MONGOLIAN MINING CORPORATION

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

ANNUAL REPORT 2011

Contents

Company Profile

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

Ochirbat Punsalmaa
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

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

COMPANY SECRETARY

Ng Sin Yee, Clare

INDEPENDENT AUDITOR

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

AUTHORIZED REPRESENTATIVES

Battsengel Gotov
Ng Sin Yee, Clare

COMPLIANCE ADVISER

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

LEGAL ADVISERS

Milbank, Tweed, Hadley & McCloy
30th Floor, Alexandra House
18 Chater Road
Central, Hong Kong

Economic & Legal Consultancy LLC
Suite 1003, Central Tower
2 Sukhbaatar Square
8th Khoroo
Sukhbaatar District
Ulaanbaatar 210620a
Mongolia

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Directors and Senior Management

BOARD OF DIRECTORS (THE "BOARD")

Odjargal Jambaljamts, aged 46, is an executive Director and Chairman of the board of the Company. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is also the Chairman of the Nomination Committee and member of the Remuneration Committee. He ceased to be Chairman of the Remuneration Committee on 12 January 2012. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC (together with its subsidiaries, the **"MCS Group"**), an associate of MCS Mining Group Limited (a substantial shareholder of the Company). Mr. Jambaljamts was appointed as director of Starain Limited since January 2011. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at the Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

Battsengel Gotov, aged 39, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. Dr. Gotov joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. Since 2004, Dr. Gotov has served at various managerial positions in the MCS Group. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation. He stayed at the University of Cologne, Germany from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov is a board member of the Mongolian National Mining Association, the Mineral Industry Safety Association and the South Gobi Business Council. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

Directors and Senior Management

Oyungerel Janchiv, aged 57, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. She is a representative of Petrovis Resources Inc., a substantial shareholder of the Company. Between 1979 and 1982, Dr. Janchiv served as a petroleum economist at the Oil Supply Management Authority. From 1988-1990, she served as a chief economist at the Oil Supply Management Authority. From 1990 to 1996, she was the general director of the board of directors of the Neft Import Concern and was responsible for managing the importation and distribution of petroleum products. Since 1996, Dr. Janchiv has been the Chairperson and General Director of Petrovis LLC, the largest petroleum import and distribution company in Mongolia. Dr. Janchiv is also a non-executive director of Petro Matad Limited, a subsidiary of Petrovis LLC, engaged in oil exploration and listed on the London Stock Exchange. She was appointed as the non-executive chairperson of Petro Matad Limited on 27 January 2012. Dr. Janchiv was awarded a diploma of engineer-economist for the petroleum and gas industry and a PhD by the Gubkin State University of Oil and Gas in Moscow, Russia.

Philip Hubert ter Woort, aged 50, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. Mr. ter Woort was appointed as a member of the Corporate Governance Committee on 12 January 2012. He is a representative of the European Bank for Reconstruction and Development (**"EBRD"**). Between 1990 and 1997, Mr. ter Woort worked in ING Bank N.V. and he held various positions with the ING Group (and its predecessors). From 1997 to 1998, Mr. ter Woort worked for Cargill Financial Services in Geneva, Switzerland as a senior structured financier. In 1998, Mr. ter Woort joined ABN AMRO Bank in Moscow as the vice president in corporate banking. From 2000 to 2001, he served as branch manager of ABN AMRO Bank St. Petersburg Branch responsible for managing ABN AMRO Bank Russia's commercial banking activities in the northwestern part of Russia. From 2001 to 2005, Mr. ter Woort served as Chairman of Supervisory Board of Directors of Rabo Invest OOO, Moscow, a soft commodity financier in Russia and a wholly-owned subsidiary of Rabobank the Netherlands. From 2005 to 2009, Mr. ter Woort was active as a private residential property investor during which period he built and managed a residential property investment portfolio in a number of countries. In 2009, Mr. ter Woort was appointed as the Head of EBRD Mongolia Resident Office. Mr. ter Woort was awarded a master's degree in economics by the University of Amsterdam, the Netherlands.

Batsaikhan Purev, aged 45, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of Shunkhlai Mining, a shareholder of the Company. He is a founder of Shunkhlai LLC, one of the first private companies in Mongolia and one of Mongolia's largest petroleum companies. He has been the General Director of Shunkhlai LLC and Shunkhlai Group LLC, and an Executive Director of Shunkhlai Mining LLC since 1993. Mr. Purev was appointed as the Chairman and President of Shunkhlai Group LLC on 11 January 2012. He is a Chairman of APU Company, a company listed on the Mongolian Stock Exchange. Mr. Purev was awarded a bachelor's degree in mechanical engineering by the Mongolian Technical University.

Enkh-Amgalan Luvsantseren, aged 42, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of MCS Holding LLC. Mr. Luvsantseren joined the MCS Group in 1997. He was appointed as director of Inter Group Mongolia Limited since July 2011. During his career at the MCS Group, he held various executive positions, including Deputy Director of MCS Holding LLC and Managing Director of MCS Electronics LLC. Mr. Luvsantseren has been a Vice President of the MCS Group since 2002. He is a Chairman of Coal Road LLC, Unitel LLC and MCS Electronics LLC. He ceased to be the Chairman of Sky Resort LLC on 11 June 2011. Mr. Luvsantseren was awarded a diploma in journalism by Saint-Petersburg State University, Russia, and a master's degree in business administration by Handong Global University, South Korea.

Gantumur Lingov, aged 41, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of MCS Holding LLC. Mr. Lingov taught at the Computer Science & Management School of Mongolian Technical University from 1993 to 1997. From February to August 1997, Mr. Lingov was the project coordinator of the UNESCO/DANIDA Project. Mr. Lingov worked at Procter & Gamble from 1999 to 2005, and was appointed Distributor Operations Manager for the whole Central Asia and Caucasus region in April 2004. Since 2006, Mr. Lingov has been the Vice President for Human Resources of the MCS Group. He ceased to be the Managing Director of MCS Management LLC and the Acting Managing Director of MCS Holding LLC on 2 January 2012 and 14 November 2011, respectively. Mr. Lingov was awarded a diploma as engineer-economist for the fuel and energy industry by the Moscow State Academy of Management, Russia, and a master's degree in business administration (international business) by the Maastricht School of Management, the Netherlands.

Directors and Senior Management

Enkhtuvshin Gombo, aged 40, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. Ms. Gombo is also a member of the Audit Committee. She is a representative of MCS Holding LLC. Ms. Gombo is currently the Vice President for Finance and Investment of MCS Holding LLC. Ms. Gombo joined the MCS Group in 2003 as a financial analyst of MCS Holding LLC and became the head of the planning unit of the finance department in 2006. Ms. Gombo was appointed as a director of MCS Group's finance department in 2008. Ms. Gombo was awarded a bachelor's degree in banking and finance from the Economic College of Mongolia, a master's degree in business administration from the University of Birmingham, UK, and a master's degree in finance from the University of Colorado, United States.

Ochirbat Punsalmaa, aged 70, is an independent non-executive Director of the Company. Mr. Punsalmaa was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Punsalmaa is a member of the Audit Committee and the Nomination Committee. He was appointed as the Chairman of the Remuneration Committee on 12 January 2012. During 1972 to 1990, Mr. Punsalmaa held various positions with the Government of Mongolia, including deputy minister of the ministry of power energy and mining, minister of the ministry of fuel and power energy of Mongolia, chairman of the state committee of external economic relations and cooperation of Mongolia and minister of the external economic relation of Mongolia. Mr. Punsalmaa was the President of Mongolia between 1990 and 1997. Since 1997, he has been the chairman of the board of Ochirbat Foundation. He was awarded a PhD in Technical Sciences from the Moscow Mining Institute, and Honorary Doctorate from Dankook University, South Korea, Mongolian Technical University and Saint Petersburg Mining Institute, Russia. He became an Academician of Mongolian Academy of Science on 8 July 2011. Mr. Punsalmaa was credited as a Barrister Emeritus by the School of Law, Texas Wesleyan University, United States.

Unenbat Jigjid, aged 49, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is a member of the Audit Committee, Nomination Committee and Remuneration Committee. He ceased to be the Chairman with Audit Committee and was appointed as the Chairman of the Corporate Governance Committee on 12 January 2012. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. During the period from 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. Since 2009, Mr. Jigjid has been an executive director of the Corporate Governance Development Center in Mongolia. He is also a member of the supervisory board of the Bank of Mongolia and the board of Micro Finance Development Fund. From October 2010, Mr. Jigjid serves as a director of Golomt Bank and Resources Investment Capital. He was appointed as the board member of Open Society Forum in Mongolia on 10 March 2011. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

Chan Tze Ching, Ignatius, aged 55, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He was appointed as the Chairman of the Audit Committee and member of the Corporate Governance Committee on 12 January 2012. From 1980 to 2007, Mr. Chan held various positions with Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. In 2008, he was the deputy chief executive of the Bank of China (Hong Kong) Limited. Mr. Chan was appointed as a senior advisor of The Bank of East Asia Limited in March 2009 and of CVC Capital Partners Limited in November 2010. He was appointed as an Honorary Advisory Vice President of The Hong Kong Institute of Bankers in February 2011. Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited and an independent non-executive director of Hong Kong Exchanges and Clearing Limited, the shares of which are listed on the Stock Exchange. He was appointed as non-executive director of Rizal Commercial Banking Corporation, the shares of which are listed on the Philippines Stock Exchange, on 28 November 2011. Mr. Chan was awarded bachelor's and master's degrees in business administration from the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Enkhzaya Nyamdorj, aged 37, is the Vice President and Chief Financial Officer of the Company. Ms. Nyamdorj joined the Company as a Deputy Chief Financial Officer on 1 August 2011 and was appointed as the Chief Financial Officer of the Company on 4 November 2011. Prior to joining the Company, Ms. Nyamdorj was a senior manager at Ernst & Young LLP's Chicago office, where she had been working since 2000. With over 10 years of experience in public accounting, finance and business development, she has a strong background working with companies in diverse industries and various sizes including newly formed companies, publicly listed companies and corporations within the Fortune 500. Ms. Nyamdorj is a Certified Public Accountant in the United States and a member of the California Society of Certified Public Accountants. Ms. Nyamdorj was awarded a bachelor's degree in Business Administration, Economics and Marketing by the National University of Mongolia in 1997 and a master's degree in Business Administration in International Business and Finance by the Schiller International University, United States.

Ulemj Baskhuu, aged 33, is the Vice President and Chief Investment Officer of the Company. Ms. Baskhuu was appointed as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

Enkhtuvshin Dashtseren, aged 36, is the Vice President and Chief Marketing Officer of the Company. Mr. Dashtseren has held various positions with MCS Holding LLC including chief financial officer and vice president for the corporate strategy since he joined the MCS Group in 1997. He joined Energy Resources LLC in 2008 as the vice president and chief marketing officer and has played a key role in obtaining and maintaining the current customer base of the Company. Mr. Dashtseren was awarded a bachelor's degree in finance and management from the National University of Mongolia, Mongolia.

Oyunbat Lkhagvatsend, aged 35, is the Vice President and Chief Logistics Officer of the Company. On 8 February 2011, Mr. Lkhagvatsend was appointed as the Chief Executive Officer of Energy Resources Rail LLC, Transgobi LLC, Tavan Tolgoi Airport LLC, Energy Resources Road LLC and Gobi Road LLC. Mr. Lkhagvatsend has about 11 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the chief executive officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law from the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States, in 2004.

Uurtsaikh Dorjgotov, aged 47, is the Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Program of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) from the University of Waikato, New Zealand, and also a diploma of lawyer from the University of Irkutsk, Russia.

Davaakhuu Chultem, aged 39, is the Vice President responsible for operations and project management of the Company. In February 2011, Mr. Chultem was appointed as the Chief Executive Officer of Energy Resources Mining LLC, Enrestechnology LLC and United Power LLC. Mr. Chultem ceased to be the Chief Executive Officer of Ukhaa Khudag Water Supply LLC and Public Service LLC on 8 November 2011. From September 1998 to February 2010, Mr. Chultem held various engineering and managerial positions with MCS International LLC, including Deputy Director of MCS International LLC, prior to joining Energy Resources LLC in April 2010. He has over 14 years of experience in the project implementation of heating systems and power plants, and has been involved in various national level energy sector projects. Mr. Chultem was awarded a bachelor's degree in power engineering from the Mongolian Technical University, Mongolia and a master's degree in business administration from the La Trobe University, Australia.

Directors and Senior Management

Ariunaa Baldandorj, aged 46, is the Vice President responsible for corporate communications and public relations of the Company. She started her professional career as a journalist in the Mongolian press agency Montsame, and worked as a consultant in various projects of the Asian Development Bank. In 2002, she joined the MCS Group as head of the marketing department and was responsible for the establishment and development of the marketing functions of the MCS Group. Ms. Baldandorj has over 21 years of experience in marketing, public relations and related fields, and joined the Group in April 2010. Ms. Baldandorj was awarded a bachelor's degree in economics by the Moscow Economics University, Russia, and a master's degree in international business and marketing from the University of Waikato, New Zealand.

Gary Ballantine, aged 43, is the Executive General Manager responsible for exploration and geology of the Company. Mr. Ballantine has over 22 years of experience in mining and geology, and has held positions in Australian mining companies, such as Micromine Pty Limited and BHP Billiton. Mr. Ballantine was appointed as Executive General Manager responsible for exploration and geology of the Company in July 2010 and has been advising on upcoming resource reviews and approval of borehole data for JORC compliance as well as for the designing, budgeting and supervising of the 5 year exploration program and the setting up of the geology department of the Company. Mr. Ballantine was awarded a bachelor's degree in geology by the University College of Southern Queensland, Australia, and a postgraduate diploma in geology by James Cook University, Australia. Mr. Ballantine has been a member of the Australian Institute of Mining and Metallurgy since 1987.

Andrew Philip Duncan Little, aged 59, is the Executive General Manager responsible for technical services of the Company. Mr. Little has been a member of the Australian Institute of Mining and Metallurgy for 22 years and is also a member of the Australian Coal Preparation Society. Mr. Little has over 35 years experience in the mining industry, including 8 years in the Australian coal mining industry with Utah Development Company at Peak Downs coking coal mine and Capricorn Coal Management at German Creek coking coal mine. He has also held operational and technical positions with Hedges Gold Mine (Alcoa), Alcoa Alumina and Minproc Engineers. From 1997 to 2007, Mr. Little was technical director responsible for mining and metals with JPMorgan. Mr. Little joined the Group in April 2008 as technical director with primary responsibility for the technical development of the UHG coal project. Mr. Little was awarded a diploma of mining engineering from RMIT University, Melbourne, Australia, and a graduate diploma in business (management studies) from Edith Cowan University, Australia.

Bayarbayasgalan Dorjderem, aged 38, is the General Manager responsible for mining of the Company. Mr. Dorjderem has 16 years of extensive experience in the mining industry, having started his professional career at the Baganuur coal mine, which once was the largest open cut coal mine operating in Mongolia. From 1995 to 2009, Mr. Dorjderem has held various positions with Baganuur Joint Stock Company, including mine surveyor and mine chief surveyor. Mr. Dorjderem joined Energy Resources LLC in January 2009 as a chief surveyor and was later promoted to general manager responsible for mining. Mr. Dorjderem was awarded a bachelor's degree in mine surveying from the Mongolian Technical University, Mongolia.

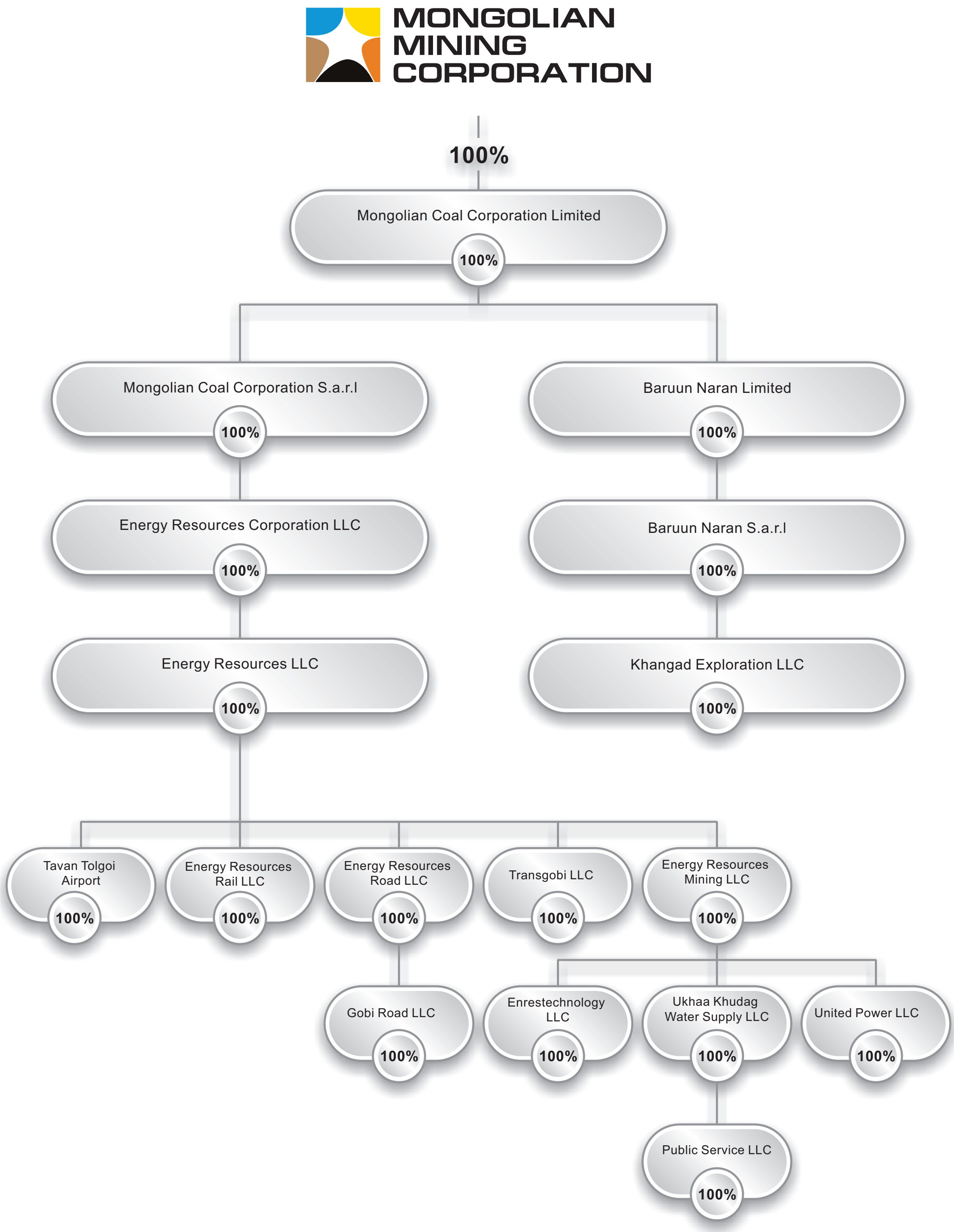
Baigalmaa Shurka, aged 49, is the Executive General Manager of the UHG site of the Company. Ms. Shurka joined Energy Resources LLC in 2008 as the Head of the HSE & Infrastructure Division and was responsible for projects design development and implementation. Ms. Shurka was promoted deputy director responsible for corporate sustainable development in 2010. Prior to joining Energy Resources LLC, Ms. Shurka was a senior engineer at IMMI LLC from 2005 to 2008. Ms. Shurka was awarded a diploma in environmental engineering by Irkutsk Polytechnic Institute, Russia, in 1986. She holds a master's degree in public administration from the National University of Mongolia, Mongolia, and a master's degree in civil engineering from School of Mines & Technology, Rapid City, South Dakota, United States.

Batbold Khorloo, aged 46, is the Executive General Manager of the BN site of the Company. Mr. Khorloo joined MCS Group in 2001 as the Head of the hydropower department of MCS International LLC. Mr. Khorloo has extensive experience in mining project operations and management. He held positions as the deputy director responsible for Ukhaa Khudag branch operation and as the executive director of Energy Resources Mining LLC and Tavan Tolgoi Airport LLC. Mr. Batbold was awarded a bachelor's degree in science from Moscow Civil Engineering University, Russia and a master's degree in business administration from the Institute of Business Administration, Mongolia.

COMPANY SECRETARY

NG Sin Yee, Clare, aged 51, was appointed as Secretary of the Company on 23 July 2010. Ms. Ng is the senior manager of the corporate services department of Tricor Services Limited. She is an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the UK. Before joining the Tricor Group, Ms. Ng has worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 26 years of experience in company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong.

