



MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 975

GLOBAL OFFERING



**Joint Global Coordinators, Joint Bookrunners,
Joint Sponsors and Joint Lead Managers**

(in alphabetical order)



J.P.Morgan

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	719,424,500 Shares comprising 597,122,500 new Shares to be offered by the Company and 122,302,000 Sale Shares to be offered by the Selling Shareholders (subject to the Over-allotment Option)
Number of International Placing Shares	:	647,482,500 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	71,942,000 Shares (subject to adjustment)
Maximum Offer Price	:	HK\$7.56 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	US\$0.01 per Share
Stock code	:	975

*Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers
(in alphabetical order)*



J.P.Morgan

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection – Documents Delivered to the Registrar of Companies", has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement with the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date, which is expected to be on or around October 5, 2010 and, in any event, not later than October 11, 2010. The Offer Price will be not more than HK\$7.56 and is currently expected to be not less than HK\$6.48. If, for any reason, the Offer Price is not agreed by October 11, 2010 by the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, with the consent of the Company and the Selling Shareholders, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website at www.mmc.mn and the website of the Stock Exchange at www.hkexnews.hk not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For more details, please see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except that the Offer Shares may be offered, sold or delivered to qualified institutional buyers in reliance on Rule 144A or other exemption(s) from registration under the Securities Act or outside the United States in reliance on Regulation S under the Securities Act.

September 28, 2010

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times.

Application Lists open ⁽²⁾	11:45 a.m. on Monday, October 4, 2010
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽³⁾	12:00 noon on Monday, October 4, 2010
Latest time to complete electronic applications under the White Form eIPO service through the designated website at www.eipo.com.hk ⁽⁴⁾	11:30 a.m. on Monday, October 4, 2010
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Monday, October 4, 2010
Application Lists close ⁽²⁾	12:00 noon on Monday, October 4, 2010
Expected Price Determination Date ⁽⁵⁾	Tuesday, October 5, 2010
(1) Announcement of the Offer Price, the indication of the levels of interest in the International Placing, the level of application in the Hong Kong Public Offering and the basis of allotment under the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Tuesday, October 12, 2010
(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares – Results of Allocations")	Tuesday, October 12, 2010
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the Company's website at www.mmc.mn from	Tuesday, October 12, 2010
Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID" function	Tuesday, October 12, 2010
Dispatch of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications on or before ⁽⁶⁾	Tuesday, October 12, 2010
Dispatch of White Form e-Refund payment instructions/refund checks in respect of wholly or partially unsuccessful applications on or before ⁽⁶⁾	Tuesday, October 12, 2010
Dealings in Shares on the Stock Exchange expected to commence on	Wednesday, October 13, 2010

EXPECTED TIMETABLE⁽¹⁾

Notes:

- 1 Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- 2 If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on October 4, 2010, the Application Lists will not open and close on that day. See “How to Apply for Hong Kong Offer Shares – When to Apply for the Hong Kong Offer Shares – Effect of bad weather conditions on the opening of the Application Lists”. If the Application Lists do not open and close on October 4, 2010, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
- 3 Applicants who apply by giving **electronic application instructions** to HKSCC via CCASS should refer to “How to Apply for Hong Kong Offer Shares – How to Apply by Giving Electronic Application Instructions to HKSCC”.
- 4 You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the Application Lists close.
- 5 We expect to determine the Offer Price by agreement with the Joint Global Coordinators (on behalf of the Underwriters) and the Selling Shareholders on the Price Determination Date. The Price Determination Date is expected to be on or around October 5, 2010 and, in any event, not later than October 11, 2010. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholders and the Company by October 11, 2010, the Global Offering will not proceed and will lapse. Notwithstanding that the Offer Price may be fixed at below the maximum Offer Price of HK\$7.56 per Share payable by applicants for Hong Kong Offer Shares under the Hong Kong Public Offering, applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$7.56 for each Share, together with 1% brokerage, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.003% but will be refunded the surplus application monies as provided in “How to Apply for Hong Kong Offer Shares”.
- 6 **Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk. Refund checks will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund check.**

Applicants who apply on **WHITE** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund checks and (where applicable) Share certificates in person from our Hong Kong Share Registrar may collect refund checks and (where applicable) Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on October 12, 2010 or any other date notified by the Company in the newspaper is as the date of dispatch of Share certificates/e-Refund payment instructions/refund checks. Individual applicants who opt for personal collection must not authorise any other person to make their collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorized representatives, each bearing a letter of authorization from such corporation stamped with the corporation’s chop. Both individuals and authorized representatives (if applicable) must

EXPECTED TIMETABLE⁽¹⁾

produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected Share certificates and refund checks will be dispatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Forms. Further information is set out in "How to Apply for Hong Kong Offer Shares".

*Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund checks in person may collect their refund checks (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund checks for applicants who apply on **YELLOW** Application Forms for Hong Kong Offer Shares is the same as that for applicants who apply on **WHITE** Application Forms.*

Share certificates for the Hong Kong Offer Shares to be distributed via CCASS are expected to be deposited into CCASS on October 12, 2010 for credit to the respective CCASS Participant's stock accounts designated by the International Underwriters, the purchasers or their agents, as the case may be.

*Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus for further details.*

*Applicants who apply through the **White Form eIPO** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Refund payment instructions; Applicants who apply through the White Form eIPO service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund checks, by ordinary post at their own risk.*

If you have applied for less than 1,000,000 Hong Kong Offer Shares or have applied for 1,000,000 Hong Kong Offer Shares or more but have not indicated in the application that you wish to collect Share certificates and/or refund checks, your Share certificates and/or refund checks will be dispatched by ordinary post at the applicant's own risk to the address specified on the Application Form.

e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applicants in the event that the Offer Price is less than the price payable on application.

Uncollected Share certificates and/or refund checks (if any) will be dispatched by ordinary post at the applicants' own risk to the addresses specified in the Application Forms promptly after the expiry of the time for their collection. See "How to Apply for Hong Kong Offer Shares – Dispatch/Collection of Share Certificates and Refund Monies".

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorized anyone to provide you with information that is different from what is contained in this prospectus and/or the Application Forms. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Joint Global Coordinators, any of the Underwriters, any of our or their respective directors, officers, employees, advisors, agents, affiliates or representatives or any other person or party involved in the Global Offering.

	<i>Page</i>
Expected Timetable	i
Summary	1
Definitions	14
Glossary of Technical Terms	31
Forward-Looking Statements	39
Risk Factors	41
Exchange Rates	68
Waivers from Compliance with the Listing Rules	69
Information about this Prospectus and the Global Offering	72
Directors and Parties Involved in the Global Offering	75
Corporate Information	81
Industry Overview	84
Laws and Regulations Relating to the Industry	110
History, Reorganization and Corporate Structure	138
Business	156
Connected Transactions	210

CONTENTS

	<i>Page</i>
Directors, Senior Management and Employees	225
Relationship with Controlling Shareholders	255
Substantial Shareholders and Selling Shareholders	269
Share Capital	272
Financial Information	275
Future Plans and Use of Proceeds	311
Underwriting	313
Structure of the Global Offering	323
How to Apply for Hong Kong Offer Shares	332
Appendix I – Accountants’ Report	I-1
Appendix II – Unaudited Pro Forma Financial Information	II-1
Appendix III – Profit Forecast	III-1
Appendix IV – Property Valuation	IV-1
Appendix V – Independent Technical Report	V-1
Appendix VI – Summary of the Constitution of our Company and the Cayman Companies Law	VI-1
Appendix VII – Statutory and General Information	VII-1
Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection	VIII-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors”. You should read the section carefully before you decide to invest in the Offer Shares.

Overview

We are a Mongolian-owned mining company engaged in the open-pit mining of coking coal at our UHG deposit located within the Tavan Tolgoi coal formation in South Gobi, Mongolia. Our UHG mine had 499.9 million tonnes and 286.0 million tonnes of JORC-compliant measured and indicated coal resources and proven and probable reserves, respectively, as of May 31, 2010. We were granted Mining License MV-11952 covering the UHG deposit on August 29, 2006 for an initial period of 30 years to engage in coal mining activities. Our license area covers 2,960 hectares, and as of the Latest Practicable Date, our mine plan to 2013 will cover approximately 6% of our license area. Currently, all our coking coal is transported by trucks to our customers in China. According to Wood Mackenzie, our coking coal is of high-quality.

We own and operate the largest coking coal mine in Mongolia held by a private company, by aggregate production and sales volume. As coking coals are either consumed by coke plants or steel mills in Mongolia or exported and according to the MRAM, there are no officially registered coke plants or steel mills operating in Mongolia, we believe export volumes can be a proxy for production volumes. The official record of the Mongolian Customs Office, which shows data on the total exports of coking and hard coals by major exporters, indicates that for each of the three years ended December 31, 2009 and the six months ended June 30, 2010, there were a total of one, two, three and two major exporters of coking coal, respectively.⁽¹⁾ For the six months ended June 30, 2010, we were the largest exporter of coking coal in Mongolia exporting approximately 61.9% of the total exports of coking coal shown on the official record of Mongolian Customs Office. As a result of the foregoing, we believe we are the largest producer and exporter of coking coal in Mongolia for the six months ended June 30, 2010 and we are well positioned over any other mining company to pursue exploration activities in Mongolia.

Our UHG deposit is located within the Tavan Tolgoi coal formation, which according to Wood Mackenzie, is one of the few remaining largely unexploited sources of high-quality coking coal in the world and the closest coking coal formation to China.

Note:

(1) While the Mongolia Customs Office does not have its own definitions of “coking coal” and “hard coal”, we understand that its “coking coal” category refers to hard coking coal and its “hard coal” category refers to semi-soft coking coal and thermal coal. Hard coking coal is primarily used in the process of manufacturing steel. Thermal coal is primarily used in coal-fired power plants. Semi-soft coking coal is generally used to blend with hard coking coal for the process of manufacturing steel and is also used in coal-fired power plants.

SUMMARY

Mining Operations

We commenced mining at our UHG deposit in April 2009, and for the year ended December 31, 2009, we produced 1.8 million tonnes of coking coal. We plan to produce approximately 3.8 million tonnes of coking coal in 2010 and increase our coal production to approximately 14.7 million tonnes for the year ending December 31, 2013. See “Risk Factors – Risks Relating to our Business and Industry – We face risks under our expansion program”. We currently sell only unwashed coking coal.

Based on public information about comparable Shanxi coking coals, unwashed coking coal is sold at an approximate 35-40% discount to washed coking coal, and as of June 30, 2010, unwashed coking coals sold at an approximate 35% discount to washed coking coals. For example, based on public information, a comparable washed coking coal sold at approximately RMB1,530 per tonne whereas the price for unwashed coking coal was RMB1,000 per tonne, as of June 30, 2010. During the Track Record Period, the discount from washed coking coal to unwashed coking coal ranged from 16% to 35%.

As part of our mine expansion and to further improve our margins, we are constructing a coal handling and washing plant that will produce high-quality washed coking coals. The ramp-up of our coal handling and washing plant will coincide with the ramp-up of our coal mine production. We expect the first 5.0 Mtpa of our coal handling and washing plant to be operational by early 2011, which will be the first of its kind in Mongolia, with the second and third phases of 5.0 Mtpa each to be operational in the second half of 2011 and by the end of 2012, respectively.

Logistics and Transport

We are the closest coking coal producer to Baotou, the closest railway transportation hub providing access from Mongolia to the largest steel producing provinces in China. Our UHG deposit is located approximately 540km south of Ulaanbaatar, the capital of Mongolia, and approximately 240km from the Mongolia-China border crossing at GS. Our coal is hauled by trucks from our UHG deposit to our trans-shipment stockpile at TKH, located approximately 21km from the Mongolia-China border crossing, then to GS where it is further trans-shipped to markets in China. See “Business – Logistics and Transport”. We plan to sell our high-quality coking coal into China pursuant to long-term agreements with a diversified group of end-use customers, including iron and steel mills and coke and chemical plants. In 2010, we contracted to sell approximately 4.4 million tonnes of coking coal to a combination of coal traders and end-use customers. We expect to deliver approximately 3.8 million tonnes of coking coal in 2010 and expect to deliver the remaining contracted amounts in 2011. From July 1, 2010 to the Latest Practicable Date, the weighted average selling price per tonne under our contracts was US\$76.72.

For the years ended December 31, 2008 and 2009, the four months ended April 30, 2010 and as of the Latest Practicable Date, we had one, four, eight and 17 customers, respectively. As of the Latest Practicable Date, we have entered into long-term agreements with most of our end-use customers which included Baogang, Shagang, Risun and Qinghua. See “Business – Customer Base”.

SUMMARY

Currently, our coal is transported from our UHG deposit to TKH using approximately 500 trucks. We own 107 of these trucks, while the other trucks are owned and operated by our customers or contract trucking companies. From TKH, a fleet of approximately 400 trucks owned and operated by our customers and contract trucking companies is used to transport our coal to GS. Each truck can carry approximately 80-100 tonnes of coal. With approximately 900 trucks serving UHG-GS, our current overall hauling capacity is approximately 3.5-4.0 Mtpa using the existing gravel road. As of the Latest Practicable Date, the existing gravel road itself had a capacity of approximately 6.0-7.0 Mtpa.

To keep pace with our rapid expansion, we are improving our transportation infrastructure by constructing a paved road and planning to construct a railway from our UHG deposit to GS. The Government of Mongolia has (1) granted us the land use rights to build our paved road and railway and (2) issued us the licenses to build the paved road and to build our railway base infrastructure. Our paved road will be parallel to the existing coal transport gravel road we currently use and we expect to complete a substantial portion of our paved road by the end of 2010. Our paved road will be sufficient to support our current expansion plans and excess capacity may be used by third parties for a toll fee. In order to lower transportation costs and increase reliability and operational efficiency, we are also planning to construct a railway directly from our UHG deposit to GS in 2011-2012, subject to final approval from the Government of Mongolia.

In the year ended December 31, 2009, our average selling price was US\$56.0 per tonne when we managed and organized the transportation of our coal in Mongolia, and US\$42.3 per tonne when the customer managed and organized the transportation of our coal in Mongolia. We provide transportation of our coal to TKH, and our customers are responsible for the transportation costs of delivering coal from TKH to GS and other locations in China.

We have partnered with a number of industry leading experts throughout the planning, development and operating phases of our mine. We work closely with our mining contractor, Leighton, a major mining operator, in all aspects of our coal mining operations and have entered into a long-term contract with them to train and supervise our employees to conduct mining operations. In addition, Leighton has committed to work with us to build out our coal production capacity to 15.0 Mtpa. We are working together with Sedgman, a coal handling and washing plant expert, to construct our coal handling and washing plant. In addition, we have communicated our expansion plans to our other major contractors and suppliers and are working with them to ensure they have sufficient resources to support our expansion.

In order to effectively manage our growth, we will continue to hire and train more employees at the mine operations and management levels in order to ensure our growth is supported by a sufficient number of trained personnel. At the same time, we have recruiting and training plans matching our production ramp-up. In order to accommodate the expected increase in production and sales levels, we will also continue to upgrade our information management and financial systems. Furthermore, we currently have a sales and marketing team of 16 who closely monitor and cover our principal customer relationships. We expect to continue to expand this team as our sales volume and customer relationships increase.

SUMMARY

Capital Expenditures

For the year ending December 31, 2010, our major planned capital expenditures total US\$279 million, approximately 80% of which will be funded by bank loans and the remainder to be funded by cash flow from operating activities. In connection with our current plans for mine and transportation infrastructure development beyond 2010, we expect our capital expenditures to the end of 2013 to be approximately US\$1.1 billion to US\$1.3 billion, approximately 20% of which would be funded by proceeds from the Global Offering, 50% of which would be funded by borrowings and 30% of which would be funded by our operating cashflows and additional fundraising activities. The foregoing percentages are estimates only and are subject to adjustment to reflect developments in our business and industry.

(US\$ million)	Commencement date	Completion date	Total capital expenditure budget	Construction in progress/property and other non-current assets balance as of June 30, 2010	Capital committed as of June 30, 2010	Capital expenditure time schedule ⁽³⁾				
						Year ending December 31,				
						2010 ⁽⁴⁾	2011	2012	2013	2014
						(Forecast)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
Coal handling and washing plant	August 2009	1st module in early 2011	343.8	27.5	50.2	116.4	105.6	114.2	5.2	2.3
Road ⁽¹⁾	May 2010	End of 2010	147.0	10.0	80.0	68.2	36.9	5.1	30.1	6.7
Water supply	April 2010	Early 2011	48.7	8.0	30.6	24.1	4.1	19.5	1.0	-
Power plant	August 2009	End of 2011	40.9	18.3	40.9	36.4	4.5	-	-	-
Property (camp, airport and workshop)	June 2010	Early 2011	5.9	-	-	5.9	-	-	-	-
Railway	2011-2012	2013-2014	698.8	10.6	-	1.8	380.0	288.0	21.0	8.0
Trucks and equipment	N/A	N/A	13.4	0.9	-	3.4	10.0	-	-	-
Others ⁽²⁾	N/A	N/A	75.9	1.3	-	23.0	20.1	13.7	9.7	9.5
Total						<u>279.2</u>	<u>561.2</u>	<u>440.5</u>	<u>67.0</u>	<u>26.5</u>

Notes:

- (1) Includes 100% share of paved road related costs
- (2) Others include capitalized expenses related to township development, exploration activities and studies
- (3) Capital expenditure schedule from 2011 to 2014 are based on estimates included in "Appendix V – Independent Technical Report"
- (4) Capital expenditures for the year ending December 31, 2010 are based on the historical capital expenditures for the four months ended April 30, 2010, actual results for the two months ended June 30, 2010, and management estimates for the six months ending December 31, 2010

On May 12, 2010, we entered into a US\$180 million medium term loan facility arranged by EBRD, one of our Shareholders, at a floating rate linked to LIBOR. This loan facility is secured by certain of our bank accounts, our mining license, our coal handling and washing plant under development, the 12 MW power plant and all of our other present and future immovable property, an assignment of our contract with Sedgman relating to our coal handling and washing plant, contract with Leighton relating to coal mining and offtake agreement with

SUMMARY

Qinghua, and a pledge of shares in ER LLC. Pursuant to this loan facility, EBRD has been granted rights normally given to lenders in a pre-IPO loan including, financial covenants, information covenants and the requirement to obtain EBRD's consent for certain corporate acts (including approval of capital expenditures, incurrence of additional indebtedness, mergers and making investments). We have pledged approximately 21.5% of the shares of ER LLC to secure the US\$180 million EBRD banking facility. As of the Latest Practicable Date, the borrowing under this facility was US\$180 million. As of the Latest Practicable Date, we had a total of US\$256.2 million in banking facilities of which all amounts had been utilized.

Financial Results

Our revenue for the three years ended December 31, 2009 and the four months ended April 30, 2010 was US\$0, US\$0, US\$67.0 million and US\$32.3 million, respectively. Our net (loss)/profit for the three years ended December 31, 2009 and the four months ended April 30, 2010 was US\$(3.0) million, US\$(3.6) million, US\$10.3 million and US\$5.0 million, respectively.

Our Competitive Strengths

- High-quality coking coal assets with abundant resources
- Closest coking coal exporter to major Chinese steel mills
- One of the lowest cost coking coal producers in the world
- High growth with established plan for margin expansion
- Most advanced coking coal operations in Mongolia
- Combination of Mongolian and international shareholders implementing international best practices
- Strong management team partnered with internationally recognized experts

Our Strategies

- Expand coal mine production
- Complete construction of our coal handling and washing plant
- Improve our transportation infrastructure
- Continue to develop and diversify our long-term customer base and establish our own brand
- Optimize existing resources and reserves

SUMMARY

- Exploration and acquisition as an established Mongolian mining company
- Strong commitment to corporate social responsibility

Summary Historical Financial Information

The following summary historical statement of comprehensive income data for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2009 and 2010 and the summary historical balance sheet data as of December 31, 2007, 2008 and 2009 and April 30, 2010 set forth below have been derived from the Accountants' Report included in Appendix I to this prospectus. You should read the summary historical financial information below in conjunction with our financial statements included in "Appendix I – Accountants' Report" which have been prepared in accordance with IFRS.

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
			(US\$)		
				(unaudited)	
Summary statement of comprehensive income data					
Revenue	–	–	66,982,707	119,843	32,253,543
(Loss)/profit from operations . . .	(3,949,165)	(3,971,378)	17,908,475	(3,287,966)	4,477,792
Total comprehensive income for the year/period	(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
(Loss)/profit attributable to the equity shareholders of the Company.	(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Total comprehensive income attributable to the equity shareholders of the Company . .	(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
Basic (loss)/earnings per share . .	(0.10 cent)	(0.12 cent)	0.34 cent	(0.13 cent)	0.17 cent
			(US\$)		
				(unaudited)	
Summary balance sheet data					
Assets					
Non-current assets.	1,014,085	27,579,016	83,161,930	111,765,325	
Current assets	970,887	8,347,133	30,068,092	44,931,009	
Total	1,984,972	35,926,149	113,230,022	156,696,334	
Equity and liabilities					
Total equity.	(982,616)	14,790,614	43,841,368	51,288,682	
Non-current liabilities.	–	2,204,217	27,286,982	18,289,752	
Current liabilities	2,967,588	18,931,318	42,101,672	87,177,900	
Total equity and liabilities.	1,984,972	35,926,149	113,230,022	156,696,334	

SUMMARY

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	(US\$)			
Summary cash flow data				
Net cash (used in)/from operating activities	(1,408,864)	8,100,092	(4,023,882)	35,635,772
Net cash used in investing activities	(3,511,913)	(25,973,501)	(62,061,317)	(24,181,922)
Net cash generated from financing activities	5,835,253	20,708,968	62,683,704	3,256,655

Coal Resources and Reserves

Summary of Our Coal Reserves⁽¹⁾⁽²⁾

	Proven	Probable	Total
	(million tonnes)		
UHG deposit	191	95	286

Summary of Our Coal Resources⁽¹⁾⁽²⁾⁽³⁾

	Measured	Indicated	Total Measured and Indicated	Inferred ⁽⁴⁾
	(million tonnes)			
UHG deposit (open-pit)	206.0	205.3	411.3	11.7
UHG deposit (underground)	–	88.6	88.6	69.3
Total UHG deposit	<u>206.0</u>	<u>293.9</u>	<u>499.9</u>	<u>81.0</u>

Notes:

- (1) *These numbers have been prepared in accordance with the JORC Code. See “Glossary of Technical Terms”.*
- (2) *For our deposit, “open-pit” refers to coal deposits shallower than 300m from the surface and “underground” refers to coal deposits deeper than 300m from the surface.*
- (3) *Resources are a less accurate measure when compared to reserves. See “Risk Factors – Risks Relating to our Business and Industry – The accuracy of our resources and reserves estimates are based on a number of assumptions and we may produce less coal than our current estimates”.*
- (4) *Inferred mineral resource is that part of a mineral resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.*

SUMMARY

Summary Historical Operating Information

The following table presents selected operating information for the periods indicated.

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	Coal production (million tonnes)	–	–	1.8
Coal sales (million tonnes)	–	–	1.4	0.6
Average stripping ratio (actual)	–	N/A	3.4	5.5

Notes:

- (1) We are currently in a production ramp-up phase and intend to produce approximately 3.8 million tonnes for the year ending December 31, 2010.

Profit Forecast For The Year Ending December 31, 2010

Forecast consolidated profit attributable to equity shareholders of the Company for the year ending December 31, 2010 ⁽¹⁾	Not less than US\$60 million
Unaudited pro forma forecast earnings per Share ⁽²⁾	Not less than US\$0.017

Notes:

- (1) The bases and assumptions on which the above profit forecast has been prepared are set out in “Appendix III – Profit Forecast”.
- (2) The calculation of the pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to equity shareholders of our Company for the year ending December 31, 2010, assuming that the Global Offering was completed on January 1, 2010 and a total of 3,597,122,500 Shares had been issued and outstanding during the entire year. This calculation assumes that the Over-allotment Option is not exercised and the Offer Shares issued pursuant to the Global Offering were issued on January 1, 2010.

