)
Interest on bank and other borrowings	**10,428**	5,868
Net change in fair value of derivative component of convertible bond (Note 20)	**–**	605
Interest on liability component of convertible bond (Note 20)	**3,178**	442
Interest on liability component of senior notes (Note 21)	**13,747**	–
Transaction costs	**2,261**	1,897
Unwinding interest on		
– Other long-term payables	**49**	–
– Accrued reclamation obligations (Note 23)	**280**	274
Less: Interest expense capitalised	**(9,236)**	(5,591)
Net interest expense	**20,707**	3,495
Foreign exchange loss, net	**–**	4,216
Finance cost	**20,707**	7,711
Net finance cost/(income)	**5,751**	(3,841)

* *Borrowing costs have been capitalised at a rate of 8.7% and 6.0% per annum for the six months ended 30 June 2012 and 2011, respectively.*

7 PROFIT BEFORE TAXATION (continued)

(b) Staff costs:

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Salaries, wages, bonuses and benefits	**14,730**	6,911
Retirement scheme contributions	**1,771**	882
Equity-settled share based payment expenses (Note 22)	**3,633**	–
	20,134	7,793

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes ("**the Schemes**") organised by the Government of Mongolia whereby the Group is required to make contributions to the Schemes at a rate of 11%-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.

(c) Other items:

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Depreciation and amortisation	**21,438**	3,737
Operating lease charges: minimum lease payments	**2,358**	810
Costs of inventories	**170,880**	88,350

8 INCOME TAX

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

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Current tax	**10,897**	13,456
Deferred tax	**(1,951)**	(5,320)
	8,946	8,136

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

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Profit before income tax	**39,924**	27,962
Notional tax on profit before taxation	**7,929**	6,578
Tax effect of non-deductible expense (Note (iii))	**988**	1,171
Tax loss not recognised	**29**	387
Actual tax expenses	**8,946**	8,136

Notes:

*(i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first Mongolian National Togrog ("**MNT**") 3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2012 and 2011.*

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong, Luxembourg and Gibraltar profits tax as it has no assessable income arising in or derived from Hong Kong, Luxembourg and Gibraltar during the six months ended 30 June 2012 and 2011.

(iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the six months ended 30 June 2012 and 2011.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company for the period of USD30,978,000 (six months ended 30 June 2011: USD19,826,000) and the 3,705,036,500 ordinary shares (six months ended 30 June 2011: 3,705,036,500 shares) in issue during the six months ended 30 June 2012.

(b) Diluted earnings per share

For the six months ended 30 June 2012 and 2011, the convertible bond (see Note 20) is anti-dilutive and therefore not included in calculating diluted earnings per share. As a result, basic earnings per share and diluted earnings per share are the same.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the additions of property, plant and equipment of the Group, representing mainly coal handling and preparation plant module II and various mining structures, amounted to USD188,126,000 (six months ended 30 June 2011: USD195,134,000). Items of property, plant and equipment with net book value of USD204,000 were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: USD137,000). As at 30 June 2012, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with a net book value of USD179,192,000, USD52,140,000 and USD5,609,000, respectively (31 December 2011: USD99,483,000, USD54,627,000 and nil, respectively, see Note 18).

11 CONSTRUCTION IN PROGRESS

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

On 31 May 2012, the Group entered into a Build-Operate-Transfer Concession Agreement (the "**Agreement**") with the Government of Mongolia to build and operate the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia (the "**UHG-GS Railway**"). Under the terms of the Agreement, the Group has been granted a right to construct and then operate the UHG-GS Railway for a period up to 19 years from the date of the commissioning of the railway base infrastructure. Upon expiration of the concession term, the Group shall transfer 51% of its shareholding in Energy Resources Rail LLC, an indirect wholly-owned subsidiary of the Company, which owns the railway base infrastructure, to the Government of Mongolia in accordance with the conditions set forth in the Agreement. As at 30 June 2012, the Group had commenced mobilisation and early works campaign on civil works front. Included in the Group's construction in progress as at 30 June 2012, there was a balance of USD26 million (31 December 2011: USD14 million) relating to the railway base infrastructure. As the pricing for tariff and to whom the railway base infrastructure is to be provided have not been determined, the application of IFRIC 12 has not been adopted at balance sheet date, and the Group's railway base infrastructure was grouped under construction in progress and stated at cost less any impairment loss as at 30 June 2012. The Group will reclassify the balance relating to the construction of the railway base infrastructure from construction in progress according to the terms when the pricing for tariff and to whom the railways is to be provided become available in the future.

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 of BN Limited and the operating right of paved road.

14 OTHER NON-CURRENT ASSETS

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Prepayments in connection with construction work, equipment purchases and others	**13,589**	7,423

15 INVENTORIES

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Coal	**71,465**	49,912
Materials and supplies	**20,415**	7,822
	91,880	57,734

As at 30 June 2012, certain of the Group's borrowings were secured by the Group's coal inventory of USD56,501,000 (31 December 2011: nil) (see Note 18).

16 TRADE AND OTHER RECEIVABLES

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Trade receivables (Note (a))	**29,303**	41,445
Other receivables (Note (c))	**138,269**	72,022
	167,572	113,467
Less: allowance for doubtful debts (Note (b))	**(4,145)**	(4,145)
	163,427	109,322

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. As at 30 June 2012, all the trade receivables are aged within one year.

