



**MONGOLIAN
MINING
CORPORATION**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 975

INTERIM REPORT 2013



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Company Profile

Mongolian Mining Corporation (“**MMC**” or the “**Company**” and together with its subsidiaries, the “**Group**”) (Stock Code: 975) is the largest producer and exporter of high-quality hard coking coal (“**HCC**”) in Mongolia. MMC owns and operates an open-pit coking coal mine at the Ukhaa Khudag (“**UHG**”) deposit located within the Tavan Tolgoi coal formation, and the Baruun Naran (“**BN**”) coking coal deposit, both located in 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
Od Jambaljamts
Enkhtuvshin Gombo

Independent Non-Executive Directors

Ochirbat Punsalmaa
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

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Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

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Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Ng Sin Yee, Clare

INDEPENDENT AUDITOR

KPMG
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10 Chater Road
Central, Hong Kong

AUTHORIZED REPRESENTATIVES

Battsengel Gotov
Ng Sin Yee, Clare

COMPLIANCE ADVISER

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LEGAL ADVISERS

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Economic & Legal Consultancy LLC
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Sukhbaatar District
Ulaanbaatar 14200
Mongolia

Conyers Dill & Pearman
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8 Connaught Place
Central, Hong Kong

Corporate Information

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4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

HONG KONG SHARE REGISTRAR

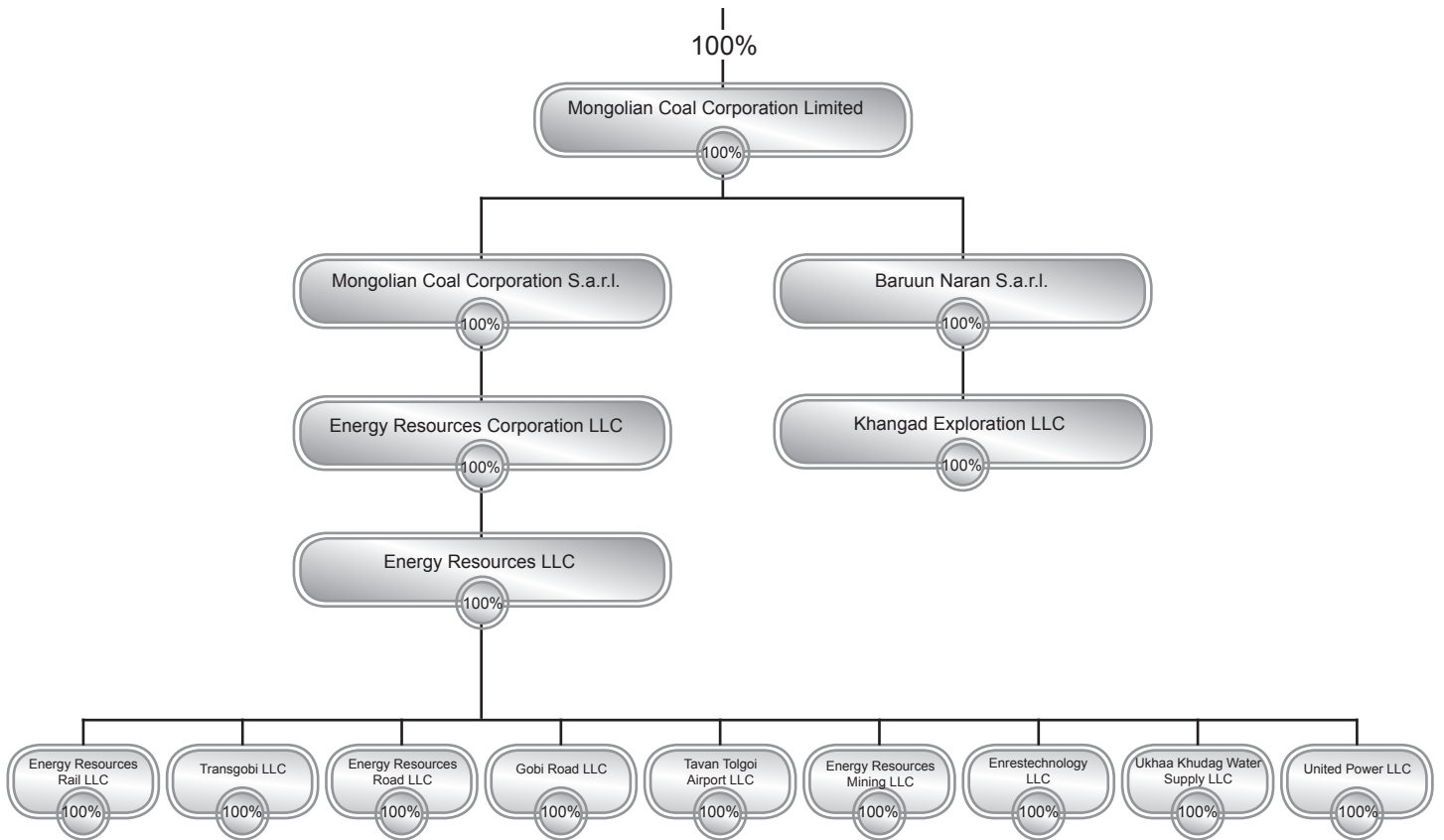
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

EBRD – European Bank for Reconstruction and
Development, London, United Kingdom
FMO – Nederlandse Financierings-Maatschappij Voor
Ontwikkelingslanden N.V.
(Entrepreneurial Development Bank of Netherlands)
DEG – Deutsche Investitions-und
Entwicklungsgesellschaft mbH
(The German Investment and Development Company)
The Standard Bank of South Africa Ltd.
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



Group Structure



Financial Highlights

	Six months ended 30 June		Change
	2013 (USD'000)	2012 (USD'000)	
FINANCIAL			
Revenue	247,849	233,033	6.4%
Cost of revenue	219,546	170,880	28.5%
Gross profit	28,303	62,153	-54.5%
Gross profit margin	11.4%	26.7%	-15.3 ppt
(Loss)/profit attributable to the equity shareholders of the Company	(25,229)	30,978	-181.4%
Net (loss)/profit margin	-10.2%	13.3%	-23.5 ppt
Basic (loss)/earnings per share	-0.68 cents	0.84 cents	-1.52 cents

	At 30 June 2013 (USD'000)	At 31 December 2012 (USD'000)	Change
	Total non-current assets	1,548,566	
Total current assets	502,744	582,526	-13.7%
Total current liabilities	345,234	418,035	-17.4%
Total non-current liabilities	1,010,663	1,007,229	0.3%
Net assets	695,413	752,013	-7.5%
Equity attributable to equity shareholders of the Company	695,413	752,013	-7.5%

	Six months ended 30 June		Change
	2013 (USD'000)	2012 (USD'000)	
Net cash generated from/(used in) operating activities	31,619	(84,731)	-137.3%
Net cash generated from/(used in) investing activities	60,312	(346,059)	-117.4%
Net cash (used in)/generated from financing activities	(112,540)	444,746	-125.3%

	At 30 June 2013	At 31 December 2012	Change
	Debt to total asset	45.6%	
Debt to Equity	134.4%	134.1%	+0.3 ppt

Financial Highlights

	Six months ended 30 June		
	2013	2012	Change
Debt to Earnings before Interest, tax, depreciation and amortization (“ EBITDA ”) ¹	21.3x	4.9x	16.4x
Interest coverage ratio (EBITDA ¹ /Finance cost)	0.6x	7.8x	-7.2x

	Six months ended 30 June		
	2013	2012	Change
OPERATIONAL			
Production volume ('000 tonnes)	4,182	4,134	1.2%
Strip ratio	5.9	6.3	-0.4 ppt
Sales volume	3,132	2,377	31.8%
Sales volume ('000 tonnes, washed HCC)	2,192	1,262	73.7%
Sales volume ('000 tonnes, semi-soft coking coal (“ SSCC ”))	34	32	6.3%
Sales volume ('000 tonnes, washed thermal coal (“ middlings ”))	791	797	-0.8%
Sales volume ('000 tonnes, raw coal/run-of-mine (“ ROM ”) coal)	115	286	-59.8%
Estimated share in Mongolia’s total coal export	42.0%	23.3%	+18.7 ppt
Average selling price (“ ASP ”) per tonne (United States Dollar (“ USD ”), blended)	79.1	98.1	-19.4%
ASP per tonne (USD, HCC)	98.7	138.7	-28.8%
ASP per tonne (USD, SSCC)	71.2	83.8	-15.0%
ASP per tonne (USD, middlings)	32.9	37.6	-12.5%
ASP per tonne (USD, ROM coal) ²	26.0	88.9	-70.8%

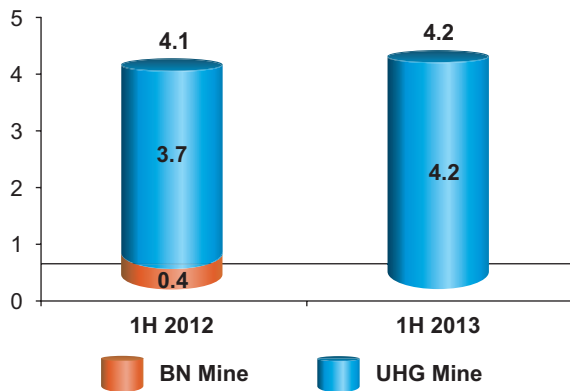
¹ EBITDA is calculated by adding income tax, share of losses of associates, finance costs, depreciation and amortisation and allowance for doubtful debts and subtracting share of profits of associates, finance income from profit attributable to the equity shareholders of the Company on the last 12 months rolling basis as calculated under IFRS.

² Raw coal sold in the first half of 2013 represents raw thermal coal which is a non-caking coal mainly used in power generation, and it differs from raw HCC reported in the first half of 2012.