Offer Statistics⁽¹⁾

	Based on an Offer Price of HK\$6.48 per Share	Based on an Offer Price of HK\$7.56 per Share
Market capitalization ⁽²⁾	HK\$23,309.4 million	HK\$27,194.2 million
Prospective price/earnings multiple on a pro forma fully diluted basis ⁽³⁾	50.0 times	58.3 times
Unaudited pro forma adjusted combined net tangible asset value per Share ⁽⁴⁾	HK\$1.14	HK\$1.31

Notes:

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 3,597,122,500 Shares expected to be issued and outstanding following the Global Offering.

SUMMARY

- (3) *The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma diluted basis at the assumed Offer Price of HK\$6.48 and HK\$7.56 per Share assuming that the Over-allotment Option is not exercised.*
- (4) *The pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in “Financial Information – Unaudited Pro Forma Adjusted Net Tangible Assets” on the basis of 3,597,122,500 Shares in issue and the respective Offer Prices of HK\$6.48 per Share and HK\$7.56 per Share.*

Dividend Policy

We will not declare or pay any dividends other than from profits and reserves lawfully available for distribution, including share premium. Our Shareholders may approve the distribution of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of such dividends.

We declared no dividend during the Track Record Period. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our Articles, the Cayman Companies Law, applicable laws and regulations and other relevant factors. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Any dividends declared will be in Hong Kong dollars with respect to the Shares on a per share basis and we will pay such dividend in Hong Kong dollars. The Directors believe that our dividend policy mentioned above will not adversely affect our working capital position. See “Financial Information – Dividends”.

Use Of Proceeds

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$4,017.9 million, before exercise of the Over-allotment Option, after deducting the underwriting commissions and estimated expenses payable by us in relation to the Global Offering and assuming an Offer Price of HK\$7.02 per Share, being the mid-point of the stated range of the Offer Price. We intend to use such net proceeds as follows:

- approximately 50% (HK\$2,008.9 million) for financing our mine and transportation infrastructure development projects, which currently include approximately US\$125 million (HK\$970.5 million) to finance a portion of our railway project and approximately US\$80 million (HK\$621.1 million) for our coal handling and washing plant. See “Business – Mining Operations – General”;
- approximately 40% (HK\$1,607.2 million) for acquisitions of companies with existing exploration rights and additional mining assets. As of the Latest Practicable Date, we had not identified any acquisition targets; and
- the remaining net proceeds of approximately 10% (HK\$401.8 million) to fund working capital and other general corporate purposes.

SUMMARY

To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. To the extent that proceeds are not used immediately for the purposes stated, they will be invested in short term demand deposits and money market instruments.

In the event that the Offer Price is set at HK\$6.48 (being the low end of the indicative Offer Price range of HK\$6.48 to HK\$7.56 per Share as stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds received by us will be reduced by approximately HK\$312.8 million. In the event that the Offer Price is set at HK\$7.56 (being the high end of the indicative Offer Price range of HK\$6.48 to HK\$7.56 per Share as stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds received by us will be increased by approximately HK\$312.8 million. In the event that the Over-allotment Option is exercised in full and based on an Offer Price of HK\$7.02 (being the mid-point of the indicative Offer Price range of HK\$6.48 to HK\$7.56 per Share as stated in this prospectus), the net proceeds received by us will be increased by approximately HK\$734.8 million.

The Selling Shareholders will be selling a portion of their Shares in the Global Offering. The Selling Shareholders will receive net proceeds of approximately HK\$832.8 million after deducting underwriting commissions and discretionary incentive fees and estimated expenses payable by the Selling Shareholders in connection with the Global Offering and assuming an Offer Price of HK\$7.02 per Share, being the midpoint of the indicative offer price range. We will not receive any of the proceeds from the sale of Shares by the Selling Shareholders in the Global Offering.

Risk Factors

There are certain risks relating to an investment in our Shares. These can be categorized into: (i) risks relating to our business and industry; (ii) risks relating to Mongolia; and (iii) risks relating to the Global Offering and our Shares. See “Risk Factors”.

Risks Relating to Our Business and Industry

- Disruptions in transportation could adversely affect the demand for our coal and increase competition from coal producers in other parts of Asia and elsewhere in the world;
- The Government of Mongolia could determine that any one or more of our projects in Mongolia is a Mineral Deposit of Strategic Importance;
- Coal prices are cyclical and subject to significant fluctuation;
- We intend to use bank borrowings, but we may not be able to comply with the covenants under these borrowings or refinance such borrowings when they mature;
- We may be adversely affected by future economic downturns that reduce the demand for steel;

SUMMARY

- Our mining activities are subject to operational risks, hazards and unexpected disruptions;
- The development of any new technology in the production of iron and steel may directly impact the demand for coking coal;
- Our limited operating history may not serve as an adequate measure of our future prospects and results of operations;
- We are experiencing a period of rapid growth and may not be able to manage our growth effectively;
- We face risks under our expansion program;
- We may face delays or cost overruns in connection with our paved road and railway projects;
- We are not sure when we can commence construction of our railway;
- We may not be successful in future acquisitions or may encounter difficulties in integrating and developing the acquired assets or businesses;
- We may acquire and develop non-coal assets;
- We need additional capital to fund our operations and growth which we may not be able to obtain on acceptable terms, or at all;
- We are dependent on future cash flows generated from our business and obtaining additional financing to support our business operations and expansion plans, and to continue as a going concern;
- Our mining operations are concentrated at one mining site;
- We rely on our contractors to perform key aspects of our operations;
- We currently depend on our coal traders and customers to wash our coal;
- The accuracy of our resources and reserves estimates are based on a number of assumptions and we may produce less coal than our current estimates;
- Coal markets are highly competitive and are affected by factors beyond our control;
- An oversupply of coal could adversely affect our profitability;
- Our dependence on a limited number of customers may cause significant fluctuations or declines in our revenues;

SUMMARY

- We have limited insurance coverage which may not be sufficient to cover all of our potential losses;
- Increases in the costs of fuel could negatively affect our operating costs or disrupt or delay production;
- Licenses and permits are subject to renewal and various uncertainties;
- Issues with local communities may materially and adversely affect our business;
- Our business depends substantially on the continuing efforts of our executive officers and our ability to attract and retain qualified technical personnel;
- Our existing Shareholders have substantial influence over us and their interests may not be aligned with the interests of our other Shareholders;
- Foreign currency fluctuations could affect expenses and any future earnings;
- Our results of operations are subject to economic, political and legal developments in the PRC;
- The PRC government may impose restrictions on Mongolian coal;
- Our mining operations are exposed to environmental risks;
- Inclement weather may adversely affect our operations; and
- We may not be able to register our trademarks in Hong Kong.

Risks Relating to Mongolia

- Legislation in Mongolia may be subject to conflicting interpretations;
- Application of and amendments to legislation could adversely affect our mining rights or make it more difficult or expensive to develop our projects and continue mining;
- Uncertainties regarding VAT reimbursement and possible revisions to the Mongolian royalty fee system could adversely affect our financial position;
- Our ability to carry on business in Mongolia is subject to political risk; and
- Changes in, or more aggressive enforcement of, laws and regulations could adversely impact our business.

SUMMARY

Risks Relating to the Global Offering and Our Shares

- There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile;
- Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of the Shares and our ability to raise capital in the future;
- The market price of our Shares when trading begins could be lower than the Offer Price as a result of, among other things, adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins;
- You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law, which law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions;
- Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy successfully;
- Certain facts and statistics contained in this prospectus have come from official government sources or other industry publications, the reliability of which cannot be assumed or assured;
- Information in this document regarding future plans reflects current intentions and is subject to change; and
- We strongly caution you not to place any reliance on any information contained in press articles or other media regarding our Global Offering.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“2006 Minerals Law”	the Minerals Law of Mongolia, enacted on July 8, 2006, and effective from August 26, 2006, as the same may be amended and supplemented from time to time
“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person
“aimag”	the highest level of Mongolian administrative subdivision (essentially equivalent to a province), of which there are 21 in Mongolia
“Application Form(s)”	WHITE application form(s) or YELLOW application form(s) or GREEN application form(s), individually or collectively, as the context requires
“Application Lists”	the application lists for the Hong Kong Public Offering
“Aquaterra”	Aquaterra Engineering LLC (Australia) is an international water and environmental consultancy and is now part of the RPS Group, a United Kingdom based international consultancy group that provides advice and support in the planning, environment, energy and water sector development and management. We signed a consultancy service contract with Aquaterra, under which Aquaterra has undertaken to design the local control measures to manage contaminated water at individual processing facilities and to recommend locations for control measures
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, adopted on September 17, 2010 and as amended from time to time, a summary of which is contained in “Appendix VI – Summary of the Constitution of our Company and the Cayman Companies Law”
“associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Audit Committee”	the audit committee of the Board
“Banking Ordinance”	the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Board”	the board of directors of the Company
“BOT”	a type of contract arrangement in which a private sector entity builds an infrastructure project, operates it and eventually transfers ownership of the project to the government
“business day”	a day (excluding Saturday, Sunday or a public holiday) on which licensed banks in Hong Kong are open for normal banking business
“CAGR”	compound annual growth rate
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or CCASS Custodian Participant or CCASS Investor Participant

DEFINITIONS

“CIF”	Cost, Insurance and Freight, meaning the risk passes to the buyer when goods are delivered on board the ship by the seller, who pays transportation and insurance costs to destination port, as defined in the latest edition of the International Rules for the Interpretation of Trade Terms as published by ICC Publishing SA, 38 cours Albert 1er, 75008 Paris, France from time to time or such official rules for interpretation of trade terms as is issued by the ICC in substitution therefor as amended from time to time
“Citi”	Citigroup Global Markets Asia Limited, which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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 May 18, 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
“connected person”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means MCS Mining Group Limited, MCS Group Limited, MCS Holding and Mr. Odjargal Jambaljamts or, where the context so requires, any of them
“DAF”	Delivered At Frontier, the seller’s obligation ends when they have delivered the goods to the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import and the named point and place at the frontier but before the customs border of the adjoining country. The buyer is responsible for customs clearance, duties, taxes, and delivery to final destination at the country of import

DEFINITIONS

“Deutsche Bahn”	DBI, GmbH, is a provider of consultancy, management and planning services for infrastructure and transport projects, from project development to acceptance/commissioning and operational management. It is wholly owned by DB ML AG and conducts its international activities. Its consulting activities cover the entire range of consulting, planning and execution of infrastructure projects in the passenger and freight sectors, local transport, track infrastructure for long-distance and high-speed traffic, railway stations, combined transport trans-shipment terminals and maintenance and storage facilities and repair depots for locomotives and rolling stock. Project development refers to the preparation of the ground for infrastructure projects during the initial concept phase, compiling studies during the planning stage and project implementation and management. Systems engineering and integration involves the examination and testing of track equipment, individual components and rail materials and a system evaluation of wheel-rail contact points. DBI is currently engaged in the following major projects: (1) establishment of a rail bound transportation network in Qatar; (2) management of the operation and maintenance of the airport rail link in Bangkok, Thailand and (3) the planning and project control of the Katowice Airport Link in Poland
“DGMC”	the Department of Geological and Mining Cadaster, a subordinate agency of MRAM responsible for registration of exploration licenses and mining license rights in Mongolia
“Director(s)”	director(s) of our Company
“European Bank for Reconstruction and Development” or “EBRD”	an international financial institution that supports projects in 29 countries, from central Europe to central Asia
“EPCM”	Engineering, Procurement, Construction and Management, a form of contract where the contractor will design and install the equipment, procure and install the necessary materials, and be responsible of managing the process of the installation

DEFINITIONS

“ERI”	Energy Resources Invest LLC, a limited liability corporation organized under Mongolian law on August 26, 2006, whose business was duly terminated on August 5, 2008
“ER LLC”	Energy Resources LLC, a limited liability corporation organized under Mongolian law on April 22, 2005
“Euro” or “€”	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended by the Treaty on European Union (signed in Maastricht on February 7, 1992)
“Exchange Act”	the U.S. Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“FOB”	Free on Board, meaning the risk passes to the buyer, including payment of all transportation and insurance costs, once goods are delivered on board of the ship by the seller, as defined in the latest edition of the International Rules for the Interpretation of Trade Terms as published by ICC Publishing SA, 38 cours Albert 1er, 75008 Paris, France from time to time or such official rules for interpretation of trade terms as issued by the ICC in substitution therefore as amended from time to time
“FOR”	Free on Rail, meaning the risk passes to the buyer, including payment of all transportation and insurance costs, once goods are delivered on the wagon of rail by the seller, as defined in the latest edition of the International Rules for the Interpretation of Trade Terms as published by ICC Publishing SA, 38 cours Albert 1er, 75008 Paris, France from time to time or such official rules for interpretation of trade terms as issued by the ICC in substitution therefore as amended from time to time

DEFINITIONS

“FOT”	Free on Transportation, meaning risk passes to buyer, including payment of all transportation and insurance costs, once goods are delivered on board the truck by the seller, as defined in the latest edition of the International Rules for the Interpretation of Trade Terms as published by ICC Publishing SA, 38 cours Albert 1er, 75008 Paris, France from time to time or such official rules for interpretation of trade terms as issued by the ICC in substitution therefore as amended from time to time
“Ganqimaodu”	the China side of the China-Mongolia border crossing
“GDP”	gross domestic product
“GEM”	The Growth Enterprises Market operated by the Stock Exchange
“Ger”	a ger is a portable, felt-covered, wood lattice-framed dwelling structure traditionally used by nomads. A ger is more home-like in shape and build, with thicker walls than that of a tent
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Gobi Oil”	Gobi Oil LLC, a joint venture between Shunkhlai Mining LLC and Petrovis LLC. It is a privately held company operating in Mongolia engaging in the distribution of petroleum products in Mongolia
“Government of Mongolia” or “Government”	the Government of Mongolia
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”	the Company and its subsidiaries
“GS”	Gashuun Sukhait, the Mongolia side of the China-Mongolia border crossing
“HK\$”, “Hong Kong dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the Offer Shares offered in the Hong Kong Public Offering
“Hong Kong Public Offering”	the offering of initially 71,942,000 new Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering”) for cash at the Offer Price and on the terms and subject to the conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Underwriters – Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated September 27, 2010 relating to the Hong Kong Public Offering entered into among our Company, MCS Mining Group Limited, MCS Group Limited, MCS Holding, the Joint Global Coordinators and the Hong Kong Underwriters
“Huanghua”	located in the Bohai Gulf coastal regions of eastern China’s Hebei province, and home to the Huanghua Port
“IFRS”	International Financial Reporting Standards
“Independent Technical Expert”	Norwest Corporation, our independent third party technical expert
“Independent Technical Report”	The Independent Technical Report issued by Norwest dated September 28, 2010

DEFINITIONS

“Independent Third Party(ies)”	party(ies) which are not connected with any of the Directors, chief executives, Substantial Shareholders of the Company or any of its subsidiaries or any of their respective associates
“Industry Consultant”	Wood Mackenzie
“International Placing”	the placing of initially an aggregate of 647,482,500 Shares (including the Sale Shares) outside the United States (including such offering to professional investors in Hong Kong, other than retail investors in Hong Kong) in offshore transactions in accordance with Regulation S, and in the United States to QIBs in reliance on Rule 144A or another available exemption from registration under the Securities Act, subject to the Over-allotment Option
“International Placing Shares”	the 647,482,500 Shares (subject to adjustment and the Over-allotment Option), of which 525,180,500 Shares are to be issued by us and 122,302,000 Shares are to be offered for sale by the Selling Shareholders, pursuant to the International Placing
“International Underwriters”	the underwriters of the International Placing as listed in the section headed “Underwriting – Underwriters International Underwriters” in this prospectus, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the international underwriting agreement relating to the International Placing, which is expected to be entered into by the Company, MCS Mining Group Limited, MCS Group Limited, MCS Holding, the Selling Shareholders, the Joint Global Coordinators and the International Underwriters on or around October 5, 2010
“Investment Agreement”	an agreement that a mining license holder may, at its option, enter into with the Government of Mongolia concerning stability of tax rates, the right to sell products at international market prices, a guarantee that the license holder may receive and dispose of income from such sales, and provisions with respect to the amount and term of the license holder’s investment

DEFINITIONS

“Joint Global Coordinators”, “Joint Bookrunners”, “Joint Lead Managers” or “Joint Sponsors”	Citi and JPM
“JPM”	J.P. Morgan Securities (Asia Pacific) Limited, which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO, and a restricted licensed bank under the Banking Ordinance
“Kerry”	Kerry Mining (Mongolia) Limited, a limited liability company incorporated in the British Virgin Islands on November 22, 2007
“Kuok Group”	companies owned and/or controlled by Mr. Kuok Hock Nien and/or interests associated with him
“Latest Practicable Date”	September 19, 2010, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
“Leighton”	Leighton Asia Limited (Hong Kong) is one of Asia’s leading contractors and project developers. Leighton has been operating in Asia since 1975 and currently operates in Hong Kong, Macau, China, Mongolia, Taiwan, the Philippines, Guam, Thailand, Vietnam, Laos, Cambodia, Indonesia and Kazakhstan. Leighton is part of the larger Leighton Group which is Australia’s largest project development and contracting group. The Leighton Group’s major shareholder is HOCHTIEF AG, the world’s largest international contractor
“LIBOR”	the London Interbank Offered Rate, the rate charged by one bank to another for lending money
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about October 13, 2010, on which the Shares are listed and dealings first commence on the Stock Exchange

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Main Board”	the stock market operated by the Stock Exchange which is independent from and operated in parallel with the GEM. For the avoidance of doubt, the Main Board excludes GEM
“Major Drilling Group International Inc.” or “Major Drilling”	is one of the world’s largest drilling service companies serving the mining industry. Major Drilling maintains field operations and offices in Canada, the United States, South and Central America, Asia, Africa and Australia, and provides all types of drilling services including surface and underground coring, directional, reverse circulation, geotechnical, and environmental drilling. Major Drilling is listed on the Toronto Stock Exchange under the symbol “MDI”
“MCS Group”	MCS Holding and its subsidiaries (other than our Group)
“MCS Holding”	MCS Holding LLC, a limited liability corporation organized under Mongolian law on March 29, 2001
“MCS Property”	MCS Property LLC, a wholly-owned subsidiary of MCS Holding which engages in property and real estate development and industrial construction. MCS Property employs over 40 highly-experienced engineers and engages in various construction project management
“Memorandum”	the amended and restated memorandum of association of our Company adopted on September 17, 2010, as amended from time to time
“Mineral Deposit of Strategic Importance”	under the 2006 Minerals Law, a deposit that may have the potential to impact national security, or the economic and social development of Mongolia at the national and regional levels, or that is generating, or has the potential to generate, more than 5% of Mongolia’s GDP product in any given year

DEFINITIONS

“Minerals License Transfer Agreement”	the minerals license transfer agreement entered into between ER LLC and the Government of Mongolia on March 21, 2008, pursuant to which ER LLC agreed to transfer all of its mining licenses except for the one of the UHG Deposit to a state owned enterprise at nil consideration
“MMRE”	the Ministry of Mineral Resources and Energy, a Cabinet level ministry of the Government of Mongolia
“MNT”	togrog or tugrik, the lawful currency of Mongolia
“Mongolian Licensing Law”	The Licensing Law of Mongolia enacted on February 1, 2001, and effective from January 1, 2002, as the same may be amended and supplemented from time to time
“MRAM”	the Mineral Resources Authority of Mongolia, a subordinate agency of the MMRE, under which the DGMC operates
“Nomination Committee”	the nomination committee of the Board
“Norwest”	Norwest Corporation, a provider of consulting services to the energy, mining, and natural resources industries and our Independent Technical Expert
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee, SFC transaction levy and Stock Exchange trading fee) of not more than HK\$7.56 and expected to be not less than HK\$6.48 per Offer Share, to be agreed upon by the Company, the Selling Shareholders and the Joint Global Coordinators (on behalf of the Underwriters) on or before the Price Determination Date
“Offer Share(s)”	the Hong Kong Offer Shares or the International Placing Shares individually or collectively

DEFINITIONS

“Over-allotment Option”	the option to be granted by us under the International Underwriting Agreement to the Joint Global Coordinators exercisable by them on behalf of the International Underwriters pursuant to which we may be required to sell up to an aggregate of 107,914,000 additional Shares, representing approximately 15% of the initial number of Offer Shares to cover over-allocation in the International Placing, if any
“Over-allotment Shares”	up to an aggregate of 107,914,000 additional Shares, representing up to approximately 15% of the initial number of Offer Shares at the Offer Price pursuant to the exercise of the Over-allotment Option
“Parliament of Mongolia” or “Parliament”	government institution in charge of lawmaking in Mongolia
“Parsons Brinckerhoff”	Parsons Brinckerhoff Pte Ltd., provides strategic consulting, planning, engineering, and program and construction management services to both public and private sector clients. It is active in multiple market sectors, including transportation, power, buildings/facilities, water/wastewater, environmental and urban/community development. In 2009, Parsons Brinckerhoff joined Balfour Beatty Plc, the international infrastructure group operating in professional services, construction services, support services and infrastructure investments. Several of its major projects in 2009 included: (1) new rail lines in Seattle, Washington, USA, Los Angeles, California, USA and Sydney, Australia; (2) restoration of electrical power infrastructure in Iraq; (3) the development of new schools in the United Kingdom; and (4) the construction of high speed rails in China and California, USA
“PRC” or “China”	the People’s Republic of China, and for the purposes of this prospectus, excluding Hong Kong, Macau and Taiwan

DEFINITIONS

“Price Determination Agreement”	an agreement to be entered into between us and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the Price Determination Date pursuant to which the Offer Price is expected to be fixed for the purpose of the Global Offering, which is expected to be on or around October 5, 2010
“Price Determination Date”	on or around October 5, 2010 on which the Offer Price is determined for the purposes of the Global Offering
“QIBs”	“qualified institutional buyers” within the meaning contained in Rule 144A
“Qinhuangdao”	a city in the Hebei province and home to Qinhuangdao Port, which is a strategically important port in China and is the largest coal shipping port in the country
“Regulation S”	Regulation S under the Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization of the group of companies now comprising us, completed on September 17, 2010. See the section headed “Appendix VII – Statutory and General Information – Further Information about Our Company and Our Subsidiaries – 4. Corporate reorganization”
“Restricted Mining Business”	the mining business of the Group including ownership, exploration, mining and processing of coking coal and other commodities on the steel industry supply chain in Mongolia and China
“Restricted Transportation Business”	the transportation business of the Group including (a) the paved road and railway from UHG to GS; and (b) the paved road and railway from UHG to any area within a distance of 40 km of the Mongolia-China border
“Rule 144A”	Rule 144A under the Securities Act
“Sale Shares”	the 122,302,000 Offer Shares initially being offered for sale by the Selling Shareholders at the Offer Price under the International Placing

DEFINITIONS

“Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Sedgman”	Sedgman Consulting (China) and Sedgman Limited is a leading provider of multi-disciplinary engineering, project delivery and operations services. Sedgman is the market leader in the design, construction and operation of coal handling and preparation plants and has gained international recognition for its coal processing and materials handling technologies. Sedgman is listed on the Australian Securities Exchange. Sedgman has grown from 150 employees in 2002 to over 650 employees as of June 2008. Sedgman’s clients include: Anglo Coal Australia, BHP Billiton, Coeur d’Alene, First Quantum Minerals, Gold Fields Australia, Macarthur Coal, New Hope, Peabody, QCoal, Rio Tinto, Vale and Xstrata
“Selling Shareholders”	MCS Mining Group Limited and European Bank for Reconstruction and Development
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of Shares
“Shareholders’ Resolutions”	the written resolutions of all our Shareholders passed on September 17, 2010 (as supplemented on September 18, 2010)
“Share Option Scheme”	the share option scheme conditionally adopted by our Company pursuant to a resolution of the Board on September 17, 2010. See the section headed “Appendix VII – Statutory and General Information – Further Information about the Business of Our Company – 12. Share Option Scheme”
“Shares”	our ordinary shares with a nominal value of US\$0.01 each
“SK”	Shivee-Khuren, the Mongolian side of the Shivee-Khuren and Ceke China-Mongolia border
“Small TT”	a coking coal producer owned by the Tavan Tolgoi Joint Stock Company

DEFINITIONS

“soum”	the second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
“Stabilizing Manager”	Citi
“State Professional Inspection Agency”	an agency of the Government of Mongolia that is in charge of laws and regulations of the State, including labor, safety and health
“Strategic Deposits List”	a list of 15 deposits designated by the Parliament of Mongolia to be Mineral Deposits of Strategic Importance
“subsidiary(ies)”	has the meaning as defined in section 2 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and for the purpose of this prospectus means MCS Mining Group Limited and Petrovis Resources Inc.
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“target market region” or “TMR”	includes most of the Chinese territory immediately adjacent to Mongolia’s southern border with China’s Inner Mongolia and Gansu provinces, extending as far west as the Xinjiang provincial border. Eastward it extends to cover Liaoning province, and southward to Jiangsu province, including the three major coal exporting ports of Qinhuangdao, Tianjin and Huanghua
“Tavan Tolgoi”	means the coal formation located in South Gobi, Mongolia which includes our UHG deposit
“Tenger Insurance”	Tenger Insurance LLC, a company providing insurance service to corporate and retail customers in Mongolia
“Tianjin”	a metropolis in northeastern China and home to the Tianjin Port Free Trade Zone
“TKH”	Tsagaan Khad
“Track Record Period”	means the three years ended December 31, 2009 and the four months ended April 30, 2010
“Tsogttsetsii”	Tsogttsetsii soum is the location where Tavan Tolgoi sits
“UHG”	Ukhaa Khudag

DEFINITIONS

“UHG deposit”	means our Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
“UHG mine”	means the aboveground (<300m) portion of our UHG deposit
“UK”	the United Kingdom
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“US\$” or “U.S. dollars” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	value added tax
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wilbur Smith Associates”	Wilbur Smith Associates is a full-service transportation and infrastructure consulting firm providing planning, design, and toll, economic and construction related services. It provides professional services in the following areas: (1) national and regional transportation planning; (2) urban transport and traffic management; (3) economic and financial feasibility; (4) design, construction, maintenance and rehabilitation; (5) environmental analysis and engineering; and (6) the planning and land management of highways, bridges and rural roads, railways, airports, aviation, ports and waterways. Currently, Wilbur Smith Associates performs construction, engineering and inspection services under contract with the South Carolina (state in the USA) Department of Transportation. They have also been awarded the contract for the railway freight and passenger traffic study by the Abu Dhabi freight and passenger railway committee

DEFINITIONS

“Wood Mackenzie”	Wood Mackenzie (Australia) Pty Ltd, a provider of consulting services to the energy and metals industries and our Industry Consultant
“%”	percent

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanation of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our Group and our business. These terms and their given meanings may not correspond to standard industry definitions.