The Group Structure

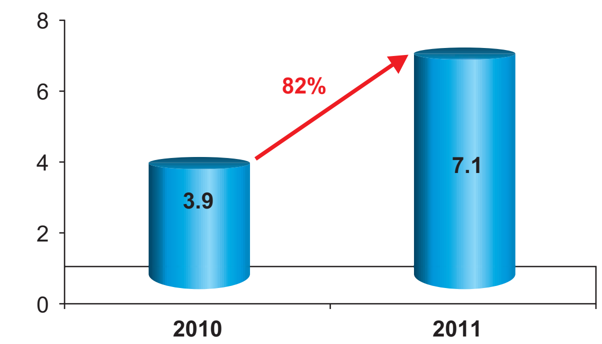


Financial Highlights

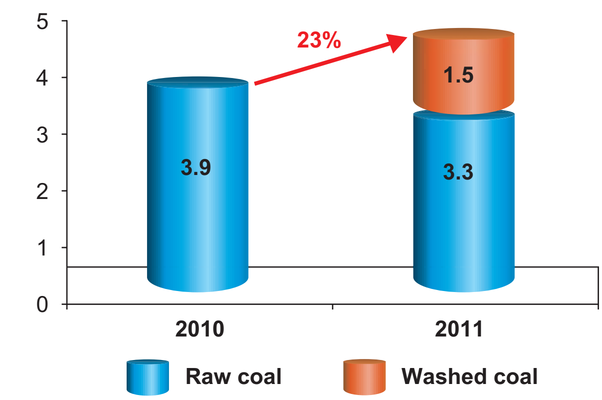
	2011 (USD'000)	2010 (USD'000)	Change
FINANCIAL			
Revenue	**542,568**	277,502	95.5%
Cost of revenue	**336,368**	164,368	104.6%
Gross profit	**206,200**	113,134	82.3%
Gross profit margin	**38.0%**	40.8%	-2.8 ppt
Profit attributable to the equity shareholders of the Company	**119,090**	60,139	98.0%
Net profit margin	**21.9%**	21.7%	+0.2 ppt
Basic earnings per share	**3.21 cents**	1.91 cents	+1.3 cents
Diluted earnings per share	**3.07 cents**	1.91 cents	+1.16 cents
Total non-current assets	**1,233,194**	338,137	264.7%
Total current assets	**394,821**	715,133	-44.8%
Total current liabilities	**553,511**	131,679	320.3%
Total non-current liabilities	**305,640**	194,310	57.3%
Net assets	**768,864**	727,281	5.7%
Equity attributable to equity shareholders of the Company	**768,864**	727,281	5.7%
Net cash generated from operating activities	**20,985**	69,641	-69.9%
Net cash used in investing activities	**215,417**	564,380	-61.8%
Net cash (used in)/generated from financing activities	**(79,871)**	823,495	-109.7%
Debt to total asset	**34.5%**	23.8%	+10.7 ppt
Debt to Equity	**73.1%**	34.5%	+38.6 ppt
Debt to Adjusted EBITDA[1]	**3.3x**	3.2x	+0.1x
Interest coverage ratio (Adjusted EBITDA/Interest)	**12.3x**	18.5x	-6.2x
OPERATIONAL			
Production volume (Mt)	**7.1**	3.9	82.1%
Strip ratio	**5.16**	5.06	2.0%
Cost per total material movement (United States Dollar (**"USD"**)/bank cubic meter (**"BCM"**))	**4.52**	4.00	13.0%
Sales volume (Mt)	**4.8**	3.9	23.1%
Sales volume (Mt, raw coal)	**3.3**	3.9	-15.4%
Sales volume (Mt, washed coal)	**1.5**	0	
Estimated share in Mongolia's total coal export	**22.7%**	23.7%	-1.0 ppt
Average selling price per tonne (US$, raw coal)	**95.0**	70.8	34.2%
Average selling price per tonne (US$, washed coal)	**155.6**		

[1] We calculate Adjusted EBITDA by adding income tax, share of losses of associates, finance costs, depreciation and amortization and allowance for doubtful debts and subtracting share profits of associates, finance income from profit attributable to the equity shareholders of the Company for the year as calculated under IFRS.

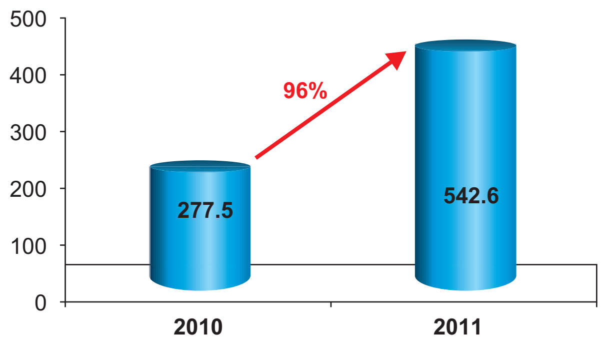
Run-of-mine coal production (Mt)



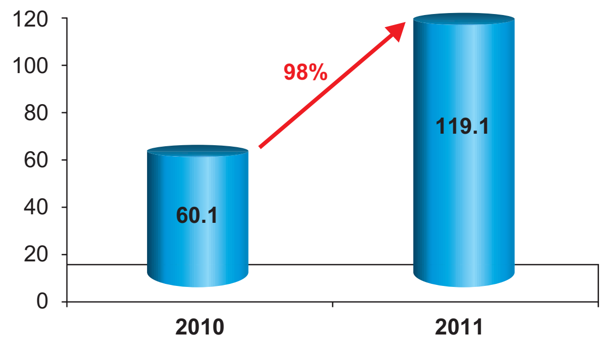
Coal sales volume (Mt)



Sales revenue (million USD)

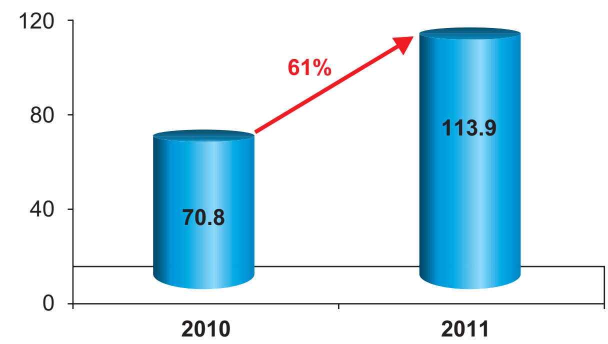


Net profit (million USD)

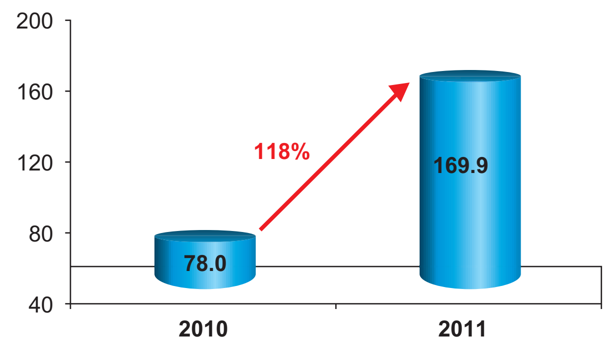


Financial Highlights

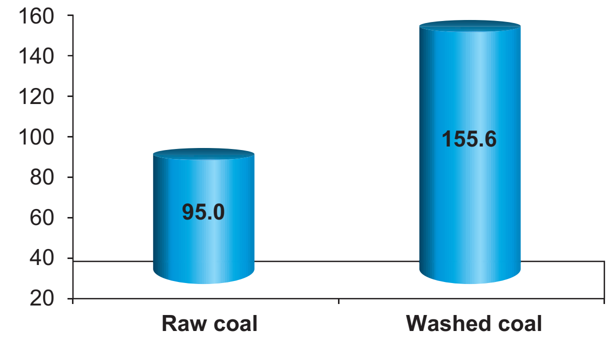
Average selling price – blended (USD/t)



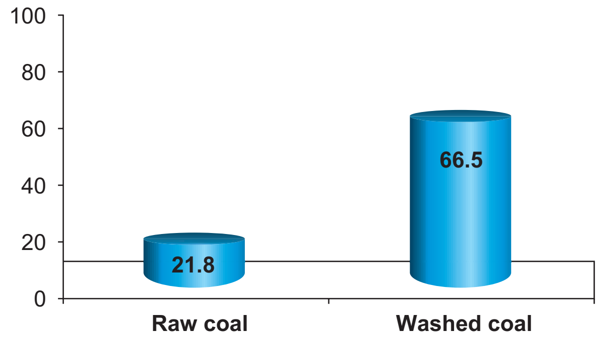
Adjusted EBITDA (million USD)



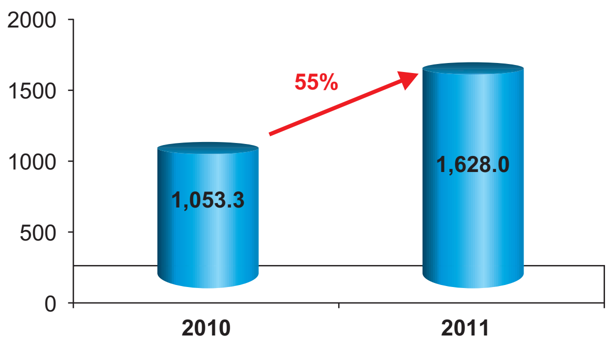
Average selling price in 2011 (USD/t)



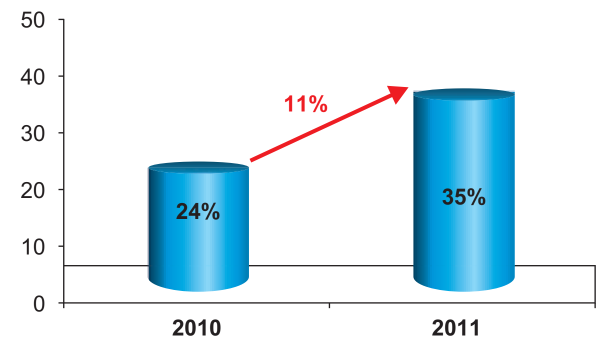
Adjusted EBITDA expansion in 2011 (USD/t)



Total assets (million USD)



Gearing ratio



Dear Shareholders,

The year of 2011 marks a significant milestone for Mongolian Mining Corporation (**"MMC"**, or the **"Company"**) in its pursuit of becoming one of the leading mining companies in the region. With the completion of a series of strategically planned expansion projects, we have successfully created a fully-fledged and integrated coal mining, processing, transportation and marketing platform to make us Mongolia's largest producer of coking coal and sole exporter of washed coking coal.

We take pride in having exceeded our annual production target of run-of-mine (**"ROM"**) coal at the Ukhaa Khudag (**"UHG"**) deposit, with production reaching 7.1 million tonnes for the year, an increase of 82.1% from the production of 3.9 million tonnes in 2010. Building on this rapid year-on-year growth, we fully expect to achieve our ROM coal production target of approximately 10.7 million tonnes in 2012.

To further boost our production output in the long run, on 1 June 2011, we successfully completed the acquisition of the entire issued share capital of Baruun Naran Limited, formerly QGX Coal Limited (**"QGX"**), which holds the mining license for the BN coking coal mine (**"BN mine"**) through our wholly-owned subsidiary. In addition to being strategically located adjacent to the UHG deposit, this acquisition is significant as it allows us to control coking coal assets at an advanced stage of development. We expect to commence the operations of the second mine at the Baruun Naran deposit (**"BN deposit"**) with the target of approximately 1.0 million tonnes of ROM coal production in 2012. Riding on the expanded resource and reserve base and synergy created with existing UHG deposit, this acquisition enables us to transform from a single mine operation to a multiple asset business platform, driving us to extend our existing footprint in Mongolia and solidify the Company's position as Mongolia's leading coking coal miner.

Despite actively engaging in the expansion of our production output, we have not wavered from our commitment to ensuring the quality of the products we deliver. In 2011, we pushed forward with the enhancement of our infrastructure so as to further facilitate our production and sales initiatives. On 11 June 2011, the first phase of our coal handling and preparation plant (**"CHPP"**) was successfully commissioned by Mongolian governmental authorities. The CHPP – which utilizes modern equipment and is the first of its kind in Mongolia – features an annual processing capacity of 5.0 million tonnes. With our ongoing process of training our personnel and the continuous optimization of our CHPP operations, the expansion of coal processing capacity was progressed as scheduled with two more phases, each adding 5.0 million tonnes. While the commercial operation of the second phase is expected to commence after its commissioning in the first quarter of 2012, the third phase is currently under construction and is slated for completion by the end of 2012. When launched, it will boost our annual processing capacity even further to 15 million tonnes. We believe the operation of the CHPP will help to enhance our profitability and positioning in the market, as well as to set the benchmark for the industry standard.

The coal processing operation is even more significant for our business development as it is backed by the Government of Mongolia's policies to promote the growth of the country's value-added production in its mining and mineral processing industries. An amendment to the 2006 Minerals Law, effective 1 January 2011, introduced a progressive surtax royalty rate that levies progressively lower rates according to the degree that minerals are processed. In addition to a flat-rate royalty of 5%, processed coal is subject to a progressive royalty rate of 1% to 3% with a threshold price of USD100 per tonne, compared to a higher progressive royalty rate of 1% to 5% with a lower threshold price of USD25 per tonne of ROM coal. Being a producer of processed coal, MMC enjoys a low progressive royalty rate for washed coal that averaged 2% in 2011.

During the year under review, we enhanced our facilities and transportation infrastructure so as to support the rapid growth of our business and to boost our coal transportation capacity. Our 3x6 megawatt (**"MW"**) on-site power plant at the UHG mine was completed in September 2011 and became fully operational in October 2011. The power plant supplies all the power consumption needs at our UHG mine, including the three phases of the CHPP. We also completed and commenced operation of the initial stage of a water supply facility with a capacity of 117 liters per second in the second quarter of 2011, and started the design work for the expansion of this facility by an additional 100 liters per second in the second half of the year to further support our CHPP operation. The paved road between our UHG coal mine and the Gashuun Sukhait border-crossing (**"GS"**) has also been launched for operation. It is designed to accommodate a daily traffic density of up to 2,000 trucks and an annual throughput capacity of 18 million tonnes of coal transportation from the UHG coal mine to GS. We believe that the paved road will boost the capacity and improve the reliability of the Company's coal transportation operation while also reducing overall coal transportation costs.

We continued to receive strong support from our customers in 2011. As China continued to be the world's largest steel producer and coking coal consumer, we further strengthened our customer relations and expanded our customer base there. Leveraging our strategic geographical location in close proximity to major steel producing provinces in China, we successfully secured cooperation with a number of important end-user customers during the year under review, including some of China's largest steel mills and coke makers, such as Hangzhou Cogeneration Import and Export Company, Shenhua Group Corporation Limited and the Kailuan Group.

Large-scale blast furnace technology has become an inevitable choice for China's steel making industry due to its lower levels of carbon emissions, lower production costs and higher levels of production efficiency. In view of this new trend, calorific value and coke characteristics have become the most important measures in choosing coking coal products. Therefore, we see boundless potential for our quality hard coking coal products. At the same time, we have also extended our marketing efforts and explored logistics and marketing opportunities in the seaborne market, and have made initial trial shipments to Europe, Japan and India.

While we strive to create the maximum value for our shareholders through our business developments, we are also steadfastly committed to undertaking responsible mining practices and sustainable, long-term economic and social development. Having stayed true to our Sustainable Development Policy and Corporate Social Responsibility Policy during the year under review, we will continue to maintain high standards in protecting human health and the environment, and to work closely with local communities so as to create long-term value for the communities in which we operate as well as to the economy of Mongolia as a whole.

Looking ahead, we are confident about the positive outlook for demand from China as well as for coal prices. Also, Mongolia's continued economic growth, expected to exceed 15% in 2012, and coal export growth, expected to increase to nearly 30 million tonnes in 2012, will both facilitate MMC's expansion. Moreover, together with the improved efficiency in our transportation infrastructure and greater economies of scale in our operations, we expect our profit margin to continue to improve. With our established and comprehensive platform supported by an expanded resources base and production capacity, we remain committed to further expanding our coking coal mining business and so further enhancing value for the Company's shareholders.

On behalf of the Board, I would like to express my sincere gratitude for the long-term support of our shareholders. We would also like to thank our staff at MMC for the dedication and commitment they have shown in swiftly implementing our growth and development strategies.

Odjargal Jambaljamts
Chairman

6 March 2012

BUSINESS REVIEW

Overview

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

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

The CHPP operations enables the Company to produce and sell washed coking coal products under the Company's brand names, reduce transportation and logistics costs and boost its competitiveness in the international market by expanding its end-user customer base. Moreover, the significance of this project is driven higher as the Mongolian Government has implemented a series of policies to further promote the growth of the mining and minerals processing industry in the country aiming to encourage value-added production.

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

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

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

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

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

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

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

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

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

The profit attributable to equity shareholders of the Company for 2011 was approximately USD119.1 million, representing an increase of approximately USD59.0 million, or approximately 98.0%[Note] as compared to approximately USD60.1 million for 2010.

Note: The figures used to calculate the percentage increase of the profit attributable to equity shareholders of the Company are rounded to the nearest thousands.

Operating Environment

Mongolian coal exports and Chinese coal imports dynamics

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

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

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

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

China's coking coal import volumes by country of origin

(in million tonnes, source: China Coal Resource)

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

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

Legal framework

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

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

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

Fuel Supply Situation in Mongolia

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

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

Coal Resources, Reserves and Exploration Activities

Ukhaa Khudag deposit

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

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

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

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

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

Baruun Naran deposit

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

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

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

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

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

Mine Production

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

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

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

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

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

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

Coal Handling and Preparation Plant

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




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

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

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

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

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

Power Plant

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

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

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

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

Water Supply Facility

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

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

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

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

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

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

Marketing and Sales

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

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

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

At the same time, the Company has taken steps to explore alternative access to seaborne market. The logistics arrangements were explored for washed hard coking coal tracking from UHG to Choir station and shipped further to customers via railway. The sales contract has been signed under Free Carrier (**"FCA"**) Choir terms for USD155 per tonne with ThyssenKrupp MinEnergy GmbH for initial trial shipment and delivery of 48 wagons washed hard coking coal to European market. In addition, the Company is developing potential access to seaborne market via Russian Far East ports such as delivering washed hard coking coal under Free on Board (**"FOB"**) Nakhodka terms and expanding its relations with steelmakers including Sumitomo Metal Industries.

Historically, Chinese hard coking coal (**"HCC"**) price has been less volatile than Australian seaborne price. It is also only moderately correlated to the Australian seaborne price. The lower price volatility of Chinese HCC price is due to the substantial and relatively stable coking coal demand in China, whilst the Australian seaborne market is much more susceptible to global macroeconomic shocks. Since the beginning of 2011, Chinese HCC price has been steadily fluctuating in range of RMB1,500 to 1,600 per tonne (17% VAT inclusive, Cost and Freight (**"CFR"**) Tangshan), despite the sharp increase in the first half of 2011 and following drop in Australian HCC price. As most of Mongolian coal production is exported to China, and Mongolian coal constitutes a majority and an increasing portion of Chinese coking coal imports, it is expected that Mongolian coking coal prices should be driven by Chinese coal market dynamics and will be largely independent of Australian seaborne price movements when Australian prices are above Chinese coal prices.

Transportation and Logistics

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

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

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

In 2011, the Group's unit transportation and logistics cost associated with coal sold was approximately USD22.7 and USD1.9 per tonne, respectively.

Paved Road

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

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

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

Customs Clearance and Border Crossing

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

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

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

OUTLOOK AND BUSINESS STRATEGIES IN 2012

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

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

The Company believes that these efforts will significantly increase its market recognition and competitiveness. The Company plans to sell its high quality coking coal in China pursuant to long-term agreements with a diversified group of end-users, including iron and steel mills and coke and chemical plants. The Company will look at strategic long-term partnerships to expand its relations and presence in China.

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

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

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

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

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

Finally, to support its business expansion, the Company will continue to look for opportunities to improve its transport and logistics infrastructure. The Company will explore opportunities to acquire additional resources, primarily coking coal and iron ore assets.

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

FINANCIAL REVIEW

Revenue

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

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

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

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

Cost of Revenue

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

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

Gross Profit and Gross Profit Margin

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

Administrative Expenses

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

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

Notes:

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

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

The Group's administrative expenses increased from approximately USD38.7 million in 2010 to approximately USD60.3 million in 2011. The Group's higher administrative expenses were mainly due to (i) an increase in headcount; (ii) management fee increases related to the Group's higher EBITDA; (iii) costs related to the Group's acquisition of the BN deposit; (iv) allowance for the doubtful debts and (v) geology exploration work conducted at its UHG deposit.

Net Finance Income

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

Income Tax Expenses

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

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

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

Notes:

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

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

Profit for the Year

As a result of the foregoing, the Group's profit attributable to its equity shareholders increased by approximately 98.0% in 2011, from approximately USD60.1 million in 2010 to approximately USD119.1 million in 2011, representing net profit margin of approximately 21.9% in 2011 (2010: 21.7%).

Liquidity and Capital Resources

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

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

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

Indebtedness

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

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

As of 31 December 2011, the Group had approximately USD561.7 million of outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), (ii) USD400 million facility agreement with Standard Bank, (iii) USD85 million Convertible Bonds and (iv) USD13 million line of credit with Khan Bank of Mongolia (**"Khan Bank"**). The Group is going to enter into a facilities agreement of up to USD300 million with the Standard Bank as original lender to provide finance for general corporate purposes and working capital need.

The EBRD, FMO and DEG Loan Agreements bear interest semi-annually at the rate of six-month LIBOR plus a margin of 4.75% – 6.85% per annum. Pursuant to the Amendment and Consent Agreement dated 5 March 2012, the margin per annum is reduced 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 in two equal installments on 15 May 2015 and 15 May 2016, respectively. As of 31 December 2011, the outstanding principal amount was USD169.1 million.

The USD85 million Convertible Bonds will mature on 1 December 2012. The maturity date is extendable to 1 March 2013 subject to a reserve adjustment. 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.

Capital Commitments and Capital Expenditures

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

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

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

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

Note: Others include capital expenditures for explorations and studies.

Credit Risk

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

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

With regard to trade receivables, the Group has established a credit management committee which comprises the senior management team members of the Group. The committee has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the committee evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. At the end of the reporting period, the Group believes that adequate allowance for doubtful debts has been made in the consolidated financial statements and the Group considers that the Group's credit risk 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 an ongoing basis.

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

Foreign Exchange Risk

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

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

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

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

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

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

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

Contingent Liabilities

As at 31 December 2011, the Group has a contingent liability in respect of the consideration adjustments for the Acquisition which may arise from the Reserve Adjustment and the Royalty Provision. Details of the Reserve Adjustment and the Royalty Provision are provided in Note 36.

Use of Net proceeds from the Company's initial public offering ("IPO")

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

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

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

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

– approximately USD57 million to working capital needs.

Operating Lease Commitments

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

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 recognised at its fair value of USD10,292,000 and the attributable transaction cost of USD118,000 were charged to the profit or loss for the year ended 31 December 2011. The liability component was initially recognised at amortised cost of USD79,133,000, after taking into account attributable transaction costs of USD915,000.

The Company has a share option scheme which was adopted on 17 September 2010 whereby the Board is authorised, 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 Group. Under the share option scheme, the Company granted 3,000,000 and 32,200,000 options to directors and employees on 12 October 2011, respectively. The exercise price is HKD6.66. The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. For the year ended 31 December 2011, USD1.6 million was recognised in administrative expenses and capital reserve in relation to the equity-settled share-based transactions.

Dividend

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

Employees

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

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Company has entered into the following connected transactions in the ordinary course of its business with certain of its connected persons for the year ended 31 December 2011. Set out below is a summary of the connected transactions entered by the Company in compliance with the Listing Rules, as inclusive of related party transactions fall under the definition of "connected transaction" and "continuing connected transactions".