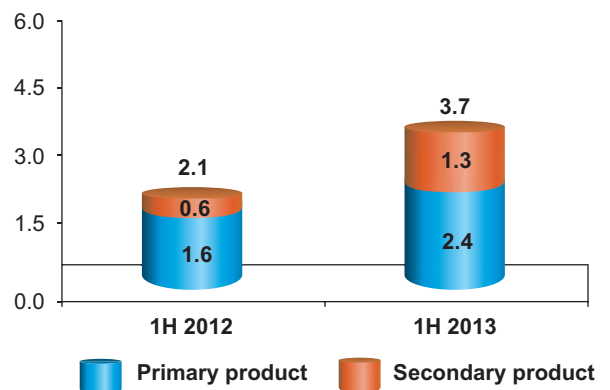


Financial Highlights

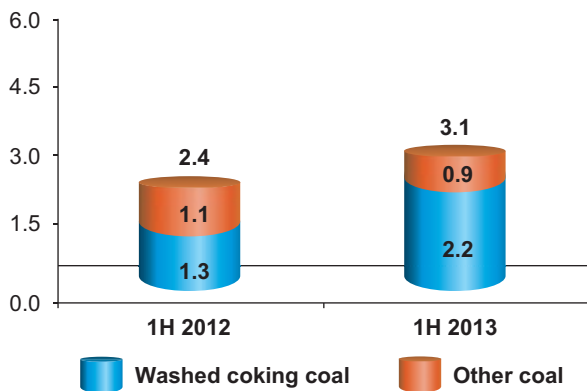
ROM coal production (million tonnes ("Mt"))



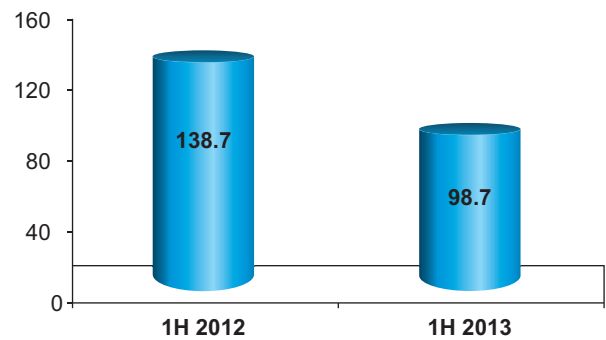
Processed coal production (Mt)



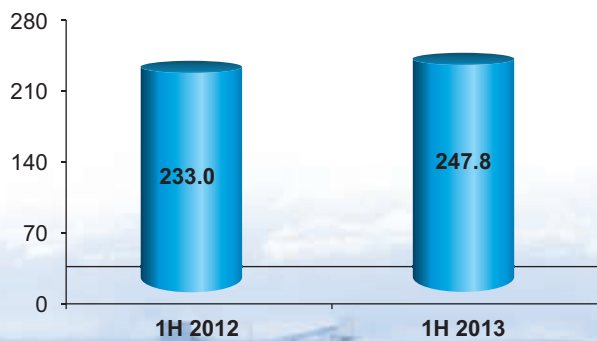
Coal sales volume (Mt)



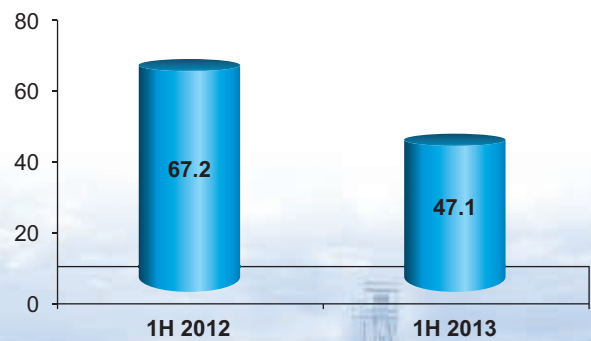
ASP of washed HCC (USD/tonne)



Sales revenue (million USD)

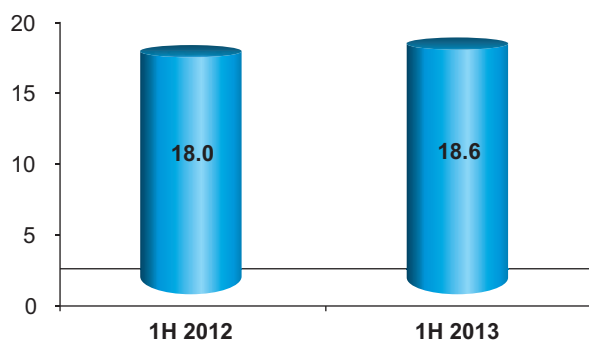


EBITDA (million USD)

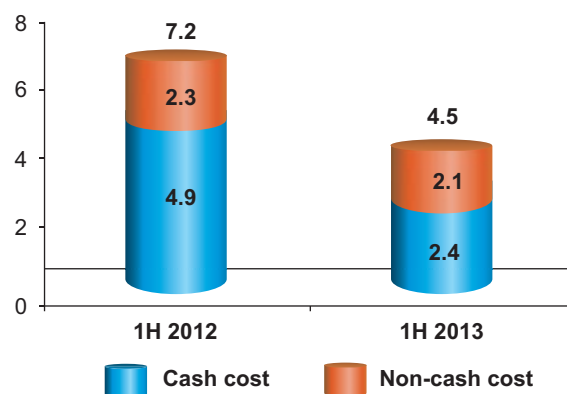


Financial Highlights

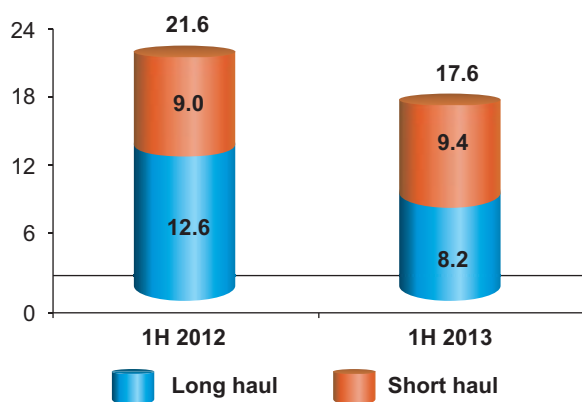
Mining cost per ROM tonne (USD/tonne)



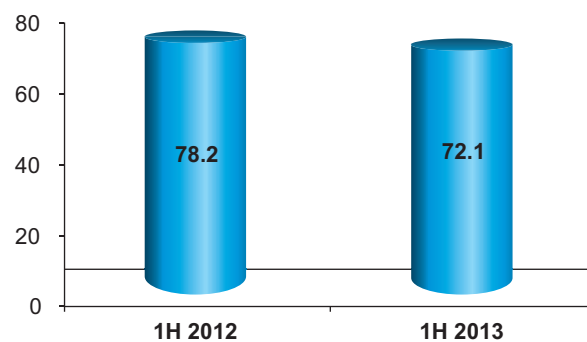
Processing cost per ROM tonne (USD/tonne)



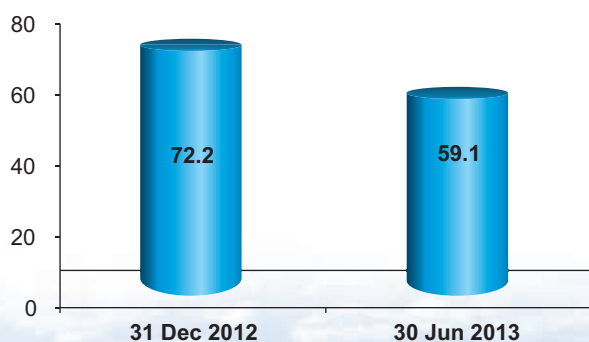
Transportation cost per tonne (USD/tonne)



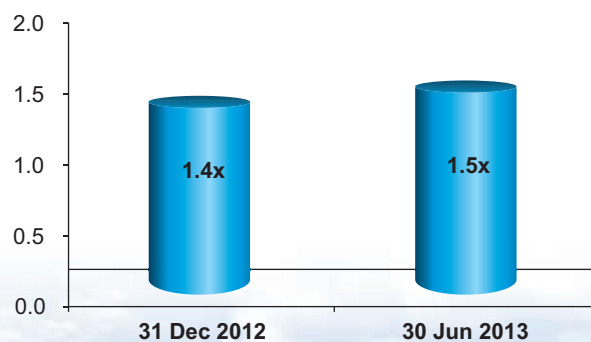
Total operating cash cost at Ganqimaodu ("GM") (USD/tonne)



Coal inventory (million USD)



Current ratio



(1) Net washed HCC delivered cash cost at GM, includes mining, processing, handling, transportation, logistics, site administration, inventory losses, royalties and fees

Management Discussion and Analysis

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

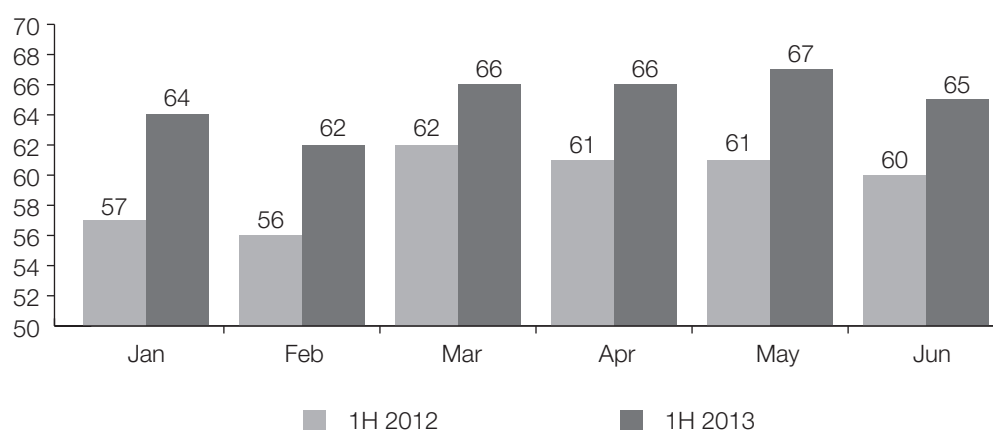
The Group has further solidified its position as the largest coal producer and exporter of washed coking coal in Mongolia. According to the data issued by the National Statistical Office ("NSO") of Mongolia, the Group exported 3.2 Mt of coal products in the first half of 2013, representing around 42%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

INDUSTRY OVERVIEW

Chinese steel sector performance

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

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



Source: WSA

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

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

CISA members saw their sales revenues reach about Renminbi ("RMB") 1.8 trillion, up by 0.9% year-on-year basis. The profits of CISA members hit RMB2.27 billion with an average profit margin of 0.1%, the lowest among all industries, and 35 out of 86 CISA members have reported losses during this period. At the end of June 2013, the prices of steel products fell by 6.5% compared with the beginning of this year, and down by 14.7% year-on-year basis.