“assay”	qualitative or quantitative analysis of a substance to determine its components; the result of such an analysis
“bankable feasibility study”	an engineering study based on test work and engineering analysis, which presents enough information to determine whether or not the project should be advanced to the final engineering and construction stage
“beneficiation”	the dressing or processing of coal or other ores for the purpose of (i) regulating the size of a desired product, (ii) removing unwanted constituents, or (iii) improving the quality, purity, or assay grade of a desired product
“BF coke”	Blast Furnace coke
“bituminous rank”	coal formed under high heat and pressure typically containing 45-86% carbon with two to three times the heating value of lignite. Its forms include thermal coal, which is used to generate electricity, and coking coal, which is an important fuel and raw material used in the steel and iron industries
“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
“commercial output”	saleable product from a particular mine, which is expressed in tonnage of coal product
“core drilling”	drilling with a hollow bit and a core barrel to obtain a rock core

GLOSSARY OF TECHNICAL TERMS

“CSN”	Crucible Swelling Number. This number is used to compare the shape and the coking volume increase of a finely ground coal sample when 1 gram is heated in a closed crucible quickly over a brief time period. Results are only used as a comparative indication of the coking potential of the coal and not a measure of strength. Values for CSN range from 1-9
“CSR”	Coke Strength after Reaction, a quantitative measurement of the strength of the coke produced by a particular coking coal. This strength rating is evaluated in a laboratory setting, with a high CSR value being highly regarded in the market, primarily because this measurement is related to blast furnace performance
“Environmental Impact Assessment” or “EIA”	the practice of gauging the impact a project has on the environment
“feasibility study”	a feasibility study by international standards assesses in detail the technical soundness and economic viability of an undeveloped mining project, and serves as the basis for the investment decision and as a bankable document for project financing. The study is based on a detailed mine plan and constitutes an audit of all geological, engineering, environmental, legal and economic information accumulated on the project. Generally, a separate environmental impact study is required
“Fm”	formation
“Gujiao Coking”	Gujiao is a mine owned by the Huainan Mining Industry Group. Located in the Huainan coalfield in Anhui province, Huainan supplies mid ash, low sulphur 1/3 coking and gas coal, which is used for both thermal and metallurgical applications
“HCC”	hard coking coal; see “Business – Coal Products”
“high volatile A”	high volatile A bituminous coal with heating value over 14,000 British thermal units per pound (equivalent to 7,778 kilocalorie per kilogram) as defined under the ASTM D388 Standard Classification of Coal by Rank

GLOSSARY OF TECHNICAL TERMS

“high volatile B”	high volatile B bituminous coal with heating value between 13,000 and 14,000 British thermal units per pound (equivalent to 7,223-7,778 kilocalorie per kilogram) as defined under the ASTM D388 Standard Classification of Coal by Rank
“indicated mineral resource”	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed
“inferred mineral resource”	that part of a mineral resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
“interburden”	a layer of sedimentary rock, of any composition and thickness, which separates two mineable coal beds
“JORC”	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
“JORC Code”	Australian Code for Reporting of Mineral Resources and Ore Reserves
“km”	kilometer
“lignite”	the lowest rank of coal with the lowest energy content, typically containing 25-35% carbon. Lignite tends to be found in relatively young coal deposits that were not subjected to extreme heat or pressure, is crumbly, has high moisture content and is mainly used as fuel at power plants to generate electricity

GLOSSARY OF TECHNICAL TERMS

“m”	meter
“m ² ”	square meter
“m ³ ”	cubic meter
“m ³ /min”	cubic meters per minute
“measured mineral resource”	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and quality continuity
“metallurgical coal”	see “coking coal”
“middlings”	partially refined coal
“mine plan”	by international standards includes the current documentation of the state of development and projected exploitation of a deposit during its economic life including current mining plans. It is generally made by the operator of the mine. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in economic viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining. A map of the deposit is included showing the roadway layout, production cell areas and the projected annual sequence of extraction

GLOSSARY OF TECHNICAL TERMS

“mineral reserve”	the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined
“mineral resource”	a concentration or occurrence of material of intrinsic economic interest in or on the earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
“mining rights”	the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
“mm”	millimeter
“Mt”	million tonnes
“Mtpa”	million tonnes per annum
“mtu”	metric tonne unit
“MW”	megawatt
“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
“overburden”	barren rock material, either loose or consolidated, overlying a mineral deposit, which must be removed prior to mining

GLOSSARY OF TECHNICAL TERMS

“PCI coal”	the terms refers to coal that is used for Pulverised Coal Injection. PCI coals are characterized by their high rank, low volatile matter and generally have ash levels of less than 10.5%. PCI coals are fired directly into the lower level of the blast furnace as an effective means of injecting carbon, thereby reducing the quantity of coke required per tonne of hot metal produced. The higher the volume of PCI coal that can be utilized the lower the volume of coke required. A wide range of coals are suitable for PCI, including thermal and semi-soft coking coals and as such they are cheaper than most coals purchased for coke making
“Permian”	a geological period from around 299 million years ago to around 251 million years ago
“pre-feasibility study”	provides a preliminary assessment of the economic viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes all geological, engineering, environmental, legal and economic information accumulated to date
“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
“productivity”	measurements of worker efficiency usually expressed in terms of tonnes per unit of time

GLOSSARY OF TECHNICAL TERMS

“proven reserve”	the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified
“qualified person”	an individual who: (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation, or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project and the technical report; and (c) is a member or licensee in good standing of a professional association
“raw coal” or “unwashed coal”	generally means coal that has not been washed and processed
“recoverable reserve”	the part of the reserve base which could be economically extracted or produced at time of determination
“resource recovery rate”	quantity of recovered resources divided by (the quantity of recovered resources plus the final quantity of processed waste)
“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)
“ROM capacity”	the level of capability to process coal as it comes from the mine prior to screening or any other treatment
“seam”	a stratum or bed of coal or other mineral; generally applied to large deposits of coal
“Shaqu Coking”	Shaqu is a mine owned by the Huajin Coking Coal Company. It is located in the Hedong coalfield in Shanxi province and supplies low sulphur, low ash and low volatile matter coking and lean coals, which are considered as benchmark metallurgical coal types in China

GLOSSARY OF TECHNICAL TERMS

“SHCC”	semi-hard coking coal; see “Business – Coal Products”
“splits”	the division of a bed of coal into two or more horizontal sections by intervening rock strata
“steel industry supply chain”	industries involved in the steel producing process (including iron ore and coking coal)
“strip ratio” or “stripping ratio”	the ratio of the amount of waste removed (in bank cubic meters) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
“thermal coal”	also referred to as “steam coal” or “steaming coal,” thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonization properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
“tonne”	metric ton
“tpa”	tonnes per annum
“tph”	tonnes per hour
“trans-shipment”	transfer of shipment from one carrier to another
“underground mining”	refers to a group of underground mining techniques used to extract coal
“VM coke blend coking coal”	the VM in this term refers to volatile matter. Coking coal can be classified by the amount of volatile matter it contains, i.e., low volatile, mid-volatile or high volatile. The amount of volatile matter present in a particular coking coal can affect the outcomes of the coking process
“washed coals”	coals that have been washed and processed to reduce its ash content
“yield”	the percentage of saleable portion of coking coal recovered from processed material

FORWARD-LOOKING STATEMENTS

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

Forward-looking statements contained in the prospectus are subject to risks and uncertainties

These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our capital expenditure plans;
- our future production targets;
- our operations and business prospects;
- our financial figures;
- our dividend policy;
- the regulatory environment as well as the industry outlook generally;
- future developments in our industry, including but not limited to the statements in the “Industry Overview” section; and
- general economic trends in Mongolia.

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “can”, “could”, “continue”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “seek”, “should” or “will”. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of our Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard include those identified in the “Risk Factors” section in this prospectus. Actual results may differ materially from information contained in forward-looking statements as a result of numerous factors, including, without limitation, those described in the “Risk Factors” section and the following:

- supply and demand changes in coal;
- changes in prices for coal;

FORWARD-LOOKING STATEMENTS

- our production capabilities;
- our plans and objectives for future operations and expansion or consolidation;
- our relationship with, and other conditions affecting, our customers;
- risks inherent to our mining and production;
- delays in the construction of our railway;
- competition;
- inflationary trends and interest rate changes;
- the effects of changes in currency exchange rates;
- environmental laws and regulations;
- regulatory and court decisions;
- future legislation, including regulations and rules as well as changes in enforcement policies;
- changes in political, economic, legal and social conditions in Mongolia and China, including the government's specific policies with respects to the coal industry, economic growth, inflation, foreign exchanges and the availability of credit;
- economic conditions in Asia, the United States, Europe and elsewhere in the world;
- weather conditions or catastrophic weather-related damage; and
- our liquidity and financial condition.

We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

In light of these and other risks and uncertainties, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved.

RISK FACTORS

In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. If any of the possible events described below occur, our business, prospects, financial condition and results of operations could be materially and adversely affected and the market price of the Offer Shares could decline. See “Definitions” and “Glossary of Technical Terms” for specific or specialized vocabulary used in this section.

Risks Relating to our Business and Industry

Disruptions in transportation could adversely affect the demand for our coal and increase competition from coal producers in other parts of Asia and elsewhere in the world.

Substantially all of our coal production will be exported into the PRC. Inadequate transportation infrastructure on both the Mongolia and PRC sides of the border is likely to affect the pricing terms under which we can sell the coal to customers and the willingness and ability of such customers to purchase coal from us. Potential customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay for our coal. Therefore, our mining operations are anticipated to be highly dependent on road and rail services in Mongolia and in the PRC. In Mongolia, a bottleneck in the transportation of coal from our UHG deposit to customers in the PRC may arise if the road connecting our UHG deposit to the GS border crossing does not have sufficient capacity to support the increased amount of cargo traffic or is affected by external factors such as disruptions caused by bad weather. The hours of operation at the GS border crossing also affect our ability to expedite the movement of our coal transportation. In addition, the tariff for railway use may be set by the Government of Mongolia at a level that makes railway transportation uneconomical. There can be no assurance that, in such situations, there would be any other cost effective means of transporting the coal to our primary markets in the PRC. As a result, our coal sales may be constrained and our profitability will be reduced.

Our transportation costs include primarily fuel costs and fees we pay to our coal hauling contractors and the depreciation of our trucking fleet. For the year ended December 31, 2009 and the four months ended April 30, 2010, we incurred US\$8.0 million and US\$2.5 million in transportation costs, respectively. The transportation cost per tonne for the year ended December 31, 2009 and the four months ended April 30, 2010 was US\$14.2 and US\$17.8, respectively.

In the PRC, rail and road infrastructure and capacity have in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems, or other new problems will not occur in the future. In any of these circumstances, customers may not be able to take delivery of our coal, which may lead to delays in payment or refusal to pay for our coal and, as a result, our business, prospects, financial condition and results of operations could be materially and adversely affected.

RISK FACTORS

The Government of Mongolia could determine that any one or more of our projects in Mongolia is a Mineral Deposit of Strategic Importance.

Pursuant to the 2006 Minerals Law, the Parliament of Mongolia has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is entitled to participate on an equity basis with the license holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such license holder. Details of any minerals reserves must be filed by the relevant license holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament of Mongolia may at any time designate other deposits not yet currently on either list to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant license holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit. While the Government of Mongolia is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral Deposit of Strategic Importance or to accurately determine whether or not any given license area is within, or overlaps with a Mineral Deposit of Strategic Importance.

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding. However, the 2006 Minerals Law is vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the license holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the license holder. In the past, state funds were used to conduct some of the exploration activities of our deposit. On September 12, 2008, we entered into an agreement with the MRAM and repaid all state funds used in the historical exploration activities associated with our UHG mine on June 11, 2010.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice. In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past

RISK FACTORS

practice, and depending on the results of individual negotiations, the interest maybe in the form of production or profit sharing or some other arrangement negotiated between the license holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia. In February 2007, the six mining licenses originally held by us were declared as Mineral Deposits of Strategic Importance under the 2006 Minerals Law. However, after taking into consideration the economic development policies of Mongolia, we decided to sign the Minerals License Transfer Agreement, under which we agreed to transfer five out of our six mining licenses to the Government of Mongolia. We received no cash consideration for the transfer of five of the six mining licenses to the Government of Mongolia. In the year ended December 31, 2007, we wrote off US\$3.5 million, almost all of which are related to the write off of the carrying amount of the relevant capitalized drilling and exploration expenditures to profit and loss. Our UHG deposit is a Mineral Deposit of Strategic Importance, but the Government of Mongolia guaranteed in the Minerals License Transfer Agreement that our mining license would not be terminated or amended by requiring state equity participation thereon.

Coal prices are cyclical and subject to significant fluctuation.

Our results of operations are highly dependent on coal prices, which tend to be highly cyclical and subject to significant fluctuations. The world coal markets are sensitive to changes in coal mining capacity and output levels, patterns of demand and consumption of coal from the steel industry and other industries for which coal is the principal raw material and changes in the world economy. Improved distribution of Australian coal, an economic downturn in China, India or Asia in general or a change in Chinese government policy restricting coal imports could reduce world coal prices from current levels. All of these factors can have a significant impact on selling prices for our coal. An extended or substantial decline in global coal prices or the price for our coal may materially and adversely affect our business, prospects, financial condition and results of operations.

Prior to 2000, Chinese coking coal prices were relatively stable. However, from the end of 2002 to the beginning of 2009, Chinese coking coal prices were volatile with prices increasing from US\$46 per tonne in 2003 to a high of US\$300 per tonne in 2008. Subsequently the price dropped from this high to approximately US\$129 per tonne in 2009. During this same period, thermal coal prices, which have historically been correlated with coking coal prices, also experienced the same volatility. This volatility continued for the most part of 2009 and 2010 and the spread between the price of coking coal and thermal coal widened significantly. In the 1990s, the price difference between thermal and coking coal was approximately US\$10 to \$15 per tonne, which has increased to approximately US\$175 per tonne in 2008. The average market price of washed coking coal for each of the two years ended December 31, 2009 were RMB1,800 and RMB1,271 per tonne. The average market prices of unwashed coking coal for the same period were RMB1,045 and RMB790 per tonne. The average selling prices for both washed and unwashed coking coal decreased from 2008 to 2009 primarily due to an industry wide decline in average selling prices resulting from the global economic crisis. The volatility and cyclical nature in coal prices are linked to the rapid development of the Chinese economy and the impact of the global financial crisis. Negative trends in coal prices would have a direct negative impact on our business, prospects, financial condition and results of operations.

RISK FACTORS

We intend to use bank borrowings, but we may not be able to comply with the covenants under these borrowings or refinance such borrowings when they mature.

As of April 30, 2010, we had US\$15.2 million in cash and cash equivalents and US\$40.0 million in outstanding bank borrowings, all of which was due within one year. On May 12, 2010, we entered into a US\$180 million medium-term loan facility arranged by EBRD, one of our Shareholders, at a floating rate linked to LIBOR. As of the Latest Practicable Date, we had drawn down all tranches of this loan and approximately 21.5% of the shares of ER LLC was pledged to secure this loan facility. Under the terms of this loan, we are required to obtain consent for capital expenditures in excess of US\$30 million in any financial year. We are also required to obtain the consent of the lenders if we are to incur short-term debt in excess of US\$50 million or indebtedness that is not otherwise permitted by the terms of the loan facility. See “Financial Information – Indebtedness – Borrowings”. We intend to repay this loan with cash generated from our operations. Alternatively, if a suitable opportunity is available, we may choose to refinance this loan with other borrowings. On June 18, 2010, we amended a loan facility with Standard Bank to extend the maturity of our pre-existing Standard Bank loan to 2012 and to increase the size of this facility from US\$30 million to US\$75 million. There can be no assurance that we will be able to obtain extensions of these credit facilities in the future as they mature. In the event that we are unable to obtain extensions of these facilities, or if we are unable to obtain sufficient alternative funding at reasonable terms, we will have to repay these borrowings with cash generated by our operating activities. There can be no assurance that our business will generate sufficient cash flow from operations to repay these borrowings. In addition, repaying these borrowings with cash generated by our operating activities will divert our financial resources from the requirements of our ongoing operations and growth, and may have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, we are subject to interest rate fluctuations on our financial indebtedness which may adversely impact our cash flow if prevailing interest rate increases. See “Financial Information – Market Risks – Interest Rate Risk”.

Any acceleration of indebtedness may cause defaults and cross defaults under our current and future financing agreements, and as well as significant reductions in our liquidity and may have a material adverse effect on our business, prospects, financial condition and results of operations. As of June 30, 2010, we had US\$130 million of outstanding bank borrowings, all of which contained cross-default provisions. Pursuant to these agreements, we pledged our UHG mining license, contracts, buildings, mining structures, machinery and equipment of our Mongolian subsidiaries as security. We may lose part or all of these pledged property and assets if we default on these secured borrowings, which would have a material adverse effect on our business, prospects, financial condition and results of operations.

RISK FACTORS

We may be adversely affected by future economic downturns that reduce the demand for steel.

Any future economic downturn that reduces the demand for steel will have a negative impact on the demand for Chinese steel. China is the world's largest producer and exporter of steel. While year on year growth rates in China's demand for steel have fluctuated from 2.6% in 2007 to 2008 to a high of 26.8% from 2004 to 2005, demand has continued to increase on an aggregate basis. Despite the recent economic downturn, China outperformed its peers bolstered primarily by the Chinese government's stimulus spending. As all of our coking coal is currently sold to China and is principally used in the manufacture of Chinese steel, a reduction in the demand for Chinese steel would directly reduce the demand for our coking coal. This would have a material and adverse impact on our business, prospects, financial condition and results of operations.

Our mining activities are subject to operational risks, hazards and unexpected disruptions.

Our mining operations are subject to a number of operational risks and hazards, some of which are beyond our control, which could delay the production and delivery of our coal, increase our cost of mining or result in accidents in our mine. These risks and hazards include unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions, natural disasters, industrial accidents, power or fuel supply interruptions, critical equipment failure, malfunction and breakdowns of information management systems, fires, and unusual or unexpected variations in mineralization, geological or mining conditions. These risks and hazards may result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, possible legal liability, damage to our business reputation and corporate image and, in severe cases, fatalities. As of the Latest Practicable Date, there have been 15 accidents in connection with our coal trucking operations, which resulted in two traffic accident fatalities. As a result of these 15 accidents, damages of MNT351.2 million which are subject to insurance coverage have been incurred by the Company. Tenger Insurance has covered the losses for 13 of the 15 accidents and has paid us insurance proceeds of MNT234.5 million, as of June 30, 2010. One accident, which resulted in damages of MNT58 million, is currently being investigated by Tenger Insurance. The party at fault fully compensated the Company against the damages of MNT28 million caused by the last accident. As of the Latest Practicable Date, 10 of these 15 accidents were resolved, dismissed, or settled finally. The remaining 5 accidents, including the 2 fatalities, are still being investigated by the Umnugobi aimag police department and our internal safety department. We are unable to estimate the level of our potential liability in relation to these remaining 5 accidents. See "Business – Employees – Injuries". As of the Latest Practicable Date, none of these accidents resulted in any significant financial or operational impact to our operations, except for the standing idle of trucks for the period of repairing. While we believe the development of our paved road and railway will reduce accidents related to our coal trucking operations, there can be no assurance that accidents will not occur in the future. Such accidents may have a material adverse effect on our reputation, business, prospects, financial conditions and results of operations.

RISK FACTORS

Under the Civil Code of Mongolia, employers are liable for the damages caused by its employees. Article 499.1 of the Civil Code of Mongolia stipulates that vehicle owners are liable for any damages or losses to life, health and damage and any loss or destruction of property in the course of using the vehicle. The amount of damages caused to property both as a result of criminal or civil action/inaction shall be the material damage caused to the property and the income that could have been derived from the property. While other factors are considered, generally for property loss, the amount of damages is measured by the amount that is necessary to restore the rights of the violated party. In the case of personal injury, while other factors are considered, the amount of damages is based on the injured person's lost wages and income and necessary expenses. In case of death, while other factors are considered, expenses related to the funeral and compensation equivalent to the average monthly salary or income of the deceased shall be due to eligible persons who were in the custody of the deceased.

The development of any new technology in the production of iron and steel may directly impact the demand for coking coal.