Non-exempt connected transactions

The following non-exempt connected transactions were recorded for the year ended 31 December 2011:

(1) Agreement for Procurement and Installation of Chemical Substances and Equipment

Principal Terms

On 14 March 2011, Ukhaa Khudag Water Supply LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with Medimpex International LLC, a wholly-owned subsidiary of MCS Holding LLC, to purchase from Medimpex International LLC high qualified reagents and laboratorial equipment for its chemical laboratory at the Group's Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield (the **"UHG deposit"**).

Connected Person

Medimpex International LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, Medimpex International LLC is a connected person of the Company.

Consideration

The total consideration payable by Ukhaa Khudag Water Supply LLC is MNT193,102,350 (equivalent to approximately USD155,979) and will be made in four installments upon signing of the agreement, within 10 days upon issuance of acceptance certificate by Ukhaa Khudag Water Supply LLC after receiving the equipment and goods, and after fully completed works by Medimpex International LLC, respectively. Retention of 5% of the total consideration will be paid to Medimpex International LLC after expiry of the warranty for one year from issuance of acceptance certificate by Ukhaa Khudag Water Supply LLC.

A payment of MNT133,793,870 (equivalent to approximately USD105,722) was made by Ukhaa Khudag Water Supply LLC for the year ended 31 December 2011.

The consideration was determined on an arm's length basis between Ukhaa Khudag Water Supply LLC and Medimpex International LLC following a tender whereby Medimpex International LLC was selected as the supplier.

(2) Purchase agreement for spare parts of operator interface system of the coal handling and preparation plant constructed ("CHPP") at the UHG deposit

Principal Terms

On 14 March 2011, Enrestechnology LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS Electronics LLC, a subsidiary of MCS Holding LLC to purchase from MCS Electronics LLC spare parts of operation interface system (**"OIS"**) equipment installed with CHPP at the UHG deposit.

Connected Person

MCS Electronics LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS Electronics LLC is a connected person of the Company.

Consideration

The total consideration payable by Enrestechnology LLC is MNT86,410,490 (equivalent to approximately USD69,798) and one half of the total consideration is payable upon placement of the purchase order and the remaining half upon receipt of delivery readiness notice including all documents necessary for customs clearance.

A payment of MNT82,891,222 (equivalent to approximately USD65,499) was made by Enrestechnology LLC for the year ended 31 December 2011.

The consideration was determined after arm's length negotiation between the parties to the agreement.

(3) Supplemental agreement to the service agreement for supervision and communication with contractor of CHPP construction representing employer

Principal Terms

On 14 March 2011, Enrestechnology LLC, an indirect wholly-owned subsidiary of the Company, as the principal and assignee, and Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, as the assignor, entered into a supplemental agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby (i) Energy Resources LLC agreed to assign its rights and obligations under the service agreement dated 8 April 2010 between Energy Resources LLC and MCS International LLC (the "Service Agreement") to Enrestechnology LLC; (ii) Enrestechnology LLC and MCS International LLC also agreed to extend the tenor of the Service Agreement; and (iii) MCS International LLC agreed to continue to provide communication and supervision services to the Company in connection with the expansion of the second phase of the CHPP.

Connected Person

MCS International LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration under the Service Agreement is MNT823,990,725 (equivalent to approximately USD665,582). The consideration is payable to MCS International LLC on a monthly basis.

A payment of MNT691,085,290 (equivalent to approximately USD546,084) was made by Enrestechnology LLC and Energy Resources LLC for the year ended 31 December 2011.

The consideration was determined after arm's length basis between the parties to the Service Agreement.

(4) Supplemental agreement to the purchase and installation agreement for telemetry system facilities

Principal Terms

On 14 March 2011, Ukhaa Khudag Water Supply LLC, an indirect wholly-owned subsidiary of the Company, entered into a supplemental agreement with MCS Electronics LLC, a subsidiary of MCS Holding LLC, whereby MCS Electronics LLC and Ukhaa Khudag Water Supply LLC agreed to extend the tenor of the agreement dated 19 March 2010 between Ukhaa Khudag Water Supply LLC and MCS Electronics LLC relating to the purchase of equipment and provision of installation work (the "Purchase and Installation Agreement"), and to change the scope of work by replacing some facilities according to the Company's demand for steady supply of increased amount of water to be used in the CHPP.

Connected Person

MCS Electronics LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS Electronics LLC is a connected person of the Company.

Consideration

The consideration payable by Ukhaa Khudag Water Supply LLC is MNT430,267,151 (equivalent to approximately USD347,550) and will be made in three installments upon signing of the supplemental agreement, upon completion of technical commissioning of the water supply telemetry system of Ukhaa Khudag Water Supply LLC, and after 120 days from the date of commissioning of all the work under the Purchase and Installation Agreement, respectively.

A payment of MNT429,298,543 (equivalent to approximately USD339,224) was made by Ukhaa Khudag Water Supply LLC for the year ended 31 December 2011.

The consideration was determined on an arm's length basis between Ukhaa Khudag Water Supply LLC and MCS Electronics LLC.

(5) *Pipelines and Supporting Facilities Construction Agreement*

Principal Terms

On 9 May 2011, United Power LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to construct pipelines and supporting facilities such as, water pump station, domestic water and waste water pipelines and outdoor heating pipelines for workshops, staff quarters and other facilities etc., for operation of the power plant constructed at the UHG deposit.

Connected Person

MCS International LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The consideration payable by United Power LLC is USD9,626,108 and will be made in five installments upon signing of the agreement, upon completion of 50%, 70%, 90% and full completion of the construction works, respectively.

A payment of USD8,661,804 was made by United Power LLC for the year ended 31 December 2011.

The consideration was determined on an arm's length basis between United Power LLC and MCS International LLC.

(6) *CHP concrete installation agreement*

Principal Terms

On 9 May 2011, Enrestechnology LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS Property LLC, a subsidiary of MCS Holding LLC, whereby MCS Property LLC agreed to execute works associated with the preparation and pouring of structural concrete foundations for the structures of phase 2 of Coal Handling Plant constructed at the UHG deposit (**"CHP"**) including foundation modification, plant feed conveyer, product coal transfer station, extension foundation, rom dump station, magnet station, raw coal sizing station, raw coal conveyor, reject bin and sump and CHP floor etc.

Connected Person

MCS Property LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS Property LLC is a connected person of the Company.

Consideration

The consideration payable by Enrestechnology LLC is MNT5,196,355,883 (equivalent to approximately USD4,136,963) and will be made 30% upon signing of the agreement, 65% upon receipt by Enrestechnology LLC of invoice on progress payment based on the inspection and measurement to be done on the 20th of each month and 5% after demobilization and full completion of the contract works, respectively.

A payment of MNT4,723,959,895 (equivalent to approximately USD3,732,792) was made by Enrestechnology LLC for the year ended 31 December 2011.

The consideration was determined by the tendering proposal submitted by MCS Property LLC.

(7) Electrical installation agreement

Principal Terms

On 9 May 2011, Enrestechnology LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to execute the design, supply, installation and testing of high voltage lines and 35kV underground distribution power cables for the construction of phase 2 of CHPP and supply electrical ancillaries and items required to provide a fully functional high voltage electrical system.

Connected Person

MCS International LLC is a subsidiary of MCS Holding LLC [Note] which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The consideration payable by Enrestechnology LLC is MNT1,493,735,230 (equivalent to approximately USD1,189,204) and will be made 30% upon signing of the agreement, 65% upon receipt by Enrestechnology LLC of invoice on progress payment based on the inspection and measurement to be done on the 20th of each month and 5% after demobilization and full completion of the contract works, respectively.

A payment of MNT1,441,170,507 (equivalent to approximately USD1,138,788) was made by Enrestechnology LLC for the year ended 31 December 2011.

The consideration was determined by the tendering proposal submitted by MCS International LLC.

(8) Sale and Purchase Agreement

Principal Terms

On 22 July 2011, Enrestechnology LLC, Energy Resources LLC, Transgobi LLC and Ukhaa Khudag Water Supply LLC, indirect wholly-owned subsidiaries of the Company, entered into an agreement with Uniservice Solution LLC, a subsidiary of MCS Holding LLC, whereby each of Enrestechnology LLC, Energy Resources LLC, Transgobi LLC and Ukhaa Khudag Water Supply LLC conditionally agreed to sell their movable assets at the camp sites located at the UHG deposit and the Group's Tsagaan Khad camp including tools, ger, container apartment, air conditions, heaters, beds, cabinets, tables, television, washing machines, dryers, refrigerators, other kitchen and coffee shop furniture, basketball board, tennis table, treadmill, bodybuilding equipment, other sport hall and gym equipment, trolley garbage truck, containers, water tanks and other equipment which are being used for provision of office and camp supporting services, to Uniservice Solution LLC.

Connected Person

Uniservice Solution LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, Uniservice Solution LLC is a connected person of the Company.

Consideration

The consideration payable by Uniservice Solution LLC is MNT4,304,068,677 (equivalent to approximately USD3,455,279) and the full amount of the consideration was agreed to be made within 45 days from execution of the agreement.

A payment of MNT3,060,455,753 (equivalent to approximately USD2,418,319) was made by Uniservice Solution LLC for the year ended 31 December 2011.

The consideration was determined on arm's length basis between the Group and Uniservice Solution LLC based on the book value of the assets less depreciation and taking into consideration the current condition of the assets.

Continuing connected transactions

The following continuing connected transactions (the **"CCTs"**) were recorded for the year ended 31 December 2011:

(1) Rental of equipment from MCS Electronics LLC

Transactions dates:

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

Principal Terms

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

Connected Person

MCS Electronics LLC is a subsidiary of MCS Holding LLC [(Note)] which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS Electronics LLC is a connected person of the Company.

Consideration

The rental of office equipment is charged at a monthly rate on a per unit basis to be paid on a monthly basis. Estimated annual cap for the agreements is USD630,199 for the year ended 31 December 2011.

Actual payment of USD364,839 was made by the Company for the year ended 31 December 2011 under the agreements.

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

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	MCS Holding LLC	2008.02.01	2012.01.01
2.	Energy Resources LLC	MCS Electronics LLC	2009.12.07	2012.12.07

Principal Terms

Prior to IPO, Energy Resources LLC, subsidiary of the Company, has entered into agreements in relation to the information technology services with MCS Holding LLC and its subsidiary, MCS Electronics LLC, pursuant to which such contractors agreed to provide to Energy Resources LLC: (i) management services and (ii) job executing and equipment renting, respectively. The service agreements with MCS Holding LLC was ended on 1 January 2012 and the service agreement with MCS Electronics LLC will be ending on 7 December 2012.

Connected Person

MCS Electronics LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS Electronics LLC and MCS Holding LLC are connected persons of the Company.

Consideration

The fees for the services payable by the Company under the agreement with MCS Electronics LLC in relation to the information technology services were determined by reference to market rate and will be paid on a monthly basis. Under the management agreement between Energy Resources LLC and MCS Holding LLC, the Company will pay MCS Holding LLC a monthly fee of USD70,000 together with a percentage of EBITDA set as 5.5% in 2011.

Estimated annual cap for the agreements mentioned above is USD17,396,851 for the year ended 31 December 2011. Actual payment of USD10,691,301 was made by the Company for the year ended 31 December 2011 under those agreements.

(3) *Supply of goods and services by MCS group - office and camp sites supporting services*

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	Uniservice Solution LLC	2011.05.23	2011.08.31
2.	Mongolian Mining Corporation	Uniservice Solution LLC	2011.08.31	2013.12.31

Principal Terms

On 23 May 2011, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an office and camp supporting service agreement (the **"Office and Camp Supporting Service Agreement"**) with Uniservice Solution LLC, a subsidiary of MCS Holding LLC, pursuant to which Uniservice Solution LLC agreed to provide to the Company (i) cleaning and repairing services for offices at Ulaanbaatar and objects located in long distance from the camp site; (ii) cafeteria, laundry and cleaning services for employees' camp site located at the UHG deposit and Tsagaan Khad port which is located at the Mongolia-China border (**"TKH"**); (iii) management services of camp site at the UHG deposit and TKH; (iv) receptionist and dress saving services for the UB offices; and (v) security services for camp site, office and mining deposit at the UHG deposit and TKH for a period of 4 months commencing from 23 May 2011.

On 22 July 2011, the Group entered into a service agreement (the **"New Office and Camp Supporting Service Agreement"**) with Uniservice Solution LLC, a subsidiary of MCS Holding LLC, pursuant to which Uniservice Solution LLC conditionally agreed to provide office and camp supporting services to the Group for a period commencing from 31 August 2011 to 31 December 2013. Upon this agreement becomes effective, the Office and Camp Supporting Service Agreement dated 23 May 2011 was terminated.

Connected Person

Uniservice Solution LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, Uniservice Solution LLC is a connected person of the Company.

Consideration

Estimated annual cap for the Office and Camp Supporting Service Agreement is MNT9,382,756,735 (equivalent to approximately USD7,681,717) and was agreed to be paid on a monthly basis.

Actual payment of MNT7,513,786,010 (equivalent to approximately USD5,937,264) was made by Energy Resources LLC for the year ended 31 December 2011 under the Office and Camp Supporting Service Agreement.

Estimated annual cap for the New Office and Camp Supporting Service Agreement is USD17,045,544 for the year ended 31 December 2011 and is payable on a monthly basis.

Actual payment of MNT4,479,809,023 (equivalent to approximately USD3,539,868) was made by the Group for the year ended 31 December 2011 under the New Office and Camp Supporting Service Agreement.

The consideration payable to Uniservice Solution LLC under the agreements was determined based on the size of the location where services are to be provided and the number of employees utilizing the camp site and the temporary ger camp located at the UHG deposit, Baruun Naran deposit and TKH. The consideration was also determined on an arm's length basis between the Group and Uniservice Solution LLC.

(4) Construction supporting and ancillary supporting services

Principal Terms

Prior to IPO, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, has entered into an agreement with MCS Property LLC, a subsidiary of MCS Holding LLC, pursuant to which MCS Property LLC agreed to supply rubble for construction of UHG coal mining construction. The agreement commenced on 31 May 2010 and is ending on 31 May 2012.

Connected Person

MCS Property LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS Property LLC is a connected person of the Company.

Consideration

The fees for the services payable by the Company under the agreement were determined by reference to the market rate. The Company estimated that the total contract sum payable under the agreement will be approximately USD190,659 for the year ended 31 December 2011. Actual payment of USD155,284 was made by the Company for the year ended 31 December 2011 under the agreement.

(5) *Power and heat generation, distribution and management agreement*

Principal Terms

On 9 May 2011, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including operating management of the UHG Power Plant, electricity distribution services, and heat distribution services to the Group for an initial period of 18 months commencing from 9 May 2011.

Connected Person

MCS International LLC is a subsidiary of MCS Holding LLC (Note) which indirectly owns 100% of MCS Mining Group Limited, a substantial shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable to MCS International LLC under this agreement for the financial year ended 2011 is MNT12,072,719,146 (equivalent to approximately USD9,611,425) and is payable to MCS International LLC on a monthly basis.

Actual payment of MNT10,530,917,506 (equivalent to approximately USD8,321,350) was made by the Company for the year ended 31 December 2011.

The consideration was determined on an arm's length basis between Energy Resources LLC and MCS International LLC.

(6) *Insurance from the Petrovis Group*

Transactions dates:

No.	Company	Contractor	Effective date	Expiration date
1.	Energy Resources LLC	Tenger Daatgal LLC	2010.01.07	2011.01.06
2.	Energy Resources LLC	Tenger Daatgal LLC	2010.04.16	2011.04.15
3.	Energy Resources LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
4.	Energy Resources LLC	Tenger Daatgal LLC	2010.06.01	2011.05.31
5.	Transgobi LLC	Tenger Daatgal LLC	2010.03.01	2011.02.28
6.	Transgobi LLC	Tenger Daatgal LLC	2010.03.01	2011.02.28
7.	Transgobi LLC	Tenger Daatgal LLC	2010.02.22	2011.02.28
8.	Ukhaa Khudag Water Supply LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
9.	United Power LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
10.	Enrestechnology LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30
11.	Energy Resources Mining LLC	Tenger Daatgal LLC	2010.05.01	2011.04.30

Principal Terms

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

Connected Person

Tenger Daatgal LLC is a subsidiary of Petrovis LLC which owns 100% of Petrovis Resources Inc., a substantial shareholder of the Company. As such, Tenger Daatgal LLC is a connected person of the Company.

Consideration

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

The Company estimated that the total premium payable under the agreements will be approximately USD329,268 for the year ended 31 December 2011. Actual payment of USD189,208 was made by the Company for the year ended 31 December 2011 under the above agreements.

(7) Supply of goods by Petrovis Group

Principal Terms

On 8 June 2010, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, has entered into a supply of fuel agreement with Gobi Oil LLC, a former joint venture which was owned as to 50% by Petrovis Group and 50% by Shunkhlai Group, pursuant to which Gobi Oil LLC agreed to provide petroleum products to various subsidiaries of the Company until 7 June 2011.

Connected Person

Gobi Oil LLC is an associate of each of Petrovis Resources Inc., a substantial shareholder of the Company, Mr. Batsaikhan Purev and Dr. Oyungerel Janchiv, each a non-executive Director. As such, Gobi Oil LLC is a connected person of the Company. Gobi Oil LLC is no longer a connected person of the Company from 21 June 2011.

Consideration

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

The Company estimated that the total purchases of fuel from Gobi Oil LLC will amount to approximately USD22,730,504 for the year ended 31 December 2011. Actual payment of USD22,730,504 was made by the Company for the year ended 31 December 2011 under this agreement.

(8) Purchase of fuel agreement

Principal Terms

On 23 May 2011, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with Gobi Oil LLC, a former joint venture which was owned as to 50% by Petrovis Group and 50% by Shunkhlai Group, pursuant to which Gobi Oil LLC agreed to supply fuel products including diesel fuel, oil, lubricating materials to the Group on an accrual basis through its gas stations and dispenser trucks for a period commencing from 23 May 2011 to 15 July 2011.

Connected Person

Gobi Oil LLC is an associate of each of Petrovis Resources Inc., a substantial shareholder of the Company, Mr. Batsaikhan Purev and Dr. Oyungerel Janchiv, each a non-executive Director. As such, Gobi Oil LLC is a connected person of the Company. Gobi Oil LLC is no longer a connected person of the Company from 21 June 2011.

Consideration

The total consideration payable by Energy Resources LLC under this agreement is USD9,500,000 and is payable to Gobi Oil LLC on a monthly basis based on monthly fuel consumption of the Group.

Actual payment of USD3,848,821 was made by the Company as of 21 June 2011 under this agreement.

The consideration was determined by market rate on an arm's length basis between Energy Resources LLC and Gobi Oil LLC.

(9) *Fuel Supply Agreement*

Principal Terms

On 22 July 2011, the Company entered into a fuel supply agreement with NIC LLC, a wholly-owned subsidiary of Petrovis LLC, pursuant to which NIC LLC conditionally agreed to supply fuel products including diesel fuel and other types of fuel to the Group. It was also agreed that NIC may sub-contract its obligations under the agreement to Sunkhlai Co. Ltd and Gobi Oil LLC to supply fuel products to the Group in compliance with the terms and conditions of the agreement until 31 December 2013.

Connected Person

NIC LLC is an associate of each of Petrovis Resources Inc., a substantial shareholder of the Company, and Dr. Oyungerel Janchiv, a non-executive Director. Shunkhlai Co. Ltd, a sub-contractor of NIC, is an associate of Mr. Batsaikhan Purev, a non-executive Director. Gobi Oil LLC, a sub-contractor of NIC, is no longer a connected person of the Company from 21 June 2011. As such, each of NIC LLC and Shunkhlai Co. Ltd is a connected person of the Company.

Consideration

The estimated annual cap for the agreement is USD88,612,821 for the year ended 31 December 2011 and is payable to NIC LLC on a monthly basis.

Actual payment of USD31,049,725 was made by the Company for the year ended 31 December 2011 under the agreement.

The consideration was determined by the tendering proposal submitted by NIC LLC which is based on market rate of fuel products.

The independent non-executive Directors reviewed the CCTs of the Group pursuant to Rule 14A.37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

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

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

The Board has received a letter from the auditor of the Company stating that in respect of disclosed CCTs:

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

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

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

(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (9), nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the maximum aggregate annual value disclosed in the announcements made by the Company in respect of each of the disclosed CCTs.

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

Note: MCS Holding LLC has became an associate of MCS Mining Group Limited since 15 February 2012. As at the date of this annual report, MCS Holding LLC is an indirect wholly-owned subsidiary of MCS (Mongolia) Limited, a substantial shareholder of the Company.

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

Our drive to develop sustainably is best summarized by the four key principles that we stand by: first, the benefits of any economic activity must appropriately account for their respective social and environmental consequences; second, when utilizing resources, the needs and expectations of future generations must be adequately considered; third, the government, our business and other relevant segments of society must act cohesively to balance these needs; and fourth, continuing to employ strict corporate governance is essential for us to successfully meet both our business and sustainable development objectives.

In 2011, the Company adopted two major policies, namely, the Sustainable Development (**"SD"**) Policy and Corporate Social Responsibility (**"CSR"**) Policy, which clearly define our strong commitment and well-thought-out approach towards sustainability.

At MMC, we engage a long-term view with regard to sustainability. As one of Mongolia's leading coal producers, we hold our business practices particularly accountable for the social, economic and environmental impacts that they have and we work hard to ensure that we more than fulfill our responsibilities in each of these areas.

We strongly believe that developing our business both soundly and sustainably is paramount to the future of the Company, our employees and the communities in which we operate. In fact, by contributing to sustainable development as we have done and will continue to do, we are not only creating value but also reducing operational and financial risks, factors that will enable us to deliver an even more consistent performance in future.

Forced labour

As defined by International Finance Corporation (**"IFC"**), "forced and compulsory labour" is all work or service, not voluntarily performed, which is extracted from an individual under threat of force or penalty. This includes bonded or indentured labour or similar coerced labour arrangements. The Company does not engage in any type of forced or compulsory labour, validated by the fact that no incidents of forced or compulsory labour were reported in any part of our operations in 2011.

Child labour

The IFC defines "child labour" as the employment of children that is economically exploitive, likely to be hazardous or to interfere with the child's education, or likely to be harmful to the child's health or physical, mental, spiritual, moral or social development.

MMC does not knowingly employ a person who is under the legal age of employment, or where the employment would contravene the generally accepted definition of child labour. To the best of our knowledge, we employ people aged 18 or older, and the Company and its subsidiaries have age records of all our employees.