16 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade receivables

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

As at 30 June 2012, an allowance for doubtful debts amounting to USD4,145,000 (31 December 2011: USD4,145,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

(c) Other receivables

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Amounts due from related parties (Note (i))	**96**	455
Prepayments and deposits (Note (ii))	**56,941**	17,695
VAT and other tax receivables (Note (iii))	**60,887**	43,697
Derivative financial instruments (Note (iv))	**6,300**	–
Others (Note (v))	**14,045**	10,175
	138,269	72,022

Notes:

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

(ii) At 30 June 2012, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor and fuel supplier.

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

(iv) It represented the embedded derivative in the senior notes (see Note 21).

(v) At 30 June 2012, this item mainly represents the reimbursement receivables due from Erdenes MGL LLC of USD3.5 million and Government of Mongolia of USD4.5 million for the construction costs in relation to the expansion project of the border crossing in Mongolian side at Gashuun Sukhait, which are interest-free. Based on current available information the Group anticipates full recoverability of such amounts. The remaining other receivables mainly represent the interest income receivable of USD3.2 million for the bank deposits.

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 2012 USD'000	At 31 December 2011 USD'000
Cash in hand	**76**	77
Cash at bank	**451,095**	227,688
Cash at bank and in hand	**451,171**	227,765
Less: time deposits with original maturity over three months	**(395,000)**	(186,759)
Cash and cash equivalents in the condensed consolidated cash flow statement	**56,171**	41,006

As at 30 June 2012, certain of the Group's borrowings were secured by the Group's cash at bank of USD3,366,000 (31 December 2011: USD213,884,000) (see Note 18).

18 BORROWINGS

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

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Bank loan (secured)	**358,182**	169,091
Less: Current portion	**(51,818)**	(21,818)
Less: Unamortised transaction costs	**(7,612)**	(2,612)
	298,752	144,661

At 30 June 2012, 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 USD109,091,000 (31 December 2011: USD114,546,000), USD29,455,000 (31 December 2011: USD32,727,000) and USD19,636,000 (31 December 2011: USD21,818,000), respectively, bearing interest of 6 months LIBOR + 3.25%~3.75%, were secured by the Group's property, plant and equipment (see Note 10) and cash at bank (see Note 17).

On 8 March 2012, the Group obtained a bank facility from Standard Bank Plc up to USD300,000,000, and on 23 March 2012, the Group cancelled part of the facility amounting to USD100,000,000. As at 30 June 2012, the Group utilised USD200,000,000 from this facility. These long-term interest-bearing borrowings from Standard Bank Plc of USD200,000,000 bear interest of LIBOR + 5.25%, are secured by the Group's cash at bank (see Note 17) and inventory (see Note 15). The attributable transaction cost amounts to USD5,211,000.

18 BORROWINGS (continued)

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

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

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Within 1 year or on demand	**51,818**	21,818
After 1 year but within 2 years	**101,818**	21,818
After 2 years but within 5 years	**204,546**	125,455
	358,182	169,091

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

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Bank loans		
– Secured	**–**	311,750
Current portion of long-term borrowings		
– Bank loan	**51,818**	21,818
	51,818	333,568

As at 31 December 2011, the Group's short-term interest-bearing borrowings from Standard Bank Plc of USD300,000,000 bearing interest of LIBOR + 3.25%, were secured by the Group's cash at bank (see Note 17). The attributable transaction cost as at 31 December 2011 amounts to USD1,250,000. The original borrowings from Standard Bank Plc was USD400,000,000, part of which amounted to USD100,000,000 was early repaid in December 2011. The Group paid the remaining amount of USD300,000,000 in March 2012.

19 TRADE AND OTHER PAYABLES

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Trade payables (Note (i))	**11,684**	18,523
Receipts in advance (Note (ii))	**3,400**	9,160
Amounts due to related parties (Note (iii))	**3,728**	9,560
Payables for purchase of equipment	**20,089**	36,018
Security deposit on construction work	**5,277**	9,259
Interest payable	**15,841**	2,544
Other taxes payables	**2,628**	21,354
Provisions for contingent considerations (Note 23)	**1,500**	1,500
Others (Note (iv))	**7,548**	10,762
	71,695	118,680

Notes:

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

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

(iii) Amounts due to related parties represent payables for equipment, construction work and services provided, which are unsecured, interest-free and have no fixed terms of repayments (see Note 25(a)).

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

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

20 CONVERTIBLE BOND

	Liability component USD'000	Derivative component USD'000	Total USD'000
At 1 January 2011	–	–	–
Issuance of convertible bond	80,048	10,292	90,340
Transaction costs	(915)	–	(915)
Interest charged during the year (Note 7(a))	3,371	–	3,371
Interest payable	(1,425)	–	(1,425)
Fair value adjustment (Note 7(a))	–	(7,863)	(7,863)
At 31 December 2011	81,079	2,429	83,508
At 1 January 2012	**81,079**	**2,429**	**83,508**
Interest charged during the period (Note 7(a))	**3,178**	**–**	**3,178**
Interest payable	**(1,275)**	**–**	**(1,275)**
Fair value adjustment (Note 7(a))	**–**	**(2,429)**	**(2,429)**
At 30 June 2012	**82,982**	**–**	**82,982**

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 BN Limited.

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 and to be determined after approximately 18 months to 21 months from the date of the Share Purchase Agreement) 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.