Since the demand for coking coal is directly correlated with the production of crude steel, any alternative energy source, such as PCI coal or any heavy fuel oil injection into blast furnaces, or any new technology in steel production, such as electric arc furnace which omits coke from the steel production process, if adopted by steel manufacturers in China, would materially and adversely affect our business, prospects, financial condition and results of operations.

Our limited operating history may not serve as an adequate measure of our future prospects and results of operations.

We have only limited historical operating data and financial information available upon which you can base your evaluation of our business and prospects. We commenced mining operations in April 2009. As a result, we may not have sufficient experience to address the risks frequently encountered by companies with a limited operating history, including our potential failure to:

- increase our mining capacity significantly beyond current levels;
- maintain profitability;
- acquire and retain customers;
- attract, train, motivate and retain qualified personnel;
- keep up with evolving industry standards and market developments;

RISK FACTORS

- manage our expanding operations, including the integration of any future acquisitions;
- anticipate and adapt to any changes in government regulation, mergers and acquisitions involving our competitors and other significant competitive and market dynamics;
- manage the logistics, utility and supply needs of our expanded operations; or
- maintain adequate control over our costs and expenses.

If we fail to address any of these risks, our business and financial results would be materially and adversely affected. Accordingly, you should consider our business and prospects in light of the risks, expenses and challenges that we will face as a company with limited operating history.

We are experiencing a period of rapid growth and may not be able to manage our growth effectively.

We are experiencing a period of rapid growth and expansion that has placed, and continues to place, significant demands on our management personnel, systems and resources. For the year ended December 31, 2009, we produced 1.8 million tonnes of coal and we intend to produce approximately 3.8 million tonnes of coal by the end of 2010. Furthermore, we intend to increase our coal production to approximately 14.7 million tonnes for the year ending December 31, 2013. To accommodate this growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management effort and significant additional expenditures. There can be no assurance that we will be able to manage our growth effectively, and failure to do so may have a material adverse effect on our business, prospects, financial condition and results of operations.

We face risks under our expansion program.

We intend to expand our coal production to approximately 14.7 Mtpa in the year ending December 31, 2013. Our contractors are responsible for obtaining any additional equipment required for them to increase the production capacity to comply with our expansion plans and their contractual obligations.

We may not be able to increase production as a result of many factors, including:

- the failure of equipment and machinery implemented to increase production to perform according to specifications or our expectations;
- difficulties encountered by our contractors in obtaining or financing the purchase of machinery, equipment and spare parts, particularly coal hauling trucks, excavators

RISK FACTORS

and tires for such equipment, required to increase production, due to capacity and supply constraints in the world steel and rubber markets and high global demand for those materials and other mining equipment;

- the failure of any of our contractors to fulfill its contractual obligations, which would require us to make alternative arrangements, may cause delays and potentially increase the costs of our expansion plans;
- the failure of our contractors to fulfill their capital expenditure and operating plans, which are subject to risks, contingencies and other factors, some of which are and will be beyond their control, such as increases in costs of equipment and materials and their ability to secure necessary approvals, recruit a sufficient number of qualified employees and obtain required financing on acceptable terms or at all; and
- unforeseen conditions or developments that could substantially delay its planned expansion, including adverse weather conditions and equipment and machinery malfunctions once operations commence.

We may face delays or cost overruns in connection with our paved road and railway projects.

The Government of Mongolia has (1) granted us the land use rights to build our paved road and railway and (2) issued us the licenses to build the paved road and to build our railway base infrastructure. We have begun construction of a paved road from our UHG deposit to the Mongolia-China border at GS and expect to complete a substantial portion of our paved road by the end of 2010. We expect that the use of this paved road will significantly increase our transportation capacity and reduce our transportation costs and increase the amount of coal we are able to sell. In order to lower transportation costs and increase reliability and operational efficiency, we also expect to commence construction of a railway in 2011-2012. See “– We are not sure when we can commence construction of our railway”. The completion of the paved road and the railway as a part of our transportation infrastructure development is key to our production expansion. Any delay in the completion of the paved road or railway will have a direct impact on the costs of transporting coal to China. In addition, there can be no assurance that the actual costs of these projects will not exceed their original budgets. As a result of project delays, cost overruns or other reasons, we may not be able to achieve the intended economic benefits or demonstrate the commercial feasibility of these projects, which may materially and adversely affect our business, prospects, financial condition and results of operations.

We are not sure when we can commence construction of our railway.

Recently, the Parliament of Mongolia passed a resolution approving a formal policy on railway development in Mongolia. According to the policy, railway development will be conducted in three stages: (1) the Tavan Tolgoi-Sainshand-Choibalsan railway northward to Russia (construction to commence in 2010); (2) our UHG-GS railway and other railways that

RISK FACTORS

go directly to the border of Mongolia; and (3) railways going to western Mongolia from Tavan Tolgoi. Also, the policy specified that the railway gauge that crosses or connects to existing railway lines in Mongolia is to be Russian gauge. The timing for the start of construction and the gauge of the railways in the second stage, including our proposed railway, will be determined by the Government of Mongolia at a later stage. While we expect the Parliament of Mongolia to support the construction of our railway, there can be no assurance that the Parliament of Mongolia will explicitly indicate when we can commence construction in accordance with its railway development policy. Any delay in commencing our railway construction could have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, the Government of Mongolia recently announced its intention to develop one of its own deposits located in the Tavan Tolgoi coal formation. While we do not expect this development to interfere with the construction of our own proposed railway, there can be no assurance that the Government of Mongolia will not re-evaluate our railway project in light of its decision to develop its own deposit in the Tavan Tolgoi coal formation.

We may not be successful in future acquisitions or may encounter difficulties in integrating and developing the acquired assets or businesses.

We plan to increase our mineral resources through acquisitions of companies with existing exploration rights and additional mining assets. In addition to mining licenses and mining assets, if we are presented with strategically attractive opportunities, we may acquire other businesses or assets that are complementary to our business. We do not have specific timetables for these plans and there can be no assurance that we will be successful in these acquisitions. In addition, we must receive various regulatory approvals and/or permits in order to develop new reserves. Our inability to acquire companies with existing exploration rights and additional mining assets, develop mineral resources or obtain necessary governmental approvals may have a material adverse effect on our business, prospects, financial condition and results of operations.

Future acquisitions may also expose us to potential risks, including risks associated with the assimilation of new technologies, businesses and personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenues to offset the costs and expenses of an acquisition. Any difficulties encountered in the acquisition and integration process may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may acquire and develop non-coal assets.

As part of our mineral resource expansion strategy, we are considering opportunities to acquire other resources along the steel industry supply chain. If an attractive opportunity presents itself, we may acquire and develop other resources. We only have experience mining coal. Although we believe the mining and processing of other resources is similar to that of coking coal, our experience with coking coal may not be directly relevant to the development of other non-coal resources. There can be no assurance that we will be successful in developing any non-coal assets. Failure to develop non-coal assets, if acquired, could have a material adverse effect on our business, prospects, financial condition and results of operations.

RISK FACTORS

We need additional capital to fund our operations and growth which we may not be able to obtain on acceptable terms, or at all.

We need capital to fund our current expansion and infrastructure development plans. There can be no assurance that we will generate sufficient cash flow for our intended expansion and infrastructure development plans. In the event we cannot get such operating cash flow, we will need to obtain alternative financing.

Whether we will be able to obtain adequate financing on acceptable terms, or at all, will be subject to a variety of uncertainties, including, but not limited to:

- investor and lender perceptions of and appetite for securities and borrowings of companies engaged in the coal mining and production;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- Mongolian regulation of foreign investment in companies engaged in the coal mining and production;
- economic, political and other conditions in Mongolia, the PRC and the rest of the world;
- the amount of capital that other Mongolian entities may seek to raise in the foreign capital markets; and
- Mongolian government policies relating to foreign currency borrowings.

The terms of any future debt facilities may impose restrictive covenants that may limit our business and operations. In the event that we breach any of these covenants, we may not be able to obtain waivers from our lenders. Our inability to raise additional funds in a timely manner and on terms favorable to us, or at all, may have a material adverse effect on our business, prospects, financial condition and results of operations.

We are dependent on future cash flows generated from our business and obtaining additional financing to support our business operations and expansion plans, and to continue as a going concern.

We have cash requirements both for ongoing operating expenses, working capital, general corporate purposes and for interest and principal payments on our outstanding indebtedness. As of December 31, 2007, 2008, 2009 and April 30, 2010, we recorded net current liabilities of US\$2.0 million, US\$10.6 million, US\$12.0 million and US\$42.2 million, respectively. As of December 31, 2007 and 2009, we had net cash used in operating activities of US\$1.4 million and US\$4.0 million, respectively. If we are unable to generate sufficient revenue and cash from

RISK FACTORS

our operations or secure additional financing to meet our obligations, we may be forced to reduce expenditures or not be able to continue as a going concern. Reduction of expenditures could have a negative impact on our business and would make it more difficult for us to execute our strategy, including our expansion plans in accordance with our expectations.

In addition, our financial statements included in this prospectus have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Our ability to continue as a going concern is substantially dependent on our profits and cash flow from operations and our ability to obtain continued bank financing to meet our working capital and financing requirements. If there is an adverse change to our profits, cash flow or ability to obtain additional financing, our financial statements may need to be prepared on an alternative authoritative basis and adjustments relating to the recoverability and classification of recorded asset amounts or the classification of liabilities may need to be made.

Furthermore, future reports issued by our auditors could include a “going concern qualification” which could have a negative impact on our ability to obtain financing and may adversely impact our share price.

Our mining operations are concentrated at one mining site.

Our mining operations are currently focusing on the UHG deposit and we expect operations at the UHG deposit to continue in the future. Therefore, all of our current operating cash flows and sales are derived from the sale of coal produced from this single deposit. We intend to expand our mining operations to other mineral deposits that are close to the Mongolia-China border and will undertake exploration initiatives. Any significant operational or other difficulties in the mining, processing, storing or transporting of coal at or from the UHG deposit could reduce, disrupt or halt our coal production, which would materially and adversely affect our business, prospects, financial condition and results of operations.

We rely on our contractors to perform key aspects of our operations.

Currently, we cooperate with Leighton, as our mining contractor and work closely with them in all aspects of our coal mining operations. We entered into a long-term contract with Leighton to undertake overburden removal, coal extraction and mine reclamation activities. Substantially all of the principal mining equipment used in our UHG deposit is sourced through Leighton and their expatriate personnel supervise our mining operations. Actual mining activities are conducted by our employees who have been trained by Leighton personnel. In addition, Leighton has committed to work with us to build out our coal production capacity to 15.0 Mtpa.

We have contracted with Sedgman to engineer, procure the equipment for building of, manage the construction of and train personnel to operate our coal handling and washing plant. With this coal handling and washing plant, we will be able to produce saleable coking and thermal coal products without the need to rely on coal traders and customers to wash our own coal. We expect the first 5.0 Mtpa processing capacity to be in operations by early 2011.

RISK FACTORS

Failure by Leighton, Sedgman or any of our other contractors to perform pursuant to their respective contractual obligations or the loss of their services, could materially and adversely affect our business, prospects, financial condition and results of operations. There can be no assurance that replacement contractors could be found in a timely manner or at all, or would be able to perform at the same levels or at the same prices as our current contractors.

We currently depend on our coal traders and customers to wash our coal.

Prior to the construction of our coal handling and washing plant, we are unable to wash our own coal. Instead, we rely on our coal traders and customers to wash our coal. The price difference between unwashed and washed coking coal was approximately RMB481 (US\$71) per tonne and RMB530 (US\$78) per tonne for the year ended December 31, 2009 and the five months ended May 30, 2010, respectively. For the month of May 2010, the difference between the average market price of unwashed and washed coking coal was RMB530 (US\$79) per tonne. Since we commenced mining operations in April 2009, the average market prices of both washed and unwashed coking coal have increased. The average market price of washed coking coal has increased more than the market price of unwashed coking coal. If our coal traders and customers refuse to wash our coal, we may be forced to sell our coal at unwashed coal prices, which would have a material adverse effect on our business, prospects, financial condition and results of operations.

The accuracy of our resources and reserves estimates are based on a number of assumptions and we may produce less coal than our current estimates.

Our resources and reserves estimates are based on a number of assumptions in accordance with the JORC Code. However, there can be no assurance that our resources and reserves will be recovered in the quantities, qualities or yields presented in this prospectus. Coal resources and reserves estimates are inherently prone to variability. They involve expressions of judgment with regard to the presence and grade of mineralization and the ability to extract and process the mineralization economically. These judgments are based on a variety of factors, such as knowledge, experience and industry practice. The accuracy of these estimates may be affected by many factors, including the quality of the results of drilling and sampling of the ore bodies and analysis of the ore samples and the procedures adopted and experience of the person(s) making the estimates. There are risks associated with such estimates, including that coal mined may be of a different or inferior quality, volume, overburden strip ratio or stripping cost from the resource estimates.

If we encounter mineralization or geological or mining conditions different from those predicted by historical drilling, sampling and similar examinations, we may have to adjust our mining plans in a way that may materially and adversely affect our business, prospects, financial condition and results of operations and reduce the estimated amount of coal resources and reserves available for production and expansion plans.

RISK FACTORS

You should not assume that the resources estimated are capable of being directly reclassified as reserves under the JORC Code. The inclusion of resources estimates should not be regarded as a representation that these amounts could be exploited economically. You are cautioned not to place undue reliance on resources and reserves estimates. See “Appendix V – Independent Technical Report”.

Coal markets are highly competitive and are affected by factors beyond our control.

We sell substantially all of the coal we produce into the PRC. We compete with Chinese, Mongolian, and other foreign coal producers (primarily from Australia) in the PRC coal market. Competition in the PRC coal market is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. Due to their location, some of our PRC competitors may have lower transportation costs than we do. The PRC coal market is highly fragmented and we face price competition from some small local coal producers that produce coal for significantly lower costs than us due to various factors, including their lower expenditure on safety and regulatory compliance. Some of our international competitors may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than we do, and may benefit from more established brand names in international markets. Our inability to maintain our competitive position as a result of these or other factors could materially and adversely affect our business, prospects, financial condition and results of operation.

An oversupply of coal could adversely affect our profitability.

During the past 20 years, a growing world coal market and increased demand for coal worldwide have attracted new investors to the coal industry, spurred the development of new mines and expansion of existing mines in various countries, including Mongolia, Indonesia, China, Australia and Colombia, and resulted in added production capacity throughout the world. Increases in coal prices since early 2003 could encourage new or existing international coal producers to expand their production capacity. Any oversupply of coal in the world markets could reduce world coal prices in the future and the prices we receive under new coal supply agreements, which could materially and adversely affect our business, prospects, financial condition and results of operations.

The Government of Mongolia has publicly announced its intention to develop other coal deposits in the Tavan Tolgoi coal formation. We believe the Government of Mongolia will most likely develop the Tsankhi deposit, which is one of the deposits for coking coal in such formation and which is located five km from our UHG deposit. The Tsankhi deposit would yield coking coal with similar qualities as our coking coal. While it currently remains undeveloped, we believe that if the Tsankhi deposit were developed, our competitiveness and market share would be diminished. In addition, it is likely that the Tsankhi deposit would be developed by a state-owned enterprise, which could provide it with greater access and support to public financing, infrastructure and other related benefits. The development of the Tsankhi (or other Tavan Tolgoi) deposits would have a material adverse effect on our business, prospects, financial condition and results of operations. See “Business – Competition”.

RISK FACTORS

Our dependence on a limited number of customers may cause significant fluctuations or declines in our revenues.

Our total revenues were derived from four and five customers for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively. As of the Latest Practicable Date, we had 17 customers. Although we are planning to expand our customer base, we anticipate that our dependence on a limited number of customers will continue in the near future. There can be no assurance that we will be able to retain these customers or that they will maintain current level of business with us. If there is a reduction or cessation of orders from any of these customers for any reason, our business, prospects, financial condition and results of operations will be materially and adversely affected.

Our ability to receive payment for coal sold and delivered depends on the continued creditworthiness of our customers. Furthermore, the bankruptcy of any of our customers could materially and adversely affect our business. In addition, competition with other coal suppliers could force us to extend credit to customers and on terms that could increase the risk of payment default. If we are unable to collect payment from our customers, our business, prospects, financial condition and results of operations will be materially and adversely affected.

We have limited insurance coverage which may not be sufficient to cover all of our potential losses.

Exploration, development and production operations on mineral properties involve numerous risks and hazards, including:

- rock bursts, slides, fires, earthquakes or other adverse environmental occurrences;
- industrial accidents;
- labor disputes;
- political and social instability;
- technical difficulties due to unusual or unexpected geological formations;
- failures of pit walls; and
- flooding and periodic interruptions due to inclement or hazardous weather condition.

RISK FACTORS

These risks can result in, among other things:

- damage to, and destruction of, mineral properties or production facilities;
- personal injury;
- environmental damage;
- delays in mining;
- monetary losses; and
- legal liability.

The current Mongolian insurance industry offers us limited insurance coverage. As a result, we may have to pay out of our funds for financial and other losses, damages and liabilities, including those caused by fire, weather, disease, civil strife, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining raw materials and equipment, natural disasters, terrorist incidents, industrial accidents or other causes. We also do not have any business interruption insurance or third party liability insurance other than motor vehicle insurance. Any business disruption or natural disaster may result in substantial costs and diversion of resources. Losses incurred or payments we may be required to make may have a material adverse effect on our business, prospects, financial condition and results of operations to the extent such losses or payments are not insured or the insured amount is not adequate.

Increases in the costs of fuel could negatively affect our operating costs or disrupt or delay production.

We directly bear the costs of fuel. We do not engage in any fuel hedging arrangements to cover our fuel price risk. Any significant increases in the price or shortage of fuel would cause a corresponding increase in our costs or limit our operations, either of which could result in termination of sales contracts by our customers and materially and adversely affect our business, prospects, financial condition and results of operations.

From the 1980s to 2000, the price of crude oil ranged from approximately US\$10 per barrel to approximately US\$30 per barrel. In 2001, oil prices increased significantly to approximately US\$122 per barrel only to drop down to approximately US\$44 per barrel in the span of one year. Oil prices grew from 2001 to 2009 at a CAGR of 12.4%. Oil prices have begun to increase from their lows of approximately US\$44 per barrel in the beginning of 2008 and continue in an upward trend. As of the Latest Practicable Date, the price of crude oil was approximately US\$74.78 per barrel.

RISK FACTORS

Licenses and permits are subject to renewal and various uncertainties.

In Mongolia, exploration licenses are subject to periodic renewal and may only be renewed a limited number of times for a limited period of time. While we anticipate that such renewals will be given as and when sought, there can be no assurance that these renewals will be given as a matter of course and that new conditions will not be imposed in connection therewith. Our business objectives may also be impeded by the costs of holding and/or renewing exploration licenses in Mongolia. License fees for exploration licenses increased substantially upon the passage of time from the original issuance of each individual exploration license. We need to continually assess the mineral potential of each exploration license, particularly at the time of renewal, to determine if the costs of maintaining such license is justified by the exploration results to date. Consequently, we may elect to let some of the exploration licenses lapse. Moratoriums on transfers of exploration licenses have been imposed on two separate occasions on other companies seeking Mongolian exploration licenses and there is a risk that a similar moratorium could be imposed again such that letting the exploration licenses lapse may be the only practical option in some circumstances. As of the Latest Practicable Date, we had no exploration licenses therefore, no moratoriums on the transfer of any exploration rights could have been imposed on us. Furthermore, we will require mining licenses and permits to mine in order to conduct mining operations in Mongolia. There can be no assurance, however, that such licenses and permits will be obtained on terms favorable to us or at all for our future intended mining and/or exploration targets in Mongolia.

Issues with local communities may materially and adversely affect our business.

Issues with the local communities surrounding the areas where we operate might arise from the implementation of our business activities, including disputes related to settlement relocation. These issues may result in community protests, blocking of road and third party claims. The failure to successfully settle any local community issues could have a material and adverse effect upon our business, prospects, financial condition and results of operations. As of the Latest Practicable Date, we have experienced no significant issues with local communities as a result of our operations.

Our business depends substantially on the continuing efforts of our executive officers and our ability to attract and retain qualified technical personnel.

Our business depends substantially on the continued services of our executive officers and, to a significant extent, on our ability to attract, train and retain qualified technical personnel, particularly those with expertise in coal mining and production. We do not carry key person insurance on any of our personnel, and there can be no assurance that we will be able to attract or retain qualified technical personnel. If one or more of our executive officers or key employees were unable or unwilling to continue their service with us, we might not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time or at all. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key personnel and staff members. If any dispute arises between such employees and us, there can be no assurance

RISK FACTORS

that the extent to which any non-competition undertakings of such employees could be enforced in our favor or at all. These executive officers and key employees primarily include Mr. Odjargal Jambaljamts, Dr. Battengel Gotov, Mr. Enkhtuvshin Dashtseren, Mr. Gary Ballantine, Mr. Oyunbat Lkhagvatsend, Mr. Davaakhuu Chultem, Mr. Bat-Erdene Gansukh, Mr. Buljinsuren Gelenkhuu, and Mr. Bayarbayasgalan Dorjderem. Our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain personnel. Furthermore, some of our technical personnel are trained by our contractors. If our contractors cease to train our technical personnel, we will not be able to train or find qualified parties to train our technical personnel. As our business has grown and is expected to continue to grow rapidly, our ability to train and integrate new employees into our operations may not meet the growing demands of our business.

Our existing Shareholders have substantial influence over us and their interests may not be aligned with the interests of our other Shareholders.

MCS Holding currently beneficially owns approximately 57.2% of our issued share capital and will beneficially own approximately 45.3% of our enlarged issued share capital upon the completion of the Global Offering. As such, MCS Holding has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions, timing and amount of our dividend payments, and otherwise controls or influences actions that require the approval of our Shareholders. These actions may be taken even if they are opposed by our other Shareholders, including those who purchase the Shares in the Global Offering.

This concentration of ownership may discourage, delay or prevent a change in control of our Company, which may deprive our Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares.

Foreign currency fluctuations could affect expenses and any future earnings.

We are exposed to foreign exchange fluctuations with respect to the MNT, RMB and the U.S. dollars. Our financial results are reported in U.S. dollars. The salaries for local laborers in Mongolia are paid in local currency. Sales of coal into the PRC have been and may continue to be settled in RMB and U.S. dollars. Since our headquarters is in Ulaanbaatar, Mongolia, a portion of our expenses are in MNT. As a result, our financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the U.S. dollars.

RISK FACTORS

Our results of operations are subject to economic, political and legal developments in the PRC.

We expect that substantially all of our sales will be made to customers based in the PRC. Accordingly, the economic, political and social conditions, as well as government policies, of the PRC may affect our business. The PRC economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. Changes in the PRC's political, economic and social conditions, laws, regulations and policies could materially and adversely affect our business, prospects, financial condition and results of operations.

The growth of the PRC economy has been uneven across different geographic regions and different economic sectors. In order to stabilize national economic growth, the PRC government may adopt macroeconomic policies that include measures to restrict excessive growth in specific sectors of the economy, such as the steel industry. We cannot predict future economic reforms or the effects that any such measure may have on our business, prospects, financial condition or results of operations. In addition, there can be no assurance that the PRC economy will continue to grow, or that its growth will be steady or in geographic regions or economic sectors to our benefit. Since substantially all of our sales will be made into China, we depend heavily on general economic conditions in China for our continued growth. A downturn in China's economic growth or a decline in its economic conditions may have a material adverse effect on our business, prospects, financial condition and results of operations.

The PRC government may impose restrictions on Mongolian coal.

As of the Latest Practicable Date, the PRC government had imposed no restrictions on imports of Mongolian coal. However, there can be no assurance that restrictions will not be directly or indirectly implemented in the future. The PRC government may do so for a number of reasons, including but not limited to, a policy to support domestic PRC coking coal producers. If we are unable to sell our coal into China on commercially viable terms or at all, there can be no assurance that we will be able to sell our coal to customers in any other jurisdiction. Furthermore, as all our coal currently passes through the PRC, any restriction on the transport of Mongolian coal through China will effectively prohibit our coals from reaching any of our PRC customers or potential overseas customers.