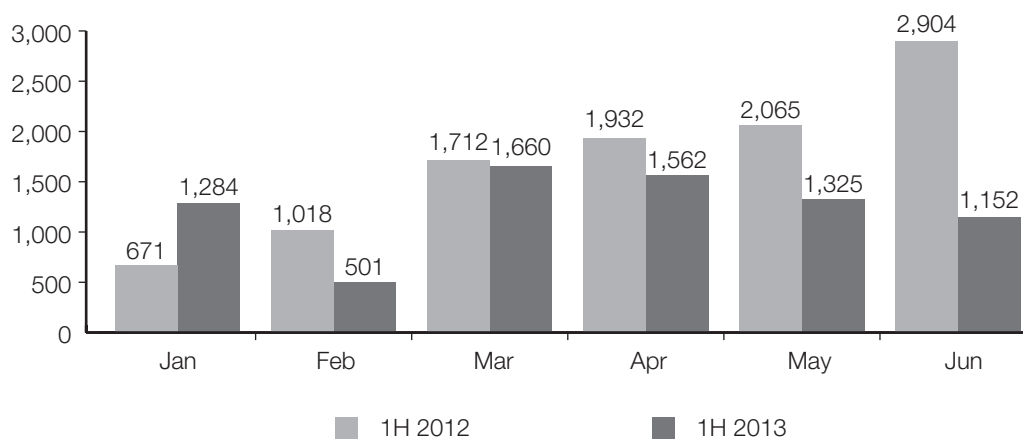
As China has been pushing forward economic reforms, the CISA warned that the oversupply in the steel sector will continue amid the country's economic slowdown. Moreover, Chinese steelmakers are facing increased pressure from the liquidity crunch and growing funding costs as government authorities intensify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

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

Chinese coking coal imports and Mongolian coking coal exports dynamics

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

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



Source: NSO

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

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

Management Discussion and Analysis

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

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

Source: China Coal Resource, China Customs

OPERATING ENVIRONMENT

Legal framework

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

The Government of Mongolia (the "**GoM**") submitted to the Parliament of Mongolia (the "**Parliament**") an Amendment to the Law on Regulation of Foreign Investment Business Entities Operating in Sectors of Strategic Importance (the "**Strategic Entity Foreign Investment Law**"). This amendment was adopted by the Parliament on 19 April 2013 and as a consequence the previous requirement for Parliamentary hearing and approval for investments exceeding the threshold set at Mongolian National Tugrug ("**MNT**")100 billion for foreign persons/entities was eliminated.

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

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

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

Management Discussion and Analysis

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

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

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

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

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

Political framework

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

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

Management Discussion and Analysis

BUSINESS OVERVIEW

Coal resources and exploration activities

Ukhaa Khudag (UHG) deposit



UHG coking coal mine

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

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

Finally, a large-diameter, bulk-sample drilling program has been completed on the Seam 0 plies, and the samples gathered have been analyzed by ALS Laboratories in Mongolia for washability and metallurgical testing. The exploration data from the exploration activities was used to update the geological and coal quality model, and subsequently the UHG Mining License area JORC Coal Resource estimate as at 30 June 2012, based on an in situ density at an air-dry basis (Table 2).

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

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

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

Notes:

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

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

Baruun Naran (BN) deposit

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

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

Management Discussion and Analysis

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

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

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

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

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

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

Notes:

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

Open-cut coal reserves

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

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

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

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

Management Discussion and Analysis

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

Table 5. UHG ROM Coal Reserve (Note):

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

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

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

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

Table 6. BN ROM Coal Reserve (Note):

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



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

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

Notes:

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

Production and transportation

Coal mining and processing

Coal mining

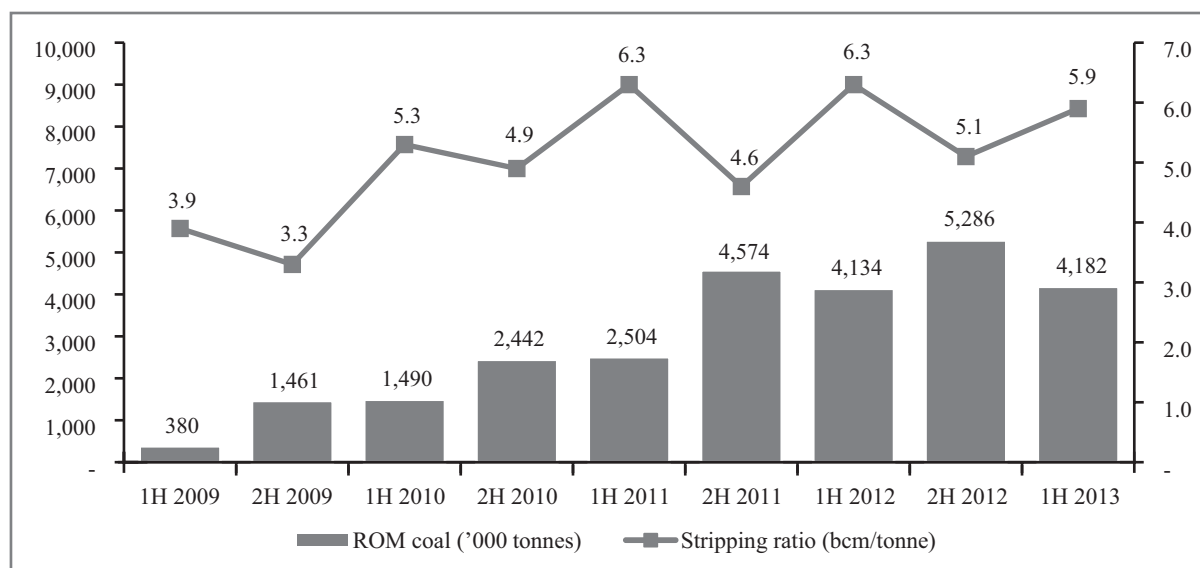
During the first half of 2013, the Group has focused on minimizing actual cash costs and operational cash outflows. Consequently, management has continued the efforts to combine and streamline the operational activities related to site-based operations. The mining operations at UHG and BN mines were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

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



Management Discussion and Analysis

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



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

Coal processing



CHPP with 3 modules completed

During the first half of 2013, the Group has processed 5.1 Mt of ROM coal, representing 70.0% and 15.9% increase in ROM coal feed volumes compared to the first half and the second half of 2012, respectively. This increase was primarily due to improved Coal Handling and Preparation Plant ("CHPP") availability, which is a notable achievement, considering that as effective from 1 January 2013, the Operational Management Contract with

Sedgman LLC was ended, and the Group has taken responsibility for direct management of all matters related to its CHPP operations.

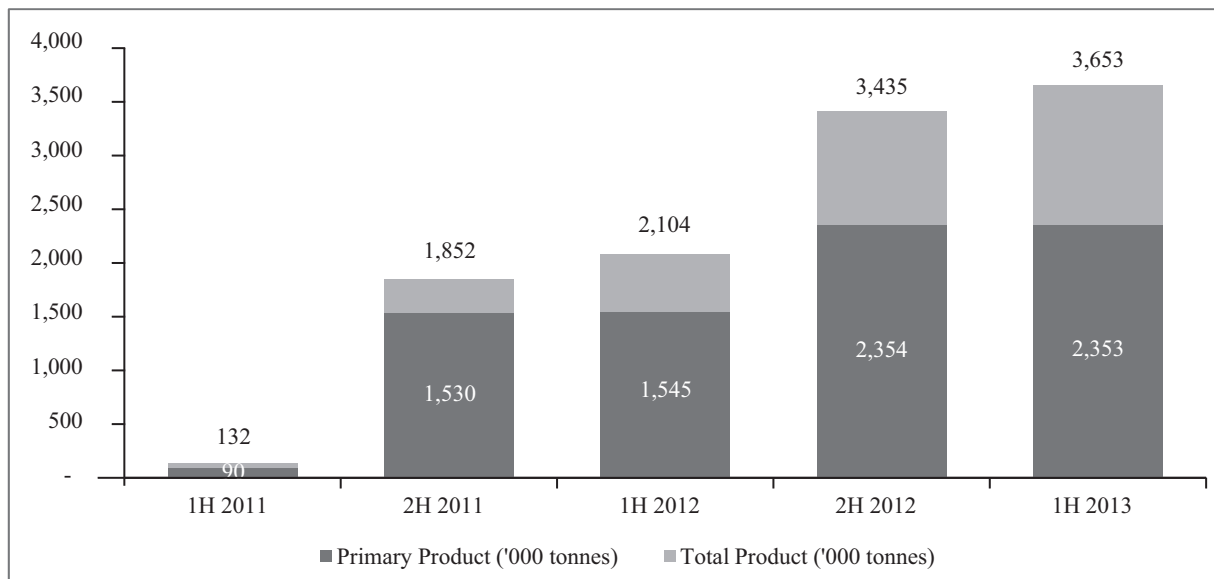
At the end of 2012, significant quantity of ROM coal inventories had accumulated on stockpiles, with a large portion of this coal being not of suitable qualities for standalone washing to produce coal products meeting customer requirements. As part of the efforts to reduce operational cash outflows,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

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

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

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

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



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

Management Discussion and Analysis

Transportation and logistics



Coal hauling by double trailer trucks

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

The Group’s strategy was to maximize the utilization of its own double trailer truck fleet for coal transportation on the

long-haul section between UHG and TKH, and maintain third party contractor fleet for its cross-border transportation on the short-haul section between TKH and GM.

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

UHG-GS Railway

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

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

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

Management Discussion and Analysis

- The Parties will enter into negotiation regarding potential investment in the Project. Depending on the outcome of the negotiation, the above compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the Project and/or reimbursed;
- The Group will be granted an access to 50% of the capacity of the UHG-GS Railway; and
- The existing contracts and obligations for the construction of the UHG-GS Railway will be reassigned to MTZ and/or its designated entity.

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

- a. exclusion of withholding tax calculation amounting to MNT49,108,109 accrued to a contractor, due to the reason that the contractor is to receive the payment under the name of its Mongolian subsidiary;
- b. exclusion of assets kept by the Group with net book value of MNT455,185,590.

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

Occupational health and safety

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

During the reporting period, over 3.77 million man-hours of work were recorded across the Group operations, with only 3 Lost Time Injuries recorded in the period. The resultant Lost Time Injury Frequency Rate ("**LTIFR**") of 1.06 compares favorably to industry statistics publicly reported in major coal producing

jurisdictions such as Queensland and New South Wales, where both recorded LTIFR figures of greater than 2.86 for the most recent annual reporting periods released with regard to surface coal mining operations.



Company HSE team conducting dust monitoring at UHG mine-site

Management Discussion and Analysis

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

Marketing and sales

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

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

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

Business outlook

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

Table 7. Sales volume, revenue and ASP:

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

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

Management Discussion and Analysis

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

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

Cost of Revenue

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

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

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

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

- i) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- ii) the entity can identify the component of the ore body for which access has been improved; and
- iii) the costs relating to the stripping activity associated with that component can be measured reliably.

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



Management Discussion and Analysis

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

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

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

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

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

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

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

Management Discussion and Analysis

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

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

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

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

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

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

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

Management Discussion and Analysis

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

Table 9. Total and individual costs of revenue:

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

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

Management Discussion and Analysis

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

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

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

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

Gross Profit and Gross Profit Margin

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

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

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortization of office equipment and other expenses. The following table presents, for the periods indicated, individual administrative expenses in terms of amount and as a percentage of the Group's total administrative expenses (Table 11):

Table 11. Administrative expenses:

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

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

Net Finance Cost

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

Income Tax Expenses

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

Loss/Profit for the Period

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

Management Discussion and Analysis

Liquidity and Capital Resources

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

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

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

Indebtedness

As of 30 June 2013, the Company had USD934.7 million of outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Guaranteed Senior Notes, (ii) Standard Bank Facility up to USD300 million, (iii) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), (iv) USD20 million short term loan from Trade and Development Bank of Mongolia, and (v) USD20 million short term loan from Golomt Bank of Mongolia.