To reiterate, MMC's Sustainable Development Policy upholds the elimination of all forms of forced or compulsory labour and prohibits any form of child labour. Moreover, we did not find any cases of under-age or forced labour among our employees or contractors during the year under review.

Ethics, transparency and accountability

MMC's commitment to responsible mining is directly aligned with our corporate strategy, thus ensuring that the Company continues to grow consistently while providing lasting benefits to society at large. We have built our business on a reputation for making fair and honest business deals, and are committed not only to fully adhering to this standard but also to always conducting our business with the highest ethical principles in mind.

OUR PEOPLE

As of 31 December 2011, we had a total of 2,177 employees. The majority of our employees have signed employment contracts with us, which detail, among other things, their duties and responsibilities, and remuneration, as well as the grounds for employment termination.

Table 1. Number of employees by branches and subsidiaries

Unit	Function(s)	2010.12.31	2011.12.31
Energy Resources	Headquarters & functional management	155	**196**
Ukhaa Khudag branch	Ukhaa Khudag site & logistics	202	**147**
Energy Resources Mining	Mining operation	358	**637**
Trans Gobi	Coal transportation	207	**717**
Enrestechnology	CHPP operation	48	**123**
Energy Resources Rail	Railway project	13	**13**
Ukhaa Khudag water supply	Water supply	26	**102**
Coal road JV	Gravel road maintenance	5	**2**
Gobi road	Paved road project	15	**91**
Tavantolgoi airport	Airstrip operation	6	**4**
Khangad exploration	Mining operation	–	**145**
	Total	1,161	**2,177**

Table 2. Percentage of local employees

MMC	2010.12.31		2011.12.31	
Percentage of local employees	339	29.2%	**646**	**29.8%**

Table 3. Employee turnover rate

Year-to-date new hires as of 31 Dec 2011	1,651
Year-to-date new terminations by 31 Dec 2011	471
Year-to-date new rotation by 31 Dec 2011	21.8%

Employee Remuneration & Retention Policy

We believe that attracting, retaining and motivating skilled workforce is critical to an enduring business success. Keeping this in mind, our employee remuneration and retention policy aims to ensure equal opportunities for all. It also sets out the following objectives in line with our underlying values and principles:

– to establish a competitive rewards system that attracts, retains and motivates highly skilled individuals;

– to provide detailed feedback that not only critically analyzes employees' contributions but also helps them further develop their skills;

– to establish short and long-term incentive programs that include but are not limited to our equity incentive plan;

– to ensure that remuneration planning continues to be integrated within our business planning processes; and

– to ensure that all employee rewards and performance targets appropriately reflect the competitive market in which we operate, the prevailing economic environment and the performances of peer enterprises.

We will best accomplish the above goals by continuing to conduct annual remuneration reviews that weigh individual performances, the economic environment, specific work requirements and industry comparisons. Our employee-performance auditing will also appropriately valuate individual and team contributions and efforts in achieving the goals and objectives of our business.

FROM HERDING TO HEAVY MACHINERY OPERATION

With the continuous expansion of the mining project, people from all over Mongolia are migrating to work and live in Tsogttsetsii soum. While people from different regions and with different backgrounds are gathering at Ukhaa Khudag sharing their best practices under a common goal, MMC takes pride in the fact that the local population still constitutes about 30% of our total workforce.

In fact, MMC has an advanced simulator-training program specifically designed for local employees through which dozens of young herders have successfully become operators of heavy equipment and machinery. G. Tuvshinbaatar, one of such herder-turned-operator, signed up to work at the Ukhaa Khudag mine back in September 2010. After successfully completing three weeks of on-site training, he joined the Company's mining team with his newly gained experience. With his continued willingness to learn, however, G. Tuvshinbaatar is now one of MMC's most skilled operators of heavy-load dump trucks and also one of our best performers.

Year-on-year, our employee turnover rate reduced from 32.0% in 2010 to 22.1% in 2011. We have addressed recruitment and retention challenges in a number of ways during the year under review:

– the Company salary scheme was updated based on a salary survey conducted among Mongolia's top mining companies;

– the new salary scale and accompanying rewards system were formulated to ensure that they fully comply with Mongolia's Labour Laws; and

– we also introduced a share option scheme to help us attract and retain our employees.

To date, we have successfully maintained good and highly productive working relationships with the vast majority of our employees. In addition, we have not encountered any major difficulties in recruiting and retaining experienced and sought-after staff.

Benefit Schemes

During the year under review, the Company undertook the following steps to help improve and maintain the benefit schemes in place for employees and their families:

– the staff relocation policy was approved (The policy aims to maximize the support provided to employees and their respective families relocating to Tsogttsetsii soum, Umnugobi aimag, and to assist them in adapting to their new environment in the shortest possible time. During the year under review, a total of 180 employees and their respective families moved to Tsogttsetsii soum, of which 55 moved into a new apartment complex constructed by the Company and 125 settled in the "Miners" ger district);

– a new "Muruudul" primary school and kindergarten opened their doors to around 100 children from the relocated families in September 2011;

– as our human resources policy strongly favors employment opportunities for employee spouses and/or other suitable family members, 17 of the relocated spouses had already become employed by the Company and its subsidiaries by the end of 2011; and

– work accidental damage and personal incidental agreement terms were also renewed.

Organizational Development

The Company also undertook the following steps to become more streamlined organizationally:

– a new management structure was approved to better reflect our operational expansion and overall organizational development;

– an Organizational Culture Survey (**"OCS"**) is now being conducted on an annual basis, and an improvement plan based on the most recent OCS is currently under implementation; and

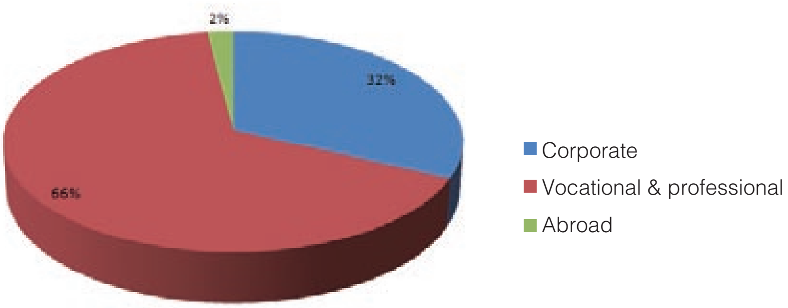
– new employee grievance and functional direction policies are also being developed for approval.

Training & Development

During the year under review, we administered a large number of training programs to enhance career development. We recognize that in today's tight job market, incumbent workers must maintain up-to-date skills to stay competitive. Moreover, to fulfill internal workforce demands, we have also developed and implemented new training and assessment programs in various areas.

In 2011, a total of 1,176 people attended our various training initiatives for almost 46,000 man-hours and 99% of them completed their training successfully. Excluding occupational health and safety training, 354 were enrolled in corporate training, around 800 in vocational or professional training tailored for the specific requirements of the mining industry, and 22 were sent for training overseas.

2011 Training breakdown



Occupational health and safety

MMC is committed to leading the industry in terms of occupational health and safety standards and practices, and strives to create an incident-free work environment at each and every stage of our entire operation. Treating the safety and well-being of our employees as the highest of priorities, we aim to ensure that both international and national safety standards and rules are applied equally stringently for all our employees and contractors.

The following are our key achievements in the area of occupational health and safety in 2011:

– a complete set of 21 safety guidelines was newly developed and implemented to improve our performance in controlling occupational health risks, in particular, ones relating to different forms of exposure;

– during the year under review, none of Mongolia's various safety inspection authorities found any of our operations to be in major breach or non-compliant of their respective safety standards;

– jointly with the State professional inspection authority of Mongolia, the Company organized safety workshops at its Ukhaa Khudag mine for more than 100 employees representing all the mining companies operating in Umnugobi aimag (Besides the workshops, which serve as useful tools to test the effectiveness, practicality and suitability of the safety requirements in place, the Company's safety team is also closely cooperating with various national safety inspection authorities to ensure the countrywide adoption of internationally accepted safety rules and standards);

– a total of 54 workplace safety risk assessments were conducted in 2011 to minimize or eliminate work-related hazards and to increase the awareness of daily safety routines among our employees;

– site safety inspections were carried out on more than 300 workplaces and all identified hazards were investigated to discover and eliminate their root causes;

– workplace safety requirements were further improved to reflect the special features of each individual work assignment and detailed training sessions that highlighted these amendments were conducted on a regular basis; and

– approximately 2,500 employees also underwent site-specific safety training during the year under review.

Table 4. Health and safety data

No	Indicators	Performance 2011
1	Total man-hours worked	9,478,601
2	Fatalities	0
3	Lost time injuries (LTIs)	1.67
4	Legal compliance	100% (and no fines received from any government agencies)
5	Incidences	0.000034
6	Safety induction (number of employees and contractors covered)	5,403

HUMAN RIGHTS

Human rights refer to the fundamental rights of all human beings, without distinction as to race, sex, religion, political opinion, social status or any other characteristics. As we continue to operate – and as the scope of human rights continues to evolve, including aspects such as the rights to receive adequate water and education, and to participate in cultural life – we will continue to improve our ability to best integrate our business practices within global human rights priorities, standards and frameworks.

In this endeavor, we are committed to providing equal opportunities for all of our employees and contractors, and to preventing human rights infringements upon our workforce, including all forms of forced and compulsory labor, child labor, and racial and gender discrimination.

In respecting and supporting the human rights of our employees and the people of our host communities, we are also fully committed to strictly adhering to the United Nations Universal Declaration of Human Rights.

We promote human rights in the following ways:

– for our employees, we always endeavor to maintain a work environment that promotes professional and personal growth, where the rights of other stakeholders are treated with respect;

– we maintain close and active engagement with our host communities based on open dialogue and mutual respect, supporting initiatives that contribute to socioeconomic and environmental development of the region in which we operate, throughout the life cycle of our activities; and

– we also maintain constructive dialogue platforms with various statutory bodies and non-governmental organisations (**"NGOs"**), and cooperate with them closely to ensure that no human rights abuses occur in our operations and the communities in which we operate.

Our employees are also free to exercise freedom of association and freedom of speech. To further facilitate our employees' rights, we operate suggestion boxes at the mine site that allow our employees to express their opinions and to report any breach of ethical conduct and behavior, including any infringement of employment-related rights.

We have established a dedicated human rights task force to oversee the implementation of a comprehensive corporate sustainability policy in terms of upholding all our employees and contractors human rights. Based on the results of Mongolia's first-ever human rights risk assessment, which was conducted in 2010, the task force has developed a human rights program that will address any human rights issues as they arise.

Voluntary Principles on Security and Human Rights

MMC is committed to implementing the Voluntary Principles on Security and Human Rights (**"VPs"**) in our operations. The stated aim of the VPs is "to guide companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms."

In addition to fully complying with the statutory requirement for training of the security personnel, we delivered customized training on human rights and VPs to 100% of the security personnel of our private contractor for the second consecutive year in 2011. The training was jointly conducted with the Center for Human Rights and Development, a national NGO that specializes in human rights issues arising in the mining sector. A total of 100 of our managers and human resources staff also undertook human rights training during the year under review.

We are proud to report that no human rights abuses were identified at any of our operations in 2011. In addition, there were no strikes or lockouts at our operation site. In general, we strongly believe that our exemplary human rights practices help us to minimize the potential of any strike or work slowdown, as well as any other sort of industrial activity that may cause production delays, increase costs or negatively affect our ability to deliver production forecasts.

ENVIRONMENTAL STEWARDSHIP


Maintaining responsible environmental stewardship is another essential stepping-stone to our long-term success. Through effective management practices, we aim to minimize and mitigate our impact on the environment. Moreover, at each and every stage of our operations, we promote the efficient use of resources, the reduction and prevention of pollution, and the enhancement of biodiversity protection.

Specifically, we fulfill our commitment to the environment in the following ways:

– we not only comply with all applicable legislation and regulations but also exceed those requirements where we deem necessary so as to maintain a healthy and pollution free environment for both the present and the future;

– we identify, assess and manage the environmental risks of our activities at all levels of planning and decision making;

– we establish and implement management programs relevant to our environmental risks so as to prevent, reduce or mitigate impacts at all stages of mine exploration and activity;

– we promote the active participation of our employees and contractors in the implementation of our environmental policies, which includes identifying their competency requirements and providing training where appropriate;

– we conduct regular performance reviews with regard to our business practices and also regularly monitor the surrounding environment in which we operate; and

– we also periodically review our environmental management system and operational procedures so as to improve efficiency, minimize waste, prevent pollution and achieve continuous improvement.

Based on the environmental and social impact assessment of the Ukhaa Khudag project, an environmental and social management plan has been developed and serves as one of the project's main documents with regard to appropriate environmental management. Based on this plan in turn, detailed management plans have been developed in specific fields including waste management, water management, and erosion and sediment control. In 2011, we newly developed the Waste Management Plan, Tailings Storage Facility Management Plan and Noise Monitoring Plans. Meanwhile, the Acid Rock Management Plan and Detailed Dust Management Plan were developed for us by independent consulting companies.

Dust mitigation measures

At MMC, managing and reducing dust and other emissions is a top priority. This is because the large amounts of earthworks required for our mine expansion plans, which include waste rock dumps, topsoil stripping, stockpiling, coal stockpiling and coal transportation, generate large quantities of dust and other emissions, which if not properly controlled, could negatively impact the health of our employees, contractors and community members.

To reduce the generation of dust and other similar particulates, the haulage roads at our mine site are regularly sprayed with water. In addition, our coal stockpile at Tsagaan Khad has been fenced with a 10-meter-high special wired fence that reduces wind speed and dust dispersions.

Another source of dust emission is when coal is transported from the mine site to the Gashuun Sukhait border crossing. Previously, the Company used to transport coal by truck on gravel road, which generated excessive amounts of dust in surrounding areas. To solve this issue, we constructed a 245-km paved road, which commenced operation in October 2011. Our emission monitoring since has shown that the level of dust generated on the paved road is almost negligible compared to that of the gravel road. In addition, a 12-km paved road has also been constructed from Tavantolgoi airport to the miners' camp and the mine site.

Fenced Coal stockpile

Paved road from Tavantolgoi airport to the miners' camp

Environmental monitoring

In 2011, state and local government authorities carried out several environmental inspections at the Ukhaa Khudag mine site, from which MMC was not found to be in breach of any national laws, regulations and standards. However, one minor remark was noted on discharge water collection pond, and this issue was immediately rectified.

As a rule, we regularly monitor and measure the impact of our activities on the environment to ensure they are within nationally-accepted levels. Our monitoring activities include biodiversity studies and the monitoring of dust emission, air pollution, erosion groundwater pollution and shallow water pollution.

Seeing the local indigenous population as one of our main stakeholders, MMC makes it a particularly important point to adhere to the principles of transparency with them. Thus, with regard to environmental monitoring, we encourage local people and herders to actively participate. Through these collaborative efforts, locals learn more about our business and environmental-protection activities. The collaborations also help to create open and constructive dialogues between MMC and our local communities. In 2011, 28 locals, including herders and local government officials, took part in our environmental-monitoring activities.

Dust and water monitoring carried out jointly with community members

Environmental protection and rehabilitation

To combat desertification and sand drifting, as well as to give back to the environment, we have established a 15-hectare wind belt area in Tsogttsetsii soum, Umnugobi aimag, in which we planted around 6,500 trees in 2011. The local population has greatly appreciated the project and voluntarily participates in our tree-planting activities, which are set to continue for three more years.

Wind belt area in Tsogttsetsii soum, Umnugobi aimag

We have also been engaging in a collaborative research project with the Mongolian University of Agriculture since 2010 to identify perennial plants best suited for re-vegetation at the Ukhaa Khudag mine site. As a result of the project and for a trial run with regard to mine rehabilitation, a selection of three species were planted at a 1-hectare area used for dumping waste rock during the year under review. As the trial was successful, we are planning to expand the rehabilitation area in 2012.

Re-vegetation of area used for dumping waste rock

Table 5. Solid waste generated at Ukhaa Khudag in 2011

Waste classification	Waste type	Source	Storage	Waste handling and disposal	Amount/unit
Solid Waste	Flat tires	Workshops & service bays	Stockpiled in designated areas	Delivered back to the supplier for recycling	1,681 pieces
	Clinical waste	First-aid unit	Sealed containers	Burned in an designated burner	156 m^3
	Waste oil	Workshops & service bays, fuel farms and oil & water separators, pump house	Waste oil tanks	Transported to a recycling plant in UB and recycled to black oil and pitch	87.6 tons
	Food waste	Kitchen	Waste bins	Used as food for pigs by local people	30 tons
	Ash	Ger camp & stream boiler	Sealed containers	Buried under mine waste rock dump	8,493.52 tons
	Waste metal	Workshops	Waste metal container	Given to local people for their domestic re-use	210 tons
	Plastic waste	Various	Stored in dedicated collection bins	Transported to a recycling facility in UB	17 m^3
	Timber	Various	Stored in dedicated timber collection bin	Used as firewood	1 ton
	Toner Cartridges	Offices	Special bins	Recharged and reused	–
	Truck battery	Workshops	Designated area near the workshop	Delivered back to the supplier for recycling	
Hazardous Waste	Oily rags & oil absorbent material	Workshops & service bays	Oily Rag Bins	Burned in a special burner in high temperature	400 kg
	oil filters	Workshops & service bays	Oily Rag Bins	Burned in a special burner in high temperature	567 pieces
	Empty oil drums	Workshops	Empty drum storehouse	Reshaped to waste bins and used at the project site, or refilled	2,000 pieces

In 2011, we organized a number of educational seminars for local people to inform them about environmental protection, waste management and other forms of environmental conservation, so as to encourage their participation in protecting and conserving the environment for the present and the future.

Table 6. Educational seminars

No	Topic(s)	Target group	Number of participants
1	Environmental protection, domestic waste management and sanitation	Local people & herders	313
2	Waste management	Students	334
3	Sensible water usage	Students	143

CORPORATE SOCIAL RESPONSIBILITY AND COMMUNITY ENGAGEMENT

The Company's corporate social responsibility policy is fundamentally based on the international ISO 26000 Standard. By adopting a multi-stakeholder view, MMC's CSR approach emphasizes the various responsibilities that it has for a diverse range of stakeholder groups. Actively engaging with and listening to our stakeholders' interests and expectations throughout the project cycle forms the foundation upon which we formulate our CSR strategies and frameworks of operation.

The following principles underpin the Company's CSR policy:

– accountability – we seek to always be accountable for our impact on society, the economy and the environment;

– transparency – we always disclose in a clear, accurate and complete manner the policies, decisions and activities for which MMC is responsible;

– ethical behavior – our behavior is based on the values of honesty, equity and integrity;

– respect for stakeholders' interests – we respect, consider and respond to the interests of all our various stakeholder groups in a balanced manner;

BEST PRACTICES IN STAKEHOLDER ENGAGEMENT

Since its inception, MMC has strived to develop the most effective ways to engage with its local stakeholders. Despite the significant challenges posed by an isolated rural environment largely inhabited by people with nomadic lifestyles, limited infrastructure and harsh weather conditions, the Company has successfully fostered strong relationships with local community members.

Besides keeping in contact with affected stakeholder groups at least once a year, as set out in MMC's Stakeholder Engagement Management Plan, the Company has exceeded this commitment by establishing Community Development Advisory Councils (CDACs) in each of the impacted soums. Monthly CDAC meetings provide a venue for community members to learn about MMC's project activities, share their concerns and suggestions, discuss the effectiveness of ongoing community programs, and submit their own proposals for new programs. In order to engage directly with stakeholders who do not frequently travel to soum centers, the Company has conducted "Open ger" meetings on an annual basis since 2008. An active venue for conducting group discussions and two-way dialogues on the practical issues that are most relevant to local stakeholders, the annual Open ger event has set a new standard in Mongolia in terms of providing effective community engagement practices. The most recent such event was held in September 2011 and had an active participation of 1,090 people.

MMC has also established information centers at its Ukhaa Khudag project camp and the Dalanzadgad Representative office to improve information access with regard to its project activities and job opportunities. The centers also serve as additional locations for submitting grievances.

- respect for the rule of law – we accept that respect for the rule of law is mandatory;
- respect for international behavioral norms – we hold ourselves accountable both nationally and internationally; and
- respect for human rights – recognizing both their importance and universality, we always seek to uphold human rights.

The Company's dedicated CSR team is responsible for devising the Company's CSR strategies and implementation measures through specific plans and management systems, such as the Public Consultation and Disclosure Plan (**"PCDP"**), the Resettlement Action Plan (**"RAP"**), various grievance mechanisms, the Community Investment Strategy (**"CIS"**) and the Cultural Heritage Management Plan. Moreover, to enable better planning and decision-making over time, the CSR team regularly conducts various socio-economic research and baseline studies that help in the fine-tuning of our CSR strategies.

In addition, to broader represent society as a whole, the Company has established a Sustainable Development Advisory Council (**"SDAC"**), comprised of the country's most respected and renowned public figures, for their contribution to the development of Mongolia. The council provides recommendations and advises on sustainable development issues in connection with the Company's operations.

Stakeholder engagement

Our stakeholders include everyone internally and externally that is part of the day-to-day framework of the Company's activities. Their diverse range includes the local community, suppliers, customers, investors, shareholders, employees, regulatory bodies, NGOs, government authorities and the general public. Understanding their needs and concerns is central to our efforts to build a successful and sustainable business. As a result, we adopt both top-down and bottom-up communication lines, using different channels and mediums to engage our entire stakeholder spectrum. These include providing reliable factual information, establishing constructive dialogue and organizing consultation events.

Our proactive approach allows us to conduct an open and honest consultation and communication process aimed at enhancing trust and cooperation. The main objectives of our stakeholder engagement activities are to share information about our business operations with local communities and to receive community feedback on potential, perceived and actual impacts as a result of them, as well as to elicit community input to find the most appropriate mitigation and management options to address these impacts. MMC's on-going stakeholder engagement activities include the following:

– periodic visits to affected herder households;

– regular meetings with local administrations;

– monthly meetings with community development advisory councils (**"CDACs"**); and

– annual public consultation and disclosure activities (open ger events).

Our other resources which give our stakeholders transparent information about the Company's activities and operations include annual reports, the "Ukhaa Khudag" quarterly newspaper, monthly news bulletins, brochures and the Company website.