20 CONVERTIBLE BOND (continued)

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 year ended 31 December 2011. The liability component was initially recognised at amortised cost of USD79,133,000, after taking into account attributable transaction costs of USD915,000.

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

21 SENIOR NOTES

	USD'000
At 1 January 2012	–
Issuance of senior notes	**604,920**
Transaction costs	**(13,213)**
Interest charged during the period (Note 7(a))	**13,747**
Interest payable	**(13,608)**
At 30 June 2012	**591,846**

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

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

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

The senior notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 were charged to the profit or loss for the six months ended 30 June 2012. The fair value of the derivative component as at 30 June 2012 was USD6,300,000, which was presented as derivative financial instruments (see Note 16(c) (iv)).

21 SENIOR NOTES (continued)

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

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

22 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Group has a share option scheme ("**Share Option Scheme**") which was adopted on 17 September 2010 whereby the board of directors of the Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group.

Under the Share Option Scheme, the Company may grant options to employees and directors, suppliers, customers and professional advisers of the Group to subscribe for shares of the Company. The exercise price of the options is determined by the board of directors of the Company at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and will expire on 16 September 2020.

(i) The terms and conditions of the grants are as follows:

Grant Date	Number of options '000	Vesting conditions	Contractual life of options
12 October 2011	8,800	12 October 2011 to 12 October 2012	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2013	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2014	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2015	12 October 2011 to 12 October 2019
Total share options	35,200		

The number of options granted to directors and employees on 12 October 2011 are 3,000,000 and 32,200,000, respectively.

22 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(ii) The number and exercise price of share options are as follows:

		Number of options	
	Exercise price	**2012**	2011
	HKD	**'000**	'000
Outstanding at 1 January	6.66	**34,900**	–
Granted during the period/year	6.66	**–**	35,200
Forfeited during the period/year	6.66	**(850)**	(300)
Outstanding at 30 June/31 December	6.66	**34,050**	34,900
Exercisable at 30 June/31 December	–	**–**	–

The options outstanding at 30 June 2012 had an exercise price of HKD6.66 per share and a weighted average remaining contractual life of 7.2 years.

23 PROVISIONS

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Accrued reclamation obligations	**11,838**	11,110
Contingent considerations (Note 19)	**1,500**	1,500
Less: Current portion	**1,500**	1,500
	11,838	11,110

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 2012 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	2012 USD'000	2011 USD'000
At 1 January	**11,110**	6,904
Adjustment of estimations	**–**	4,834
Accretion expense (Note 7(a))	**280**	567
Exchange adjustments	**448**	(1,195)
At 30 June/31 December	**11,838**	11,110

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

(b) Share capital

Authorised:

	At 30 June 2012		At 31 December 2011	
	No. of shares '000	**USD'000**	No. of shares '000	USD'000
Ordinary shares	**6,000,000**	**60,000**	6,000,000	60,000

Ordinary shares, issued and fully paid:

	At 30 June 2012		At 31 December 2011	
	No. of shares '000	**USD'000**	No. of shares '000	USD'000
Ordinary shares	**3,705,037**	**37,050**	3,705,037	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

The other reserve comprises the following:

– the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and

– the portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments.

(iii) Exchange reserve

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

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 2012. During the six months ended 30 June 2012, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS (Mongolia) Limited ("**MCS Mongolia**")	Shareholder
MCS Holding LLC ("**MCS**")	Subsidiary of MCS Mongolia
Uniservice Solution LLC ("**Uniservice Solution**")	Subsidiary of MCS Mongolia
MCS Property LLC ("**MCS Property**")	Subsidiary of MCS Mongolia
MCS Electronics LLC ("**MCS Electronics**")	Subsidiary of MCS Mongolia
MCS International LLC ("**MCS International**")	Subsidiary of MCS Mongolia
Erchim Suljee LLC ("**Erchim Suljee**")	Subsidiary of MCS Mongolia

Particulars of significant transactions between the Group and the above related parties during the six months ended 30 June 2012 are as follows:

	Six months ended 30 June	
	2012	2011
	USD'000	USD'000
Ancillary services (Note (i))	**11,459**	9,503
Lease of property, plant and equipment (Note (ii))	**436**	438
Purchase of equipment and construction work (Note (iii))	**2,791**	9,918
Finance leases of equipment (Note (iv))	**186**	142

(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, where applicable.

Included in the ancillary services for the six months ended 30 June 2011, there was management fee paid/payable to MCS in relation to the management services provided to the Group. Upon the expiry of the management agreement signed between the Group and MCS, no management fee incurred during the six months ended 30 June 2012 (six months ended 30 June 2011: USD2,092,000).

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

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

25 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

(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 2012 USD'000	At 31 December 2011 USD'000
Other receivables (Note 16)	**96**	455
Other accruals and payables (Note 19)	**(3,728)**	(9,560)

(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.