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

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

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

Management Discussion and Analysis

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

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

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

Credit Risk

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

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

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

The Company holds monthly Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit on an ongoing basis. Management continues to monitor the exposures, including but not limited to the current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates, on an ongoing basis.

With regard to other receivables of USD228.5 million, it is mainly related to USD78.1 million VAT and other tax receivables, USD58.0 million from GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax authority audit and approval of the VAT tax refund, the Group mainly offsets the VAT refund with its other tax payments. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. Management believes that there is no issue in collectability of such receivables.

Foreign Exchange Risk

During the six months ended 30 June 2013 and 2012, 100% of the revenue and approximately 65.5% and 40.5% of the purchases respectively were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as of 30 June 2013 and 31 December 2012 amounted to approximately USD125.2 million and USD282.4 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as of 30 June 2013 and 31 December 2012 amounted to approximately USD176.4 million and USD147.3 million, respectively.

Management Discussion and Analysis

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

For the six months ended 30 June 2013, approximately 12.8% and 78.0% of operating expenditures and capital expenditures, respectively, were denominated in USD, while 0.3% of capital expenditures were denominated in RMB, and 1.7% of capital expenditures were denominated in currencies other than USD, RMB and MNT, with the remaining denominated in MNT. For the six months ended 30 June 2012, approximately 14.6% and 35.8% of operating expenditures and capital expenditures were denominated in USD, with the remaining denominated in MNT.

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

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

Pledge of Assets of the Group

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

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

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

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

Contingent Liabilities

- a) As at 30 June 2013, the Company has a contingent liability in respect of the consideration adjustments for an acquisition of the entire issued share capital of Baruun Naran Limited (formerly named QGX Coal Limited), indirect wholly-owned subsidiary of the Company (the "**Acquisition**") pursuant to the Share Purchase Agreement, which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

Management Discussion and Analysis

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

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

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

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

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

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

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

Financial Instruments

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

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

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

Management Discussion and Analysis

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

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

Capital Commitments

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

Table 12. Capital commitments:

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

Operating Lease Commitments

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

Significant Investment Held

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

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

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

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

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

Subsequent Event

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

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

Employees

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

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

Training Schemes

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

As at 30 June 2013, there are 613 people, in total, have attended different types of training. 256 employees have attended vocational & professional training and 357 employees have attended corporate skills trainings.

Dividend

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

Review by Audit Committee

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

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

Corporate Social Responsibility

As a responsible mining company, Mongolian Mining Corporation is held accountable for social, economic and environmental impacts of its activities on the local community and the society as a whole. During the period under review, the Company reviewed and integrated its Health, Safety and Environment (“HSE”) policy and standards to enable better management of HSE issues. In addition, the Company continued to invest in local economic development through its various community development initiatives based on the needs and priorities of the Company’s stakeholders.

Stakeholders engagement

- Being transparent is a key to building strong relations with the community in which the Group operates. The Group’s activities are open to local people and the Group encourages their participation, comments and suggestions at all times. To further increase transparency and trust, the Group has established a designated section on environmental monitoring and protection in its monthly ‘Ukhaa Khudag’ bulletin, in which the Group publishes monthly reports on dust and water level measurements, which are the two main environmental concerns for the local community.
- In January 2013, the Group organized a human rights training for 21 staff members from the Company’s Human Resources Department and security personnel. During the training, the Voluntary Principles on Security and Human Rights were introduced and discussed to ensure that the Group’s security measures do not violate human rights. The security personnel were trained to deal with anti-harassment and equal opportunity issues on the proper use of force as well as on how to carry out personal searches, while implementing their duties.
- During the period under review, a total of 926 individuals including local residents, families of the Group’s employees and environmental non-governmental organisations visited the Company’s UHG project site and got acquainted with the Group’s operation and plans for the future. In addition, the information boards at the UHG camp site and at the Company’s Representative Office in Dalanzadgad were updated on a weekly basis to ensure that accurate and up-to-date information on the Company operations were available to stakeholders.
- In the reporting period, MMC conducted the following community engagement activities:
 - Periodic visits to affected herder households and resettled families;
 - Regular meetings with local administration;
 - Monthly meetings with Community Development Advisory Councils established in each impacted soum to provide a better platform for dialogue between the Company and the local community;
 - Ongoing operation of two information centers and a hotline.

Other sources of public information disclosure to the Group’s stakeholders include the Group’s annual and interim reports, the “Ukhaa Khudag” quarterly newspaper, monthly bulletins, brochures, and the Company website.



Health, Safety and Environment

Maintaining a high level of HSE standard is central to the continued success of the Group's operation. The Group's integrated HSE policy therefore seeks to ensure that the Group causes 'Zero harm' to its people and to mitigate any adverse impact on the environment while delivering quality products to its customers. Accordingly, the Company is working to raise its HSE performance by implementing the HSE Management System that is consistent with OHSAS 18001:2007 (Health and Safety), ISO 14001:2004 (Environment) standards. The following are the Group's key achievements in the area of HSE for the period under review.

- All HSE management system documents, including 18 standards, 18 standard procedures, and 42 standard operating procedures were reviewed and approved by the Company's Chief Executive Officer and are being introduced company-wide to all employees through various awareness building trainings and seminars. The HSE management system consists of Policies, Standards, Procedures, Plans, Manuals, Guidelines, Forms, Checklists and Registers. These documents are arranged hierarchically. Policies, Standards, Plans and Standard operating procedures are mandatory and apply to all of MMC's business activities, including that of its contractors. It is also designed on the principle of continual improvement by adopting the methodology of Plan, Do, Check and Review system cycle.
- The UHG project's Detailed Environmental Impact Assessment and the Environmental Management Plans were revised in accordance with the amended Law on Environmental Impact Assessment and were approved by the Ministry of Nature and Green Development of Mongolia on 25 June 2013.
- The Company has established 2.5 hectares of nursery field in 2009 with the aim to determine the most suitable trees and plants for growing in the Gobi region which will be used in re-vegetation later in the project cycle. Currently, the nursery field contains 24 species of 60,000 shrubs, trees and perennial plants in total. Within the framework of activities organized on the National Tree Planting Day, the Company's environmental team prepared and donated a total of 21,050 shrubs, trees and perennial plants from the nursery field to be planted in the forest wind belt, waste rock dump rehabilitation, power plant and "Muruudul" educational complex landscaping.



Company employees working in the nursery field



Seabuckthorn growing in the nursery field



Corporate Social Responsibility

- On 25 May 2013, a solid waste clean-up was organized in the surrounding area of 3 natural springs and 15 herder wells located within 30 km radius of the UHG mine site. The Company employees also built a protective ring around a water-well located near Tsogtsetsii soum to prevent inappropriate use that may result in pollution of water source.



Company employees building a protective ring around herder well

- The LTIFR, an injury frequency rate expressed as the number of injuries per million hours worked, was 1.06 for 3.77 million man hours recorded within the Company's coal mining, processing and transportation operations in the first half of 2013.
- Site safety inspections were carried out at more than 294 workplaces, and all identified hazards were investigated in order to discover and eliminate root causes.
- A total of 14 (not including 4,976 Job Safety and Environment Assessments) workplace safety risk assessments were conducted during the reporting period to minimize or eliminate work-related hazards and to enhance awareness of daily safety routines among the Group's employees.

Community development initiatives

- The Company is firmly committed to preserving both tangible and intangible cultural heritages of the community in which it operates. To promote and protect traditional way of life in the South Gobi region, which is indelibly linked to camel husbandry, and to spur interest in nomadic culture and the nomadic way of life among the younger generation, the Company sponsored a camel racing competition in Khanbogd soum, South Gobi province for the second year running.



Camel racing competition in Khanbogd soum

- During the period under review, MMC continued to fund “*For a Better Future*”, an annual scholarship program for undergraduate students in Ulaanbaatar and other Mongolian provinces. Merit-based scholarships were awarded to 17 candidates out of 330 applicants based on two-tier assessment and interviewing process. The awardees receive monthly stipend and are invited to pursue internship opportunities with the Company.
- Within the framework of the “*Good Neighborhood*” initiative, the Company provides various in-kind assistances to the communities in which it operates. During the period under review, the Company carried out the following in-kind assistances:
 - Provided road signs for use on roads of Tsogttsetsii soum joining the local traffic police efforts to minimize road related accidents.
 - Supplied 5308 seedlings, shrubs and trees free of charge to local administration and the local residents for use in various landscaping projects in Tsogttsetsii soum.
 - Established two brand new deep water wells for use by herders in Tsagaan Ovoo bagh, Tsogttsetsii soum.
 - Assisted 60 households from Tsogttsetsii soum to grow potatoes on the 3 hectares strips of land between the forest belts that was established by the Company’s environmental team.

Social infrastructure development

The Company has built jointly with the local government an all-modern educational facility in Tsogttsetsii soum of Umnugobi aimag. The facility has opened its doors in January 2013 and it comprises of a secondary school for 700 students, a kindergarten for 144 children and a dormitory for 100 children. Built in line with MMC’s integrated approach to socio-economic contribution, the new school/kindergarten complex is set to make a significant contribution in raising the educational level in rural Gobi region. About 56% of the total required financing of the new facility was provided by the Company.

As part of its township development initiative and in line with its retention and relocation policy, MMC has also completed and commissioned new residential apartment blocks to provide comfortable living conditions for its employees settling in South Gobi. To date, around 280 families have moved into fully-furnished apartments built in Tsogttsetsii soum.



Dream school and kindergarten complex



Tsetsii township project

Disclosure of Information

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**Listing Rules**”). Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2013.

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

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting (“**AGM**”) of the Company. Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director to attend and answer questions on his behalf at the 2013 AGM due to his coincided engagement in post negotiations on reimbursement matters with the GoM in relation to the decision of the GoM to take measure to terminate with the Group the Concession Agreement to build-operate-transfer the railway base infrastructure between UHG-GS Railway dated 31 May 2012. The Company has complied with all other applicable code provisions as set out in the CG code.

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

As at 30 June 2013, 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) (“**SFO**”) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(a) **Table 13. Interests in Shares:**

Name of Director	Nature of interest	Ordinary shares of USD0.01 each	
		Total number of Shares held	Approximate percentage of total issued share capital
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	1,425,809,605(L)	38.48%
		1,143,017,636(S)	30.85%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	1,347,455,493(L)	36.37%
		1,129,017,636(S)	30.47%
Dr. Oyungerel Janchiv (Note 3)	Interest of controlled corporation	112,833,333(L)	3.05%
Mr. Batsaikhan Purev (Note 4)	Interest of controlled corporation	183,000,000(L)	4.94%

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

Notes:

- (1) Mr. Odjargal Jambaljamts, through Novel Holdings Group Limited which is 100% owned by him, is interested in 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Mining Group Limited which in turn holds 1,241,150,586 shares and has a short position in 1,103,017,636 shares in MMC. Novel Holdings Group Limited also directly holds 184,659,019 shares and has a short position in 40,000,000 shares in MMC under its name.
- (2) Mr. Od Jambaljamts, through Trimunkh Limited which is 100% owned by him, is interested in 28.69% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Mining Group Limited which in turn holds 1,241,150,586 shares and has a short position in 1,103,017,636 shares in MMC. Trimunkh Limited also directly holds 106,304,907 shares and has a short position in 26,000,000 shares in MMC under its name.
- (3) Dr. Oyungerel Janchiv, through Lotus Amsa Limited which is 100% owned by her, holds 112,833,333 shares in MMC.
- (4) 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 of Shunkhlai Mining LLC which in turn holds the entire interest of Shunkhlai Mining.