Grievance management

Having an effective grievance mechanism is vital for our long-term sustainable development, as well as for a two-way dialogue and consultation with our local communities. Grievances can be made over the internet or telephone, through face-to-face interviews, or in writing, and are analyzed and reported quarterly and annually to MMC management and the public upon resolution.

The Company is highly responsive to community and worker complaints, and ensures that they are acted upon in a comprehensive and consistent manner. All grievances are responded to within 30 days of submission – and more quickly in urgent cases. Where requested and appropriate, the Company treats complaints confidentially, and in all cases, grievances are addressed without prejudice. In 2011, a total of 52 grievances were received and handled.

Community investment and development

Community investment (**"CI"**) at MMC refers to how our invested financial resources (directed at the community) positively contribute to the sustainable development of the local community in which we operate. MMC's community investment initiatives encompass the following:

GIVING SMALL AND MEDIUM ENTERPRISES A LEG-UP

The SME sector in the South Gobi is confronted with a wide range of structural, financial and other obstacles, including limited finance, technology and market access, and a lack of entrepreneurial spirit and management skills. To assist local businesses in overcoming these challenges, strengthening their capacity and integrating them into the supply chain of mining companies operating in the region, MMC is implementing its local business development program for the 4th consecutive year.

While phase I of the program focused more on market development activities, phase II is aimed at improving product supply and quality, expanding sales channels, and creating market links between local producers and potential buyers. Accordingly, capacity-building training sessions were held in June 2011 and involved 63 SMEs. Moreover, as a result of the sessions' targeted activities, the participating SMEs successfully expanded their businesses and created approximately 40 new jobs. Furthermore, most of the SMEs raised their sales income by up to 25% and three beneficiaries became entitled to discount-rate loans of MNT 100 million.

Community development projects – To ensure that our social license to operate remains at the core of our overall strategy, we believe it is imperative that our community development projects support the sustainability of our local communities. Since 2009, the Company has spent approximately MNT 1 billion per annum on community development projects that focuses on the following five main areas:

– improving access to education and healthcare;

– cultural heritage protection;

– SME and entrepreneurship development;

– environmental protection; and

– employment generation.

Community infrastructure investments – In 2011, the Company agreed to make substantial investments in several major community infrastructure development projects in Tsogttsetsii soum. For instance, in order to mitigate the adverse impact of a population influx to Tsogtsetsii soum, the Company committed to jointly invest with the Umnugobi aimag administration on building a new school and kindergarten complex. This educational establishment will provide better access to education for more than 800 children from both the Company's employees and the local community. Moreover, a dormitory for 100 pupils and a fully equipped sports center are also being developed as part of the complex.

Paved road in Tsogttsetsii soum

Furthermore, in order to minimize the generation of dust in Tsogtsetsii soum, the Company has built the Tsogttsetsii soum paved road from its own resources and has also agreed to be responsible for the road's maintenance throughout the life of the UHG project.

In addition to the above, the Company also implements sponsorships and donations, employee volunteerism activities, and training sessions to develop the skills of local community members.

SOCIO-ECONOMIC CONTRIBUTION

MMC is one of Mongolia's largest mining companies and one of the major private sector employers in Umnugovi aimag, where it operates. As a highly responsible mining company, we strive to play a significant role not only in the well being of the local population but also in the overall socio-economic development of Mongolia. In line with our SD policy and within the framework of our sizeable operations, MMC invests extensively at various levels to help address community needs and contribute to national earnings. In addition to providing tax revenue, employee wages and benefits, and infrastructure development, the Company has been making significant strides in improving the quality of life in Umnugovi aimag through vital health care, education and other social baseline programs.

Job creation

The Company gives priority to hiring locally, and employed 2,177 full-time employees as of the end of 2011. Around 30% of these full-time employees were locally hired, particularly from the Tsogttsetsii, Dalanzadgad, Manlai, Bayan-Ovoo and Tsogt-Ovoo soums of Umnugovi aimag. Moreover, during the year under review, the Company created 983 new jobs and provided around 3,000 people with work either directly or indirectly through its subsidiaries and partner companies. As a result of this growth, the Mongolian government ranked MMC second among the country's Top 3 job creators in 2011. Moreover, we actively cooperate with more than 650 domestic businesses within the scope of our Ukhaa Khudag mining project.

Tax contribution

While in 2009 and 2010 the Company paid MNT12.6 billion and MNT54.1 billion respectively to the state budget, our tax contribution in 2011 reached MNT115.5 billion in taxes, duties and royalties.

Infrastructure Development



Consistent with rural development plans at Umnugovi aimag and Tsogttsetsii soum, in particular, where the lack of infrastructure is a major constraint, MMC is carrying out a number of large-scale infrastructure projects. Our technical and social infrastructure facilities pertaining to the Ukhaa Khudag mining project include but are not limited to the following:

1. an 18-MW power station that supplies the electricity needs of the mine and other infrastructure projects, as well as Tsogtstsetsii soum;

2. a technologically advanced water supply system that supports not only our mining and other infrastructure projects, but also the surrounding area, including Tsogttsetsii soum;

3. a housing project in support of our local employees, as well as those from various other parts of the country settling in Tsogttsetsii soum (The first block of the apartment complex was completed in 2011, providing more than 100 households with comfortable housing.); and

4. a new school and kindergarten complex, opened in Tsogttsetsii soum in 2011, as part of the miners' town.

Local procurement

MMC's local procurement policy gives priority to local businesses and service providers and is based on the principles of fair and equal access to business opportunities, mutual trust and long-term benefit, all while ensuring accreditation and product stewardship requirements are fully met.

The Company facilitates the procurement of an extensive range of goods and services, starting from day-to-day needs to high-end equipment and machinery, and domestic and local suppliers are required to adapt and comply with the Company's procurement and sustainability policies when providing goods and services. During the year under review, the Company purchased goods and services of approximately MNT 1.2 billion from about 70 local businesses and individuals.

COMMITMENTS TO EXTERNAL INITIATIVES

MMC participates in a number of voluntary initiatives that promote the principles of responsible mining, transparency and accountability in Mongolia. We recognize the increasing public demand for such initiatives and have become a member of various associations and organizations that advance socially responsible agendas. In this endeavor, we have taken a front seat on a number of initiatives, such as the Extractive Industries Transparency Initiative (**"EITI"**), Responsible Mining Initiative and Partnering Against Corruption Initiative. The Company is also a signatory of the Business Code developed by the Mongolian National Chamber of Commerce and Industry.

Fiscal transparency

Our Statement of Sustainable Development confirms our commitment to the maximum level of transparency that is commercially possible. We publicly and regularly report our financial, operational and sustainability performance levels in accordance with all relevant legislation and the most leading and transparent practice standards. MMC also supports the EITI to raise transparency on company payments and government revenues in the extractives sector.

As part of its commitment to transparency and brokering fair deals with the government, the Company has been disclosing its payments to the government since the start of its operations in 2009. By disclosing payments made to different government organizations and the state budget, we contribute significantly to our stakeholders in their efforts to strengthen governance by improving transparency and accountability throughout Mongolia's extractives sector.

Partnering against corruption

The World Economic Forum's Partnering Against Corruption Initiative (**"PACI"**) and the Office of the President of Mongolia held a joint roundtable in Ulaanbaatar on 3 March 2011 as part of the Mongolia Economic Forum. This anti-corruption meeting brought together leading players from business, civic and government agencies. Following the meeting, a PACI Mongolia network was established by Mongolia's leading private sector companies: MMC joined the network among 168 other pioneering companies in the combined effort to strengthen corporate governance standards and to counter corruption.

Mining responsibly in Mongolia

MMC joined Mongolia's Responsible Mining Initiative for Sustainable Development (**"RMI"**) in December 2009 as a supporting member, and is currently on the board of the RMI along with key stakeholders from civic and government organizations. As part of our commitment to contribute to the development of responsible mining in Mongolia, the Company works closely with the RMI to develop responsible mining indicators that will meet both internationally accepted principles and domestically formulated specifics.

Setting national standards on Corporate Social Responsibility

After extensive consultation with stakeholders worldwide, the International Standard Organization developed the ISO 26000 Guidance on social responsibility for adoption from November 2010 onwards.

Mongolia is planning to utilize these standards to guide both private and public sector players in developing and instilling principles of CSR. In 2011, MMC was part of the joint working group to help develop Mongolia's national guidance on ISO 26000. As a result of the working group's advocacy efforts, national CSR standards that build public awareness and set benchmarks to widely implement high levels of CSR will soon be submitted to Mongolia's Cabinet Meeting for recommendations and approval.

COMPANY AWARDS AND ACCOLADES

In the last few years, MMC has received numerous awards and accolades from a number of Mongolia's professional institutions, including the country's government agencies. Moreover, many other organizations, regulatory bodies and non-profit institutions have recognized the Company for a variety of reasons, ranging from its successful IPO on the Hong Kong Stock Exchange to its contribution to national economic development, job creation and the intensive development of the Ukhaa Khudag mine, as well as for being an exemplary corporate citizen.

MMC's awards and accolades in 2011:

Government awards

In 2011, the Company created approximately 1,000 new jobs and contributed MNT115.5 billion to the state budget via taxes and commissions. Recognizing the magnitude and importance of this economic contribution, the Government of Mongolia selected the Company as one of the country's Top 3 job creators during the year under review, as well as its top taxpayer for the year.

Mongolian Mining Journal awards – Grand Prize 2011 and social responsibility award

Recognizing the Company's continuous efforts for success and its major achievements throughout 2011, the Mongolian Mining Journal awarded us the Grand Prize, the highest accolade in the mining sector. The Company also took great pride in receiving another important award from the journal that recognizes our high level of social responsibility.

Entrepreneur 2011

The Company was selected as one of the country's Top 10 enterprises for the 3rd consecutive year by the Mongolian Chamber of Commerce and Industry. For 2011, the selection committee gave high praise to the Company regarding its ongoing development work at Ukhaa Khudag and the project's increasing contribution to the country's social and economic development.

Ministry of Mineral Resources and Energy & Mineral Resources Authority of Mongolia – Best Mine and Infrastructure Development

The Ministry of Mineral Resources and Energy and the Mineral Resources Authority of Mongolia selected the Ukhaa Khudag power plant as the mining sector's Best Mine and Infrastructure Development. The Ukhaa Khudag on-site power plant was built in less than two years and is also highly significant in that it is the first power plant to be built and managed solely by Mongolian engineers.

Commitment to Social Responsibility Award

Mongolia's national daily newspaper "Labour", jointly with the Mongolian Trade Union, National Chamber of Commerce & Industry and Employers' Federation, selected eight domestic companies for recognition in making substantial contributions to raising the level of private sector responsibility in Mongolia. MMC was ranked 1st among the selected companies, and was highly acknowledged for its social and economic contribution and baseline social projects.

State Gerege – Mongolia's highest national accolade for development excellence

Business Council of Mongolia – Local Company of the Year

The Business Council of Mongolia, which acts as a forum for dialogue between the Government of Mongolia and the private sector, recognized MMC as the Local Company of the Year for its excellent business model, as well as its pioneering methods in achieving capital and corporate growth.

State Gerege – Mongolia's highest national accolade for excellence in development

MMC received the highest national honor in development excellence from the President of Mongolia on 21 February 2012, the Eve of Mongolian Lunar new year. The State Gerege, is awarded in recognition of a single outstanding achievement in a given year which represents a pioneering and meritorious contribution to the social and economic development or the national interests of Mongolia.

Corporate Governance Report

The board (the "**Board**") of directors (the **"Directors"**) of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

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

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

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

The Company has complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2011.

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

A. THE BOARD

1. Responsibilities

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

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

2. The Board Composition

The Board currently comprises eleven members, consisting of two executive Directors, six non-executive Directors and three independent non-executive Directors:

Executive Directors:

Mr. Odjargal Jambaljamts, *Chairman of the Board, Chairman of the Nomination Committee and member of the Remuneration Committee (Note 1)*
Dr. Battsengel Gotov, *Chief Executive Officer*

Non-Executive Directors:

Dr. Oyungerel Janchiv
Mr. Batsaikhan Purev
Mr. Philip Hubert ter Woort, *member of the Corporate Governance Committee (Note 2)*
Mr. Enkh-Amgalan Luvsantseren
Mr. Gantumur Lingov
Ms. Enkhtuvshin Gombo, *member of the Audit Committee*

Independent Non-Executive Directors:

Mr. Ochirbat Punsalmaa, *Chairman of the Remuneration Committee (Note 1) and member of the Audit Committee and the Nomination Committee*
Mr. Unenbat Jigjid, *Chairman of the Corporate Governance Committee (Note 2) and member of the Audit Committee (Note 3), the Nomination Committee and the Remuneration Committee*
Mr. Chan Tze Ching, Ignatius, *Chairman of the Audit Committee (Note 3) and member of the Corporate Governance Committee (Note 2)*

Notes:

1 *Mr. Odjargal Jambaljamts was the Chairman of the Remuneration Committee during the year ended 31 December 2011. On 12 January 2012, Mr. Jambaljamts resigned as Chairman but remained as a member of the Remuneration Committee and Mr. Ochirbat Punsalmaa was appointed as the Chairman of the Remuneration Committee.*

2 *The Corporate Governance Committee was established on 12 January 2012 comprising Mr. Unenbat Jigjid as Chairman, Mr. Philip Hubert ter Woort and Mr. Chan Tze Ching, Ignatius as members.*

3 *Mr. Unenbat Jigjid was the Chairman of the Audit Committee during the year ended 31 December 2011. On 12 January 2012, Mr. Jigjid resigned as Chairman but remained as a member of the Audit Committee and Mr. Chan Tze Ching, Ignatius was appointed as the Chairman of the Audit Committee.*

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

The Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

3. Chairman and Chief Executive Officer

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

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

4. Appointment and Re-election of Directors

At the annual general meeting of the Company (**"AGM"**) held on 21 June 2011, Mr. Odjargal Jambaljamts, Dr. Battsengel Gotov, Mr. Batsaikhan Purev, Mr. Enkh-Amgalan Luvsantseren and Mr. Gantumur Lingov retired from the offices as executive Directors and non-executive Directors respectively in accordance with Articles 83(3) and 84(1) of the Articles of Association of the Company (the "**Articles of Association**") and all retiring Directors, being eligible, offered themselves for re-election and were re-elected by the shareholders of the Company by way of poll.

Each of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, executive Directors, is engaged on a service agreement with the Company for a term of 3 years commencing from 13 October 2010 (the **"Listing Date"**). Dr. Battsengel Gotov, the Chief Executive Officer and an executive Director, has been appointed as the authorized representative of the Company with effect from 6 May 2011. The respective appointments shall be terminated automatically in the event that he ceases to be a Director.

Ms. Badamtsetseg Dash-Ulzii, executive Director, Chief Investment Officer and authorized representative of the Company has resigned from the above positions with effect from 6 May 2011.

Each of the non-executive Directors and independent non-executive Directors (except Mr. Philip Hubert ter Woort) is engaged on a letter of appointment with the Company for a term of 2 years commencing from the Listing Date. Mr. Philip Hubert ter Woort, a non-executive Director, is engaged on a letter of appointment with the Company for a term of 1 year commencing from the Listing Date and ended on 13 October 2011. The Board resolved to extend the appointment of Mr. ter Woort for the position of the non-executive Director and issued a new letter of appointment effective from 13 October 2011 until the next AGM scheduled on 24 May 2012.

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

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

Nomination Committee

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

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and to make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and the succession planning of Directors; and
- To assess the independence of independent non-executive Directors.

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

The Nomination Committee held two meetings during the year ended 31 December 2011 and the attendance records are set out under "Directors' Attendance Records" on page 90 of this annual report.

In accordance with the Articles of Association, Dr. Oyungerel Janchiv, Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

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

5. **Training and Continuing Development**

The existing Directors are continually kept up-to-date with legal and regulatory developments, and business and market changes to facilitate the discharge of their responsibilities. The Directors received formal, comprehensive and tailored induction on the amendments of the CG Code and associated Listing Rules effective on 1 January 2012 and 1 April 2012 adopted by the Stock Exchange, so as to ensure that they are fully aware of their responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Continued briefings and professional development for Directors will be arranged where necessary.

6. **Board Meetings**

(i) Board Practices and Conduct of Meetings

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

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

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

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

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

(ii) Directors' Attendance Records

During the year ended 31 December 2011, eleven Board meetings were held, of which four were regular Board meetings held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the meetings of the Board, Nomination Committee, Remuneration Committee and Audit Committee during the year ended 31 December 2011 are set out below:

		Attendance/Number of Meetings		
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee
Odjargal Jambaljamts	10/11	2/2	4/4	N/A
Battsengel Gotov	10/11	N/A	N/A	N/A
Badamtsetseg Dash-Ulzii (resigned on 6 May 2011)	5/5	N/A	N/A	N/A
Oyungerel Janchiv	10/11	N/A	N/A	N/A
Batsaikhan Purev	10/11	N/A	N/A	N/A
Philip Hubert ter Woort	9/11	N/A	N/A	N/A
Enkh-Amgalan Luvsantseren	7/11	N/A	N/A	N/A
Gantumur Lingov	10/11	N/A	N/A	N/A
Enkhtuvshin Gombo	11/11	N/A	N/A	3/3
Ochirbat Punsalmaa	10/11	2/2	4/4	3/3
Unenbat Jigjid	10/11	2/2	4/4	3/3
Chan Tze Ching, Ignatius	8/11	N/A	N/A	3/3

7. Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2011.

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

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

B. DELEGATION BY THE BOARD

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

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

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

There were three committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee for overseeing particular aspects of the Company's affairs during the year ended 31 December 2011. All Board committees of the Company were established with defined written terms of reference, which were posted on the Company's website and are available to shareholders upon request.

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

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of the senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2011 are set out in note 9 to the financial statements.

Remuneration Committee

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

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

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

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

The Remuneration Committee held four meetings during the year ended 31 December 2011 and the attendance records are set out under "Directors' Attendance Records" on page 90 of this annual report.

D. ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

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

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

E. INTERNAL CONTROLS

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget to safeguard the shareholder's investments and the Company's assets.

F. AUDIT COMMITTEE

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

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and to consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, the internal auditor or the external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor; and

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

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

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

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

The Audit Committee held three meetings during the year ended 31 December 2011. Where appropriate, decisions were also taken by way of circulated resolutions. The attendance records of the Directors at the Audit Committee meetings are set out under "Directors' Attendance Records" on page 90 of this annual report.

G. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements are set out in the "Independent Auditor's Report" on pages 115 to 116 of this annual report.

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2011 amounted to USD780,000 and USD154,000 respectively. An analysis of the remuneration paid to the external auditor of the Company is set out below:

Category of services	Fees Paid/ Payable
Audit Service	USD780,000
Non-audit Service	
– international tax advisory services	USD154,000
Total	USD934,000

H. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The forthcoming AGM of the Company will be held on 24 May 2012. The notice of the AGM will be sent to shareholders more than 20 clear business days before the meeting.

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

I. SHAREHOLDERS' RIGHTS

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

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

J. GOING CONCERN

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

Directors' Report

The directors of the Company (the **"Directors"**) have pleasure in presenting their annual report together with the audited consolidated financial statements of Mongolian Mining Corporation (the **"Company"**) and its subsidiaries (the **"Group"**) for the year ended 31 December 2011.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are the mining, transportation and sale of coking coal. The principal activities and other particulars of the subsidiaries and associates are set out in note 18 and note 19 to the consolidated financial statements.

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	34.1%	
Five largest customers in aggregate	87.9%	
The largest supplier		21.9%
Five largest suppliers in aggregate		46.1%

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

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2011 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 117 to 187.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividend, of USD119,090,000 (2010: USD60,139,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 121.

No dividend has been declared and paid by the Group during the year ended 31 December 2011 (2010: Nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2011 amounted to USD179,000 (2010: USD351,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment for approximately USD108,294,000. Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

CONVERTIBLE NOTES

On 31 May 2011, the Company and its subsidiary Mongolian Coal Corporation Limited entered into a share purchase agreement (the **"Share Purchase Agreement"**) with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited pursuant to which Mongolian Coal Corporation Limited has agreed to acquire the entire issued share capital of QGX Coal Ltd from Quincunx (BVI) Ltd for a total consideration of USD464,465,000 (the **"Acquisition"**), consisting of USD100,000,000 in cash and USD279,450,000 in promissory note payable by Mongolian Coal Corporation Limited to Quincunx (BVI) Ltd and USD85,000,000 by the issue of convertible bond (the **"Convertible Bond"**) by the Company to QGX Holdings Ltd., subject to the Reserve Adjustment (as defined in the announcement of the Company dated 1 June 2011) and the Royalty Provision (as defined in the announcement of the Company dated 1 June 2011) pursuant to the terms of the Share Purchase Agreement. The Company issued the Convertible Bond to QGX Holdings Ltd. on 1 June 2011.

The principal terms of the Convertible Bond are as follows:

Principal amount:	USD85,000,000
Maturity:	The date falling 18 months to 21 months, subject to the Reserve Adjustment, from the date of issue of the Convertible Bond
Interest:	2.0% per annum payable semi-annually. If the Group's consolidated leverage ratio exceeds 5.5:1, the interest rate of the Convertible Bond will increase to 4.0% per annum.
Transferability:	A holder of the Convertible Bond may assign or transfer the Convertible Bond in its name without consent from the Company, to (a) any of its wholly-owned subsidiaries, (b) any other entity in respect of which the relative beneficial ownership of Kerry Mining (Mongolia) Limited and MCS Minerals LLC is substantially the same as their respective beneficial ownership of the holder of the Convertible Bond immediately prior to such assignment or transfer and (c) in the event the holder of the Convertible Bond becomes a wholly owned subsidiary of Kerry Mining (Mongolia) Limited, any of its Affiliates (as defined in the announcement of the Company dated 1 June 2011) or any member of the Kuok Group (as defined in the announcement of the Company dated 1 June 2011), provided that an assignment or transfer of the Convertible Bond shall be limited to assignments or transfers in wholly only, and not in part
Conversion right:	The Convertible Bond will only be convertible at maturity at the election of the holder of the Convertible Bond
Conversion price:	HKD10.92 per Conversion Share (as defined in the announcement of the Company dated 1 June 2011)
Redemption and purchase:	Unless converted, the Company will redeem all the Convertible Bond at the principal amount on maturity
Ranking of Conversion Shares:	Conversion Shares (as defined in the announcement of the Company dated 1 June 2011) will rank pari passu in all respect with the Shares in issue on the relevant date of registration of holders of such Shares on the register of members of the Company
Voting rights:	The holder of the Convertible Bond will not be entitled to vote at any general meeting of the Company by reason only of it being the holder of the Convertible Bond

Save as disclosed above, the Company has not issued any convertible notes for the period ended 31 December 2011.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2011 are set out in note 24 to the consolidated financial statements.