	Six months ended 30 June	
	2012 USD'000	2011 USD'000
Salaries and other emoluments	**662**	1,111
Discretionary bonus	**319**	433
Retirement scheme contributions	**85**	81
Equity-settled share-based payment expenses	**1,878**	–
	2,944	1,625

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 2012 USD'000	At 31 December 2011 USD'000
Contracted for	**72,736**	14,827
Authorised but not contracted for	**122,358**	80,075
	195,094	94,902

(b) Operating lease commitments

(i) At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Within 1 year	**5,650**	7,136
After 1 year but within 5 years	**1,260**	2,245
	6,910	9,381

(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 23 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

"Acquisition"	The acquisition of the entire issued share capital of Baruun Naran Limited (formerly named QGX Coal Limited), indirect wholly-owned subsidiary of the Company
"Adoption date"	13 October 2010, the date the Share Option Scheme was adopted and became effective
"AGM"	Annual General Meeting
"ASP"	Average selling price
"BCM"	Bank cubic meter
"BN"	Baruun Naran
"BN deposit"	Coal deposit at BN mine
"BN mine"	The area of the BN deposit that can be mined by open pit mining methods
"Board"	The Board of Directors of the Company
"Bondholder"	QGX Holdings Ltd.
"BOT"	A type of contract arrangement in which a private sector entity builds an infrastructure project, operates it and eventually transfers ownership of the project to the government
"China"	The People's Republic of China
"CG Code"	The Corporate Governance Code
"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", "we", "us", "our", "Mongolian Mining Corporation" or "MMC"	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

"Controlling Shareholders"	MCS Mining Group Limited and MCS (Mongolia) Limited, Novel Holdings Group Limited, Trimunkh Limited, Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, Ms. Batmunkh Dashdeleg and Ms. Munkhsuren Surenkhuu
"Convertible Bond"	USD85,000,000 aggregate principal amount convertible bond issued by the Company to QGX Holdings Ltd.
"CSR"	Corporate social responsibility
"DAP"	Delivery at place
"Director(s)"	Director(s) of the Company
"EBITDA"	Earnings before interest, tax, depreciation and amortization
"EBRD, FMO and DEG Loan Agreement"	The Company's USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH
"Employees Written Guidelines"	Written guidelines on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company
"EPC"	Engineering, procurement and construction
"ER"	Energy Resources LLC, an indirect wholly-owned subsidiary of the Company
"ER Rail"	Energy Resources Rail LLC, an indirect wholly-owned subsidiary of the Company
"ERM Laboratory"	Laboratory of Energy Resources Mining LLC, an indirect wholly-owned subsidiary of the Company
"FOB"	Free-on-board
"GM" or "Ganqimaodu"	Ganqimaodu, the China side of the China-Mongolia border crossing
"GoM"	Government of Mongolia
"Group"	The Company and its subsidiaries
"GS"	Gashuun Sukhait, the Mongolia side of the China-Mongolia border crossing

"IAS 34"	International Accounting Standard 34, "Interim financial reporting"
"IASB"	International Accounting Standards Board
"IASs"	International Accounting Standards
"IDW"	Inverse distance weighting
"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
"inferred mineral resource"	That part of a mineral resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
"JORC"	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"kWh"	Kilowatt-hours
"Listing Date"	13 October 2010
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"LOM"	Life-of-mine
"LOX"	Limit of oxidation
"LTIFR"	The lost time injury frequency rate
"metallurgical coal"	Coal used in the process of manufacturing steel. It is also known as coking coal

"middlings"	The secondary product after washing of ROM coal
"mineral reserve"	The economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"Moody's"	Moody's Investors Service, Inc.
"Mt"	Million tonnes
"Mtpa"	Million tonnes per annum
"MW"	Megawatt
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"probable reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
"proven reserve"	The economically mineable part of a measured mineral resource

"raw coal"	Generally means coal that has not been washed and processed
"Reorganisation"	Reorganisation taken place on 17 September 2010 to rationalize the group structure for the public listing of the Company's shares on the Stock Exchange
"RMB"	Renminbi, the lawful currency of China
"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)
"ROMt"	Run-of-mine tonne
"Schemes"	The Group participates in defined contribution retirement benefit schemes
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"Seller"	Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited
"Senior Notes"	Issued senior notes of the Company in the aggregate principal amount of USD600 million, bearing fixed annual interest rate 8.875% and listed on the Singapore Exchange Securities Trading Limited on 29 March 2012
"SFO"	Securities and Futures Ordinance
"Share(s)"	Ordinary share(s) of USD0.01 each in the share capital of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	A share purchase agreement with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited dated 31 May 2011
"Standard Bank Facility"	Up to USD300 million facility agreement with Standard Bank Plc
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic meters) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"S&P"	Standard and Poor's Ratings Services

“Tavan Tolgoi”	The coal formation located in South Gobi, Mongolia which our UHG includes deposit
“thermal coal”	Also referred to as “steam coal” or “steaming coal”, thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonization properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
“TKH” or “Tsagaan Khad”	Tsagaan Khad, located in Khanbogd soum of South Gobi province, approximately 21 km from GM
“tonne”	Metric tonne
“Tsogttsetsii”	Tsogttsetsii soum is the location where Tavan Tolgoi sits
“UHG” or “Ukhaa Khudag”	Ukhaa Khudag, located in Tsogttsetsii soum of South Gobi province
“UHG deposit”	Coal deposit at UHG mine
“UHG-GS Railway”	Ukhaa Khudag – Gashuun Sukhait railway base infrastructure
“UHG mine”	The aboveground (<300m) portion of our UHG deposit
“UHG Power Plant”	The Company’s power plant located at UHG site
“USD”	United States Dollar
"UUH"	Mining Institute based in Ulaanbaatar, Mongolia
“VAT”	Value added tax
“washed coal”	Coals that have been washed and processed to reduce its ash content