(b) **Table 14. Interest in underlying Shares:**

Name of Director	Nature of interest	Ordinary shares of USD0.01 each	
		Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme	Approximate percentage of total issued share capital
Dr. Battsengel Gotov	Beneficial owner	8,000,000 (L)	0.22%

(L) – long position

Disclosure of Information

Save as disclosed above, as at 30 June 2013, so far as was 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).

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

As at 30 June 2013, so far as was known to the Directors and chief executive of the Company, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 15. Interests in the Shares and underlying Shares:

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
MCS Mining Group Limited (<i>Note 1</i>)	Beneficial owner	1,241,150,586(L)	33.50%
		1,103,017,636(S)	29.77%
MCS (Mongolia) Limited (<i>Note 1</i>)	Interest of controlled corporation	1,241,150,586(L)	33.50%
		1,103,017,636(S)	29.77%
Novel Holdings Group Limited (<i>Note 1</i>)	Interest of controlled corporation/ Beneficial owner	1,425,809,605(L)	38.48%
		1,143,017,636(S)	30.85%
Trimunkh Limited (<i>Note 1</i>)	Interest of controlled corporation/ Beneficial owner	1,347,455,493(L)	36.37%
		1,129,017,636(S)	30.47%
Ms. Batmunkh Dashdeleg (<i>Note 1</i>)	Interest of spouse	1,425,809,605(L)	38.48%
		1,143,017,636(S)	30.85%
Ms. Munkhsuren Surenkhuu (<i>Note 1</i>)	Interest of spouse	1,347,455,493(L)	36.37%
		1,129,017,636(S)	30.47%
Kerry Mining (UHG) Limited ("KMUHG") (<i>Note 2</i>)	Beneficial owner	300,000,000(L)	8.10%
Kerry Mining (Mongolia) Limited ("KMM") (<i>Note 2</i>)	Interest of controlled corporation	300,000,000(L)	8.10%
Fexos Limited ("Fexos") (<i>Note 2</i>)	Interest of controlled corporations	302,363,529(L)	8.16%
Kerry Holdings Limited ("KHL") (<i>Note 2</i>)	Interest of controlled corporations	302,363,529(L)	8.16%
Kerry Group Limited ("KGL") (<i>Notes 2 and 3</i>)	Interest of controlled corporations	412,172,352(L)	11.12%
Genesis Asset Managers, LLP	Investment manager	222,167,638(L)	6.00%

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

Notes:

- (1) *The entire issued share capital of MCS Mining Group Limited is owned by MCS (Mongolia) Limited. MCS (Mongolia) Limited is owned as to approximately 49.84% by Novel Holdings Group Limited which in turn is wholly-owned by Mr. Odjargal Jambaljamts, and 28.69% by Trimunkh Limited which in turn is wholly-owned by Mr. Od Jambaljamts. MCS Mining Group Limited holds 1,241,150,586 shares and has a short position in 1,103,017,636 shares in MMC. Novel Holdings Group Limited and Trimunkh Limited each also directly holds 184,659,019 shares and 106,304,907 shares in MMC respectively, and has a short position in 40,000,000 shares and 26,000,000 shares respectively in MMC. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenhuu is the spouse of Mr. Od Jambaljamts.*
- (2) (a) *KMUHG is a direct wholly-owned subsidiary of KMM. Fexos controls more than one-third of the voting power of KMM. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL are deemed to be interested in the 300,000,000 shares that KMUHG is interested.*
- (b) *Fexos controls more than one-third of the voting power of Kerry Asset Management Limited ("KAM"). Fexos, KHL and KGL are deemed to be interested in the 2,363,529 shares that KAM is interested.*
- (3) *Out of KGL's corporate interest in 412,172,352 shares of the Company, KGL's wholly-owned subsidiaries (other than KHL) are interested in 109,808,823 shares of the Company, KHL (through companies that it controls more than one-third of the voting power) is interested in 302,363,529 shares of the Company.*

Save as disclosed above, as at 30 June 2013, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

Change of Information of Directors

Change of information of Directors since the date of the 2012 Annual Report is set out below:

Mr. Unenbat Jigjid was appointed as an independent non-executive director of APU Company, a company listed on the Mongolian Stock Exchange, with effect from 26 April 2013. Ms. Enkhtuvshin Gombo was appointed as director of MCS Mining Group Limited and director of MCS (Mongolia) Limited. Mr. Chan Tze Ching, Ignatius was appointed as a member of the Hong Kong Tourism Board and Deputy Chairman of Council of Hong Kong Polytechnic University both with effect from 1 April 2013. Mr. Chan was also appointed as Board Adviser of Hong Kong New Territories General Chamber of Commerce with effect from 28 May 2013.

Share Option Scheme

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date on 13 October 2010 (the “**Adoption Date**”). Share Options could be granted within a period of 10 years from the Adoption Date. Therefore, as at 30 June 2013, the remaining life of the Share Option Scheme was approximately 7 years and 3 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

Under the Share Option Scheme, the Company granted two batches of Share Options to its directors and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to directors and employees respectively with the exercise price of HKD6.66. On 28 November 2012, the Company granted 5,000,000 and 17,750,000 Share Options to directors and employees respectively with the exercise price of HKD3.92. During the six months period ended 30 June 2013, no Share Option has been granted to any person under the Share Option Scheme.

Details of the movements in the number of Share Options of the Company during the six months ended 30 June 2013 were as follows:

Table 16. Director:

Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2013	Number of Share Options				Balance as at 30 June 2013
					Granted during the six months ended 30 June 2013	Lapsed during the six months ended 30 June 2013	Cancelled during the six months ended 30 June 2013	Exercised during the six months ended 30 June 2013	
Dr. Battsengel Gotov	12 October 2011	(Note 1)	HKD6.66	3,000,000	-	-	-	-	3,000,000
	28 November 2012	(Note 2)	HKD3.92	5,000,000	-	-	-	-	5,000,000

Table 17. Employees of the Group other than Directors:

Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2013	Granted during the six months ended 30 June 2013	Number of Share Options			Balance as at 30 June 2013
					Lapsed during the six months ended 30 June 2013	Cancelled during the six months ended 30 June 2013	Exercised during the six months ended 30 June 2013	
12 October 2011	(Note 1)	HKD6.66	30,900,000	-	4,050,000	-	-	26,850,000
28 November 2012	(Note 2)	HKD3.92	17,750,000	-	-	-	-	17,750,000

Share Option Scheme

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. *The Share Options are subject to vesting scale in three tranches. The exercise periods are as follows:*
 - (1) *first 25% of the Share Options granted – 28 November 2013 to 28 November 2020*
 - (2) *second 25% of the Share Options granted – 28 November 2014 to 28 November 2020*
 - (3) *third 50% of the Share Options granted – 28 November 2015 to 28 November 2020*
3. *4,050,000 Share Options lapsed in accordance with the terms of the Share Option Scheme during the six months ended 30 June 2013.*



Independent Review Report



Independent Review Report to the Board of Directors of Mongolian Mining Corporation

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 50 to 78 which comprises the consolidated balance sheet of Mongolian Mining Corporation (the “**Company**”) as of 30 June 2013 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

27 August 2013

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2013 – unaudited

	Note	Six months ended 30 June	
		2013 USD'000	2012 USD'000
Revenue	5	247,849	233,033
Cost of revenue	6	(219,546)	(170,880)
Gross profit		28,303	62,153
Other revenue		201	1,425
Other net income		4,725	1,285
Administrative expenses		(17,764)	(19,068)
Profit from operations		15,465	45,795
Finance income	7(a)	8,186	14,956
Finance cost	7(a)	(46,817)	(20,707)
Net finance cost	7(a)	(38,631)	(5,751)
Share of losses of associates		(280)	(120)
(Loss)/profit before taxation	7	(23,446)	39,924
Income tax	8	(1,783)	(8,946)
(Loss)/profit attributable to the equity shareholders of the Company for the period		(25,229)	30,978
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation	9	(33,492)	19,485
Total comprehensive income attributable to the equity shareholders of the Company for the period		(58,721)	50,463
Basic and diluted (loss)/earnings per share	10	(0.68) cents	0.84 cents

The notes on pages 54 to 78 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2013 – unaudited

	Note	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Non-current assets			
Property, plant and equipment, net	11	546,900	527,358
Construction in progress	12	186,017	242,838
Lease prepayments	13	98	103
Intangible assets	14	767,761	774,773
Interest in associates		3,391	3,808
Other non-current assets	15	24,295	26,727
Deferred tax assets		20,104	19,144
Total non-current assets		1,548,566	1,594,751
Current assets			
Inventories	16	77,055	90,290
Trade and other receivables	17	297,095	207,914
Cash at bank and in hand	18	128,594	284,322
Total current assets		502,744	582,526
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	19	141,818	81,818
Trade and other payables	20	202,568	247,057
Current taxation		734	3,950
Convertible bond	21	–	85,000
Obligations under finance leases		114	210
Total current liabilities		345,234	418,035
Net current assets		157,510	164,491
Total assets less current liabilities		1,706,076	1,759,242
Non-current liabilities			
Interest-bearing borrowings, less current portion	19	199,542	249,113
Senior notes	22	593,367	592,891
Provisions	24	15,362	15,538
Deferred tax liabilities		149,679	149,574
Obligations under finance leases		65	113
Other non-current liabilities	25	52,648	–
Total non-current liabilities		1,010,663	1,007,229
NET ASSETS		695,413	752,013
CAPITAL AND RESERVES			
Share capital	26	37,050	37,050
Reserves	26	658,363	714,963
TOTAL EQUITY		695,413	752,013

The notes on pages 54 to 78 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013 – unaudited