Our mining operations are exposed to environmental risks.

All phases of our operations are subject to environmental regulations in the various jurisdictions in which we operate. For example, our UHG mine is subject to a requirement to meet environmental protection obligations. We must complete an environmental protection plan for the Government of Mongolia's approval and complete a report prepared by an independent expert on environmental compliance every three years.

RISK FACTORS

Failure to comply with applicable laws, regulations and to obtain the necessary permits may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.







Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not materially and adversely affect our business, prospects, financial condition and results of operations. Government of Mongolia's approvals and permits are also often required in connection with various aspects of our operations. To the extent such approvals are required and not obtained, we may be delayed or prevented from proceeding with planned exploration or development of our mineral properties.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on us and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Inclement weather may adversely affect our operations.

Inclement weather may require us to evacuate personnel or curtail operations and may cause damage to our mine site, transportation roads and loading facilities. This could result in the temporary suspension of operations or generally reduce our productivity. During the Track Record Period and up to the Latest Practicable Date, we suspended our mining operations for a total of six days due to inclement weather. We suffered no material losses due to the inclement weather, but there can be no assurance that inclement weather will not cause significant losses in the future. Any damage to our mine site, transportation roads and loading facilities caused by prolonged periods of inclement weather could materially and adversely affect our business, prospects, financial condition and results of operations.

We may not be able to register our trademarks in Hong Kong.

We will use certain trademarks including the logos “”, “” and “” for our future business operations. As at the Latest Practicable Date, we have applied for the trademark registration of the portfolio of trademarks set out in the paragraph headed “Statutory and General Information – Trademark” set out in Appendix VII to this prospectus. However, there is no assurance that these applications for trademark registration in Hong Kong will eventually be approved or that we would be granted exclusive rights to use these marks as registered trademarks in Hong Kong. If the trademarks including the logos “”, “” and “” could not be registered, or if the registration process is delayed, our trademarks may be infringed, which may materially and adversely affect our business, prospects, financial condition and results of operations.

RISK FACTORS

Risks Relating to Mongolia

Legislation in Mongolia may be subject to conflicting interpretations.

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. The legal framework in Mongolia is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. Local institutions and bureaucracies responsible for administering laws may lack a proper understanding of the laws or the experience necessary to apply them in a modern business context. Many laws have been enacted, but in many instances they are neither understood nor enforced and may be applied in an inconsistent, arbitrary manner, while legal remedies may be uncertain, delayed or unavailable. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law, regulation or legal precedent. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be invalidated. The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to us, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. It may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect our business, prospects, financial condition and results of operations.

RISK FACTORS

Application of and amendments to legislation could adversely affect our mining rights or make it more difficult or expensive to develop our projects and continue mining.

The Government of Mongolia has, in the past, expressed its strong desire to foster, and has to date protected the development of, an enabling environment for investments in the mining sector. However, there are political constituencies within Mongolia that have espoused ideas that would not be regarded by the mining industry as conducive to investment if they were to become law or official government policy. There can be no assurance that the present government or a future government will refrain from enacting legislation or adopting government policies that are adverse to our interests or that impair our ability to develop and operate our UHG coal mine.

Mining operations in Mongolia are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine safety, transportation safety and other matters. Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays and other effects associated with these laws and regulations may impact our decision as to whether to continue to proceed with the development of our UHG mine. Since Mongolian legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, we are unable to predict the ultimate cost of complying with these requirements or their effect on our operations. Furthermore, changes in governments, regulations and policies and practices could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

For example, in 2006, the Government of Mongolia enacted the 2006 Minerals Law. The 2006 Minerals Law, preserves to a limited extent some of the substance of the former 1997 minerals legislation, which was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective. However, the 2006 Minerals Law contains new provisions that have increased the potential for political interference and weakened the rights and security of title holders of mineral licenses in Mongolia. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance. See “– The Government of Mongolia could determine that any one or more of our projects in Mongolia is a Mineral Deposit of Strategic Importance”.

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, the Parliament enacted a new law, the Mining Prohibition in Specified Areas Law, that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Forest Law of Mongolia and areas adjacent to rivers and lakes as defined in the Water Law of Mongolia. Pursuant to the Mining Prohibition in Specified Areas Law, the Government of Mongolia was instructed to define the boundaries of the areas in which exploration and mining would be prohibited by

RISK FACTORS

October 16, 2009. However, the Government of Mongolia has not yet approved or published this information. New exploration licenses and mining licenses overlapping with the defined prohibited areas will not be granted and previously granted licenses that overlap with the defined prohibited areas will be terminated within five months following the adoption of the Mining Prohibition in Specified Areas Law. It is not clear whether such termination will only apply to the overlap areas. The Mining Prohibition in Specified Areas Law provides that affected license holders shall be compensated, but there are no specifics as to the way such compensation will be determined. MRAM has prepared a draft list of licenses that overlap with the prohibited areas described in the new law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to MMRE. Subsequent to MMRE's approval of this preliminary list, the Government of Mongolia must still give its final approval before the final list can be published. During MMRE's and the Government of Mongolia's review of the draft list of licenses prepared by MRAM, licenses may be added to or removed from the list at any time prior to approval and publication of the final list. Activities being carried out on these properties include drilling, trenching and geological reconnaissance. There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labor relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect our ability to undertake exploration and development activities in the manner currently contemplated. Similarly, any restrictions imposed, or Mongolian Government charges levied or raised (including royalty fees), under Mongolian law on the export of coal could harm our competitiveness.

Uncertainties regarding VAT reimbursement and possible revisions to the Mongolian royalty fee system could adversely affect our financial position.

A value-added tax at a rate of 10% is payable in respect of all goods sold, work performed and services provided within Mongolia. Value-added tax is also payable in respect of goods imported into Mongolia and in respect of certain service fee payments made by Mongolian taxpayers to non-resident service providers. If a legal entity is registered as a value-added taxpayer, it can obtain credits for such tax paid to its suppliers of goods and services and can use such credits to offset value-added, or other, taxes owed in Mongolia. However, the Value-Added Tax Law provides certain conditions which can limit the ability of a legal entity to register as a value-added taxpayer. Additionally, the Value-Added Tax Law was recently amended to exempt all sales of mineral products with the exception of exported "finished mineral products". Under the aforementioned amendments to the Value-Added Tax Law, the Government of Mongolia is to determine the types of "finished mineral products," however no such classification is available as of this date. Effective as of July 21, 2009, any VAT paid by the producer of mineral products cannot be claimed back – i.e., the producer is deemed to be the end-user and must bear the burden of VAT paid to produce such products. Finished products that are exported are, however, zero-rated and VAT paid to produce such products may be claimed back. There can be no assurance that our coking coal will be a "finished raw product" that would allow us to obtain a VAT reimbursement.

RISK FACTORS

As of December 31, 2008, 2009 and April 30, 2010, our VAT receivables were US\$1.7 million, US\$5.7 million and US\$9.7 million, respectively. We are currently applying to the Mongolia tax authority for the settlement of the non-mining related VAT receivables outstanding as of April 30, 2010.

Recently, the Government of Mongolia has indicated it may consider amending the flat rate royalty fee to a fee that is progressive. If a progressive rate is implemented, we will incur a significant increase in the amount of royalties required to be paid to the Mongolia Government.

Our ability to carry on business in Mongolia is subject to political risk.

Our ability to efficiently conduct our exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond our control. Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that our assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of our original investment. In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations.

In early 2010, the Ministry of Road and Transport of Mongolia presented a new policy paper to the Government of Mongolia regarding the proposed expansion and development of railway network in the country. The policy paper was to consider the need for new railway infrastructure for new mining projects being developed or planned around the country. As Mongolia is a broad gauge country using Russian railway technology, and some of the proposed railways target standard gauge system, the Ministry of Road and Transport of Mongolia also wanted to set a clear policy on the efficient interconnectivity and interoperability of the country's rail systems. Although we have obtained key licenses to proceed with the railway construction, we decided to delay construction to allow the Government of Mongolia to present its policy paper. Recently, the Parliament of Mongolia passed a resolution approving a formal policy on railway development in Mongolia. According to the policy, railway development will be conducted in three stages: (1) Tavan Tolgoi-Sainshand-Choibalsan railway (construction to commence in 2010) (2) our UHG-GS railway and other railways that go directly to the border of Mongolia (3) railways going to western Mongolia from Tavan Tolgoi. Also, the policy specified that the railway gauge that cross or connect to existing railway shall be Russian gauge. The timing to start construction and gauge of those railways in the second stage shall be determined by the Government of Mongolia and the Parliament of Mongolia at a later stage. We expect to commence railway construction after the commencement of the first stage of the aforementioned railway development schedule. See “– Risks Relating to Our Business and Industry – We are not sure when we can commence construction of our railway”.

RISK FACTORS

Changes in, or more aggressive enforcement of, laws and regulations could adversely impact our business.

Mining operations and exploration activities are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and reclamation, mine safety, toxic substances, transportation safety and emergency response and other matters. Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays and other effects associated with these laws and regulations may impact our decision as to whether to develop future mining projects. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Although we believe our property ownership interests are valid and in accordance with all applicable rules and regulations, there can be no assurance that the underlying agreements, licenses or legislation upon which our property ownership interests is based will not be interpreted and enforced in a way that materially adversely affects our rights and obligations. Furthermore, changes in regulations and policies and practices could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

Risks Relating to Global Offering and Our Shares

There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile.

Prior to the listing of our Shares on the Stock Exchange, there has been no public market for our Shares. The Offer Price for our Shares will be the result of negotiations between the Joint Global Coordinators (on behalf of the Underwriters) and us, and may differ from the market prices for our Shares after Listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, there can be no assurance that the listing of our Shares on the Stock Exchange will result in the development of an active and liquid public trading market for our Shares. The market price, liquidity and trading volume of our Shares may be volatile. Factors that may affect the volume and price at which our Shares will be traded include, among other things, variations in our revenue, earnings, cash flows, announcements of new investments and changes in laws and regulations in Mongolia and the PRC. There can be no assurance that these developments will not occur in the future. In addition, it is possible that our Shares may be subject to changes in price not directly related to our performance.

RISK FACTORS

Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of the Shares and our ability to raise capital in the future.

The market price of our Shares could decline as a result of future sales of substantial amounts of the Shares or other securities relating to the Shares in the public market, including sales by our Substantial Shareholders, or the issuance of new Shares by us, or the perception that such sales or issuances may occur. The Shares held by certain Shareholders are subject to certain lock-up periods after the date on which trading in our Shares commences on the Stock Exchange, the details of which are set out in the section headed “Underwriting” in this prospectus. There can be no assurance that, after such restrictions expire, our Shareholders will not dispose of any Shares. Future sales, or perceived possible sales, of substantial amounts of the Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price favorable to us, and our Shareholders may experience dilution in their holdings upon issuance or sale of additional Shares or other securities in the future.

The market price of our Shares when trading begins could be lower than the Offer Price as a result of, among other things, adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

The Offer Price will be determined on the Price Determination Date. However, the Offer Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be the sixth Business Day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Offer Shares during that period. Accordingly, holders of the Offer Shares are subject to the risk that the price of the Offer Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law, which law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Memorandum and Articles and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differs in some respects from those established under statutes and under judicial precedents in other jurisdictions. As a result, remedies available to the minority Shareholders of our Company may be different from those they would have enjoyed under the laws in other jurisdictions. See “Appendix VI – Summary of the Constitution of our Company and the Cayman Companies Law”.

RISK FACTORS

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy successfully.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities, debt securities or obtain debt financing. The sale of additional equity securities or convertible debt securities could result in additional dilution to our Shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations.

Certain facts and statistics contained in this prospectus have come from official government sources or other industry publications, the reliability of which cannot be assumed or assured.

Certain facts and statistics in this prospectus related to Mongolia, its economy and the industries in which we operate are derived directly or indirectly from official government sources generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality and reliability of such source material. These facts and statistics have not been independently verified by us, the Selling Shareholders, the Joint Global Coordinators, the Underwriters or any of our or their respective affiliates or advisors or any other parties involved in the Global Offering and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside Mongolia and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate and the statistics may not be comparable to statistics produced for other economies. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on all such facts and statistics.

Information in this document regarding future plans reflects current intentions and is subject to change.

Whether we ultimately implement the business plans described in this prospectus, and whether we achieve the objectives described in this prospectus, will depend on a number of factors including, but not limited to: the availability and cost of capital; current and projected coal prices; coal markets; availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which our projects are situated; and changes in estimates of project completion costs. We will continue to gather information about our projects, and it is possible that additional information will cause us to alter our schedule or determine that a project should not be pursued at all. Accordingly, our plans and objectives may change from those described in this prospectus.

RISK FACTORS

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding our Global Offering.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding Global Offering, or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in our Global Offering.

Prospective investors in our Global Offering are reminded that, in making their decisions as to whether to purchase our shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

EXCHANGE RATES

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in Mongolian Tugrik as certified for customs purposes by the Bank of Mongolia for the periods indicated:

Period	Noon Buying Rate			
	Period end	Average ⁽¹⁾	High	Low
		(MNT per US\$1.00)		
2007	1,169.97	1,170.34	1,163.44	1,190.09
2008	1,267.51	1,165.84	1,143.78	1,267.51
2009	1,442.84	1,439.28	1,272.31	1,590.70
January 2010	1,455.70	1,454.67	1,445.55	1,470.64
February 2010	1,449.82	1,445.83	1,437.80	1,455.70
March 2010	1,367.10	1,411.46	1,367.10	1,449.82
April 2010	1,372.46	1,384.28	1,364.69	1,410.46
May 2010	1,384.85	1,386.46	1,377.35	1,395.07
June 2010	1,368.65	1,380.34	1,368.65	1,385.38
July 2010	1,353.49	1,365.80	1,353.49	1,369.82
August 2010	1,301.80	1,324.55	1,299.69	1,353.49
September 2010 (through September 19, 2010)	1,336.08	1,324.71	1,304.56	1,338.18

Note:

(1) *Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2010, which is determined by averaging the daily rates during the respective periods.*

On September 16, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Mongolian Tugrik was US\$1.00 = MNT1,334.37 as certified for customs purposes by the Federal Reserve Bank of New York.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

The following material waivers from the basic conditions in relation to qualifications for Listing have been applied for and granted by the Stock Exchange.

Waiver Pursuant to Rules 8.05 and 18.04 of the Listing Rules

Pursuant to Rule 8.05 of the Listing Rules, an issuer must (a) satisfy one of the three tests in relation to: (i) profit; (ii) market capitalization, revenue and cash flow; or (iii) market capitalization and revenue requirements; and (b) have management continuity for at least the three preceding financial years. Chapter 18 of the Listing Rules applies to mineral companies. Under Rules 18.04 and 8.05 of the Listing Rules, the requirements of Rule 8.05 of the Listing Rules may not apply if the Stock Exchange is satisfied that the directors and management of the issuer have sufficient and satisfactory experience of at least five years in exploration and/or extraction activities. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05 of the Listing Rules in accordance with the reasoning under Rules 18.04 and 8.05 of the Listing Rules.

Waiver from Rule 8.08(1) of the Listing Rules

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the issuer's total issued share capital must at all times be held by the public. We expect to achieve a minimum market capitalization of at least HK\$10 billion upon Listing and has applied to the Stock Exchange to request the Stock Exchange to exercise, and the Stock Exchange has confirmed that it will exercise, its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of 20% for us. The above discretion is subject to the condition that we comply with the disclosure requirements under Rule 8.08(1)(d) of the Listing Rules. The Joint Sponsors and us shall be able to demonstrate compliance with Rules 8.08(2) and 8.08(3) of the Listing Rules. We will make appropriate disclosure of the lower prescribed percentage of public float and confirm sufficiency of the public float in our successive annual reports after the Listing. In addition, we will implement appropriate measures and mechanisms to ensure continual maintenance of 20% public float (or a higher percentage upon completion of the exercise of the Over-allotment Option from time to time). In the event that the public float percentage falls below the minimum percentage prescribed by the Stock Exchange, the Directors and the Controlling Shareholders will take appropriate steps which may include a further issue of Shares and/or placing some Shares by the Controlling Shareholders (or his/its associates) to independent third parties, to ensure the minimum percentage of public float prescribed by the Stock Exchange is complied with.

Waiver from Rule 8.12 of the Listing Rules

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily residents in Hong Kong. We do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. We have applied for a waiver from strict compliance with Rule 8.12 of the Listing Rules on the basis that, as our core business

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

operations are based, managed and conducted in Mongolia, our management is best able to attend its functions by being based in Mongolia. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives are Ms. Badamtsetseg Dash-Ulzii and Ms. Ng Sin Yee, Clare. One of the authorized representatives is ordinarily resident in Hong Kong and both authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon reasonable advance notice from the Stock Exchange, if required and will be readily contactable by telephone, facsimile or e-mail;
- (b) in compliance with Rule 3A.19 of the Listing Rules, we shall retain a qualified institution to act as compliance advisor for a period commencing on the Listing Date and ending on the date which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules to provide us with advice on compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines. The compliance advisor will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after Listing and, where our authorized representatives are unavailable, act as an additional channel of communication between the Stock Exchange and us at least for the period commencing from the Listing Date and ending on the date that we publish our first full financial year results pursuant to Rule 3A.19 of the Listing Rules;
- (c) both authorized representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (a) each Director will provide his or her mobile number, residential phone number, fax number and e-mail address to the authorized representatives; (b) each executive Director will provide valid phone numbers or means of communications to the authorized representatives when he or she is traveling; and (c) each executive Director will provide his or her mobile phone number, residential phone number, office phone number, fax number and e-mail address to the Stock Exchange; and
- (d) all Directors who are not ordinarily residents in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

Continuing Connected Transactions

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted waivers, in relation to certain continuing connected transactions between the Group, MCS Holding and Petrovis LLC under Chapter 14A of the Listing Rules. For further details, please refer to the section headed “Connected Transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Directors' Responsibility for the Contents of this Prospectus

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

Information on the Global Offering

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to provide any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, agents, employees, representatives, advisors or affiliates or any other person or party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

Offer Shares are Fully Underwritten

The Global Offering is jointly sponsored by Citi and JPM. The Offer Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreements. See "Underwriting".

Professional Tax Advice Recommended

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasized that none of the Company, the Selling Shareholders, the Underwriters, the Joint Sponsors, the Joint Global Coordinators, any of our or their respective directors, officers, agents, employees, representatives, advisors or affiliates or any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Exchange Rate Conversion

For the purpose of illustration only and unless otherwise specified in this prospectus, amounts denominated in U.S. dollars have been translated into MNT at the rate of US\$1 = MNT1,372.46, being the noon buying rate in the City of New York for cable transfer as certified for customs purposes by the Federal Reserve Bank of New York on April 30, 2010. No representation is made that the MNT could have been, or could be, converted into U.S. dollars at such rates or at any other rates on such date or on any other dates.

Rounding

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

Restrictions on the Use of this Prospectus

Each person acquiring the Offer Shares will be required to, or deemed by his/her acquisition of the Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he/she is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus and/or Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in Mongolia.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms. No person is authorized to provide any information in connection with the International Placing or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied on as having been authorized by our Company, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, agents, employees, representatives, advisors or affiliates or any other person or party involved in the International Placing.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Prospective applicants for Offer Shares should consult their financial advisors and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction, including but not limited to any restrictions on offers and sales of the Offer Shares described in this prospectus. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements under any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Application For Listing On The Hong Kong Stock Exchange

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein.

No part of our share capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

Hong Kong Share Register

All Shares issued or sold pursuant to the Global Offering are expected to be registered on our Hong Kong register of members to be maintained by our Hong Kong Share Registrar in Hong Kong. Our principal register of members will be maintained by our principal share registrar in the Cayman Islands.

Stamp Duty

Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

Procedure For Application For Hong Kong Offer Shares

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Directors

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Odjargal Jambaljamts.	House E-3, Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	Mongolian
Battsengel Gotov	Apartment 11, Building 45, Erel Town 1st Housing Committee Khan-Uul District Ulaanbaatar Mongolia	Mongolian
<i>Non-executive Directors</i>		
Gantumur Lingov.	Jargalan Town 1-3 1st Housing Committee Khan-Uul District Ulaanbaatar Mongolia	Mongolian
Enkhtuvshin Gombo	Apartment 18 Building 32/1 Olympic Street 1st Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	Mongolian
Enkh-Amgalan Luvsantseren . .	House D-4, Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	Mongolian
Badamtsetseg Dash-Ulzii	House E-1, Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	Mongolian

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Oyungerel Janchiv	Apartment 401 Building 202 Royal Green Villa 11th Housing Committee Section 2 Khan-Uul District Ulaanbaatar Mongolia	Mongolian
Philip Hubert ter Woort	Apartment 214, Building 200 Bella Vista Complex Zaisangiin Am 11th Housing Committee Khan-Uul District Ulaanbaatar Mongolia	Dutch
Batsaikhan Purev	Apartment 57, Block C Shine Tugul 2nd Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	Mongolian
<i>Independent non-executive Directors</i>		
Ochirbat Punsalmaa	Building 11, Olympic Street 1st Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	Mongolian
Unenbat Jigjid	Apartment 9 Building 26/1 2nd Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	Mongolian
Chan Tze Ching, Ignatius	Flat 6D, Portofino Villas 88 Pak To Avenue Clearwater Bay Kowloon Hong Kong	British

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Parties Involved in the Global Offering

Joint Global Coordinators and Joint Sponsors

Citigroup Global Markets Asia Limited
50th Floor, Citibank Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road
Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

Hong Kong Public Offering:
Citigroup Global Markets Asia Limited
50th Floor, Citibank Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road
Central
Hong Kong

International Placing:
Citigroup Global Markets Ltd.
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Auditors and Reporting Accountants

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

Legal Advisors to the Company

as to Hong Kong law:
Mallesons Stephen Jaques
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

as to U.S. law:
Milbank, Tweed, Hadley & McCloy LLP
3007 Alexandra House
18 Chater Road
Central
Hong Kong

as to Mongolian law:
Economic & Legal Consultancy LLC
Suite 1003
Central Tower
Sukhbaatar Square-2
Sukhbaatar District
Ulaanbaatar 210620a
Mongolia
Post Box 371
Ulaanbaatar-211213

as to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal Advisors to the Joint Sponsors
and Underwriters**

as to Hong Kong and U.S. law:
Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

as to Mongolian law:
JTs Consulting LLC
#101, 1st Floor, Viva Office
Jamiyan Gun Street – 5
Sukhbaatar District
Ulaanbaatar
Mongolia

Property Valuer

American Appraisal China Limited
Units 1506-1510, 15/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Independent Technical Expert

Norwest Corporation
136 East South Temple
12 Floor
Salt Lake City
Utah 84111
United States

Industry Consultant

Wood Mackenzie (Australia) Pty Ltd
Level 13
50 Pitt Street
Sydney
New South Wales 2000
Australia

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving Bankers

The Hongkong and Shanghai Banking
Corporation Limited
HSBC Main Building
1 Queen's Road Central
Central
Hong Kong

The Bank of East Asia, Limited
10 Des Voeux Road
Central
Hong Kong

Industrial and Commercial Bank of China
(Asia) Limited
33rd Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and Principal Place of Business in Mongolia	15th Floor, Central Tower 2 Sukhbaatar Square 8th Khoroo Sukhbaatar District Ulaanbaatar 210620a Mongolia
Principal Place of Business in Hong Kong	Level 28 Three Pacific Place 1 Queen's Road East Hong Kong
Website Address	www.mmc.mn <i>(this website address and its contents do not form part of this prospectus)</i>
Company Secretary	Ng Sin Yee, Clare, Associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom
Authorized Representatives	Badamtsetseg Dash-Ulzii House E-1, Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia Ng Sin Yee, Clare Level 28, Three Pacific Place 1 Queen's Road East Hong Kong

CORPORATE INFORMATION

Compliance Advisor	Anglo Chinese Corporate Finance, Limited 40/F, Two Exchange Square 8 Connaught Place Central Hong Kong
Members of the Audit Committee	Unenbat Jigjid (<i>Chairman</i>) Ochirbat Punsalmaa Enkhtuvshin Gombo Chan Tze Ching, Ignatius
Members of the Nomination Committee	Odjargal Jambaljamts (<i>Chairman</i>) Ochirbat Punsalmaa Unenbat Jigjid
Members of the Remuneration Committee	Odjargal Jambaljamts (<i>Chairman</i>) Ochirbat Punsalmaa Unenbat Jigjid
Principal Bankers	European Bank for Reconstruction and Development One Exchange Square London EC2A 2JN United Kingdom Golomt Bank Bodi Tower Sukhbaatar Square Ulaanbaatar 210620A Mongolia Khan Bank Seoul Street 25 P.O. Box-192 Ulaanbaatar-210644 Mongolia Standard Bank Plc 20 Gresham Street London EC2V 7JE United Kingdom

CORPORATE INFORMATION

Trade Development Bank of Mongolia
Juulchin Street – 7
Baga toiruu – 12
Chingeltei District
Ulaanbaatar
Mongolia

**Principal Share Registrar and
Transfer Office**

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
Cayman Islands

Hong Kong Share Registrar

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

INDUSTRY OVERVIEW

We commissioned Wood Mackenzie, as industry consultant, to prepare an independent expert report on the energy sector in China and Mongolia (the “Wood Mackenzie Report”) for use in whole or in part in this prospectus. Wood Mackenzie currently has approximately 650 employees making it one of the largest commercial research and consulting companies in the world. It is headquartered in Edinburgh, Scotland, and has offices in more than 20 cities around the world. It analyzes the assets, markets and companies operating upstream and downstream; in oil, gas, coal, carbon, metals and power generation. In 2007, Wood Mackenzie has acquired Hill & Associates, a coal research and consulting company based in the United States, and Barlow Jonker, the Australia-based provider of analysis and advisory services on international coal and electricity markets.