EXECUTIVE SUMMARY

This report contains the results of the JORC Resource estimation of the Ukhaa Khudag ("**UHG**") deposit contained in Mining License MV-11952A which is owned by Energy Resources LLC ("**ER**"), an indirect wholly-owned subsidiary of Mongolian Mining Corporation ("**MMC**"). Mr. Gary Ballantine worked as an independent consultant, employed by GeoCheck Pty Ltd, on Mongolian projects as a "Micromine Consulting Services" coal expert from January 2008 to June 2010. In July 2010, he joined the MMC management team as a full time employee in the position of General Manager for Exploration and Geology. Mr. Ballantine's responsibilities were to provide advice as Competent Person with the current Resource review, approving borehole data for JORC compliance, designing, budgeting and supervising the 5 year exploration program and setting up of the geology department. Mr. Lkhagva-Ochir Said, an MMC employee, was responsible for block modelling and resource estimation. Mr. Andries Pretorius (consultant for GeoCheck Pty Ltd) was responsible for the coal quality section of the report and Mr. Todd Sercombe provided an independent peer review of procedures, practices and process's undertaken for this report.

The UHG deposit forms part of the northern extension of the greater Tavan Tolgoi coalfield. UHG is approximately 29.6 km^2 in area and represents about 13% of Tavan Tolgoi covering an area of approximately 220 km^2. The coal field is located in south-central Mongolia within the Ulaan Nuur Valley of the Gobi Desert. The Tavan Tolgoi coalfield is separated into seven separate subfields, namely Tsankhi, Southwest, Borteeg, UHG, Eastern, Bortolgoi and Baruun Naran.

The coalfield is situated within the Umnugobi aimag (South Gobi province) about 90 km east of Dalanzadgad, the provincial capital, and some 550 km south of Ulaanbaatar, the national capital. The coal field is 240 km from the border of The People's Republic of China to the south.

The Tavan Tolgoi area is one of gently rolling desert plains with minor topographic relief. The elevations in the region range from 1,490m to 1,590m. The higher elevations occur on a number of small hills that surround the area, which is a continuation of the Altai Mountains. The annual average maximum temperature is around 20.2°C to 24°C during July and average minimum temperature is around -11.5°C to -6.8°C during January.

The Mining License MV-11952A is held by ER, the Mongolian operating company of MMC. With the advent of the newly approved 2006 Mineral law from 26 August 2006, the Company went through a series of negotiations with the Government of Mongolia and reached an agreement to transfer five of its mining licenses (11943A, 11952A, 11953A, 11954A, 11955A, 11956A) to the State and hold the remaining Mining License MV-11952A in the UHG deposit, with minor coordinate changes. The license was dated 23 January 2007 and is for a period of 30 years. In accordance with this agreement, a "License Transfer Agreement" was signed on 21 March 2008 and the coordinates of Mining License MV-11952A were amended, increasing the size of the license from 1,011 hectares up to 2,962 hectares. On 1 April 2010, a further minor change to the license was made and now the license area represents 2,960.23 hectares.

The UHG deposit is located within the Tavan Tolgoi synform, which is also a part of the south Gobi coal bearing basin. The deposit is composed of the Tsankhi and Tavan Tolgoi formations of upper Permian age. Underlying these formations are the volcanic and tuff-sediments of the Dushiin Ovoo and Tsogttsetsii formations of upper Carboniferous-lower Permian age. Rocks of the latter two formations outcrop in the southwest and northeast parts of the deposit, forming mountain uplifts surrounding the core of the syncline. These formations are exposed in a number of boreholes within the syncline. The northwest border of the deposit runs along the large Tsankhi thrust-fault.

The Tavan Tolgoi formation at the UHG deposit demonstrates 18 seam groups. The seam groups consist of 0A, 0B, 0CL, 0CU, 25-0D, 3A, 4A, 4A10-20, 4B, 4C, 5 and 6, which outcrop in the east and south of the area dipping west and north-west. In addition, seam groups 7, 8, 9, 10, 11 and 12, outcrop in the central-west of the deposit and dip north northwest. The seams have been intercepted by drilling to depths of 700m. The overall thickness of this formation was limited by the borehole depth but is much greater than 700m. In the Tsankhi deposit, this formation's thickness is recorded at 965m. This formation in the UHG deposit should be of similar thickness. Seams split and merge throughout the deposit with 50 discrete plies being identified with 49 partings that form 133 seams.

The drilling program undertaken in 2009 demonstrated that with boreholes alone, there was difficulty in some areas proving seam continuity, while other areas showed good seam continuity. The mine commenced coal extraction in April 2009 with the emerging pit showing structures, not picked up by drilling. As part of the 2010 and 2011 drilling programs, a 2D Seismic program was planned and executed. The results showed the deposit to be highly faulted with complex low angle structures where previous work only indicated simple single faults. Boreholes alone were insufficient to determine accurately the nature, type and location of the fault systems involved. The addition of the Seismic program proved invaluable in locating and understanding these fault systems but, just as importantly, showed areas of little to no structure and this is one of the great positives with using Seismic. Boreholes have been used in conjunction with Seismic as they provide the identification and calibration in determining true depth of Seismic reflectors (coal seams). The results of this work will now provide greater confidence in the revised Reserves estimate, future mine planning and scheduling.