		Share capital	Share premium	Other reserve	Exchange reserve	Retained earnings	Total equity
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
	Note	(Note 26(b))	(Note 26(c))	(Note 26(c))	(Note 26(c))		
At 1 January 2012		37,050	608,650	16,215	(73,028)	179,977	768,864
Changes in equity for the six months ended 30 June 2012:							
Profit for the period		-	-	-	-	30,978	30,978
Other comprehensive income		-	-	-	19,485	-	19,485
Total comprehensive income		-	-	-	19,485	30,978	50,463
Equity-settled share-based transactions	23	-	-	3,633	-	-	3,633
At 30 June 2012		37,050	608,650	19,848	(53,543)	210,955	822,960
Changes in equity for the six months ended 31 December 2012:							
Loss for the period		-	-	-	-	(33,520)	(33,520)
Other comprehensive income		-	-	-	(40,414)	-	(40,414)
Total comprehensive income		-	-	-	(40,414)	(33,520)	(73,934)
Equity-settled share-based transactions	23	-	-	2,987	-	-	2,987
At 31 December 2012		37,050	608,650	22,835	(93,957)	177,435	752,013
At 1 January 2013		37,050	608,650	22,835	(93,957)	177,435	752,013
Changes in equity for the six months ended 30 June 2013:							
Loss for the period		-	-	-	-	(25,229)	(25,229)
Other comprehensive income		-	-	-	(33,492)	-	(33,492)
Total comprehensive income		-	-	-	(33,492)	(25,229)	(58,721)
Equity-settled share-based transactions	23	-	-	2,121	-	-	2,121
At 30 June 2013		37,050	608,650	24,956	(127,449)	152,206	695,413

The notes on pages 54 to 78 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2013 – unaudited

	Note	Six months ended 30 June	
		2013 USD'000	2012 USD'000
Cash generated from/(used in) operations		34,153	(68,147)
Tax paid		(2,534)	(16,584)
Net cash generated from/(used in) operating activities		31,619	(84,731)
Net cash generated from/(used in) investing activities		60,312	(346,059)
Net cash (used in)/generated from financing activities		(112,540)	444,746
Net (decrease)/increase in cash and cash equivalents		(20,609)	13,956
Cash and cash equivalents at the beginning of the period		44,322	41,006
Effect of foreign exchange rates changes		(119)	1,209
Cash and cash equivalents at the end of the period	18	23,594	56,171

The notes on pages 54 to 78 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1 CORPORATE INFORMATION

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

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

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), including compliance with International Accounting Standard 34, *Interim financial reporting*, (“**IAS 34**”) issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 27 August 2013.

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

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 49.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Group’s annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group’s annual financial statements for the year ended 31 December 2012 are available from the Company’s registered office. The Company’s auditors have expressed an unqualified opinion on those financial statements in their report dated 11 March 2013.

3 CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

IFRS 12, Disclosure of interests in other entities

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

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 27. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

3 CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* (“IAS32”) and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32. The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments.

Annual Improvements to IFRSs 2009-2011 Cycle

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

4 SEGMENT REPORTING

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

5 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised during the six months ended 30 June 2013 is as follows:

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

6 COST OF REVENUE

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

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



Notes to the Unaudited Interim Financial Report

7 (LOSS)/PROFIT BEFORE TAXATION

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

(a) **Net finance cost:**

	Six months ended 30 June	
	2013 USD'000	2012 USD'000
Interest income	(8,186)	(7,118)
Net change in fair value of derivative component of convertible bond (Note 21)	-	(2,429)
Net change in fair value of derivative component of senior notes (Notes 17 and 22)	-	(1,380)
Foreign exchange gain, net	-	(4,029)
Finance income	(8,186)	(14,956)
Interest on bank and other borrowings	10,880	10,428
Net change in fair value of derivative component of senior notes (Notes 17 and 22)	8,120	-
Interest on liability component of convertible bond (Note 21)	1,034	3,178
Interest on liability component of senior notes (Note 22)	27,101	13,747
Transaction costs	1,288	2,261
Unwinding interest on		
- Other long-term payables	25	49
- Accrued reclamation obligations (Note 24)	396	280
Less: Interest expense capitalised	(5,873)	(9,236)
Net interest expense	42,971	20,707
Foreign exchange loss, net	3,846	-
Finance cost	46,817	20,707
Net finance cost	38,631	5,751

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

7 (LOSS)/PROFIT BEFORE TAXATION (continued)**(b) Staff costs:**

	Six months ended 30 June	
	2013	2012
	USD'000	USD'000
Salaries, wages, bonuses and benefits	14,066	14,730
Retirement scheme contributions	865	1,771
Equity-settled share-based payment expenses (Note 23)	2,121	3,633
	17,052	20,134

Pursuant to the relevant labour rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (“**the Schemes**”) organised by the Government of Mongolia (the “**GoM**”) whereby the Group is required to make contributions to the Schemes at a rate of 7% of the eligible employees’ salaries. Contributions to the Schemes vest immediately.

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

(c) Other items:

	Six months ended 30 June	
	2013	2012
	USD'000	USD'000
Depreciation and amortisation	29,315	23,702
Operating lease charges: minimum lease payments	2,707	2,358
Costs of inventories	219,546	170,880

8 INCOME TAX**(a) Income tax in the consolidated statement of comprehensive income represents:**

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

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8 INCOME TAX (continued)

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

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

Notes:

- (i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first Mongolian National Togrog (“MNT”) 3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2013 and 2012.
- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong, Luxembourg and Gibraltar profits tax as it has no assessable income arising in or derived from Hong Kong, Luxembourg and Gibraltar during the six months ended 30 June 2013 and 2012.
- (iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the six months ended 30 June 2013 and 2012.

9 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2013 USD'000	2012 USD'000
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	8,519	(9,057)
– net investment	30,495	(10,428)
Reclassification adjustments for amounts transferred to profit or loss:		
– disposal of net investment	(5,522)	–
	33,492	(19,485)

10 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

(b) Diluted (loss)/earnings per share

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

11 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the additions of property, plant and equipment of the Group, representing mainly workshop and various mining structures, amounted to USD66,248,000 (six months ended 30 June 2012: USD188,126,000). Items of property, plant and equipment with net book value of USD502,000 were disposed of during the six months ended 30 June 2013 (six months ended 30 June 2012: USD204,000). As at 30 June 2013, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with a net book value of USD148,347,000, USD41,454,000 and USD4,566,000, respectively (31 December 2012: USD172,320,000, USD46,351,000 and USD5,034,000, respectively) (see Note 19).

12 CONSTRUCTION IN PROGRESS

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

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

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

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

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12 CONSTRUCTION IN PROGRESS (continued)

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

Upon the termination of the Concession Agreement, the construction in progress relating to the UHG-GS Railway with the net book value of USD57 million (see Note 17(c)) was derecognised resulting a gain of USD7 million credited to “other net income” in the consolidated statement of comprehensive income.

13 LEASE PREPAYMENTS

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

14 INTANGIBLE ASSETS

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

15 OTHER NON-CURRENT ASSETS

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Prepayments in connection with construction work, equipment purchases and others	24,295	23,442
Others	-	3,285
	24,295	26,727

16 INVENTORIES

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Coal	59,065	72,150
Materials and supplies	17,990	18,140
	77,055	90,290

As at 30 June 2013, certain of the Group's borrowings were secured by the Group's coal inventory of USD49,970,000 (31 December 2012: USD58,922,000) (see Note 19).

17 TRADE AND OTHER RECEIVABLES

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

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. As at 30 June 2013, all the trade receivables are aged within one year.

(b) Impairment of trade receivables

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

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

(c) Other receivables

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

Notes to the Unaudited Interim Financial Report

17 TRADE AND OTHER RECEIVABLES (continued)

(c) Other receivables (continued)

Notes:

- (i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 28(a)).
- (ii) At 30 June 2013, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor and fuel supplier.
- (iii) Value added tax ("VAT") and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Tax Authority of Mongolia. Based on current available information the Group anticipates full recoverability of such amounts.
- (iv) It represented the embedded derivative in the senior notes (see Note 22).
- (v) It represented the compensation amount receivable from the GoM upon the termination of Concession Agreement of UHG-GS Railway, after taking into account of liabilities assumed by the GoM (see Note 12). The Group is negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.
- (vi) At 30 June 2013, this item mainly represents the reimbursement receivables due from Erdenes MGL LLC of USD3.5 million and the GoM of USD4.5 million for the construction costs in relation to the expansion project of the border crossing in Mongolian side at Gashuun Sukhait, which are interest-free. Based on current available information the Group anticipates full recoverability of such amounts.

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

18 CASH AT BANK AND IN HAND

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Cash in hand	92	92
Cash at bank	128,502	284,230
Cash at bank and in hand	128,594	284,322
Less: time deposits with original maturity over three months	(105,000)	(240,000)
Cash and cash equivalents in the condensed consolidated cash flow statement	23,594	44,322

As at 30 June 2013, certain of the Group's borrowings were secured by the Group's cash at bank of USD19,344,000 (31 December 2012: USD9,690,000) (see Note 19).

19 BORROWINGS

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

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

At 30 June 2013, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH of USD98,182,000 (31 December 2012: USD103,636,000), USD22,909,000 (31 December 2012: USD26,182,000) and USD15,273,000 (31 December 2012: USD17,455,000), respectively, bearing interest of 6 months LIBOR + 3.25%~3.75%, were secured by the Group's property, plant and equipment (see Note 11) and cash at bank (see Note 18).

At 30 June 2013, the Group's long-term interest-bearing borrowings from Standard Bank of South Africa Ltd. of USD170,000,000 (31 December 2012: USD190,000,000), bearing interest of LIBOR + 5.25%, were secured by the Group's cash at bank (see Note 18) and inventory (see Note 16).

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

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Within 1 year or on demand	101,818	81,818
After 1 year but within 2 years	141,818	101,818
After 2 years but within 5 years	62,728	153,637
	306,364	337,273

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

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

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

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20 TRADE AND OTHER PAYABLES

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Trade payables (Note (i))	79,410	45,718
Receipts in advance (Note (ii))	1,857	1,745
Amounts due to related parties (Note (iii))	16,758	14,109
Payables for purchase of equipment	20,453	38,706
Interest payable	16,924	15,271
Other taxes payables	8,858	4,152
Promissory notes (Note (iv))	105,000	105,000
Others (Note (v))	5,808	22,356
	255,068	247,057
Less: Non-current portion of promissory notes (Note 25)	52,500	–
	202,568	247,057

Notes:

- (i) All trade payables are due and payable on presentation or within one month.
- (ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.
- (iii) Amounts due to related parties represent payables for equipment, construction work and services provided, which are unsecured, interest-free and have no fixed terms of repayments (see Note 28(a)).
- (iv) On 27 November 2012, the Company issued two promissory notes to QGX Holdings Ltd., each in the amount of USD52,500,000, and shall bear interest at a rate of 3.0% per annum commencing on the issue date to the maturity date. The original maturity date was 22 November 2013. On 8 February 2013, an amendment agreement was signed by the Company and QGX Holdings Ltd. to extend the maturity date of two promissory notes from 22 November 2013 to 31 March 2014 and 31 December 2014, respectively.
- (v) Others represent accrued expenses, payables for staff related costs and other deposits.