The borrowing amount totals USD478.2 million and all of it is in USD. All borrowings are at variable rate (with a fixed margin over LIBOR), except for the borrowings from Khan Bank of USD13.0 million bearing annual interest of 11%.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 188.

DIRECTORS

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

Executive Directors
Mr. Odjargal Jambaljamts (Chairman of the Board)
Dr. Battsengel Gotov (Chief Executive Officer)
Ms. Badamtsetseg Dash-Ulzii (Chief Investment Officer)
(ceased to be a Director and Chief Investment Officer on 6 May 2011)

Non-executive Directors
Dr. Oyungerel Janchiv
Mr. Batsaikhan Purev
Mr. Philip Hubert ter Woort
Mr. Enkh-Amgalan Luvsantseren
Mr. Gantumur Lingov
Ms. Enkhtuvshin Gombo

Independent non-executive Directors
Mr. Ochirbat Punsalmaa
Mr. Unenbat Jigjid
Mr. Chan Tze Ching, Ignatius

In accordance with Article 84(1) of the Articles of Association, Dr. Oyungerel Janchiv, being a non-executive Director, Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, each being an independent non-executive Director, will retire from directorship by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 5 to 14.

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from 13 October 2010 (the **"Listing Date"**).

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed under the section headed "Connected transactions and continuing connected transactions" in this directors' report and "Material Related Party Transactions" in note 35 to the consolidated financial statements, no contract of significance, to which the Company or its subsidiary or its shareholder was a party and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

The management contract entered into with MCS Holding LLC for a period of three years was terminated on 31 December 2011.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

MCS Holding LLC and Mr. Odjargal Jambaljamts currently indirectly own a 4.9% interest and 5.1% interest respectively in Quincunx (BVI) Ltd, which was involved in the development of the BN deposit and the Bayan Airag gold, silver and copper deposit. However, each of MCS Holding LLC and Mr. Odjargal Jambaljamts has very limited control over the voting rights and the board of directors of Quincunx (BVI) Ltd.

Following the Acquisition, Quincunx (BVI) Ltd is no longer involved in the development of the BN deposit. None of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

NON-COMPETITION UNDERTAKING

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

Each of the Controlling Shareholders has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2011, his/their respective business did not compete with the Group and there was no opportunity made available to the Controlling Shareholders to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition. Each of the Controlling Shareholders has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Controlling Shareholders and concluded that each of the Controlling Shareholders has been in compliance with the Deed of Non-competition during the year ended 31 December 2011.

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

As at 31 December 2011, the interest and 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"**)), as recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the **"Model Code"**) 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 of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
Dr. Oyungerel Janchiv (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%
Mr. Batsaikhan Purev (Note 3)	Interest of controlled corporation	119,923,500 (L)	3.24%

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

Notes:

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

   Mr. Odjargal Jambaljamts through Starain Limited which is 100% owned by him, is interested in 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited through MCS Global Limited, MCS Holding LLC and MCS Group Limited each holding 100% interest of the other, holds the entire interest of MCS Mining Group Limited.

   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 were registered in the name of Petrovis Resources Inc.*

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

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

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

(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 (Note 1)	MCS (Mongolia) Limited	Interest of controlled corporation	1,594	3.19%
	MCS Electronics LLC (Note 2)	Beneficial Owner	54,375	5%

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.*

(c) Interest in underlying Shares

		Ordinary shares of USD0.01 each	
Name of Director	Nature of interest	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%

Save as disclosed above, as at 31 December 2011, so far as known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO).

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date (the **"Adoption Date"**). Option could be granted within a period of 10 years from the Adoption Date. Therefore, as at 31 December 2011, the remaining life of the Share Option Scheme was approximately 8 years and 9 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

Eligibility

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

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

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

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

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

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

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

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

Grant of options

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

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

Subscription price

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

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

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

(c) the nominal value of the Shares.

Exercise of options

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

Maximum number of shares available for subscription

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

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

Details of the Share Options granted, exercised, lapsed and cancelled during the year ended 31 December 2011 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 2011	Granted during the year ended 31 December 2011	Lapsed/ Cancelled during the year ended 31 December 2011	Exercised during the year ended 31 December 2011	Balance as at 31 December 2011
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 2011	Granted during the year ended 31 December 2011	Lapsed/ Cancelled during the year ended 31 December 2011	Exercised during the year ended 31 December 2011	Balance as at 31 December 2011
12 October 2011	(Note 1)	HKD6.66	–	32,200,000 (Note 2)	300,000	–	31,900,000

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. *On 12 October 2011, the Company granted 34,500,000 Share Options to employees and only 32,200,000 Share Options were accepted by employees.*

The closing price of the Shares immediately before the grant on 12 October 2011 was HKD6.66 per Share. Further details of the Share Option Scheme are set out in note 28 to the consolidated financial statements.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2011 had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

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

As at 31 December 2011, so far as known to any Director or chief executive of the Company, shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Interest in the Shares and underlying Shares

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
MCS Mining Group Limited (Notes 1&3)	Beneficial owner	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
MCS Group Limited (Notes 1&3)	Interest of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
MCS Holding LLC (Notes 1&3)	Interest of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
MCS Global Limited (Notes 1&3)	Interest of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
MCS (Mongolia) Limited (Notes 1&3)	Interest of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each Total number of Shares held	Approximate percentage of total issued share capital
Starain Limited (Notes 1&3)	Interest of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
Trimunkh Limited (Notes 1&3)	Interest of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
Ms. Batmunkh Dashdeleg (Notes 1&3)	Interest of spouse	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
Mr. Od Jambaljamts (Notes 1&3)	Interest of controlled corporation	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
Ms. Munkhsuren Surenkhuu (Notes 1&3)	Interest of spouse	1,609,962,692 (L) 534,439,609 (S)	43.45% 14.42%
Petrovis Resources Inc. (Note 2)	Beneficial owner	423,000,000 (L)	11.42%
Petrovis LLC (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%
Mongol Contract LLC (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%
Mr. Batbold Batochir (Note 2)	Interest of spouse	423,000,000 (L)	11.42%
Mr. Davaanyam Choindon (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%
Ms. Shagdardulam Sambalkhundev (Note 2)	Interest of spouse	423,000,000 (L)	11.42%
Ms. Tuya Danzandarjaa (Note 2)	Interest of controlled corporation	423,000,000 (L)	11.42%

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each Total number of Shares held	Approximate percentage of total issued share capital
Kerry Mining (UHG) Limited (Note 4)	Registered owner	300,000,000 (L)	8.10%
Kerry Mining (Mongolia) Limited (Note 4)	Interest of controlled corporation	300,000,000 (L) 60,714,285 (L) (Note 5)	9.74%
Fexos Limited (Note 4)	Interest of controlled corporation	300,014,640 (L) 60,714,285 (L) (Note 5)	9.74%
Kerry Holdings Limited (Note 4)	Interest of controlled corporation	300,014,640 (L) 60,714,285 (L) (Note 5)	9.74%
Kerry Group Limited (Note 4)	Interest of controlled corporation	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 Group Limited which in turn is a direct wholly-owned subsidiary of MCS Holding LLC. MCS Holding LLC is a wholly-owned subsidiary of MCS Global Limited, which in turn is a direct wholly-owned subsidiary of MCS (Mongolia) Limited. MCS (Mongolia) Limited is owned as to approximately 49.84% by Starain 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. Mr. Odjargal Jambaljamts is also the chairman of MCS Holding LLC. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts. Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.*

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

(3) *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. 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. 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 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 31 December 2011, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2011, the non-exempted connected transactions of the Group were USD17,008,232 and the continuing connected transactions were USD86,828,164.

The details of non-exempt connected transactions and continuing connected transactions for the year ended 31 December 2011 are set out on pages 46 to 60 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2011, the Group pledged accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, and Ulaanbaatar City Bank of Mongolia, the Debt Service Reserve Account and other accounts with Standard Bank Plc, offtake contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC, engineering, procurement, construction and management (**"EPCM"**) agreement for the coal handling and preparation plant constructed at the UHG deposit with Sedgman LLC, Ukhaa Khudag (**"UHG"**) mining license, approximately 21.47% of the issued shares of Energy Resources LLC, power plant and wash plant phase 1, and 150 coal hauling trucks to banks for credit facilities in the aggregate amount of approximately USD561.7 million granted to the Group. Pursuant to the Amendment and Consent Agreement dated 5 March 2012, certain securities of the Loan Agreement between Energy Resources LLC and EBRD, FMO, and DEG are released, namely the mining license 1195A of the UHG mine and pledge of shares in Energy Resources LLC, in replacement of security over fixed assets such as Company's CHPP expansion which was commissioned in February 2012 and the water supply infrastructure assets.

EMOLUMENT POLICY

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

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

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

The Company has a Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company. On 12 October 2011, the Company has granted a total of 37,500,000 Share Options subject to acceptance to its Chief Executive Officer and certain employees under the Share Option Scheme adopted by the Company and 35,200,000 Share Options were accepted.

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

RETIREMENT SCHEME

The Group participates in retirement benefit schemes pursuant to the relevant labor rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 11%-13% of the eligible employees' salaries.

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

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

PRE-EMPTIVE RIGHTS

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

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

The proceeds from the Company's initial public offering of the Shares on the SEHK in October 2010, after deduction of related issuance expenses, amounted to approximately USD616 million. As at 31 December 2011, the Company had used the proceeds from the initial public offering of the Shares as follows:

– approximately USD105 million to fund expansion of our coal handling and preparation plant and infrastructure development projects;

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

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

– approximately USD57 million to working capital needs.

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

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. On 28 December 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.

ISSUE OF EQUITY SECURITIES

No additional shares were issued during the year ended 31 December 2011.

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 35 to the consolidated financial statements. In respect of those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the SEHK) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, and must have an expected market capitalization at the time of listing of not less than HKD50 million.

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2011.

POST BALANCE SHEET EVENTS

There have been no post balance sheet events subsequent to 31 December 2011 which require adjustment to or disclosure in the annual report.

AUDITOR

Messrs. KPMG were engaged as auditor of the Company for the year ended 31 December 2011. Messrs. KPMG have audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG were re-appointed as auditor of the Company at the AGM held on 21 June 2011.

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

On behalf of the board

Odjargal Jambaljamts
Chairman

Hong Kong, 6 March 2012

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

We have audited the consolidated financial statements of Mongolian Mining Corporation (the "Company") and its subsidiaries (together referred to as the "Group") set out on pages 117 to 187, which comprise the consolidated and Company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended and have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

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

6 March 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

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

The notes on pages 124 to 187 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 31(a).

Consolidated Balance Sheet

at 31 December 2011

	Note	2011 USD'000	2010 USD'000
Non-current assets			
Property, plant and equipment, net	14	**347,109**	76,646
Construction in progress	15	**183,229**	232,784
Lease prepayments	16	**105**	118
Intangible assets	17	**681,352**	–
Interest in associates	19	**4,278**	19
Other non-current assets	20	**7,423**	26,889
Deferred tax assets	26(b)	**9,698**	1,681
Total non-current assets		**1,233,194**	338,137
Current assets			
Inventories	21	**57,734**	7,876
Trade and other receivables	22	**109,322**	32,350
Cash at bank and in hand	23	**227,765**	674,907
Total current assets		**394,821**	715,133
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	24(b)	**333,568**	85,909
Trade and other payables	25	**118,680**	40,315
Current taxation	26(a)	**17,508**	5,455
Convertible bond	27	**83,508**	–
Obligations under finance leases		**247**	–
Total current liabilities		**553,511**	131,679
Net current (liabilities)/assets		**(158,690)**	583,454
Total assets less current liabilities		**1,074,504**	921,591

The notes on pages 124 to 187 form part of these financial statements.

	Note	2011 USD'000	2010 USD'000
Non-current liabilities			
Interest-bearing borrowings, less current portion	24(a)	**144,661**	165,214
Long-term payables	29	**–**	16,811
Provisions	30	**11,110**	6,904
Deferred tax liabilities	26(b)	**149,656**	5,381
Obligations under finance leases		**213**	–
Total non-current liabilities		**305,640**	194,310
NET ASSETS		**768,864**	727,281
CAPITAL AND RESERVES			
Share capital	31	**37,050**	37,050
Reserves	32	**731,814**	690,231
TOTAL EQUITY		**768,864**	727,281

Approved and authorised for issue by the board of directors on 6 March 2012.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 124 to 187 form part of these financial statements.

Balance Sheet

at 31 December 2011

	Note	2011 USD'000	2010 USD'000
Non-current assets			
Interests in subsidiaries	18	**1,007,581**	299,599
Total non-current assets		**1,007,581**	299,599
Current assets			
Trade and other receivables	22	**5**	322
Cash at bank and in hand	23	**7,776**	340,562
Total current assets		**7,781**	340,884
Current liabilities			
Short term borrowings	24(b)	**298,750**	–
Trade and other payables	25	**577**	39
Convertible bond	27	**83,508**	–
Total current liabilities		**382,835**	39
Net current (liabilities)/assets		**(375,054)**	340,845
Total assets less current liabilities		**632,527**	640,444
NET ASSETS		**632,527**	640,444
CAPITAL AND RESERVES			
Share capital	31	**37,050**	37,050
Reserves	32	**595,477**	603,394
TOTAL EQUITY		**632,527**	640,444

Approved and authorised for issue by the board of directors on 6 March 2012.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 124 to 187 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Note	Share capital USD'000 (Note 31(b))	Share premium USD'000 (Note 32(a))	Other reserve USD'000 (Note 32(b))	Exchange reserve USD'000 (Note 32(c))	Retained earnings USD'000	Total equity USD'000
At 1 January 2010		–	–	44,569	(1,476)	748	43,841
Changes in equity for 2010:							
Share issued upon incorporation	31(c)	–	–	–	–	–	–
Nominal value of share capital of new subsidiaries acquired	31(c)	–	–	(30,000)	–	–	(30,000)
Shares issued pursuant to capitalisation issue	31(c)	30,000	–	–	–	–	30,000
Shares issued pursuant to the global offering and upon the exercise of the over-allotment option, net of share issuing costs	31(c)	7,050	608,650	–	–	–	615,700
Total comprehensive income for the year		–	–	–	7,601	60,139	67,740
At 31 December 2010		37,050	608,650	14,569	6,125	60,887	727,281
At 1 January 2011		**37,050**	**608,650**	**14,569**	**6,125**	**60,887**	**727,281**
Changes in equity for 2011:							
Equity-settled share-based transactions	28	**–**	**–**	**1,646**	**–**	**–**	**1,646**
Total comprehensive income for the year		**–**	**–**	**–**	**(79,153)**	**119,090**	**39,937**
At 31 December 2011		**37,050**	**608,650**	**16,215**	**(73,028)**	**179,977**	**768,864**

The notes on pages 124 to 187 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Note	2011 USD'000	2010 USD'000
Cash flows from operating activities			
Profit before taxation		**154,740**	82,896
Adjustments for:			
Depreciation and amortisation		**19,370**	3,204
Allowance for doubtful debts		**4,145**	–
Losses/(profits) of associates		**119**	(2)
Loss on disposal of property, plant and equipment		**438**	187
Net finance income		**(8,451)**	(8,280)
Transaction costs in relation to acquisition	36	**4,299**	–
Equity-settled share-based payment expenses		**1,646**	–
Changes in working capital:			
Increase in inventories		**(55,879)**	(215)
Increase in trade and other receivables		**(88,441)**	(8,092)
Increase in trade and other payables		**14,997**	15,088
Cash generated from operations		**46,983**	84,786
Income tax paid		**(25,998)**	(15,145)
Net cash generated from operating activities		**20,985**	69,641
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(292,294)**	(220,242)
Proceeds from disposal of property, plant and equipment		**3,069**	213
Payment for acquisition of subsidiaries, net	36	**(103,494)**	–
Payment for acquisition of associates		**(4,820)**	–
Time deposits		**159,886**	(344,645)
Interest received		**22,236**	294
Net cash used in investing activities		**(215,417)**	(564,380)

The notes on pages 124 to 187 form part of these financial statements.

	Note	2011 USD'000	2010 USD'000
Financing activities			
Proceeds from issue of shares		**–**	617,716
Proceeds from borrowings		**143,864**	232,331
Repayment of borrowings		**(201,713)**	(11,531)
Interest paid		**(19,634)**	(6,822)
Payment of transaction costs on issue of shares		**–**	(2,016)
Other borrowing costs paid		**(2,388)**	(6,183)
Net cash (used in)/generated from financing activities		**(79,871)**	823,495
Net (decrease)/increase in cash and cash equivalents		**(274,303)**	328,756
Cash and cash equivalents at beginning of the year		**328,262**	371
Effect of foreign exchange rate changes		**(12,953)**	(865)
Cash and cash equivalents at end of the year	23	**41,006**	328,262

Major non-cash transactions:

(a) For the non-cash transactions related to acquisition of subsidiaries, please refer to Note 36.

(b) According to the relevant tax regulations in Mongolia, the income tax payable can be offset by the value-added tax (**"VAT"**) receivables. During the year ended 31 December 2011, the Group offset the VAT receivables of USD9,470,000 and USD8,381,000 with income tax payable and royalty tax payable, respectively (see Note 26 (a)).

The notes on pages 124 to 187 form part of these financial statements.

1 CORPORATE INFORMATION

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

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

Pursuant to a share purchase agreement dated 31 May 2011, the Group acquired the entire issued share capital of Baruun Naran Limited (formerly named as "QGX Coal Limited") (**"QGX"**). Details of the acquisition are set out in Note 36.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements of the Company and of the Group have been prepared in accordance with International Financial Reporting Standards (**"IFRSs"**), promulgated by the International Accounting Standards Board (**"IASB"**). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and related interpretations. The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group (as defined below) is set out below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and its interest in associates.

Details of the companies comprising the Group are set in Note 18.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

— Derivative financial instruments (see Note 2(f)); and

— Share-based payments (see Note 2(q)(ii)).

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

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

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

(c) Changes in accounting policies

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

- IAS 24 (revised 2009), Related party disclosures

- Improvements to IFRSs (2010)

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

The impacts of these developments are discussed below:

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

- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in Note 33 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

(e) Associates

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates (continued)

An interest in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(j)(i)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in other comprehensive income in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

Property, plant and equipment, which consist of buildings, plant and equipment, motor vehicles, office equipment, mining structures and mining rights are initially stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

When proven and probable coal reserves have been determined, stripping costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalised into property, plant and equipment as mining structure. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body.

All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised at cost less impairment losses (Note 2(j)(ii)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (Note 2(w)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than mining structures and mining rights, over their estimated useful lives using the straight-line method, after taking into account the estimated residual values.

The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
– Buildings and plants	10-40 years
– Machinery and equipment	10 years
– Motor vehicles	5-10 years
– Office equipment	3-10 years

Mining structures and mining rights, except for capitalised stripping costs incurred during the production phase, are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Capitalised stripping costs incurred during the production phase are depleted to the extent that the actual waste to ore ratio is lower than the estimated ratio.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets

Intangible assets (acquired mining rights and operating right related to paved road) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)).

Intangible assets (acquired mining right) are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Amortisation of other intangible assets with finite useful lives is recognised in profit or loss on a straight-line basis over the expected useful lives. The operating right related to paved road is amortised over 10 years after the commission of the paved road.

Both the period and method of amortisation are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(j)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iv) Lease prepayments

Lease prepayments represent the costs of acquiring the land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(j)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

(j) Impairment of assets

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

Interests in subsidiaries, interest in associate and trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

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

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

– For interests in subsidiaries and associate (including those recognised using the equity method) (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(j)(ii).

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment

– construction in progress

– lease prepayments

– intangible assets

– other non-current assets (excluding receivables)

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses
An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses
An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss for the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Convertible bond

Convertible bond which does not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bond is measured at fair value and presented as part of derivative financial instruments (see Note 2(f)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond 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.

The derivative component is subsequently remeasured in accordance with Note 2(f). 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.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued for the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interests in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in Mongolia. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure, which is included in the mining structures. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue associated with the sale of coal is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Translation of foreign currencies

The presentation currency of the Group is USD. The functional currency of the Company and the investment holding companies is USD and the functional currency of other group entities located in Mongolia is Mongolian Togrog (**"MNT"**). Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations in Mongolia are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into USD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange difference is recognised directly in a separate component of equity.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in Note 28 about equity-settled share-based payment transactions and in Note 34 (c) about the environmental contingencies, other significant accounting estimates and judgements were summarised as follows:

(a) Reserves

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are depreciated and amortised based on the units produced.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Useful lives of property, plant and equipment

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

(c) Impairment of assets

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

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

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

(d) Obligation for reclamation

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Recognition of deferred tax assets

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

(f) Derivative financial instruments

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

(g) Exploration and evaluation expenditure

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

(h) Capitalised stripping costs

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

4 REVENUE

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

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

During the year ended 31 December 2011, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD184,985,000, USD148,540,000, and USD73,563,000, respectively. During the year ended 31 December 2010, the Group had four customers that individually exceeded 10% of the Group's turnover, being USD105,175,000, USD92,742,000, USD33,488,000 and USD27,335,000, respectively.

Details of concentrations of credit risk arising from these customers are set out in Note 33(b).