It was noted in a number of cores that there is evidence of magnetic hydrothermal rock alteration and it is possible that some of the coal of this deposit shows the effects of heat alteration or devolatilisation. The resulting devolatilisation of the coal also has a lateral component with the coal in the eastern portion of the deposit devolatilised and the coal in the western portion of the deposit not affected. It was also noted that the transition zone relates to a major thrust structure, which can be traced with the Seismic sections from the south-western to the north-eastern extent of the coal deposit. The effective result of the devolatilisation is, the eastern part of the deposit has been upgraded from a high-volatile (daf) coal to a mid-volatile (daf) coal and hence, is the reason why these coal seams are potentially hard coking and not of a lower coking quality.

The RAW coal quality data used for the Resources estimate came from 3 databases. This included 808 samples from the Mongolian/Russian database, 581 samples from the Norwest database and 31,167 samples from the MMC database. The Mongolian/Russian and Norwest databases were checked using the current procedures and only those data points that meet the new criteria were used in the new points of observation. These samples were analysed for total moisture, proximate composition, sulphur and calorific value. CSN and G-index were analysed on a composite sample, which matched with modelled seams, as CSN and G-index are coking properties and are non-additive so cannot be calculated by weighted averages.

A further review from the RAW coal analyses on the seam group coking potential was completed. The seam groups were defined in 3 groups, low, medium and high potential for coking coal. Seams including 0A, 0B, 0CL, 4A10-20 and 6 were defined as having low to no coking potential, seams 0CU, 25-0D, 5, 10, 11 and 12 were defined as having medium coking potential and seams 3A, 4A, 4B, 4C, 7, 8 and 9 were defined as having high coking potential.

In accordance with the American Society for Testing and Materials (ASTM) classification of coal by rank, with the wide range in volatile matter, the coal was classified as ranging from high-volatile "A" bituminous coal to low-volatile bituminous coal with most samples in the medium-volatile bituminous group.

Limit of oxidation ("**LOX**") work was completed for the immediate mining area for seam groups 0A, 0B, 0CU, 0CL, 3A, 4A, 4B, 4C, 5 and 6. Further work for the remaining seams and areas of the deposit is still to be undertaken. Where a LOX line was not available, the base of weathering determined from boreholes was used to limit the Resources.

Geotechnical data was collected with the current exploration program. AMC consultants have been engaged to provide advice on geotechnical issues at UHG mine. All geotechnical data collected was provided to AMC consultants for their ongoing work.

UHG mine is a world class mining operation which uses a conventional truck and excavator mining method to mine coal and waste. The mining operation is managed by Leighton Asia Limited under a 6 year relationship mining contract. Under the contract, Leighton provides all mining equipment required to achieve the production schedule set by MMC. The mining equipment is maintained in workshops designed and built by MMC. All equipment operators and maintenance tradespeople are employed by MMC. Employees work a 12 hour shift on a two week on and one week off roster. Employees fly-in and fly-out from Ulaanbaatar, the capital of Mongolia, or commute from Tsogttsetsii, the local Soum, located around 7 km north-east of the mine. All equipment operators have had to be trained as there are basically no trained equipment operators in Mongolia.

Site visits were initially undertaken by Mr. Ballantine, Competent Person for JORC reports ("**CP**") in January 2009. From this visit and subsequent other visits until fulltime employment in July 2010, all planning, budgeting, procedures, training and overall oversight of exploration at UHG was completed by the CP.

JORC Resource estimates require a level of independence and hence Mr. Todd Sercombe, senior consultant for GasCoal Pty Ltd and a coal geologist since 1996, provided an independent peer review of the exploration program. His full report can be viewed in Appendix 14 of Independent Coal Competent Person's Site Visit and Exploration Procedures Audit of UHG coal mine for MMC. His main findings were:–

"The UHG exploration procedures and practices are of extremely high calibre, exceeding both the Australian Standards for coal evaluation and sampling (AS 2519-1993 & AS 2617-1996) and the benchmark coal industry best practices (as observed by Mr. Sercombe in the Bowen Basin, Australia). The accurate and unbiased assignment of coal core loss to coal samples, achieved in the UHG practices, is commendable. The coding, for modelling, of all significant stone band partings in the seams and of inter-burden units between the seams is also praiseworthy. The Exploration and Geology Department are a group of young enthusiastic geologist who have been well trained and led by Gary Ballantine. I would have high confidence in the reportable results obtained from the UHG exploration procedures."

This Resource estimate is based on 3 campaigns of exploration. A period from 1985-1987, where 111 cored boreholes were drilled by a Mongolian/Russian team, 2008 where Norwest drilled 116 cored and openhole boreholes plus 5 large diameter bulk sample sites and the current program from 2009 to 2011 where 1,435 cored and openhole boreholes were completed. Over the 3 campaigns a total of 193,000 metres was drilled, of which approximately 98,000 metres was cored and 93,000 metres was openhole. The drill spacing for the points of observation in the east and the west is less than 400m, with the central area greater than this.