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

21 CONVERTIBLE BOND

	Liability component USD'000	Derivative component USD'000	Total USD'000
At 1 January 2012	81,079	2,429	83,508
Interest charged during the year	6,766	–	6,766
Interest payable	(2,845)	–	(2,845)
Fair value adjustment	–	(2,429)	(2,429)
At 31 December 2012	85,000	–	85,000
At 1 January 2013	85,000	–	85,000
Interest charged during the period (Note 7(a))	1,034	–	1,034
Interest payable	(1,034)	–	(1,034)
Principal repaid amount	(85,000)	–	(85,000)
At 30 June 2013	–	–	–

On 1 June 2011, the Company issued the USD85,000,000 aggregate principal amount convertible bond (“**convertible bond**”) to QGX Holdings Ltd. (“**Bondholder**”), related to the acquisition of BN mine.

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. The convertible bond has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The convertible bond has been paid on 22 April 2013.

22 SENIOR NOTES

	USD'000
At 1 January 2012	–
Issuance of senior notes	604,920
Transaction costs	(13,213)
Interest charged during the year	41,417
Interest payable	(40,233)
At 31 December 2012	592,891
At 1 January 2013	592,891
Interest charged during the period (Note 7(a))	27,101
Interest payable	(26,625)
At 30 June 2013	593,367

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22 SENIOR NOTES (continued)

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

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

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

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

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 were charged to the profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 30 June 2013 was USD4,300,000 which was presented as derivative financial instruments (see Note 17(c)(iv)).

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

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

23 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 Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group.

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

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

(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
28 November 2012	5,688	28 November 2012 to 28 November 2013	28 November 2012 to 28 November 2020
28 November 2012	5,688	28 November 2012 to 28 November 2014	28 November 2012 to 28 November 2020
28 November 2012	11,374	28 November 2012 to 28 November 2015	28 November 2012 to 28 November 2020
Total share options	57,950		

(ii) The movement of the number and weighted average exercise price of share options are as follows:

	2013		2012	
	Exercise Price HKD	Number of options '000	Exercise Price HKD	Number of options '000
Outstanding at 1 January	5.56	56,650	6.66	34,900
Granted during the period/year	-	-	3.92	22,750
Forfeited during the period/year	6.66	(4,050)	6.66	(1,000)
Outstanding at 30 June/ 31 December	5.47	52,600	5.56	56,650
Exercisable at 30 June/ 31 December	6.66	7,463	6.66	8,475

The options outstanding at 30 June 2013 had an exercise price of HKD6.66 or HKD3.92 (2012: HKD6.66 or HKD3.92) per share and a weighted average remaining contractual life of 6.8 years (2012: 7.2 years).

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24 PROVISIONS

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Accrued reclamation obligations	15,362	15,538
Others	1,500	1,500
	16,862	17,038
Less: Current portion	(1,500)	(1,500)
	15,362	15,538

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the balance sheet date, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 30 June 2013 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:

	2013 USD'000	2012 USD'000
At 1 January	15,538	11,110
Adjustment of estimations	19	3,430
Accretion expense (Note 7(a))	396	1,070
Exchange adjustments	(591)	(72)
At 30 June/31 December	15,362	15,538

25 OTHER NON-CURRENT LIABILITIES

It mainly represented the non-current portion of promissory notes with amount of USD52,500,000. Please refer to Note 20(iv).

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

26 CAPITAL, RESERVES AND DIVIDENDS (continued)**(b) Share capital****Authorised:**

	At 30 June 2013		At 31 December 2012	
	No. of shares		No. of shares	
	'000	USD'000	'000	USD'000
Ordinary shares	6,000,000	60,000	6,000,000	60,000

Ordinary shares, issued and fully paid:

	At 30 June 2013		At 31 December 2012	
	No. of shares		No. of shares	
	'000	USD'000	'000	USD'000
Ordinary shares	3,705,037	37,050	3,705,037	37,050

(c) Reserves**(i) Share premium**

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

(ii) Other reserve

The other reserve comprises the following:

- the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and
- the portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments.

(iii) Exchange reserve

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

27 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

	Fair value measurements as at 30 June 2013 using			
	Fair value at 30 June 2013 USD'000	Quoted	Significant	Significant
		prices in active	other	unobservable
		market for identical assets (Level 1)	observable inputs (Level 2)	unobservable inputs (Level 3)
	USD'000	USD'000	USD'000	USD'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instruments:				
– Redemption option embedded in senior notes	4,300	–	–	4,300

	Fair value measurements as at 31 December 2012 using			
	Fair value at 31 December 2012 USD'000	Quoted	Significant	Significant
		prices in active	other	unobservable
		market for identical assets (Level 1)	observable inputs (Level 2)	unobservable inputs (Level 3)
	USD'000	USD'000	USD'000	USD'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instruments:				
– Redemption option embedded in senior notes	12,420	–	–	12,420
Financial liabilities:				
Derivative financial instruments:				
– Conversion option embedded in convertible bond	2,429	–	–	2,429

27 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)**(a) Financial assets and liabilities measured at fair value (continued)****(ii) Information about Level 3 fair value measurements**

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Redemption option embedded in senior notes	Binomial model	Expected volatility	32%

The fair value of redemption option embedded in senior notes is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 30 June 2013, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's loss by USD300,000.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 30 June 2013	At 31 December 2012
	USD'000	USD'000
Redemption option embedded in senior notes:		
At 1 January	12,420	4,920
Changes in fair value recognized in profit or loss during the period	(8,120)	7,500
At 30 June/31 December	4,300	12,420

	At 30 June 2013	At 31 December 2012
	USD'000	USD'000
Conversion option embedded in convertible bond:		
At 1 January	-	2,429
Changes in fair value recognized in profit or loss during the period	-	(2,429)
At 30 June/31 December	-	-

The changes in fair value arising from the remeasurement of the redemption option and conversion option embedded in senior notes and convertible bond are presented in "finance cost/income" in the consolidated statement of comprehensive income.

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27 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(b) Fair value of financial assets and liabilities 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, the carrying amounts are not materially different from their fair values as at 30 June 2013. 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 aggregate carrying values of other financial liabilities carried on the consolidated balance sheet are not materially different from their fair values as at 30 June 2013.

28 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the six months ended 30 June 2013. During the six months ended 30 June 2013, the Group entered into transactions with the following related parties.

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

Particulars of significant transactions between the Group and the above related parties during the six months ended 30 June 2013 are as follows:

	Six months ended 30 June	
	2013 USD'000	2012 USD'000
Ancillary services (Note (i))	12,011	11,459
Lease of property, plant and equipment (Note (ii))	575	436
Purchase of equipment and construction work (Note (iii))	3,041	2,791
Finance leases of equipment (Note (iv))	21	186
Sales of property, plant and equipment (Note (v))	643	–

28 MATERIAL RELATED PARTY TRANSACTIONS (continued)**(a) Transactions with related parties (continued)**

- (i) Ancillary services represent expenditures for support services such as consultancy, cleaning and canteen expense paid to Uniservice Solution, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, where applicable.
- (ii) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from MCS Electronics, Shangri-La Ulaanbaatar LLC, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.
- (iii) Purchase of equipment and construction work represents expenditure relating to equipment and construction service provided by MCS Electronics, MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.
- (iv) Finance leases of equipment represent expenditure relating to the lease of equipment from MCS Electronics through finance lease. The rental charges are based on comparable or prevailing market rates, where applicable.
- (v) Sales of property, plant and equipment represent sale to MCS Energy. The sales are carried out at comparable or prevailing market rates, where applicable.

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

Amounts due from/(to) related parties

	At 30 June 2013 USD'000	At 31 December 2012 USD'000
Other receivables (Note 17)	632	94
Other accruals and payables (Note 20)	(16,758)	(14,109)

Notes to the Unaudited Interim Financial Report

28 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.

	Six months ended 30 June	
	2013 USD'000	2012 USD'000
Salaries and other emoluments	881	662
Discretionary bonus	587	319
Retirement scheme contributions	83	85
Equity-settled share-based payment expenses	2,567	1,878
	4,118	2,944

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

29 COMMITMENTS

(a) Capital commitments

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

	At 30 June	At 31 December
	2013 USD'000	2012 USD'000
Contracted for	31,297	35,409
Authorised but not contracted for	68,763	69,427
	100,060	104,836

(b) Operating lease commitments

(i) At 30 June 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June	At 31 December
	2013 USD'000	2012 USD'000
Within 1 year	2,113	2,823
After 1 year but within 5 years	986	1,593
	3,099	4,416

29 COMMITMENTS (continued)

(b) Operating lease commitments (continued)

- (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. Except for the accrued reclamation obligations as disclosed in Note 24, 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 applicable legislations, 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.

(d) Contingency in respect of tax dispute

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

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

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

Notes to the Unaudited Interim Financial Report

29 COMMITMENTS (continued)

(e) Contingency in respect a claim filed by the Lawyer's Association for Environment

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

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

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

30 MAJOR NON-CASH TRANSACTIONS

According to the relevant tax regulations in Mongolia, the income tax payable can be offset by the VAT receivables. During the six months ended 30 June 2013, the Group offset the VAT receivables of USD4,020,000 (six months ended 30 June 2012: USD4,488,000) and USD8,588,000 (six months ended 30 June 2012: USD9,073,000) with income tax payable and royalty tax payable, respectively.

During the six months ended 30 June 2013, payables amounting to MNT9,347,290,047 has been transferred to the GoM in relation to the termination of Concession Agreement of UHG-GS Railway (see Note 12).

31 POST BALANCE SHEET EVENT

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

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
“bagh”	The smallest administrative unit in rural districts of Mongolia
“BCM”	Bank cubic metre
“BN”	Baruun Naran
“BN deposit”	BN coal deposit located in Khankhongor soum, South Gobi aimag
“BN mine”	The area of the BN deposit that can be mined by open pit mining methods
“BN Mining License”	Mining License 14493A
“Board”	The Board of Directors of the Company
“CG Code”	The Corporate Governance Code
“CHPP”	Coal handling and preparation plant
“CISA”	China Iron and Steel Association
“CODM”	chief operating decision maker
“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
“Convertible Bond”	USD85,000,000 aggregate principal amount convertible bond issued by the Company to QGX Holdings Ltd.