The key objectives of the Wood Mackenzie Report included:

- identifying the most prospective geographic sales areas and buyers for UHG coals in China;
- analyzing the coal supply/demand dynamics within these areas, and the current and likely future prices for UHG coals and similar brands; and
- describing how Mongolian coal products are currently sold and marketed in China.

Wood Mackenzie prepared its report based on its industry knowledge, in-house database, independent third-party reports and publicly available data from reputable industry organizations. Where necessary, Wood Mackenzie visits companies operating in the industry to gather and synthesize information about the market, prices and other relevant information. Wood Mackenzie has assumed that the information and data on which it relied are complete and accurate.

Forecasts and assumptions included in the Wood Mackenzie Report are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including, without limitation, the actions of governments, individuals, third parties and competitors. Specific factors that could cause actual results to differ materially include, among others, fluctuations in coal prices, risks inherent in the mining industry, financing risks, labor risks, uncertainty of mineral reserve and resource estimates, equipment and supply risks, regulatory risks and environmental concerns.

Wood Mackenzie has provided part of the statistical and graphical information contained in this section, including tables of historical data and estimated future supply, demand and market trends created by compiling, interpreting and analyzing engineering, production, economic, statistical and technical information from many third-party sources. The information contained herein has been obtained from sources believed by Wood Mackenzie to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Most of the data presented in this section with respect to the Chinese coal industries has been extracted from the Wood Mackenzie Report. We paid Wood Mackenzie a total of US\$125,000 in fees for professional services in connection with the preparation and update of its report.

INDUSTRY OVERVIEW

Unless otherwise specified, all of the data presented in this section with respect to PRC coal reserves and resources refer to the PRC national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999).

While we, the Selling Shareholders, the Joint Global Coordinators, the Underwriters and the other parties involved in the Global Offering have taken reasonable care in the extraction, compilation and reproduction of the information and statistics from the Wood Mackenzie Report, none of us, the Selling Shareholders, the Joint Global Coordinators, the Underwriters or any other party involved in the Global Offering has independently verified the information and statistics derived directly or indirectly from official government sources or made any representation as to their accuracy. Such information and statistics may be out of date and may not be consistent with other information and statistics compiled within or outside Mongolia. You should not place undue reliance on such information and statistics contained in this section.

An Introduction to Coal

Coal is one of the most abundant fossil fuels worldwide and a major fuel of global energy consumption. It has a variety of uses, including electricity generation, coke production for steel making, and industrial uses such as cement manufacture.

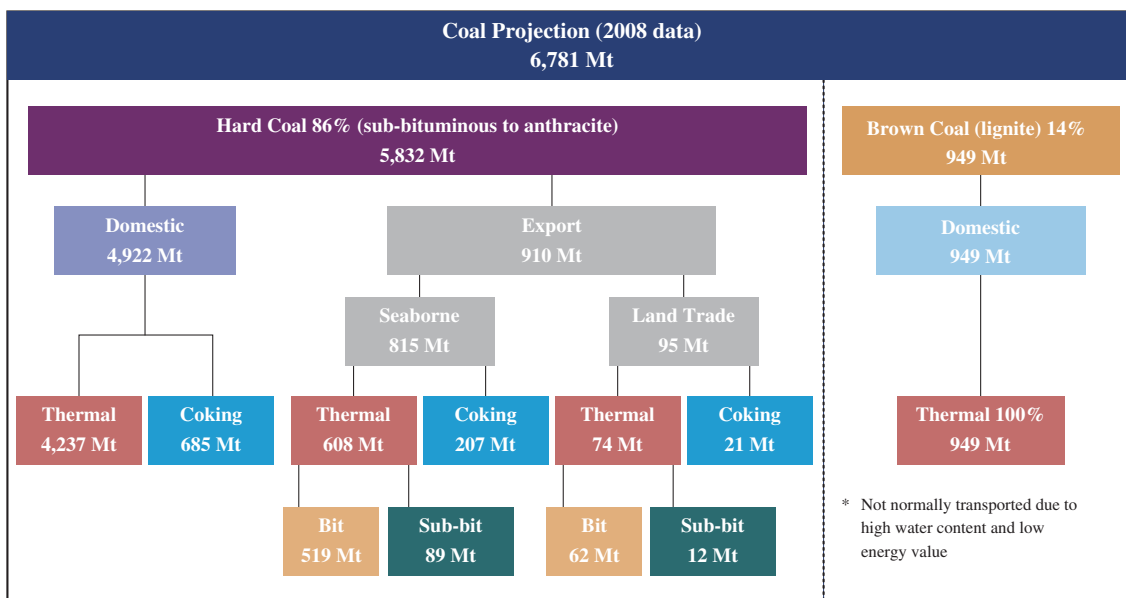
While there are several systems of coal classification used in different countries of the world, coking coal can be broadly categorized into four distinct grades, namely hard coking coal, semi-hard coking coal, semi-soft coking coal and soft coking coal. Hard/semi-hard coking coal is essential for the production of coke. Semi-soft/soft coking coal is typically used for blending purposes to enhance certain physical and chemical parameters of the coke, but in a way that reduces costs by maximizing the proportion of less expensive coals.

Thermal coal is consumed globally as a primary fuel for base load power generation. The energy content of coal is commonly measured as the heat released upon complete combustion in air or oxygen, expressed as the amount of heat (measured in kilocalories) per unit weight of coal (measured in kilograms) or kcal/kg. Generally, coal with a higher energy content is considered premium quality and commands a higher price. The majority of thermal coal produced is consumed regionally due to its bulk commodity nature, resulting in high transportation costs relative to coal prices.

INDUSTRY OVERVIEW

The following chart shows the global coal production and trade for 2008:

Global Trade Breakdown 2008



Chinese Coal Industry

Resources

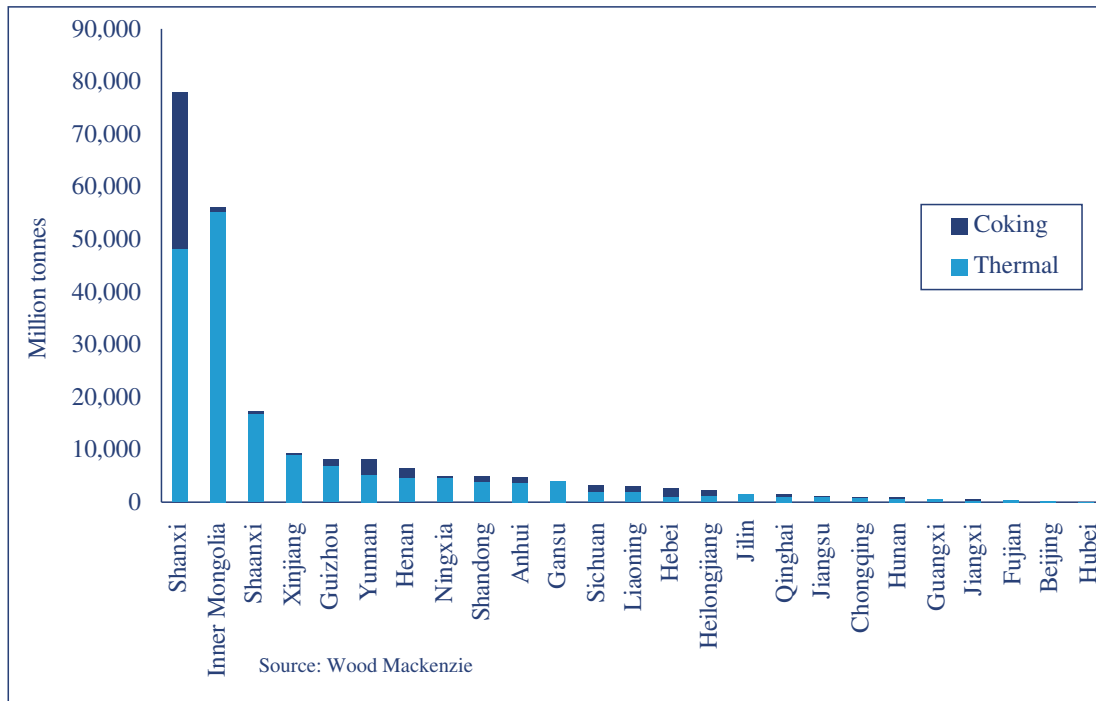
Wood Mackenzie estimates the total exploitable coal resources in China to be 221 billion tonnes as of the end of 2009. The split of thermal versus coking coal resources is 78% to 22%.

Shanxi and Inner Mongolia contain the bulk of Chinese exploitable coal resources with about 134 billion tonnes, or 60% of the total. Shanxi's resources are split approximately 40% and 60% between coking and thermal coal, but Inner Mongolia is dominated by thermal coal, which makes up over 98% of the province's total.

Shaanxi, Guizhou, Yunnan, Henan, Ningxia and Shandong also contain a substantial portion of China's current coal resources. Xinjiang is an important future source of domestic coal, with many large projects being developed, although the province contains almost only thermal coal resources.

INDUSTRY OVERVIEW

Chinese Coal Resources by Province and Coal Type

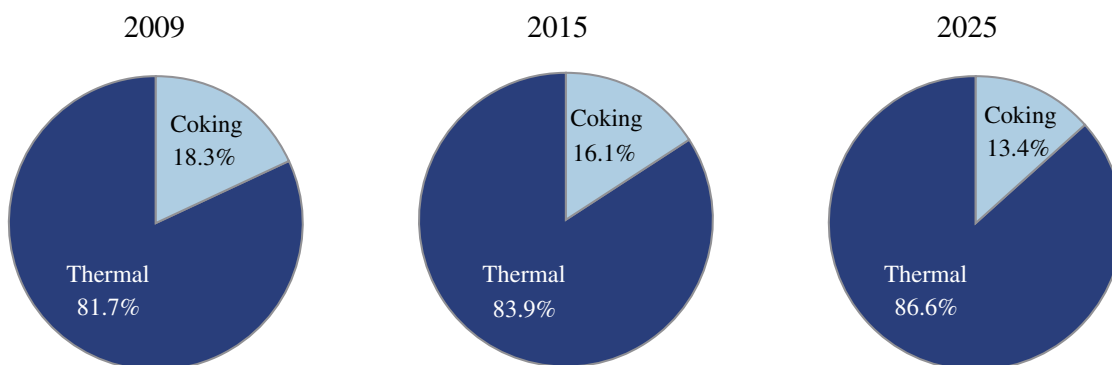


In summary, China has abundant coal resources, but coking coal represents a distinct minority of total coal resources, and with greater geographic concentration.

Production

It is estimated that China produced 2,684 million tonnes of coal in 2009, with a split of 82% thermal coal and 18% coking coal. It is estimated that China's total production will reach 4,373 million tonnes in 2025, with most of the increase from western provinces.

Chinese Coal Production by Type

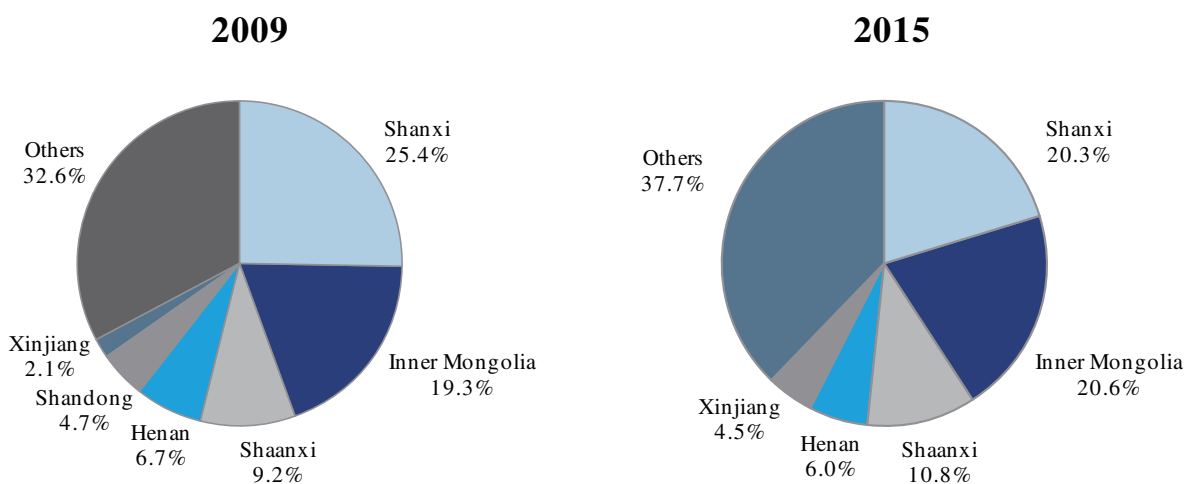


Source: Wood Mackenzie

INDUSTRY OVERVIEW

Shanxi is by far the largest coal producing province, representing 25.4% of the Chinese national total in 2009. Inner Mongolia is another key growth coal producing region, with an estimated 19.3% of the Chinese national total in 2009. Over 95% of Inner Mongolia's output is thermal coal, supplied to customers within the region and in coastal provinces. Xinjiang's production is also expected to grow significantly in the coming years, increasing from 2.1% of the total in 2009 to 4.5% in 2015. By contrast, some of China's traditional coal mining regions, such as Jilin, Hebei and Liaoning are facing resource depletion and their output will decline gradually.

Chinese Total Production by Province



Source: Wood Mackenzie

Despite the dominance of a few large coal producers, there are thousands of small coal mines providing marginal supply to the market. This fragmentation creates a slew of problems, including safety and environmental issues, increased costs, poor mining conditions, and inefficient resource usage (small mines typically have much lower resource recovery rates). In recent years, the PRC government has taken initiatives to encourage consolidation by closing down small/marginal coal mines. In the 11th five-year-plan for the coal industry, published in January 2007, the National Development and Reform Commission (the "NDRC") set out specific consolidation targets for the industry. This included lowering the proportion of coal production at the small mines, as well as creating several 'mega producers' with annual production exceeding 100 million tonnes.

As part of its long-term strategy to preserve its natural resources base, the PRC Government has encouraged international imports of coal, while also limiting exports.

INDUSTRY OVERVIEW

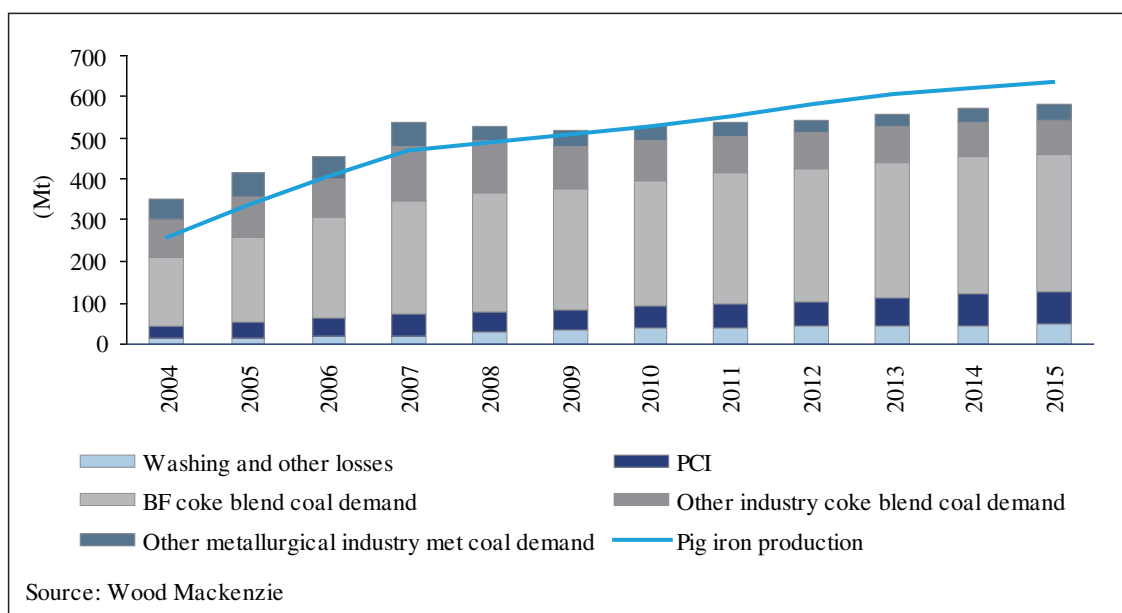
China coking coal market

China is the world's largest consumer of coking coal, an important input for the manufacturing of steel. Coking coal consumption in China has grown significantly since 2003, primarily due to a significant expansion in steel production. In 2009, China produced more steel than North America, Europe, and the rest of Asia taken together, representing 46.6% of global steel production, according to the World Steel Association. This expansion in Chinese steel production has underpinned demand growth for coking coal.

China's large and diverse metallurgical industry uses a wide range of coking coals. Coke blend coal, used in blast furnaces to make steel, constituted approximately 54% of the total 529 million tonnes of coking coal consumed in China in 2008. A further 52 million tonnes of PCI coal was also used in blast furnaces.

Historic and projected coking coal consumption for the 2004 to 2015 period is shown in the table below:

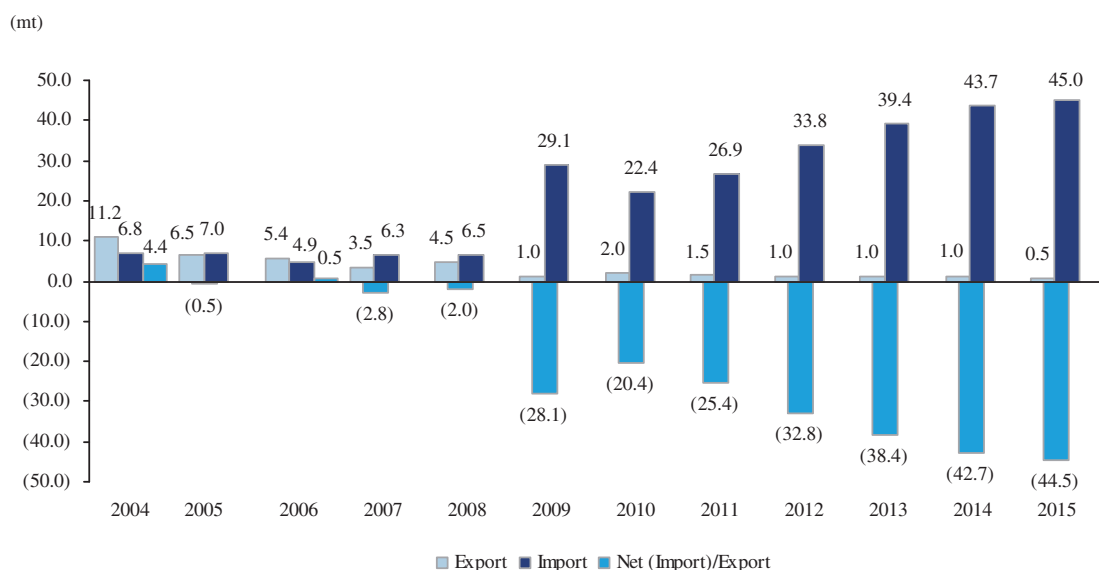
Historic and Forecast Coking Coal Consumption, 2004-2015



INDUSTRY OVERVIEW

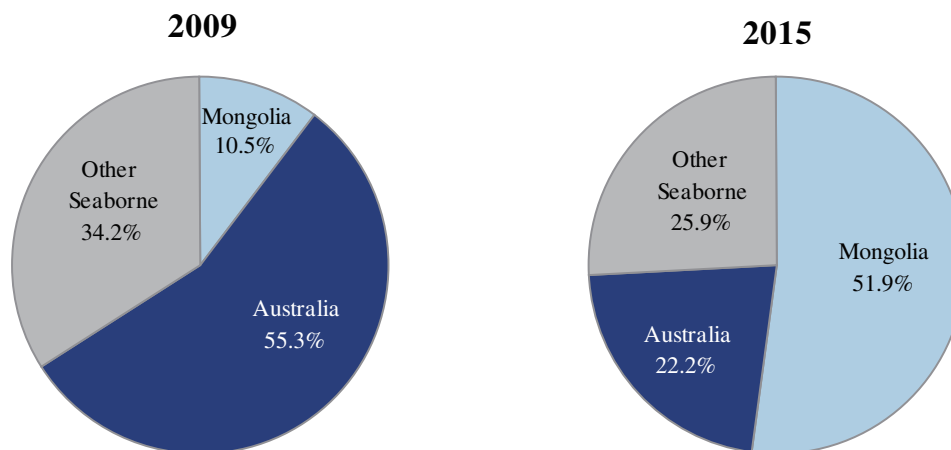
Recently, the PRC government introduced certain policies to cool down the rapid development of several industries, especially the real estate industry. However, given China's rapid macroeconomic growth and the instability of the global and Chinese markets, we believe there will be limited impact on the coking coal industry in China. According to Wood Mackenzie, domestic supply of coking coal in China dropped significantly from 527 million tonnes in 2008 to 488 million tonnes in 2009. Total coking coal imports of 29 million tonnes were recorded in China in 2009, an increase of 22 million tonnes from 2008 levels. Coking coal imports are projected to continue to rise going forward, increasing by 23 million tonnes between 2010 and 2015, while coking coal exports are expected to decline to 0.5 million tonnes by 2015. Landborne imports from Mongolia will augment seaborne supply (mainly from Australia) growing to 28 million tonnes in 2015 from 4.8 million tonnes in 2009, representing a CAGR of 34%.