All Quality Assurance and Quality Control methods for drilling, borehole survey, geophysics, logging and sampling were reviewed against current procedures and met JORC standards. The analytical methods were also investigated. Mongolian/Russian analyses were completed by the Central Geological Laboratory in Ulaanbaatar, the Norwest analyses were completed by SGS Laboratories, Tianjin, China, and for the current program the analyses were completed by the onsite laboratory of Energy Resources Mining LLC ("**ERM Laboratory**"), an indirect wholly owned subsidiary of the Company. All laboratories were accredited to the standards of the day with the ERM Laboratory holding a current accreditation to ISO/IEC 17025:2005(MN ISO/IEC 17025:2007). The ERM Laboratory underwent 2 audits during the campaign with both delivering favourable responses. In addition, duplicate samples were sent to 2 laboratories, the Ulaanbaatar based ALS and the Mining Institute ("**UUH**") laboratory. The ERM Laboratory generally reported the coal quality parameters lower than the ALS laboratory and generally higher than the UUH laboratory with varying degrees of reproducibility between laboratories.

The UHG Resource estimate was carried out using Micromine's COALMEASURE Version 12.5.5.824 and LogCheck software Version 5.581. The Resource estimate was carried out using the points of observation data supplied by the CP.

The method used for estimating Resources at the UHG involved modelling an elevation grid for the major ply 0AU and modelling thickness grids for the other plies and partings. These thickness grids for the plies and partings were then stacked on top of the elevation grid to form a 3D block model. Gridding with exact interpolation using ordinary kriging was used to generate grids for the elevation of the mid-point of the plies and inverse distance weighting ("**IDW**") with a power of two was used to generate grids for the thicknesses of the plies and partings. The Base of Weathering surface, the Base of Quaternary and the topographic surface grids were also produced using IDW with a power of two.

The block model used for Resource classification, seam coding and grade interpolation was limited vertically by the Base of Weathering grid or LOX lines where they were present. It was limited laterally in the east by the subcrop. In the north and south, the model was limited by boundary faults and in the west by the license boundary. Each ply was limited to its own Inferred resource boundary or other defined limits.

Measured Resources were limited to circles with a radius of 200m, Indicated Resources by a circle with a radius of 500m and Inferred Resources by a circle with a radius of 2,000m. Areas shown from the Seismic to have no continuity, but still had coal from borehole intercepts were classified as Inferred Resources. For seam coding there was no maximum seam thickness, a minimum seam thickness of 0.5m (except for ply 4B which had a cut-off of 1.2m shown from mining) to 400m and 1.5m for Resources below 400m depth, a maximum parting thickness of 0.5m, and an ash content cut-off greater than 50%. In addition, core recovery was applied where it was greater than or equal to 95% for moderate or high potential coking coal seams and greater than or equal to 90% for low potential or no coking potential coal seams. Coal quality data was interpolated into the block model using IDW with a power of two.

The total Resources for the UHG deposit are shown on an air-dry basis in Table 1-1 and on an as-received basis in Table 1-2. It should be noted that these figures have been rounded to reflect that they are estimates and as a result this may cause figures not to sum correctly.

Table 1-1: Total Resources on an Air Dried (AD) Basis

Volume	Tonnes	Relative Density (g/cc)	Ash (%)	Inherent Moisture (%)	Volatile Matter (%)	Gross Calorific Value (Kcal/kg)	Sulphur (%)	Fixed Carbon (%)	Classification
Base of Weathering – 100m									
73,232,000	114,307,000	1.56	28.27	0.91	19.69	5844	1.02	51.13	Measured
35,143,000	55,339,000	1.57	30.00	1.04	21.47	5553	0.93	47.50	Indicated
16,606,000	26,202,000	1.58	30.18	0.95	21.24	5567	0.91	47.63	Inferred
124,981,000	**195,848,000**	**1.57**	**28.96**	**0.95**	**20.34**	**5734**	**0.98**	**49.75**	**Subtotal**
100 – 200m									
60,155,000	93,537,000	1.55	28.33	0.77	20.44	5830	1.05	50.46	Measured
35,003,000	55,232,000	1.58	30.30	0.78	20.05	5619	0.90	48.86	Indicated
16,249,000	25,771,000	1.59	30.53	0.75	19.36	5623	0.84	49.37	Inferred
111,407,000	**174,540,000**	**1.57**	**29.28**	**0.77**	**20.16**	**5733**	**0.97**	**49.80**	**Subtotal**
200 – 300m									
50,649,000	80,096,000	1.58	30.40	0.72	19.42	5647	0.87	49.46	Measured
32,253,000	51,001,000	1.58	30.36	0.73	19.72	5646	0.84	49.19	Indicated
10,500,000	16,835,000	1.60	31.57	0.72	18.78	5560	0.71	48.94	Inferred
93,402,000	**147,932,000**	**1.58**	**30.52**	**0.73**	**19.45**	**5637**	**0.84**	**49.31**	**Subtotal**
300 – 400m									
31,252,000	49,665,000	1.59	31.10	0.75	19.46	5576	0.72	48.69	Measured
20,611,000	33,220,000	1.61	32.62	0.71	18.55	5439	0.69	48.13	Indicated
6,978,000	11,369,000	1.63	33.36	0.73	17.56	5399	0.57	48.36	Inferred
58,841,000	**94,254,000**	**1.60**	**31.91**	**0.73**	**18.91**	**5506**	**0.69**	**48.45**	**Subtotal**
Below 400m									
26,589,000	41,750,000	1.57	29.32	0.80	19.99	5748	0.52	49.89	Measured
21,412,000	34,267,000	1.60	31.30	0.76	19.13	5561	0.54	48.80	Indicated
7,331,000	12,202,000	1.66	35.80	0.76	16.82	5150	0.49	46.62	Inferred
55,332,000	**88,219,000**	**1.59**	**30.99**	**0.78**	**19.22**	**5593**	**0.52**	**49.02**	**Subtotal**
443,963,000	**700,793,000**	**1.58**	**30.86**	**0.83**	**20.32**	**5823**	**0.87**	**47.99**	**Grand Total**