Glossary and Technical Terms

“Director(s)”	Director(s) of the Company
“DP”	Democratic Party
“EBITDA”	Earnings before interest, tax, depreciation and amortisation
“Employees Written Guidelines”	The Model Code for securities transactions by relevant employees
“EPC”	Engineering Procurement and Construction
“Fexos”	Fexos Limited
“Ganqimaodu” or “GM”	The China side of the China-Mongolia border crossing
“Gashuun Sukhait” or “GS”	The Mongolia side of the China-Mongolia border crossing
“GoM”	Government of Mongolia
“Group”	The Company and its subsidiaries
“Guiding Principle”	The Guiding Principles for Business and Human Rights endorsed by the United Nations
“HCC”	Hard coking coal
“HKD”	Hong Kong Dollar
“HSE”	Health, Safety and Environment
“IASs”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRSs”	International Financial Reporting Standards
“JORC”	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
“KAM”	Kerry Asset Management Limited
“KGL”	Kerry Group Limited
“KHL”	Kerry Holdings Limited
“km”	kilometre
“KMM”	Kerry Mining (Mongolia) Limited

Glossary and Technical Terms

“KMUHG”	Kerry Mining (UHG) Limited
“LAE”	The Lawyer’s Association for Environment
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“LOM”	life-of-mine
“LTIFR”	Lost Time Injury Frequency Rate
“middlings”	Washed thermal coal
“mineral resource”	A concentration or occurrence of material of intrinsic economic interest in or on the earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
“MNT”	Mongolian National Togrog
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers
“MRT”	Ministry of Road and Transportation
“Mt”	Million tonnes
“MTZ”	Mongolian Railway
“Norwest”	Norwest Corporation
“NSO”	National Statistical Office
“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
“Parliament”	Parliament of Mongolia
“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

Glossary and Technical Terms

“raw coal”	Generally means coal that has not been washed and processed
“RMB”	Renminbi
“ROM”	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
“RPM”	RungePincockMinarco Limited
“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
“SFO”	Securities and Futures Ordinance
“share(s)”	Ordinary share(s) of USD0.01 each in the share capital of the Company
“Share Options”	The share options which were granted under the Share Option Scheme to eligible participants to subscribe for Shares of the Company
“Share Option Scheme”	A share option scheme which was adopted by the Company on 17 September 2010
“Share Purchase Agreement”	Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
“soum”	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
“SPC”	State Property Committee
“SRK”	SRK Consulting (Australasia) Pty Ltd
“SSCC”	Semi-soft coking coal
“Standard Bank Facility”	A facility agreement with Standard Bank of South Africa Ltd as the original lender, and Standard Bank Plc as the lead arranger
“Strategic Entity Foreign Investment Law”	Law on Regulation of Foreign Investment Business Entities Operating in Sectors of Strategic Importance



Glossary and Technical Terms

“strip ratio” or “stripping ratio”	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
“Tavan Tolgoi”	The coal formation located in South Gobi, Mongolia which includes our UHG deposit
“the Project”	a unified railway project
“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 carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
“THG”	Tsaihkar Khudag
“THG Mining License”	Mining License MV-017336
“TKH”	Tsagaan Khad
“tonne”	Metric ton
“Tsogttsetsii”	Tsogttsetsii soum is the location where Tavan Tolgoi sits
“UHG”	Ukhaa Khudag
“UHG deposit”	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
“UHG-GS Railway”	the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia
“UHG mine”	The aboveground (<300m) portion of our UHG deposit
“UHG Mining License”	The Mining License MV-11952
“USD”	United States Dollar
“VAT”	Value added tax
“washed coal”	Coals that have been washed and processed to reduce its ash content
“WSA”	World Steel Association

Appendix I

SUMMARY

The UHG JORC reserve estimate as at 31 December 2012 is detailed by seam in Tables 1-1, 1-2 and 1-3.

Table 1-1: Total Proved UHG Reserves

Seam	Proved ROM Coal (Mt)	Ash (%)	Calorific Value (kcal/kg)	Total Sulphur (%)
12	0.2	32.0		0.9
11	0.6	41.2		0.8
10B	0.9	43.2		0.8
10A	1.9	34.8		1.2
9B	9.5	25.1		1.4
9A	2.4	36.5		1.4
8C	0.1	48.3		1.1
8B	0.7	44.7		1.1
8A	10.6	25.8		1.3
7B	3.3	34.2		1.3
7A	5.2	35.6		1.2
6	2.3	41.6		1.0
5A	4.3	37.0		1.0
4C	18.9	24.5		0.9
4B	9.8	35.8		1.0
4A	18.5	31.4		1.0
3A	19.8	29.9		1.1
0CU	38.8	27.0		1.1
0CL	1.2	39.7		1.2
0CL2L1	9.2	38.7		1.0
0BU	6.2	36.5	4,750	1.0
0BL	24.9	24.7	5,830	1.0
0AU	28.6	39.6	4,700	0.9
0AL	0.7	43.0	4,430	0.9
Total	218	31.0	5,170	1.1
	Total Coking (Mt)			155
	Total Thermal (Mt)			64
	Total Proved (Mt)			218

(Note: Estimate has been rounded to reflect accuracy, ROM Coal and Qualities @ 5% total moisture)



Table 1-2: Total Probable UHG Reserves

Seam	Probable ROM Coal (Mt)	Ash (%)	Calorific Value (kcal/kg)	Total Sulphur (%)
12	0.8	34.8		0.8
11	2.9	35.2		0.9
10B	1.5	45.0		1.3
10A	1.8	31.6		1.4
9B	1.1	32.6		1.4
9A	1.0	36.6		1.2
8C	0.0	48.5		1.1
8B	0.2	46.7		1.2
8A	6.2	23.8		1.1
7B	1.2	37.6		1.2
7A	4.2	37.2		1.0
6	2.8	41.8		1.0
5A	2.2	37.4		1.1
4C	17.5	26.2		0.8
4B	8.7	35.4		1.0
4A	14.9	35.7		1.0
3A	13.6	36.4		1.0
0CU	7.7	31.4		1.0
0CL	0.7	44.0		1.2
0CL2L1	1.3	41.8		1.0
0BU	2.1	36.8	4,690	0.8
0BL	1.1	34.5	4,910	0.9
0AU	3.5	39.9	4,630	0.8
0AL	0.1	43.0	4,240	0.8
Total	97	33.6	4,690	1.0
Total Coking (Mt)				81
Total Thermal (Mt)				16
Total Probable (Mt)				97

(Note: Estimate has been rounded to reflect accuracy, ROM Coal and Qualities @ 5% total moisture)

Appendix I

Table 1-3: Total UHG Reserves

Seam	Total Open Cut Coal Reserve			
	ROM Coal (Mt)	Ash (%)	Calorific Value (kcal/kg)	Total Sulphur (%)
12	1.0	34.1		0.9
11	3.5	36.3		0.9
10B	2.4	44.3		1.1
10A	3.7	33.3		1.3
9B	10.5	25.9		1.4
9A	3.3	36.6		1.3
8C	0.2	48.3		1.1
8B	0.9	45.1		1.1
8A	16.7	25.1		1.2
7B	4.4	35.1		1.3
7A	9.4	36.3		1.1
6	5.0	41.7		1.0
5A	6.5	37.1		1.0
4C	36.3	25.3		0.9
4B	18.5	35.6		1.0
4A	33.4	33.3		1.0
3A	33.4	32.6		1.1
0CU	46.5	27.7		1.1
0CL	1.9	41.3		1.2
0CL2L1	10.5	39.1		1.0
0BU	8.3	36.5	4,730	0.9
0BL	26.1	25.1	5,790	1.0
0AU	32.1	39.7	4,700	0.9
0AL	0.9	43.0	4,400	0.9
Total	315	31.8	5,120	1.0
	Total Coking (Mt)			236
	Total Thermal (Mt)			80
	Total Reserves (Mt)			315

(Note: Estimate has been rounded to reflect accuracy, ROM Coal and Qualities @ 5% total moisture)

The BN JORC reserve estimate as at 31 December 2012 is detailed by seam in Table 2-1, 2-2 and 2-3.

Table 2-1: Total BN Proved Reserves

Seam	Proved Coal Reserves					Total Sulphur (% ad)
	Mt (@ 6% Mois)	Ash (% ad)	CSN (ad)	CV (kcal/kg ad)		
V	0.0	0.0	0.0	0.0	0.0	0.0
U	8.1	43.2	5.0	5,820	0.9	
T	22.1	27.1	3.0	6,730	1.1	
R	2.0	42.4	4.0	6,250	0.9	
Q	2.0	44.9	2.0	5,710	0.8	
N	15.3	43.7	2.0	5,370	0.9	
K	9.4	45.5	5.0	5,810	1.0	
J	11.2	34.1	5.0	6,270	1.2	
I	9.7	30.3	4.0	6,430	0.9	
H	30.3	28.6	4.0	6,690	1.1	
G	23.3	49.8	2.0	5,490	1.2	
F	7.4	32.5	4.0	6,280	0.9	
Total	141	36.7	4.0	6,150	1.0	
Total Coking (Mt)						118
Total Thermal (Mt)						23
Total Proved (Mt)						141

(Note: Estimate has been rounded to reflect accuracy, ROM Coal @ 6% total moisture)

Table 2-2: Total BN Probable Reserves

Seam	Probable Coal Reserves					Total Sulphur (% ad)
	Mt (@ 6% Mois)	Ash (% ad)	CSN (ad)	CV (kcal/kg ad)		
V	2.6	43.6	4.0	6,250	1.0	
U	1.0	47.7	4.0	5,350	0.8	
T	0.0	18.2	3.0	6,360	1.4	
R	6.6	41.6	4.0	6,250	1.0	
Q	1.3	46.3	2.0	5,720	0.9	
N	1.3	43.8	3.0	5,570	0.8	
K	2.7	43.5	5.0	5,770	1.0	
J	3.5	42.0	5.0	6,360	1.0	
I	0.5	31.4	4.0	6,380	0.9	
H	2.3	29.0	4.0	6,640	1.2	
G	1.7	50.8	2.0	5,360	1.0	
F	0.5	26.9	4.0	6,270	0.8	
Total	24	41.7	4.0	6,080	1.0	
Total Coking (Mt)						22
Total Thermal (Mt)						2
Total Proved (Mt)						24

(Note: Estimate has been rounded to reflect accuracy, ROM Coal @ 6% total moisture)

Appendix I

Table 2-3: Total BN Reserves

Seam	Total Coal Reserves				
	Mt (@ 6% Mois)	Ash (% ad)	CSN (ad)	CV (kcal/kg ad)	Total Sulphur (% ad)
V	2.7	43.5	4.0	6,250	1.0
U	9.0	43.6	5.0	5,770	0.9
T	22.1	27.1	3.0	6,730	1.1
R	8.6	41.8	4.0	6,250	1.0
Q	3.3	45.4	2.0	5,720	0.9
N	16.6	43.7	3.0	5,380	0.9
K	12.1	45.1	5.0	5,800	1.0
J	14.7	36.0	5.0	6,290	1.1
I	10.2	30.4	4.0	6,430	0.9
H	32.6	28.6	4.0	6,690	1.1
G	25.5	49.9	2.0	5,480	1.2
F	7.9	32.1	4.0	6,280	0.9
Total	165	37.4	4.0	6,140	1.0
Total Coking (Mt)					140
Total Thermal (Mt)					25
Total Reserves (Mt)					165

(Note: Estimate has been rounded to reflect accuracy, Total Coal Reserves @ 6% total moisture)