Chinese Coking Coal Trade



Source: Wood Mackenzie

Forecast Australia and Mongolian Imports of Coking Coal into China



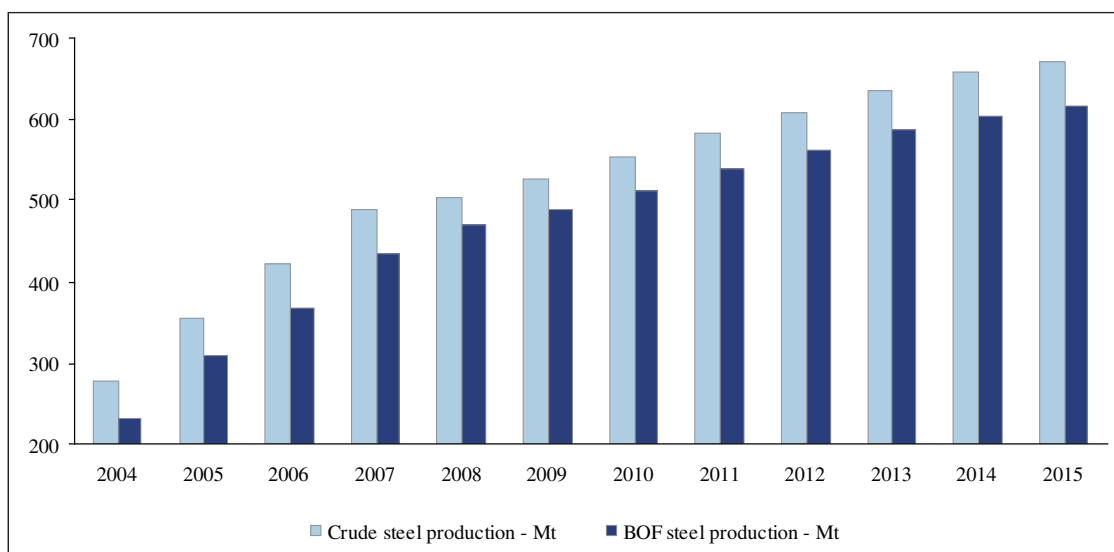
Source: Wood Mackenzie

INDUSTRY OVERVIEW

Steel Production

Steel production in China experienced rapid growth in recent years. The industry is now undergoing structural change with government authorities requiring closure of small blast furnaces, enforcing a minimum blast furnace size of 300 cubic meters. Chinese crude steel production was estimated at 528 million tonnes in 2009, and is forecast to grow steadily to 671 million tonnes by 2015, representing a 2009-2015 CAGR of 4.1%.

Crude Steel Production Forecast for China



Source: Wood Mackenzie

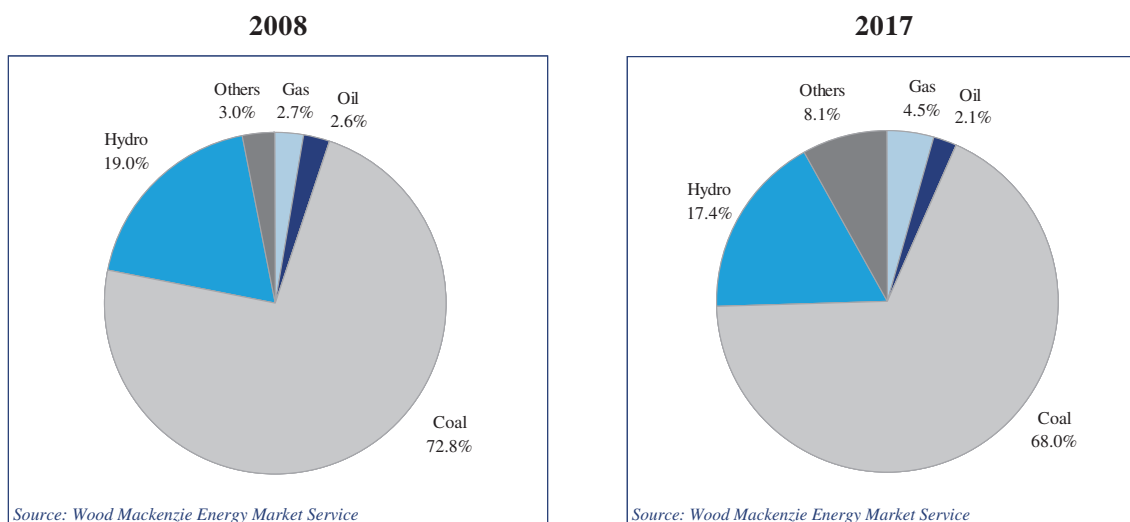
Steel production will remain the key driver of coking coal demand in the future. The global financial crisis of the past two years has precipitated a structural change in the global steel industry. Steel producers used the slowdown in steel production to reorganize their operations, closing sub-economic blast furnace operations or moving production to lower cost regions. Closure of steel mills in Europe and the U.S. will be countered by new blast furnace builds in South-East Asia, India, China, Eastern Europe and Brazil where high growth in heavy industry and steel demand will drive the need for increasing coking coal imports.

INDUSTRY OVERVIEW

China thermal coal market

China is the world's largest consumer of thermal coal, with coal accounting for approximately 73% of China's total electricity capacity composition in 2008. China's thermal coal demand increased from approximately 1.6 billion tonnes in 2004 to approximately 2.2 billion tonnes in 2009, equivalent to a CAGR of 6.9%. Wood Mackenzie forecasts thermal coal demand in China to increase by over 533 million tonnes from 2008 to 2015, by far the largest growth worldwide, driven by substantial growth in coal-fired generation capacity.

Electricity Capacity Composition



The recent trend of increasing thermal coal imports and decreasing thermal coal exports is expected to continue in the future, with China remaining a net importer of thermal coal.

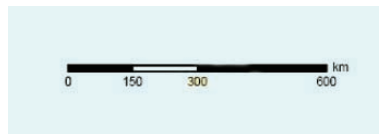
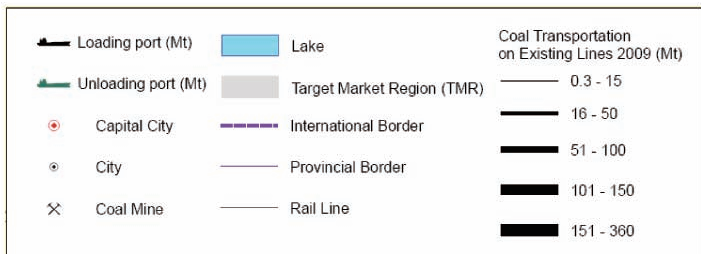
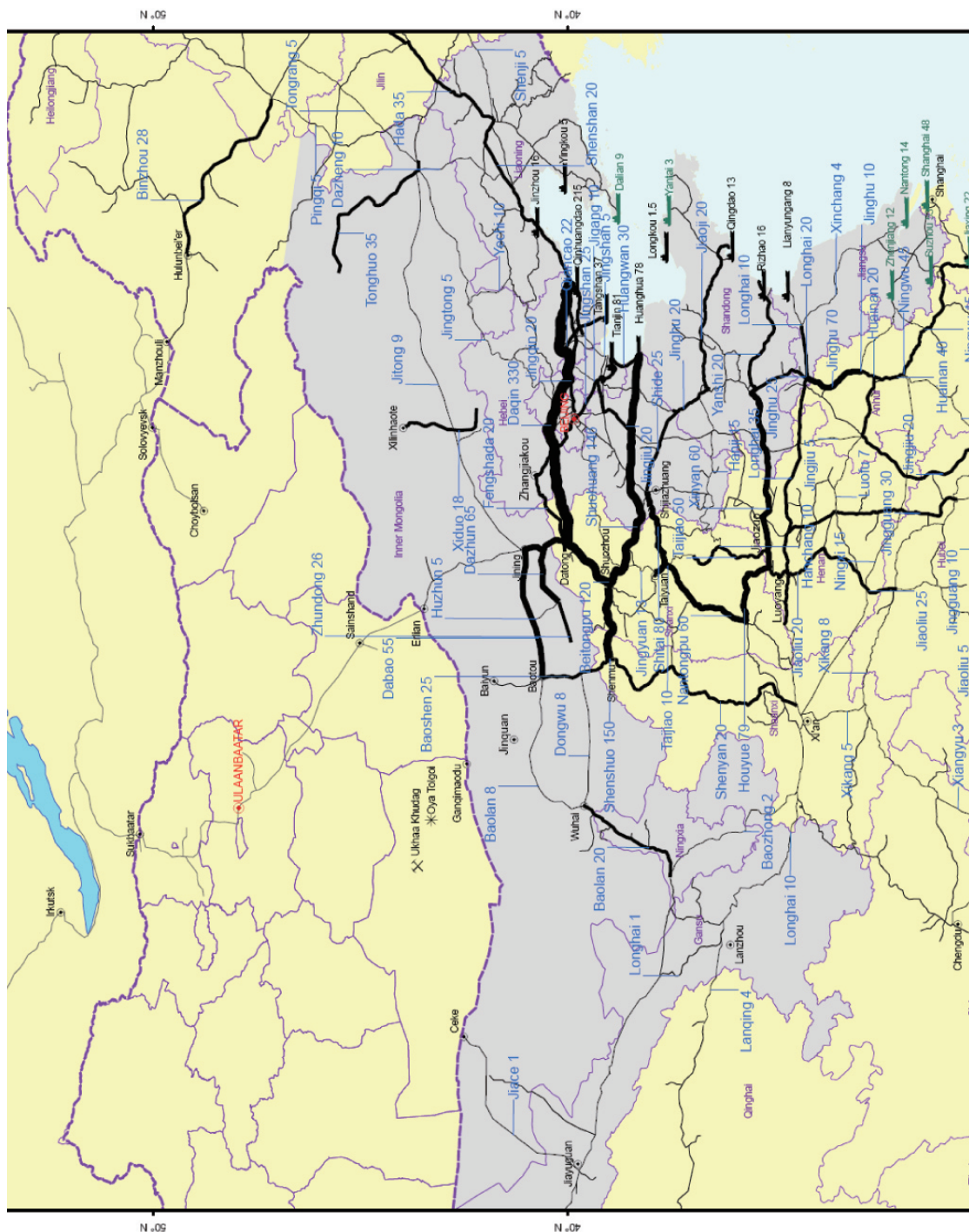
Coal transportation infrastructure in China

Rail is the main method for long distance coal transportation within China. Chinese coal production is mainly concentrated in Shanxi, Shaanxi and Inner Mongolia provinces in the northern part of China, while consumption has been relatively concentrated in the industrialized eastern and southern provinces. This defines the general movement of coal in China, which follows the west to east coal distribution routes.

China's coal rail system is shown in the map below, which contains the names and 2009 coal transport volumes of all the main coal carrying rail lines, as well as the main coal loading and unloading ports.

INDUSTRY OVERVIEW

Existing transportation infrastructure 2010



INDUSTRY OVERVIEW

The 652 km Datong-Qinhuangdao railway in northern China is one of the main coal railways in the country. The railway links coal production regions in Datong and Shanxi to the Qinhuangdao port in Hebei and plays a pivotal role in meeting the coal demand of power generators in China's eastern and southern provinces. Qinhuangdao is one of the main ports for international and domestic coal imports and exports in China.

The 802 km Shenmu-Huanghua railway is another major coal railway in northern China. This railway links coal mines in Erdos and Shenmu with Huanghua port in the coast of Hebei province.

Numerous new rail lines and expansions of existing lines are under development that will impact the TMR market. The PRC government has significantly increased spending on railway development projects and has undertaken to develop the construction of special coal transportation railways in the future to increase coal transportation capacity.

Railway transportation costs vary depending on insurance fees and construction fund fees, and on whether it is a coal dedicated and electrified railway. For example, the Datong-Qinhuangdao railway, which is a coal dedicated and fully electrified railway, currently charges an all inclusive rate of approximately RMB 0.12 per km for every tonne of coal transported.

Trucking is also widely used to transport coal and is considered economic for shorter than 300 km distances for thermal coal, and up to 850 km for higher value coking coals. Trucking fees vary, mainly in relation to distance as well as road conditions. In northern Inner Mongolia fees of RMB0.25-0.40/tkm apply. These are among the lowest in China, chiefly due to the fact there are few road tolls in the area and less stringent policing of overloading.

The nearest coal loading ports to UHG are in the Bohai Sea region at Qinhuangdao, Tianjin and Huanghua. Loading fees for domestic coal shipments average approximately RMB20/t, and RMB35/t for export coal.

Mongolian Coal Industry

Resources and domestic consumption

Mongolia has vast coal resources with significant potential, but most of it remains untapped. According to Wood Mackenzie, Mongolia has an estimated 5,824 million tonnes of total exploitable coal resources, approximately 56% of which are coking coal resources.

Domestic Mongolian coal consumption of approximately 5.5 million tonnes per annum has remained stable for the past few years. Much of the locally-consumed coal is low quality lignite used in thermal power plants near the capital, Ulaanbaatar. By comparison, most of the growing Mongolian coal exports to China consist of coking coal.

INDUSTRY OVERVIEW

Coal exports

Mongolia's coal exports have grown significantly since 2007. Mongolia exported approximately 6.6 million tonnes of coal in 2009, a substantial increase from 3.3 million tonnes of coal exported in 2007. China is currently the main destination for Mongolian coal exports, due to Mongolia's proximity to China. Traditionally, Mongolian coal exports to China have been mainly in coking coal, though recently thermal coal exports have begun to grow.

Currently there are five Mongolian mines exporting coal to China – our UHG mine; the Ovoot Tolgoi mine owned by SouthGobi Energy Resources Ltd.; the existing so-called “small” Tavan Tolgoi mine (“Small TT”), owned by Tavan Tolgoi Joint Stock Company (listed on the Mongolian Stock Exchange and 51% owned by South Gobi province and 49% owned by private investors). Tavan Tolgoi Joint Stock Company does not own and/or operate any of the mines that were previously owned by us; and the Nariin Sukhait coal mines, one of which is a joint venture between Mongolyn Alt Corporation of Mongolia (“MAK”) and the Qinghua Group of China, and a second mine which is operated by MAK. All are open cut operations. By 2015, Wood Mackenzie expects two other new major projects, the new Tavan Tolgoi mine (“Big TT”) owned by state-owned Erdenes MGL LLC, and the Baruun Naran mine, owned by QGX Limited, to come online, with all Mongolian coal mines collectively supplying approximately 30 million tonnes of coal to China at that point, the majority of which would be coking coal.

Mongolian coal enters China through three main border crossings: the Ganqimaodu, Ceke and Erlian border points. A total of 13 million tonnes of coal is expected to be sold into China in 2010, all of which is sold unwashed. Most coal exports from Mongolia are currently trucked into China, typically transported along unsealed road from the coal mines to the Mongolian side of the border, where it is unloaded at a stockpile facility. Border fees are paid in Mongolia and China, and the coal is then trucked over to stockpile facilities on the Chinese side of the border. From the stockpiles, some buyers truck the raw coal directly to end users. Most stockpile coal, however, is trucked south to coal handling and preparation plants in China where it is processed into higher value product – that is, crushed and sized, and in some cases, washed. Transportation costs are a key issue that will determine a Mongolian coal mining project's competitiveness in the Chinese and international seaborne markets.

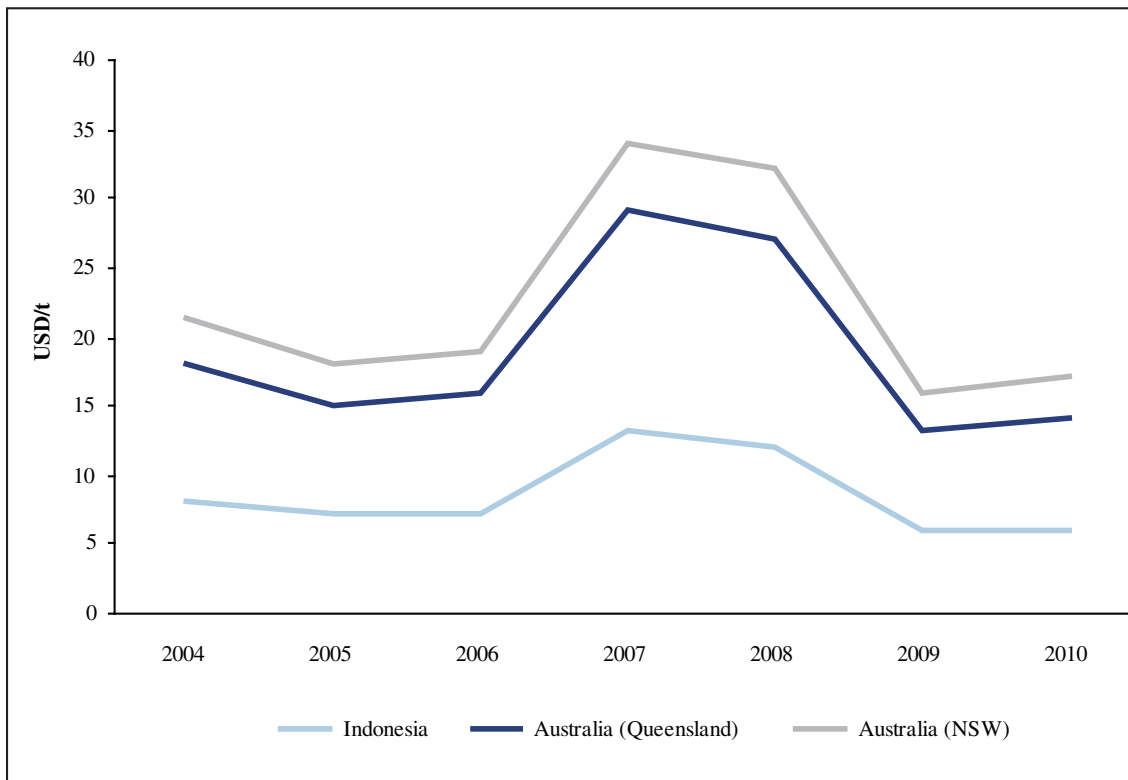
The current transportation cost between UHG and TKH is approximately US\$18 per tonne (inclusive of VAT). While the cost is not subject to significant fluctuation, from 2006 to 2008 coal transportation costs trended upward due to: (a) a rise in fuel prices from 2006 to 2008 during which time diesel fuel prices more than doubled; (b) the strengthening of the U.S. dollar against the Mongolia Tugrik, which increased by over 20% in 2009 and has remained at such levels since; and (c) general inflationary trends in Mongolia. Because transportation of coal from TKH to Chinese destinations is arranged by customers, we do not have access to information regarding coal transportation costs in China.

INDUSTRY OVERVIEW

According to Wood Mackenzie, the transportation cost from our mine to the Mongolia-China border, as of April 2010, is approximately RMB80/t (US\$12/t). For comparison purposes, the following chart reflects the historical freight rates for shipping coal to China (Hong Kong) from Australia and Indonesia:

Shipping Costs to China

Historical Freight Rates to China



Source: Wood Mackenzie

In recent years, there have been several proposed plans for new rail line developments pertaining to coal mining projects inside Mongolia, including our proposed 236 km rail line from UHG to GS, with an initial throughput capacity of approximately 20 million tonnes per annum of coal. From GS, there are two main proposals/alignments for connecting to the existing Chinese rail system. See “Business – Logistics and Transport – Railway”.

INDUSTRY OVERVIEW

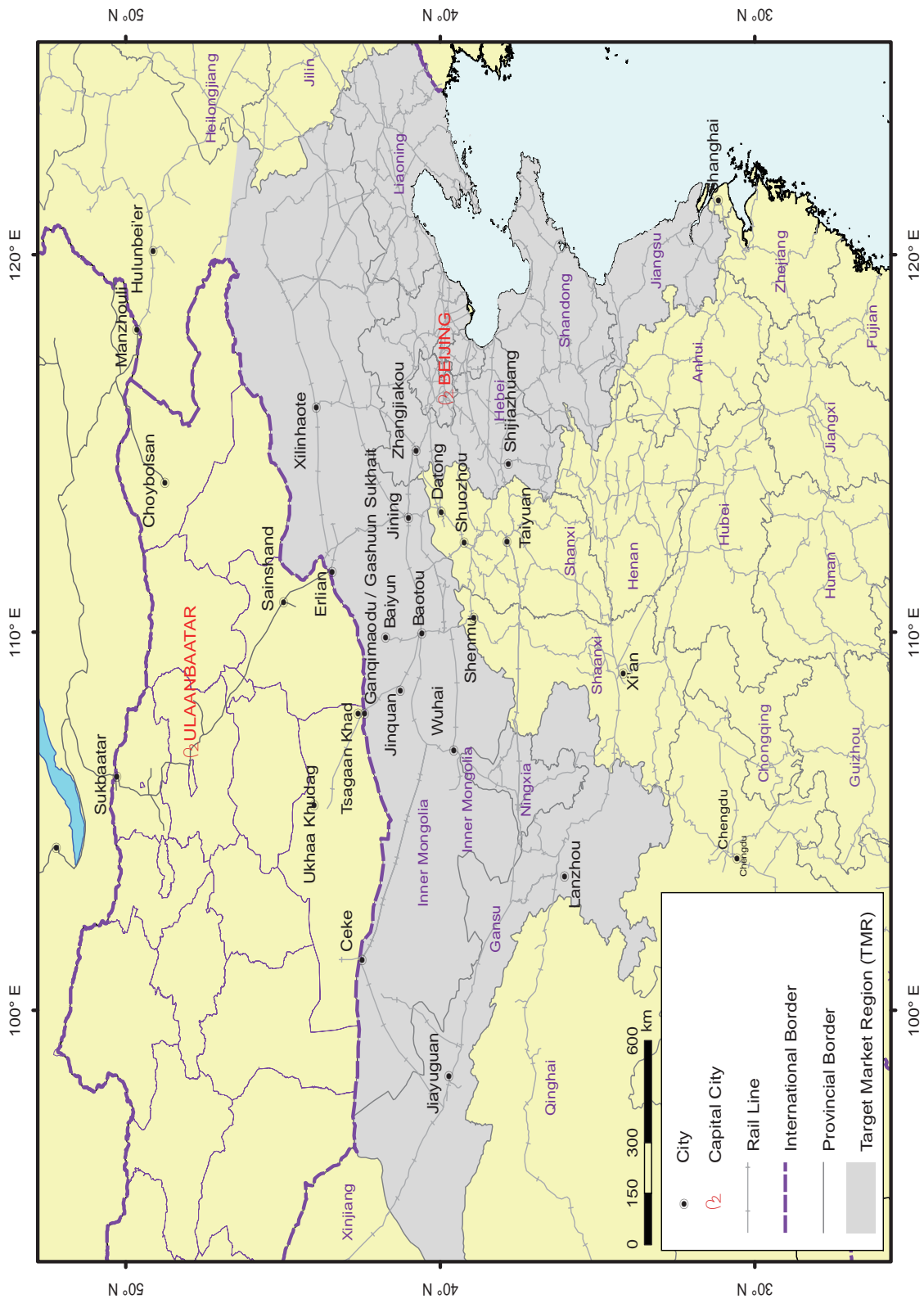
Target Market Region for UHG Coal

General

A Chinese TMR for UHG's coal has been determined by Wood Mackenzie in relation to a range of factors relating to transport logistics, supply costs, demand and price levels. It is shaded in grey color in the map below and is considered the most likely area that UHG coal could be competitively sold into. It includes most of the Chinese territory immediately adjacent to Mongolia's southern border with China's Inner Mongolia and Gansu provinces, extending as far west as the Xinjiang provincial border. Eastward it extends to cover Liaoning province, and southward to Jiangsu province, including the three major coal exporting ports of Qinhuangdao, Tianjin and Huanghua.

INDUSTRY OVERVIEW

Ukhaa Khudag Target Market Region (TMR)



INDUSTRY OVERVIEW

As indicated in the table below, Wood Mackenzie expects total 2010 coal consumption in the TMR of 1,726 million tonnes, of which 1,510 million tonnes is thermal coal and 216 million tonnes is coking coal; while the domestic supply is expected to be 1,537 million tonnes.