5 COST OF REVENUE

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

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

6 PROFIT BEFORE TAXATION

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

(a) Net finance income:

	2011 **USD'000**	2010 USD'000
Interest income	**(22,236)**	(294)
Foreign exchange gain, net	**–**	(12,041)
Finance income	**(22,236)**	(12,335)
Interest on bank and other borrowings	**18,403**	10,578
Fair value adjustment on derivative component of convertible bond (Note 27)	**(7,863)**	–
Interest on liability component of convertible bond (Note 27)	**3,371**	–
Transaction costs	**6,495**	3,655
Unwinding interest on		
– Other long-term payables	**168**	159
– Accrued reclamation obligations (Note 30)	**567**	332
Less: Interest expense capitalised	**(9,229)**	(10,510)
Net interest expense	**11,912**	4,214
Foreign exchange loss, net	**1,873**	–
Finance costs	**13,785**	4,214
Net finance income	**(8,451)**	(8,121)

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

6 PROFIT BEFORE TAXATION (continued)

(b) Staff costs:

	2011 USD'000	2010 USD'000
Salaries, wages, bonuses and benefits	**17,584**	9,706
Retirement scheme contributions	**2,201**	1,039
Equity-settled share-based payment expenses (Note 28)	**1,646**	–
	21,431	10,745

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:

	2011 USD'000	2010 USD'000
Depreciation and amortisation	**19,370**	3,204
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	**1,049**	1,525
– hire of other assets (including property rentals)	**1,107**	283
	2,156	1,808
Net losses on disposal of property, plant and equipment	**438**	187
Auditors' remuneration		
– audit services	**780**	330
– tax services	**154**	87
	934	417
Listing expenses allocated to profit or loss	**–**	5,572
Cost of inventories #	**336,368**	164,368

Cost of inventories includes USD29,961,000 (2010: USD4,674,000), relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX

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

	2011 **USD'000**	2010 USD'000
Current tax		
Provision for the year		
– Mongolian Enterprise Income Tax (Note 26(a))	**49,367**	19,371
Deferred tax		
Origination and reversal of temporary difference (Note 26(b))	**(13,717)**	3,386
	35,650	22,757

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

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

Note:

(i) *Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT 3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2011 and 2010.*

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

(iii) *Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2011 and 2010.*

(iv) *Non-taxable items mainly represent the unrealized exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2011 and 2010.*

8 EARNINGS PER SHARE

(a) Basic earnings per share

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

Weighted average number of ordinary shares:

	2011	2010
Issued ordinary shares at 1 January	**3,705,036,500**	–
Issued ordinary shares immediately after the Reorganisation and assumed to be outstanding throughout the year	**–**	3,000,000,000
Effect of issue of new shares pursuant to the initial public offering and upon the exercise of the over-allotment option	**–**	152,163,310
Weighted average number of ordinary shares at 31 December	**3,705,036,500**	3,152,163,310

(b) Diluted earnings per share

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

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

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

8 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

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

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

The equity-settled share-based payment transactions (see Note 28) are anti-dilutive and therefore not included in calculating diluted earnings per share for the year ended 31 December 2011.

9 DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed are as follows:

	Year ended 31 December 2011					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts *(Chairman)*	–	144	114	19	–	277
Battsengel Gotov	–	97	110	15	141	363
Badamtsetseg Dash-Ulzii	–	40	44	6	–	90
Non-executive directors						
Gantumur Lingov	18	–	–	1	–	19
Enkhtuvshin Gombo	18	–	–	1	–	19
Enkh-Amgalan Luvsantseren	18	–	–	1	–	19
Oyungerel Janchiv	18	–	–	1	–	19
Philip Hubert ter Woort	–	–	–	–	–	–
Batsaikhan Purev	18	–	–	1	–	19
Independent non-executive directors						
Ochirbat Punsalmaa	24	–	–	1	–	25
Unenbat Jigjid	26	–	–	1	–	27
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	198	281	268	47	141	935

9 DIRECTORS' REMUNERATION (continued)

	Year ended 31 December 2010					
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Executive directors						
Odjargal Jambaljamts *(Chairman)*	–	145	134	20	–	299
Battsengel Gotov	–	139	1,313	105	–	1,557
Badamtsetseg Dash-Ulzii	–	3	–	–	–	3
Non-executive directors						
Gantumur Lingov	5	–	–	–	–	5
Enkhtuvshin Gombo	5	–	–	–	–	5
Enkh-Amgalan Luvsantseren	7	–	–	1	–	8
Oyungerel Janchiv	7	–	–	1	–	8
Philip Hubert ter Woort	–	–	–	–	–	–
Batsaikhan Purev	7	–	–	1	–	8
Independent non-executive directors						
Ochirbat Punsalmaa	6	–	–	–	–	6
Unenbat Jigjid	7	–	–	1	–	8
Chan Tze Ching, Ignatius	14	–	–	–	–	14
Total	58	287	1,447	129	–	1,921

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2011.

Philip Hubert ter Woort waived all his emoluments during the years ended 31 December 2011 and 2010.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2011	2010
Directors	**1**	2
Non-directors	**4**	3
	5	5

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

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

	2011 USD'000	2010 USD'000
Basic salaries, allowances and benefits in kind	**551**	204
Discretionary bonuses	**455**	311
Retirement scheme contributions	**41**	37
Equity-settled share-based payment expenses	**311**	–
	1,358	552

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

	2011	2010
Nil to HKD1,000,000	**–**	–
HKD1,000,001 to HKD2,000,000	**–**	3
HKD2,000,001 and above	**5**	2

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2011.

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to the equity shareholders of the Company includes loss of USD9,563,000 (2010: USD5,256,000) which has been dealt with in the financial statements of the Company.

12 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2011 and 2010.

13 SEGMENT REPORTING

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

14 PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining structures and mining rights USD'000	Total USD'000
Cost:						
At 1 January 2010	3,820	1,533	9,205	1,425	16,256	32,239
Additions	782	997	2,013	1,875	21,740	27,407
Transfer from construction in progress (Note 15)	14,797	123	–	3	–	14,923
Disposals	(64)	(35)	(133)	(242)	–	(474)
Exchange adjustments	1,796	313	1,509	340	4,128	8,086
At 31 December 2010	21,131	2,931	12,594	3,401	42,124	82,181
At 1 January 2011	21,131	2,931	12,594	3,401	42,124	82,181
Additions in relation to the Acquisition (Note 36)	1,521	121	4,498	228	–	6,368
Additions	3,832	2,499	40,019	3,835	51,741	101,926
Transfer from construction in progress (Note 15)	104,399	115,206	–	–	–	219,605
Disposals	(1,606)	(238)	(1,178)	(1,674)	–	(4,696)
Exchange adjustments	(12,265)	(11,311)	(5,394)	(567)	(9,047)	(38,584)
At 31 December 2011	**117,012**	**109,208**	**50,539**	**5,223**	**84,818**	**366,800**
Accumulated amortisation and depreciation:						
At 1 January 2010	113	72	1,477	122	97	1,881
Charge for the year	624	216	1,706	424	232	3,202
Written back on disposal	(5)	(4)	(35)	(30)	–	(74)
Exchange adjustments	66	27	351	49	33	526
At 31 December 2010	798	311	3,499	565	362	5,535
At 1 January 2011	798	311	3,499	565	362	5,535
Additions in relation to the Acquisition (Note 36)	22	7	247	35	–	311
Charge for the year	2,618	6,432	6,189	1,227	646	17,112
Written back on disposal	(239)	(39)	(591)	(320)	–	(1,189)
Exchange adjustments	(305)	(631)	(900)	(145)	(97)	(2,078)
At 31 December 2011	**2,894**	**6,080**	**8,444**	**1,362**	**911**	**19,691**
Carrying amount:						
At 31 December 2011	**114,118**	**103,128**	**42,095**	**3,861**	**83,907**	**347,109**
At 31 December 2010	20,333	2,620	9,095	2,836	41,762	76,646

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

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

(b) Mining structures and mining rights at 31 December 2011 include deferred stripping costs of USD60,437,000 (2010: USD19,909,000) and application fee for the mining rights of USD707,000 (2010: USD805,000) in relation to the Group's mine at the UHG deposit.

(c) The addition of mining structures and mining rights for the year ended 31 December 2011 include reclamation cost of USD4,834,000 (2010: USD4,251,000) (see Note 30).

(d) As at 31 December 2011, certain of the Group's short-term interest-bearing borrowings were secured by the Group's motor vehicles with net book value of USD11,541,000 (31 December 2010: nil) (see Note 24).

(e) As at 31 December 2011, certain of the Group's interest-bearing borrowings were secured by the Group's coal handling and preparation plant – module I and power plant with a net book value of USD99,483,000 and USD54,627,000, respectively (31 December 2010: nil) (see Note 24).

15 CONSTRUCTION IN PROGRESS

	The Group	
	2011	2010
	USD'000	USD'000
At 1 January	**232,784**	43,985
Additions in relation to the Acquisition (Note 36)	**18,582**	–
Additions	**267,520**	183,984
Transfer to property, plant and equipment (Note 14)	**(219,605)**	(14,923)
Transfer to intangible asset (Note 17)	**(95,817)**	–
Exchange adjustments	**(20,235)**	19,738
At 31 December	**183,229**	232,784

The construction in progress are mainly related to coal handling and preparation plant, power plant, paved road, railway and mining related machinery and equipment. As at 31 December 2011, no interest-bearing borrowings were secured by the Group's construction in progress. As at 31 December 2010, certain of Group's interest-bearing borrowings were secured by the Group's coal handling and preparation plant -module I and power plant with net book value of USD102,153,000 and USD46,402,000, respectively (see Note 24), which were transferred to property, plant and equipment during 2011.

16 LEASE PREPAYMENTS

	The Group	
	2011	2010
	USD'000	USD'000
Cost:		
At 1 January	**124**	108
Exchange adjustments	**(12)**	16
At 31 December	**112**	124
Accumulated amortisation:		
At 1 January	**6**	3
Charge for the year	**2**	2
Exchange adjustments	**(1)**	1
At 31 December	**7**	6
Net book value:	**105**	118

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

17 INTANGIBLE ASSETS

The Group

	Acquired mining right USD'000	Operating right paved road USD'000	Total USD'000
Cost:			
At 1 January 2011	–	–	–
Addition in relation to the Acquisition (Note 36)	596,557	–	596,557
Transfer from construction in progress (Note 15)	–	95,817	95,817
Exchange adjustments	–	(8,978)	(8,978)
At 31 December 2011	**596,557**	**86,839**	**683,396**
Accumulated amortisation:			
At 1 January 2011	–	–	–
Charge for the year	–	2,256	2,256
Exchange adjustments	–	(212)	(212)
At 31 December 2011	**–**	**2,044**	**2,044**
Carrying amount:			
At 31 December 2010	–	–	–
At 31 December 2011	**596,557**	**84,795**	**681,352**

Acquired mining right represents the mining right acquired during the acquisition of QGX (see Note 36). As QGX has not commenced the commercial production by 31 December 2011, accordingly there was no amortisation related to the acquired mining right during the year ended 31 December 2011.

According to the Resolution of the Government of Mongolia dated 31 March 2010 and the Built-Operate-Transfer agreement signed between the Government of Mongolia and the Group dated 9 June 2010, the Government of Mongolia granted the Group the land use rights, and to build and operate the paved road running from the mine site to the Mongolia-China border at Gashuun Sukhait. Under the terms of the Agreement, the Group will use its own funds to construct the paved road. In return, it enjoys an unrestricted use right to possess, use, operate the paved road for 10 years period after commission of the road. The Group will use the road primarily for the purpose of transporting coals from its mine site to the Mongolia-China border at Gashuun Sukhait, which is the gate to the designated delivery port of the majority of its customers. In addition, the paved road may be opened to public use subject to certain weight restrictions whereupon the Group may direct users. The Group has completed and commissioned the paved road on 6 October 2011.

18 INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	USD'000	USD'000
Unlisted shares, at cost	**–**	–
Amount due from subsidiaries	**1,007,581**	299,599
	1,007,581	299,599

Particular of subsidiaries at 31 December 2011 are as follows:

Name of company	Place of incorporation	Issued and fully paid up capital	Equity attributable to the Company Direct	Equity attributable to the Company Indirect	Principal activities
Mongolian Coal Corporation Limited	Hong Kong	HKD1	100%	–	Investment holding
Mongolian Coal Corporation S.a.r.l.	Luxembourg	USD67,126,690	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	USD103,800,000	–	100%	Investment holding
Energy Resources LLC	Mongolia	USD100,000,370	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia	MNT10,700,000,000	–	100%	Railway project management
Energy Resources Mining LLC	Mongolia	USD1,000	–	100%	Mining and technical management
Transgobi LLC	Mongolia	MNT9,122,641,836	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia	MNT3,475,379,135	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia	MNT3,466,163,445	–	100%	Coal plant management
Ukhaa Khudag Water Supply LLC	Mongolia	MNT3,001,940,000	–	100%	Water exploration and supply management
United Power LLC	Mongolia	MNT3,025,219,206	–	100%	Power supply project management
Gobi Road LLC	Mongolia	MNT1,000,000	–	100%	Construction of road
Energy Resources Road LLC	Mongolia	MNT1,000,000	–	100%	Transportation of coal and construction of road
Public Service LLC	Mongolia	MNT20,000,000	–	100%	Provision of public utility services
Khangad Exploration LLC	Mongolia	MNT42,491,100,000		100%	Exploration and development of coal mine
Baruun Naran Sarl	Luxembourg	EUR24,918,394		100%	Investment holding
Baruun Naran Ltd	Gibraltar	USD1,000		100%	Investment holding

19 INTEREST IN ASSOCIATES

	The Group	
	2011	2010
	USD'000	USD'000
Share of net assets	**4,278**	19

On 15 July 2008, the Group invested in Coal Road LLC (the "Coal Road") and had 25% interest in Coal Road, an entity incorporated in Mongolia with issued and paid up capital of MNT 209,075,133. The principal activities of Coal Road are the provision of road maintenance service and traffic management.

On 14 January 2011, the Group invested in International Medical Center LLC (the "International Medical Center") and had 25.5% interest in International Medical Center, an entity incorporated in Mongolia with issued and paid up capital of MNT 22,522,500,000. The principal activities of International Medical Center are the provision of health care, diagnostic and treatment services.

On 30 May 2011, the Group invested in International Technical College LLC (the "International Technical College") and had 33.33% interest in International Technical College, an entity incorporated in Mongolia with issued and paid up capital of MNT 913,500,000. The principal activity of International Technical College is technical education for ensuring the long- term availability of skilled technical workforce.

20 OTHER NON-CURRENT ASSETS

	The Group	
	2011	2010
	USD'000	USD'000
Prepayments in connection with construction work, equipment purchases and others	**7,423**	26,882
Others	**–**	7
	7,423	26,889

21 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2011	2010
	USD'000	USD'000
Coal	**49,912**	6,607
Materials and supplies	**7,822**	1,269
	57,734	7,876

As at 31 December 2010, the Group's short-term interest-bearing borrowings were secured by the total carrying amount of the Group's coal inventory. Such short-term interest-bearing borrowings were early repaid in January 2011 (see Note 24).

22 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	USD'000	USD'000	**USD'000**	USD'000
Trade receivables (Note (a))	**41,445**	288	**–**	–
Other receivables (Note (c))	**72,022**	32,062	**5**	322
	113,467	32,350	**5**	322
Less: allowance for doubtful debts (Note (b))	**(4,145)**	–	**–**	–
	109,322	32,350	**5**	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 31 December 2011, all of the trade receivables are aged within one year.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Note 2(j)(i)).

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

22 TRADE AND OTHER RECEIVABLES (continued)

(c) Other receivables

	The Group		The Company	
	2011	2010	**2011**	2010
	USD'000	USD'000	**USD'000**	USD'000
Amounts due from related parties (Note (i))	**455**	347	**–**	–
Prepayments and deposits (Note (ii))	**17,695**	7,014	**–**	–
VAT receivables (Note (iii))	**43,697**	23,920	**–**	–
Others (Note (iv))	**10,175**	781	**5**	322
	72,022	32,062	**5**	322

Note:

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

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

(iii) VAT receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Government of Mongolia Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts. Further details are stated in Note 33(b).

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

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

23 CASH AT BANK AND IN HAND

	The Group		The Company	
	2011	2010	**2011**	2010
	USD'000	USD'000	**USD'000**	USD'000
Cash in hand	**77**	99	**–**	–
Cash at bank	**227,688**	674,808	**7,776**	340,562
Cash at bank and in hand	**227,765**	674,907	**7,776**	340,562
Less: time deposits with original maturity over three months	**(186,759)**	(346,645)	**(7,000)**	(325,000)
Cash and cash equivalents in the consolidated cash flow statement	**41,006**	328,262	**776**	15,562

As at 31 December 2011, certain of the Group's borrowings were secured by the Group's cash at bank of USD213,884,000 (2010: USD199,890,000) (see Note 24).

24 BORROWINGS

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

	The Group	
	2011	2010
	USD'000	USD'000
Bank loan (secured)	**169,091**	180,000
Less: Current portion	**(21,818)**	(10,909)
Less: Unamortised transaction costs	**(2,612)**	(3,877)
	144,661	165,214

At 31 December 2011, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development (**"EBRD"**), Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH of USD114,546,000 (31 December 2010: USD120,000,000), USD32,727,000 (31 December 2010: USD36,000,000) and USD21,818,000 (31 December 2010: USD24,000,000), respectively, bearing interest of 6 months LIBOR + 4.75%~6.85% and were secured by the Group's property, plant and equipment (see Note 14) and cash at bank and in hand (see Note 23).

24 BORROWINGS (continued)

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

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

	The Group	
	2011 USD'000	2010 USD'000
Within 1 year or on demand	**21,818**	10,909
After 1 year but within 2 years	**21,818**	21,818
After 2 years but within 5 years	**125,455**	95,455
After 5 years	**–**	51,818
	169,091	180,000

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

	The Group		The Company	
	2011 USD'000	2010 USD'000	**2011 USD'000**	2010 USD'000
Bank loans				
– Secured	**311,750**	75,000	**298,750**	–
Current portion of long-term borrowings				
– Bank loan	**21,818**	10,909	**–**	–
	333,568	85,909	**298,750**	–

As at 31 December 2011, the Group's short-term interest-bearing borrowings from Standard Bank of USD300,000,000 bearing interest of 6 months LIBOR + 3.25%, were secured by the Group's cash at bank and in hand (see Note 23). The attributable transaction cost as at 31 December 2011 amounts to USD1,250,000. The original borrowings from Standard Bank was USD400,000,000, part of which amounted to USD100,000,000 was early repaid in December 2011.

As at 31 December 2011, the Group's short-term interest-bearing borrowings from Khan Bank of USD13,000,000 bearing annual interest of 11%, were secured by the Group's property, plant and equipment (see Note 14).

As at 31 December 2010, the Group's short-term interest-bearing borrowings were secured by the Group's coal inventory (see Note 21), which were early repaid in January 2011.

25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	USD'000	USD'000	**USD'000**	USD'000
Amount due to subsidiaries	**–**	–	**–**	39
Trade payables (Note (i))	**18,523**	4,772	**–**	–
Receipts in advance (Note (ii))	**9,160**	18,842	**–**	–
Amounts due to related parties (Note (iii))	**9,560**	5,329	**–**	–
Payables for purchase of equipment	**36,018**	3,913	**–**	–
Security deposit on construction work	**9,259**	128	**–**	–
Interest payable	**2,544**	3,776	**–**	–
Other taxes payables	**21,354**	326	**–**	–
Provisions for contingent considerations (Note 30)	**1,500**	–	**–**	–
Others (Note (iv))	**10,762**	3,229	**577**	–
	118,680	40,315	**577**	39

Note:

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

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

(iii) *Amounts due to related parties represent management service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 35(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.

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2011 USD'000	2010 USD'000
At 1 January	**5,455**	795
Provision for the year (Note 7(a))	**49,367**	19,371
Offsetting with VAT receivable (Note 33 (b))	**(9,470)**	–
Income tax paid	**(25,998)**	(15,145)
Exchange adjustments	**(1,846)**	434
At 31 December	**17,508**	5,455

(b) Deferred tax assets and liabilities recognised

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

The Group

	Tax losses USD'000	Unrealised profits on intra-group transactions USD'000	Depreciation and amortisation USD'000	Unrealised foreign exchange differences on long-term borrowings USD'000	Allowance for doubtful debts USD'000	Fair value adjustment in relation to the Acquisition USD'000	Total USD'000
Deferred tax arising from:							
At 1 January 2010	–	178	(217)	–	–	–	(39)
Credited/(charged) to profit or loss (Note 7(a))	751	494	(228)	(4,403)	–	–	(3,386)
Exchange adjustments	60	52	(37)	(350)	–	–	(275)
At 31 December 2010	811	724	(482)	(4,753)	–	–	(3,700)
At 1 January 2011	**811**	**724**	**(482)**	**(4,753)**	**-**	**-**	**(3,700)**
Addition in relation to the Acquisition (Note 36)	**-**	**-**	**-**	**-**	**-**	**(149,105)**	**(149,105)**
Credit to profit or loss (Note 7(a))	**1,816**	**3,593**	**553**	**6,719**	**1,036**	**-**	**13,717**
Exchange adjustments	**(251)**	**(409)**	**(54)**	**(156)**	**-**	**-**	**(870)**
At 31 December 2011	**2,376**	**3,908**	**17**	**1,810**	**1,036**	**(149,105)**	**(139,958)**

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

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

	The Group	
	2011 USD'000	2010 USD'000
Net deferred tax assets recognised on the consolidated balance sheet	**9,698**	1,681
Net deferred tax liability recognised on the consolidated balance sheet	**(149,656)**	(5,381)
	(139,958)	(3,700)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD26,973,000 as at 31 December 2011 (2010: USD8,949,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses generated before 31 December 2009 will expire in two years after the tax losses generated under current tax legislation. According to the new amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Other entities will still apply to the two years policy.

Expiry of unrecognised tax losses of group entities located in Mongolia:

	The Group	
	2011 USD'000	2010 USD'000
Year of expiry		
2011	**–**	553
2012	**358**	368
2013	**9,103**	–
2014	**2,681**	2,759
	12,142	3,680

In relation to group entities located in the jurisdictions other than Mongolia, the tax losses amounting to USD14,831,000 as at 31 December 2011 do not expire under current tax legislations (31 December 2010: USD5,269,000).

27 CONVERTIBLE BOND

	The Group and the Company		
	Liability component	Derivative component	Total
	USD'000	USD'000	USD'000
At 1 January 2011	–	–	–
Issuance of convertible bond (Note 36)	80,048	10,292	90,340
Transaction costs	(915)	–	(915)
Interest charged during the year (Note 6(a))	3,371	–	3,371
Interest payable	(1,425)	–	(1,425)
Fair value adjustment (Note 6(a))	–	(7,863)	(7,863)
At 31 December 2011	**81,079**	**2,429**	**83,508**

On 1 June 2011, the Company issued the USD85,000,000 aggregate principal amount convertible bond (**"convertible bond"**) to QGX Holdings Ltd. (**"Bondholder"**), related to the acquisition of QGX (see Note 36).