Table 1-2: Total Resources on an As Received (AR) Basis

Volume	Tonnes	Relative Density (g/cc)	Ash (%)	Total Moisture (%)	Volatile Matter (%)	Gross Calorific Value (Kcal/kg)	Sulphur (%)	Fixed Carbon (%)	Classification
Base of Weathering – 100m									
73,253,000	112,395,000	1.53	27.43	3.83	19.07	5676	0.99	49.68	Measured
35,143,000	54,214,000	1.54	28.89	4.40	20.73	5375	0.90	45.99	Indicated
16,606,000	25,717,000	1.55	29.22	4.17	20.53	5387	0.88	46.09	Inferred
125,002,000	**192,326,000**	**1.54**	**28.03**	**4.02**	**19.68**	**5562**	**0.95**	**48.28**	**Subtotal**
100 – 200m									
60,155,000	92,126,000	1.53	27.55	3.48	19.85	5672	1.02	49.11	Measured
35,003,000	54,357,000	1.55	29.39	3.38	19.53	5484	0.87	47.71	Indicated
16,249,000	25,397,000	1.56	29.73	3.19	18.87	5490	0.82	48.21	Inferred
111,407,000	**171,880,000**	**1.54**	**28.46**	**3.41**	**19.60**	**5585**	**0.94**	**48.54**	**Subtotal**
200 – 300m									
50,649,000	78,933,000	1.56	29.60	3.06	18.96	5523	0.84	48.39	Measured
32,253,000	50,267,000	1.56	29.56	3.12	19.23	5518	0.81	48.09	Indicated
10,500,000	16,605,000	1.58	30.81	2.98	18.34	5437	0.69	47.87	Inferred
93,402,000	**145,805,000**	**1.56**	**29.72**	**3.07**	**18.98**	**5511**	**0.81**	**48.23**	**Subtotal**
300 – 400m									
31,252,000	48,927,000	1.57	30.23	2.99	19.03	5468	0.70	47.76	Measured
20,611,000	32,753,000	1.59	31.80	2.76	18.17	5340	0.67	47.27	Indicated
6,978,000	11,232,000	1.61	32.66	2.63	17.21	5301	0.56	47.49	Inferred
58,841,000	**92,912,000**	**1.58**	**31.08**	**2.86**	**18.51**	**5403**	**0.67**	**47.55**	**Subtotal**
Below 400m									
26,589,000	41,114,000	1.55	30.18	3.29	19.49	5616	0.50	47.05	Measured
21,412,000	33,774,000	1.58	30.49	3.15	18.65	5434	0.53	47.72	Indicated
7,331,000	12,058,000	1.64	35.15	2.54	16.51	5059	0.48	45.81	Inferred
55,332,000	**86,946,000**	**1.57**	**30.18**	**3.13**	**18.75**	**5468**	**0.51**	**47.95**	**Subtotal**
443,984,000	**689,869,000**	**1.55**	**29.27**	**3.28**	**18.67**	**5362**	**0.80**	**48.78**	**Grand Total**

In view that this Resource estimate forms the basis of a Reserves update, the recommendations for the project area include, but are not limited to the following:

1. Drill closely spaced boreholes to determine remaining seam LOX lines in the western area of the deposit.

2. Plan and execute drilling 100 x 100 metre borehole spacing in the western area for better seam delineation for a future new mining pit.

3. Plan and execute drilling 200 x 200 metre borehole spacing in the middle section of the deposit and upgrade Resource categories to Measured.

4. Continue with detailed fault interpretation using the Seismic and boreholes for the Reserve study.

5. Complete a series of Bulk samples for washability tests on seams 7, 8, 9, 10, 11 and 12.

6. Adopt recommendations from the peer review.

7. The coal quality database contains a large population of CSN values for all the seams and it is recommended that the work initiated by Norwest (2008) continues to investigate the correlation between ash and CSN.

8. Further work continues to verify the relationships between CSN, ash, volatile matter and geological structure that were indicated in this report and to describe these relationships more accurately.

9. A better understanding of the spatial distribution of the coking characteristics of the coal and the geological parameters that affect the coking characteristics will be beneficial for mine planning and production scheduling in order to produce a consistent product and maximising the value of the deposit.

10. A review should be completed where there was some variation in the elevations of the topography survey and the collar survey.

11. The Seismic data is high level data that has been important in locating and defining structural style, but it is highly recommended that mine geologists continue to map and monitor faults within the pit.

12. Changes in coal quality on a seam basis can be expected due to weathering near LOX lines, devolatilised coal or areas close to major structures.

13. Due to the findings of this report of devolatilised coal and the sharp and inconsistent distribution within seams of Volatile matter on a dry-ash free basis, which may result in different product types, it is strongly recommended that detailed coal chip sampling from blast rigs and uncovered coal is done by mine geologists. This procedure can be expanded to measuring CSN for indicating weathered coal. The results can be built into the short term planning and scheduling procedure prior to mining.