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 (see the definition in Note 36)) contained in the Baruun Naran Coking Coal Mine (the "Total Reserves")) are less than 150,000,000 tonnes (**"Reserves Shortfall"**), the principal amount of the convertible bond shall be reduced by an amount equal to USD3.00 per tonne of such Reserves Shortfall, subject to a cap of USD85,000,000.

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

The convertible bond has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD10,292,000 and the attributable transaction cost of USD118,000 were charged to the profit or loss for the 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.

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme (**"Share Option Scheme"**) which was adopted on 17 September 2010 whereby the board of directors of the Company is authorised to, at their discretion, invite 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, 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 for the year ended 31 December 2011 are 3,000,000 and 32,200,000, respectively.

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

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

	Exercise price HKD	Number of options '000
Outstanding at 1 January 2011	–	–
Granted during the year	6.66	35,200
Forfeited during the year	6.66	(300)
Outstanding at 31 December 2011	6.66	34,900
Exercisable at 31 December 2011	–	–

The options outstanding at 31 December 2011 had an exercise price of HKD6.66 per share and a weighted average remaining contractual life of 7.8 years.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

	2011
Fair value at measurement date	**HKD3.3793~HKD3.7663**
Share price	**HKD6.66**
Exercise price	**HKD6.66**
Expected life	**4.5-6 years**
Risk-free interest rate	**0.755%~1.054%**
Expected volatility	**61.87%~63.43%**
Expected dividends	**–**

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management estimate. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

29 LONG-TERM PAYABLES

	The Group	
	2011 **USD'000**	2010 USD'000
Receipt in advance from a customer	**–**	16,811

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

30 PROVISIONS

	The Group	
	2011 **USD'000**	2010 USD'000
Accrued reclamation obligations	**11,110**	6,904
Contingent considerations (Note 36)	**1,500**	–
Less: Current portion	**1,500**	–
	11,110	6,904

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the balance sheet date, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2011 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:

	The Group	
	2011 **USD'000**	2010 USD'000
At 1 January	**6,904**	1,705
Adjustment of estimations	**4,834**	4,251
Accretion expense (Note 6(a))	**567**	332
Exchange adjustments	**(1,195)**	616
At 31 December	**11,110**	6,904

Accrued reclamation costs increased during the years ended 31 December 2011 and 2010 as the result of a reduction in the discount rate.

31 CAPITAL AND DIVIDENDS

(a) The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2011.

(b) Share capital

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

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2011 and 2010 (Note 32(b)).

The Company

	2011		2010	
	No of shares'000	**USD'000**	No of shares'000	USD'000
Authorised:				
Ordinary shares	**6,000,000**	**60,000**	6,000,000	60,000

	Note	**2011**		2010	
		No of shares'000	**USD'000**	No of shares'000	USD'000
Ordinary shares, issued and fully paid:					
At 1 January					
Shares issued immediately after the Reorganisation	(i)	**3,000,000**	**30,000**	3,000,000	30,000
Shares issued pursuant to the initial public offering and upon the exercise of the over-allotment option	(ii)	**705,037**	**7,050**	705,037	7,050
At 31 December		**3,705,037**	**37,050**	3,705,037	37,050

31 CAPITAL AND DIVIDENDS (continued)

(c) Issue of shares

(i) Upon the incorporation of the Company, one share was subscribed by the initial subscriber (see Note 31 (b)). On 14 September 2010, MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding LLC, Tengeriin Tsag Group LLC, Energy Resources Corporation LLC and the Company entered into a share swap agreement, pursuant to which each of MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding LLC and Tengeriin Tsag Group LLC transferred its respective shares in Energy Resources LLC to Energy Resources Corporation LLC, in consideration of which the Company allotted and issued, credited as fully paid, 1,715,999,999, 423,000,000, 183,000,000, 150,000,000, 300,000,000 and 228,000,000 shares to MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively.

(ii) On 13 October 2010, an aggregate of 597,122,500 ordinary shares of USD0.01 each were issued and offered for subscription at a price of HKD7.02 per share upon the listing of the Company's share on the Stock Exchange. On 21 October 2010, an aggregate of 107,914,000 ordinary shares of USD0.01 each were issued and offered for subscription at a price of HKD7.02 per share upon the exercise of the over-allotment option. The Group raised approximately HKD4,778,015,000 in total (equivalent to USD615,700,000), net of the related expenses.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2011 was 35% (31 December 2010: 24%).

32 RESERVES

(a) Share premium

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

(b) 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 in Note 2(q)(ii).

(c) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the companies now comprising the Group to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(v).

(d) Distributability of reserves

Pursuant to the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and reserved) of the Cayman Islands, share premium of the Company is distributable to the shareholders. Other than the share premium, there is no other amount available for distribution to equity shareholders of the Company as at 31 December 2011.

33 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

33 FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

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

Trade receivables are presented net of allowance for doubtful debts. In order to minimise the credit risk, the credit management committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit management committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes an allowance for doubtful debts that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the end of the reporting period, the Group believes that adequate allowance for doubtful debts has been made in the consolidated financial statements. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as three customers accounted for 75% of the total trade receivables as at 31 December 2011.

The Group closely monitors the amount due from related parties.

VAT receivables include amounts that have been accumulated to date in various subsidiaries. According to the prevailing tax rules and regulations in Mongolia, a tax payer may offset future taxes and royalties payable to the Government against VAT amounts receivable from the Government of Mongolia. In July 2009, the Mongolian Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT and any VAT amounts impacted is prospective from the effective date of the law on 16 August 2009. On 10 November 2010, the Government defined finished mineral products as products which qualify for claiming back VAT. During the year ended 31 December 2011, the Group offset current income tax and royalty tax owing of USD9,470,000 and USD8,381,000, respectively, against its VAT receivable balance. Based on currently available information, the Group anticipates full recoverability of amounts due on account primarily relating to finished mineral products at 31 December 2011. Verification by the Mongolian Government Taxation Authority of the collectability of the funds is conducted on an annual basis and any outstanding VAT receivable amounts at 31 December 2011, will be available to the Group to offset future taxes and royalty tax or will be refunded by the Government of Mongolia Taxation Authority.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 22.

33 FINANCIAL INSTRUMENTS (continued)

(c) Foreign currency exchange risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. The currencies giving rise to this risk are primarily RMB, USD and HKD.

(i) Exposure to currency risk

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

The Group

	Exposure to foreign currencies (expressed in United States Dollars)					
	2011			2010		
	Renminbi USD'000	**United States Dollars USD'000**	**Hong Kong Dollars USD'000**	Renminbi USD'000	United States Dollars USD'000	Hong Kong Dollars USD'000
Trade and other receivables	**3,771**	**37,629**	**–**	40	293	–
Cash and cash equivalents	**2,418**	**117,234**	**235**	3,103	268,285	2,216
Trade and other payables	**(6)**	**(18,675)**	**(82)**	(9,091)	(16,279)	(14)
Short-term borrowings and current portion of long-term borrowings	**–**	**(34,818)**	**–**	–	(85,909)	–
Long-term borrowings	**–**	**(144,661)**	**–**	–	(165,214)	–
Long-term payable	**–**	**–**	**–**	(16,811)	–	–
Net exposure arising from recognised assets and liabilities	**6,183**	**(43,291)**	**153**	(22,759)	1,176	2,202

33 FINANCIAL INSTRUMENTS (continued)

(c) Foreign currency exchange risk (continued)

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(v) as at the respective balance sheet dates would (decrease)/increase profit after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

	2011 **USD'000**	2010 USD'000
Profit for the year		
5% increase in RMB	**232**	(792)
5% decrease in RMB	**(232)**	792
5% increase in USD	**(979)**	44
5% decrease in USD	**979**	(44)
5% increase in HKD	**8**	109
5% decrease in HKD	**(8)**	(109)

(d) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings, long-term borrowings and convertible bond. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the profile of the Group's and the Company's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the balance sheet date. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 24.

	The Group		**The Company**	
	2011 **USD'000**	2010 USD'000	**2011** **USD'000**	2010 USD'000
Net fixed rate borrowings:				
Borrowings	**13,000**	–	**–**	–
Obligations under finance lease	**460**	–	**–**	–
Convertible bond	**83,508**	–	**83,508**	–
Less: Bank deposits (including pledged deposits)	**(186,759)**	(346,645)	**(7,000)**	(325,000)
	(89,791)	(346,645)	**76,508**	(325,000)
Net floating rate borrowings:				
Borrowings	**465,229**	251,123	**298,750**	–
Less: Bank deposits (including pledged deposits)	**(41,006)**	(328,262)	**(776)**	(15,562)
	424,223	(77,139)	**297,974**	(15,562)
Total net borrowings:	**334,432**	(423,784)	**374,482**	(340,562)

33 FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately USD3,900,000 (31 December 2010: a general increase/decrease of 100 basis point in interest rates, with all other variables held constant, would have increased/decreased the Groups profit after taxation and retained profits by approximately USD1,566,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

In respect of the convertible bond, as disclosed in Note 27, it 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.

(e) Liquidity risk

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

33 FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

The Group

	2011 Contractual undiscounted cash outflow					
	within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 24)	348,132	29,997	138,088	–	516,217	478,229
Trade and other Payables (Note 25)	118,680	–	–	–	118,680	118,680
Convertible bond (Note 27)	86,565	–	–	–	86,565	83,508
	553,377	29,997	138,088	–	721,462	680,417

	2010 Contractual undiscounted cash outflow					
	within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 24)	96,835	31,324	115,706	52,884	296,749	251,123
Trade and other payables (Note 25)	40,315	–	–	–	40,315	40,315
Long-term payables (Note 29)	–	–	16,811	–	16,811	16,811
	137,150	31,324	132,517	52,884	353,875	308,249

33 FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk (continued)

The Company

	2011 Contractual undiscounted cash outflow					
	within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 24)	302,559	–	–	–	302,559	298,750
Trade and other Payables (Note 25)	577	–	–	–	577	577
Convertible bond (Note 27)	86,565	–	–	–	86,565	83,508
	389,701	–	–	–	389,701	382,835

	2010 Contractual undiscounted cash outflow					
	within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Trade and other payables (Note 25)	39	–	–	–	39	39

33 FINANCIAL INSTRUMENTS (continued)

(f) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	Level 3	
	The Group	
	2011	2010
	USD'000	USD'000
Derivative financial instruments:		
– Conversion option embedded in convertible bond	**2,429**	–

(ii) Fair value of financial instruments carried at other than fair value

In respect of cash and cash equivalents, trade and other receivables, and trade and other payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

In respect of borrowings and the liability component in respect of the convertible bond, the carrying amounts are not materially different from their fair values as at 31 December 2011. The fair values of borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The fair values of the convertible bond are measured using discounted cash flows method in which all significant inputs are directly or indirectly based on observable market data.

The aggregate carrying values of other financial liabilities carried on the consolidated balance sheet are not materially different from their fair values as at 31 December 2011.

34 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

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

(b) Operating lease commitments

(i) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011 USD'000	2010 USD'000
Within 1 year	**7,136**	1,340
After 1 year but within 5 years	**2,245**	825
	9,381	2,165

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

(c) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 30 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.

35 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the year. During the year, the Group entered into transactions with the following related parties.

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

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2011 are as follows:

	2011 USD'000	2010 USD'000
Ancillary services (Note (i))	**30,326**	25,152
Purchases of equipment and construction work (Note (ii))	**24,447**	42,409
Sales of property, plant and equipment (Note (iii))	**2,418**	–
Lease of property, plant and equipment (Note (iv))	**897**	1,177
Finance lease of equipment (Note (v))	**301**	–
Repayment of loans from related parties (Note (vi))	**–**	(2,306)

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

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

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

(iii) Sales of property, plant and equipment represent sale to Uniservice Solution. The sales are carried out at comparable or prevailing market rates, where applicable.

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

(v) 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.

(vi) The Group provided loans to MCS and MCS Electronics in 2009 and collected the repayment of the loans in 2010.

Except for the loans provided to and from the related parties and its corresponding interest income and expenses which were terminated before 31 January 2010, the above related party transactions are recurring after the listing of the Company on the Stock Exchange.

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

Amounts due from/(to) related parties

	2011 **USD'000**	2010 USD'000
Other receivables (Note 22(c)(i))	**455**	347
Other accruals and payables (Note 25(iii))	**(9,560)**	(5,329)

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel remuneration

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

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2011 **USD'000**	2010 USD'000
Salaries and other emoluments	**1,500**	894
Discretionary bonus	**1,001**	1,898
Retirement scheme contributions	**140**	201
Equity-settled share-based payment expenses	**837**	–
	3,478	2,993

36 ACQUISITION OF SUBSIDIARIES

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

The consideration for the Acquisition includes:

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

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

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

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

36 ACQUISITION OF SUBSIDIARIES (continued)

The above consideration may be adjusted as follows:

(i) Approximately 18 months to 21 months from the date of the Share Purchase Agreement, an additional payment may be payable to the Seller or a claw back may be payable by the Seller in the amount of USD3.00 per tonne to the extent to which Total Reserves exceeds 150,000,000 tonnes or are less than 150,000,000 tonnes, respectively (the "Reserve Adjustment"). Under the Reserve Adjustment, the maximum amount payable to the Seller will be USD105,000,000 and the maximum amount payable by the Seller will be USD90,000,000; and

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

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

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

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

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

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

36 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred as at 1 June 2011:

	Fair value USD'000
Cash	100,000
Fair value of promissory note	279,465
Fair value of convertible bond (Note 27)	90,340
Fair value of contingent considerations (Note 30)	1,500
Less: Fair value of Intercompany loans	(21,874)
Fair value of total consideration	449,431

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

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

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

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

37 ULTIMATE CONTROLLING PARTY

As at 31 December 2011, the directors consider the ultimate controlling party of the Group to be MCS (Mongolia) Limited, which was incorporated in British Virgin Island. This entity does not produce financial statements available for public use.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These included the following which may be relevant to the Group's operations and financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS 12, Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 11, Joint arrangements	1 January 2013
IFRS 12, Disclosure of interests in other entities	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
IAS 28, Investments in associates and joint ventures (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
IFRIC 20, Stripping costs in the production phase of a surface mine	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9, Financial instruments	1 January 2015
Amendments to IFRS 9, Financial instruments and IFRS 7 Financial instruments: Disclosures – Mandatory effective date and transition disclosures	1 January 2015

IFRIC 20 applies to all types of natural resources that are extracted using the surfacing mining activity process. It considers when and how to account separately for the two benefits arising from the stripping activity, which are 1) the usable ore that can be used to produce inventory; and 2) improved access to further quantities of material that will be mined in future periods, as well as how to measure these benefits both initially and subsequently.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that, except for IFRIC 20 as mentioned above, the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position other than additional disclosures may arise.

Financial Summary

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	2011 USD'000	2010 USD'000	2009 USD'000	2008 USD'000	2007 USD'000
Revenue	**542,568**	277,502	66,983	–	–
Cost of revenue	**(336,368)**	(164,368)	(38,682)	–	–
Gross profit	**206,200**	113,134	28,301	–	–
Other revenue	**435**	511	70	81	–
Other net expenses	**76**	(187)	(35)	(8)	(3,506)
Administrative expenses	**(60,303)**	(38,685)	(10,427)	(4,044)	(443)
Profit/(loss) from operations	**146,408**	74,773	17,909	(3,971)	(3,949)
Finance income	**22,236**	12,335	342	13	7
Finance costs	**(13,785)**	(4,214)	(3,860)	(1,139)	(30)
Share of profits/(losses) of associate	**(119)**	2	(10)	30	–
Profit/(loss) before taxation	**154,740**	82,896	14,381	(5,067)	(3,972)
Income tax	**(35,650)**	(22,757)	(4,111)	1,488	943
Profit/(loss) attributable to the equity shareholders of the Company	**119,090**	60,139	10,270	(3,579)	(3,029)
Basic earnings/(loss) per share	**3.21 cents**	1.91 cents	0.34 cents	(0.12 cents)	(0.10 cents)
Diluted earnings/(loss) per share	**3.07 cents**	1.91 cents	0.34 cents	(0.12 cents)	(0.10 cents)

SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

Assets and liabilities					
Total assets	**1,628,015**	1,053,270	113,230	35,926	1,985
Total liabilities	**859,151**	325,989	69,389	21,135	2,967
Net assets/(liabilities)	**768,864**	727,281	43,841	14,791	(982)
Equity attributable to equity shareholders of the Company	**768,864**	727,281	43,841	14,791	(982)

Glossary and Technical Terms

"Adoption date"	13 October 2010, the date the Share Option Scheme was adopted and became effective
"AGM"	Annual general meeting
"aimag"	The highest level of Mongolian administrative subdivision (essentially equivalent to a province), of which there are 21 in Mongolia
"ASP"	Average selling price
"bag"	The smallest administrative unit in rural districts of Mongolia
"BCM"	Bank cubic meter
"BN"	Baruun Naran
"BN deposit"	Our BN coal deposit located in the TT formation
"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
"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
"CDACs"	Community Development Advisory Councils
"CFA"	Free Carrier
"CG Code"	The Code on Corporate Governance Practices
"CHPP"	Coal handling and preparation plant
"CI"	Community investment
"CIS"	Community Investment Strategy
"Coal Road"	Coal Road LLC, associate of the Company
"coke"	Bituminous coal from which the volatile components have been removed

"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "Group", "our Group", "we", "us", "our" or "Mongolian Mining Corporation"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010 and except where the context indicates otherwise (i) our subsidiaries; and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
"Controlling Shareholders"	Mr. Odjargal Jambaljamts, MCS Holding LLC, MCS Mining Group Limited, MCS Group Limited, MCS Global Limited and MCS (Mongolia) Limited
"Convertible Bond"	USD85,000,000 aggregate principal amount convertible bond issued by the Company to QGX Holdings Ltd.
"CR"	Community Relations
"CSR"	Corporate social responsibility
"DAF"	Delivered At Frontier, the seller's obligation ends when they have delivered the goods to the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import and the named point and place at the frontier but before the customs border of the adjoining country. The buyer is responsible for customs clearance, duties, taxes, and delivery to final destination at the country of import
"Deed of Non-competition"	Pursuant to a deed of non-competition dated 20 September 2010 executed by Mr. Odjargal Jambaljamts, MCS Holding LLC, MCS Mining Group Limited and MCS Group Limited
"Director(s)"	Director(s) of the Company
"EBRD"	European Bank for Reconstruction and Development
"EITI"	Extractive Industries Transparency Initiative
"EPCM"	Engineering, Procurement, Construction and Management, a form of contract where the contractor will design and install the equipment, procure and install the necessary materials, and be responsible of managing the process of the installation

"Fexos"	Fexos Limited
"Ganqimaodu"	The China side of the China-Mongolia border crossing
"Ger"	A ger is a portable, felt-covered, wood lattice-framed dwelling structure traditionally used by nomads. A ger is more home-like in shape and build, with thicker walls than that of a tent
"GM"	Gangimaodu, border port in China
"Group"	The Company and its subsidiaries
"GS"	Gashuun Sukhait, the Mongolia side of the China-Mongolia border crossing
"HKICPA"	Hong Kong Institute of Chartered Public Accountants
"HKS"	Hong Kong Standards
"HCC"	Hard coking coal
"IAS"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRSs"	International Financial Reporting Standards
"indicated mineral resource"	That part of a mineral resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed
"International Medical Center"	International Medical Center LLC, associate of the Company
"International Technical College"	International Technical College LLC, associate of the Company

"Invested Entity"	Any employee or proposed employee (whether full time or part-time and including any executive Director), consultants or advisers of or to the Company, any of its subsidiaries or any entity
"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
"ISO"	International Organisation for Standardisation
"JORC"	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"Listing Date"	13 October 2010
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"MCS"	MCS Holding LLC, an associate of MCS Mining Group Limited (a substantial shareholder of the Company)
"metallurgical coal"	Coal used in the process of manufacturing steel. It is also known as coking coal
"middlings"	Partially refined coal
"mineral reserve"	The economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined

"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"Mt"	Million tonnes
"Mtpa"	Million tonnes per annum
"MW"	Megawatt
"Offer Date"	12 October 2011, the date of offer of a total of 37,500,000 Share Options to its Chief Executive Officer and certain employees under the Share Option Scheme adopted by the Company
"OCS"	Organizational Culture Survey
"OHSAS"	Occupational Health and Safety Assessment Series
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"PACI"	The World Economic Forum Partnering Against Corruption Initiative
"PCDP"	Public Consultation and Disclosure Plan

"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
"QGX"	Baruun Naran Limited (formerly named QGX Coal Limited), indirect wholly-owned subsidiary of the Company
"RAP"	Resettlement Action Plan
"raw coal"	Generally means coal that has not been washed and processed
"RE 2410"	Review Engagements 2410
"RMI"	Responsible Mining Initiative for Sustainable Development
"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)
"SDAC" or "CDACs"	Sustainable Development Advisory Committee
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SD"	Sustainable development
"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
"SME"	Small and medium enterprises

"SOS"	Share Option Scheme
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic meters) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"TAM/BAS Programs"	Turn Around Management/Business Advisory Services Programs
"target market region" or "TMR"	Includes most of the Chinese territory immediately adjacent to Mongolia's southern border with China's Inner Mongolia and Gansu provinces, extending as far west as the Xinjiang provincial border. Eastward it extends to cover Liaoning province, and southward to Jiangsu province, including the three major coal exporting ports of Qinhuangdao, Tianjin and Huanghua
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG deposit
"the Schemes"	The Group participates in defined contribution retirement benefit schemes
"thermal coal"	Also referred to as "steam coal" or "steaming coal," thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonization properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"TKH"	Tsagaan Khad
"tonne"	Metric ton
"Tsogttsetsii"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"UB"	Ulaanbaatar
"UHG"	Ukhaa Khudag

Glossary and Technical Terms

"UHG deposit"	Our Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	The aboveground (<300m) portion of our UHG deposit
"USD"	United States Dollar
"VAT"	Value added tax
"VPs"	Voluntary Principles on Security and Human Rights
"washed coal"	Coals that have been washed and processed to reduce its ash content

MONGOLIAN MINING CORPORATION

FSC www.fsc.org MIX Paper from responsible sources FSC™ C021898

Printed on FSC™ certified paper using environmentally friendly plate system and soy-based inks