Domestic Coal Consumption and Supply in the TMR (2010, Million Tonnes Physical Coal)

	Demand			Supply
	Total	Thermal	Coking	Total
Inner Mongolia	159	134	25	379.7
Liaoning	170	140	30	62.5
Hebei	267	209	58	92.2
Beijing	26	24	2	4.3
Tianjin	53	46	7	–
Shandong	359	307	52	140.8
Ningxia	48	42	6	47.4
Gansu	53	45	8	28.4
Jiangsu	226	209	17	22.3
Qinhuangdao port	200	195	5	–
Tianjin port	80	74	6	–
Huanghua port	85	85	–	–
Heilongjiang	–	–	–	22.1
Henan	–	–	–	36.9
Shaanxi	–	–	–	130.5
Jilin	–	–	–	4.6
Shanxi	–	–	–	521.7
Qinghai	–	–	–	7.8
Xinjiang	–	–	–	8.8
Anhui	–	–	–	27.0
Total	1,726	1,510	216	1,537

Source: Based on 2008 coal consumption figures from the China Energy Statistical Yearbook, 2008; and Wood Mackenzie estimates for 2010 based on a variety of inputs including 2009 provincial output figures for electricity, steel, chemical/fertilisers, construction materials and GDP.

Supply

Wood Mackenzie has identified over 600 large-size mines/regions supplying coal into the TMR. However, there are also thousands of smaller mines selling coal into the region. The E'erduosi, Northern Shanxi and Northern Shaanxi areas collectively represent the largest domestic source of coal supply into the TMR, most of which was thermal coal. Other important coal supply sources include mid-Shanxi province, Inner Mongolia, Anhui and Heilongjiang. Imports into the TMR are currently dominated by Mongolian coal coming through the Ganqimaodu, Ceke, and Erlian border points. Coal is also imported into the region from Australia, Indonesia, Russia, Canada and Vietnam.

INDUSTRY OVERVIEW

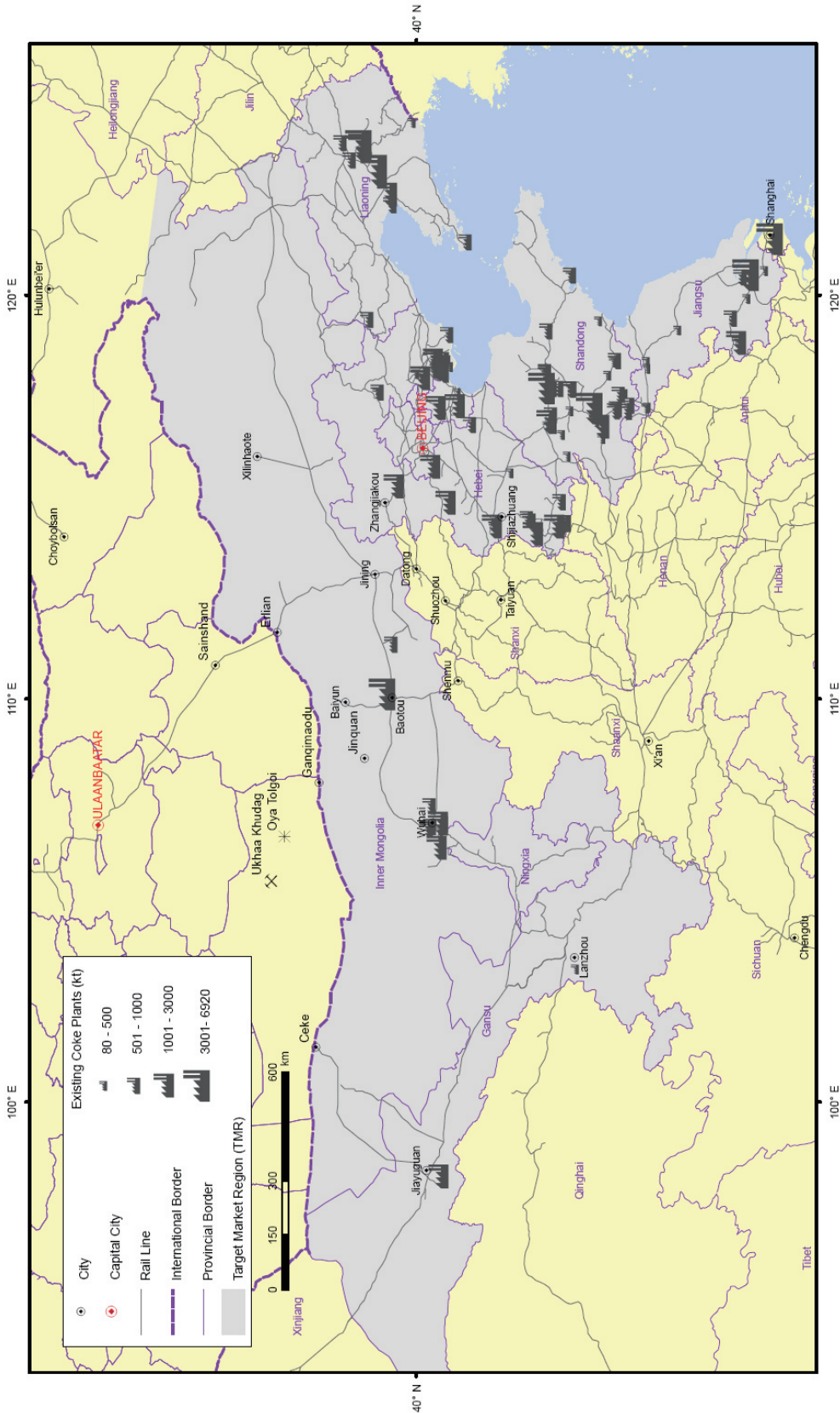
Demand

Total TMR coal demand in 2010 is expected to be 1,726 million tonnes. Wood Mackenzie's estimate of 2010 total coking coal demand is 216 million tonnes, of which approximately 36 million tonnes is PCI coal, which are characterized by their high rank, low volatile matter with the remaining being coke blend coal. Most of this represents consumption inside the TMR, with only approximately 11 million tonnes of coke blend coal loaded at the Bohai Sea ports. The demand within the TMR is supported by the large coke plants within the region. Wood Mackenzie has identified 125 operational large coke plants which will require approximately 170 million tonnes per annum of coke blend coal, with steel mills associated with the plants consuming 27 million tonnes of PCI coal in 2010.

INDUSTRY OVERVIEW

The map below shows the locations of the existing TMR coke plants:

Existing TMR coke plants



Source: Wood Mackenzie

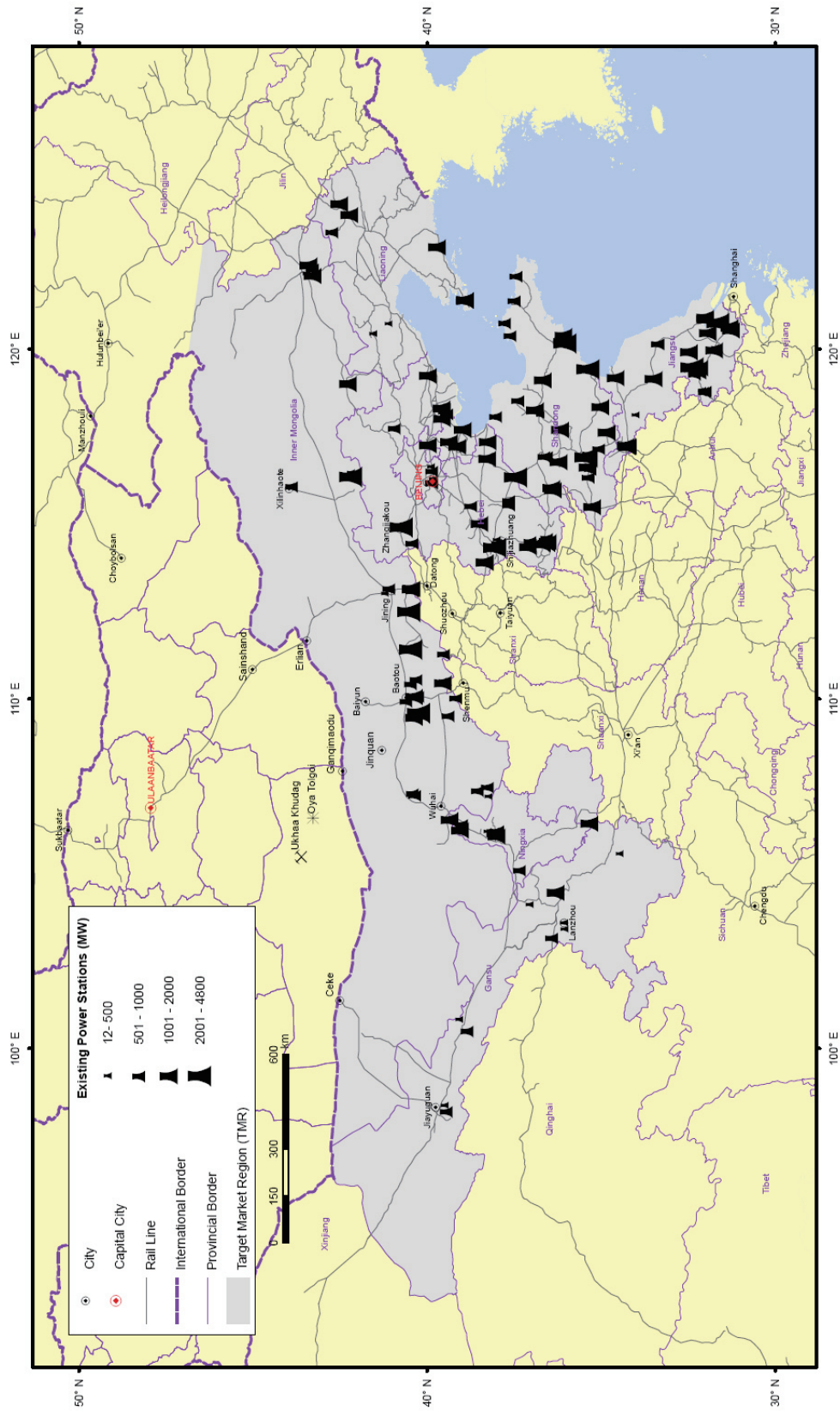
INDUSTRY OVERVIEW

The highest concentration of demand is in the Tangshan region, Hebei province, which is a major steel area with over 100 million tonnes of pig iron produced per annum. Liaoning also has a high demand for coking coal due to the steel production plants centered around the iron ore supply in the province. Significant demand also exists in Wuhai, central Shandong and southern Jiangsu provinces, which are all large coke manufacturing regions. With the PRC government's policy to expand and consolidate steel production around major production bases in Hebei, Liaoning, Shandong and Jiangsu provinces, steel production within the TMR is forecast to increase substantially, resulting in growing coking coal demand.

Total non-coking coal demand in the TMR is estimated at approximately 1,500 million tonnes in 2010, which includes approximately 365 million tonnes of coal loaded at the Qinhuangdao, Tianjin and Huanghua ports. Hence, approximately 1,135 million tonnes of other non-coking coal is expected to be consumed within the TMR in 2010. Power generation is the largest source of this demand. The closest concentration of power plants to UHG will continue to be in and around Baotou.

INDUSTRY OVERVIEW

TMR power plants (2015)



Source: Wood Mackenzie

INDUSTRY OVERVIEW

Supply/demand balance

Wood Mackenzie estimates total supplies of mid-high volatile matter (“VM”) coke blend coking coal in the TMR to be 142 million tonnes in 2010, which falls short of the total demand of 145 million tonnes for the region. The supply deficit in the TMR is forecast to widen going forward, as supply remains relatively stable at an expected 149 million tonnes in 2015, while demand continues to grow to an estimated 173 million tonnes in 2015.

TMR coal balance forecast (million tonnes)

	<u>2010</u>
Demand	
Mid-high VM coke blend	145
Other (mainly thermal)	1,582
Total	1,726
Supply	
Mid-high VM coke blend	142
Other (mainly thermal)	1,558
Total	1,700
Difference	
Mid-high VM coke blend	-3
Other (mainly thermal)	-24
Total	-27

Source: Wood Mackenzie

Going forward, the demand for mid to high VM coke blend is forecast to outgrow domestic supply, and the TMR will increasingly become an importer of coking coal from both the seaborne and landborne markets, particularly Mongolia.

Coal Pricing

The information below relates to the prices of washed coking coals only. Unwashed coking coals are generally sold at a significant discount to washed coking coals.

Global coal pricing

Coal is a bulk commodity commonly traded by contract. Coking coal prices are dependent on the coking characteristics of the coal, while thermal coal prices are dependent on the energy level of the coal.

Coal prices in the international market are the result of negotiations which strike a balance between the buyers’ needs for secure, diverse and low priced supply, and producers’ desires to achieve margins that will allow a satisfactory return to shareholders, as well as providing funds for new investment. The main determinants of price are, in the short term, the perception of the supply demand balance, and in the longer term, costs of production.

INDUSTRY OVERVIEW

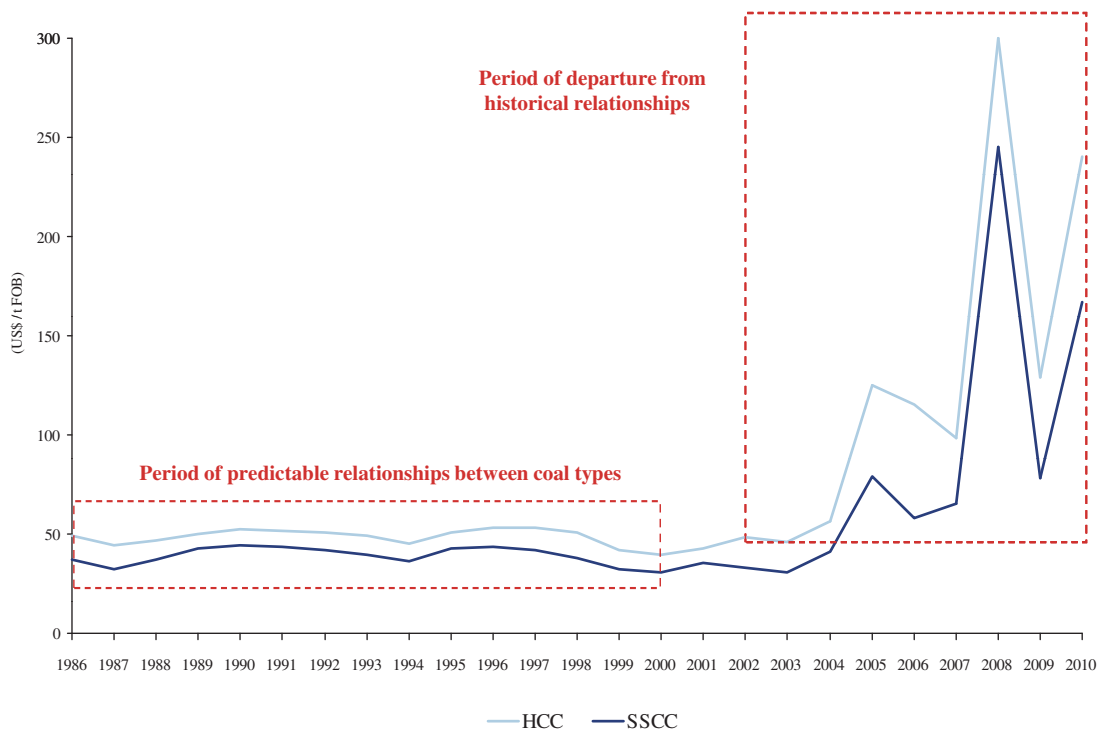
Historically, global coal export contract negotiations were held annually to establish the benchmark prices for the respective coal types. Commencing from the second quarter of 2010, the price setting mechanism is now done on a quarterly basis, helping to set the benchmark prices closer to spot prices.

Coking coal is typically priced at a notable premium to thermal coal. In the period 1986 to 2004, the differential between thermal coal prices and coking coal remained relatively constant. The outcome of the negotiation of thermal coal prices would influence the coking coal price and vice versa. However, post 2004, there has been substantially greater volatility caused by coal shortages in a period of strong demand growth, and historical pricing relationships are no longer valid.

Coking coal pricing

The chart below shows historical pricing trends for coking coals. Coking coal is priced according to certain coking characteristics including ash, sulfur, volatile matter contents and coke strength. The prices shown in the table below are those achieved by Australian suppliers for coal sold to Japanese steel mills in Japanese fiscal years and apply to the premium grades within each category.

Australian Coking Coal Contracts to Japan



Source: Wood Mackenzie

INDUSTRY OVERVIEW

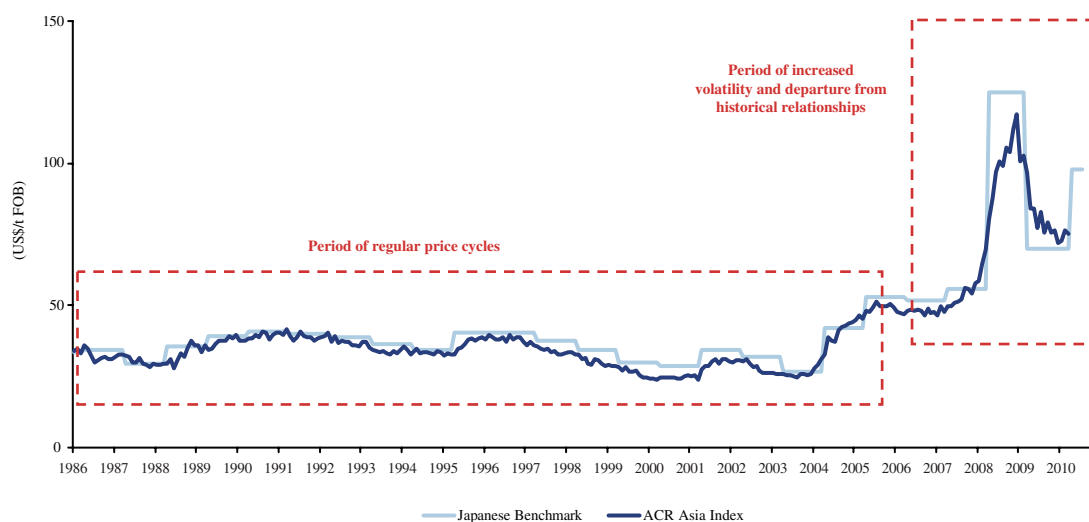
The pricing differences in coking coal types shown in the chart above are as follows:

- hard coking coal ranks highest due to its high value in use (it is essential to make strong coke) and relatively limited source diversity;
- semi-hard coking coals rank lower due to higher ash content;
- soft coking coals are typically high fluidity coals and generally achieve a premium over semi-soft coking coals; and
- semi-soft coking coals are high volatile (+30%), low to medium ash (8% – 10%) and with modest coking properties.

Thermal coal price

Thermal coal is priced primarily on calorific value and sulfur content. The following chart shows historical thermal coal price trends for the benchmark Newcastle type coal since 1986:

Thermal Coal Price History



Source: Wood Mackenzie

Prior to 2004, there was a discernable regular cycle of prices with term contract prices for Newcastle coal at 6,322kcal/kg remaining in a band between US\$30/t and US\$40/t. Since 2004, there has been a marked departure from this trend and no cyclical trend has been evident.

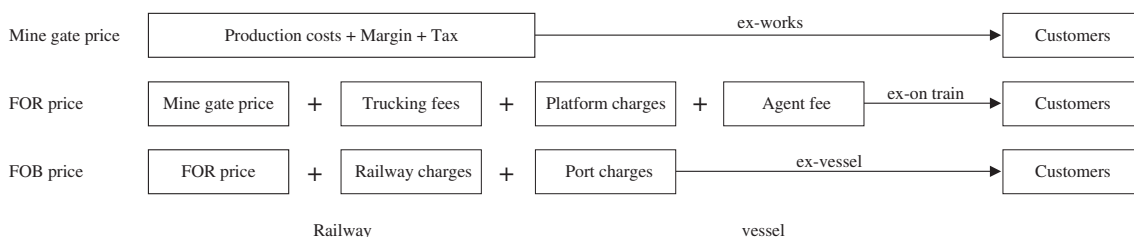
Major Australian thermal coal exporters have reached agreement on 2010 Japanese fiscal year term contract prices with Japanese power utilities. The contract prices for coal exported from the port of Newcastle are reported to have increased 40% (on year), from US\$70/t in Japanese fiscal year 2009 to around US\$98/t basis 6,322 kcal/kg.

INDUSTRY OVERVIEW

PRC coal pricing

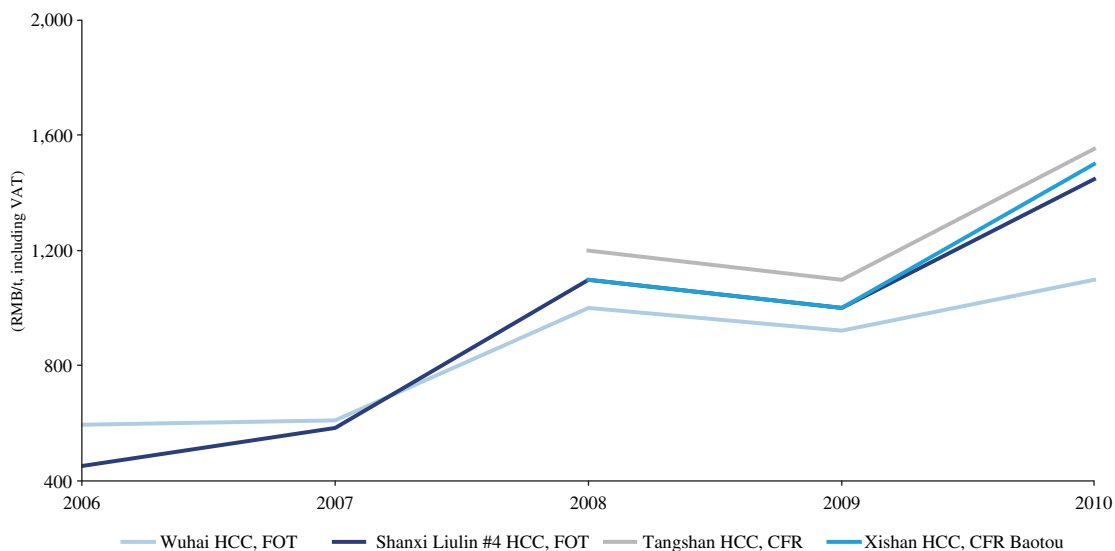
There are three common coal pricing mechanisms in China: mine gate (also called mine mouth), FOR and FOB. Mine gate price refers to the sales price of coal sold at the producing mines. FOR price refers to the sales when the coal is loaded onto trains which is mainly impacted by the mine gate price, freight charges (usually short-distance trucking), platform fee and agent fee. FOB price refers to the price of coal loaded onto ships for export markets. These pricing mechanisms are summarized in the chart below:

China coal pricing flow



Wood Mackenzie forecasts for coking coal prices in China as shown in the following tables:

Forecast Coking Coal Prices in Northern China, Nominal



Source: Wood Mackenzie

INDUSTRY OVERVIEW

For coking coal, there is a strong relationship between Baotou/Tangshan coal prices and international coking coal prices, driven by the overall scarcity of coking coal, especially in hard coking coal.

The price of thermal coal is primarily determined by the energy content, and affected by sulphur content and VM levels. Generally, when the sulphur content and the volatile matter level are within the acceptable range, thermal coal with higher energy content commands a higher price. Unlike with coking coal, there is a limited correlation between Baotou and international thermal coal prices.

Market Share Information

We do not have information relating to the key market players and their respective shares and our market share.

Mongolian Laws and Regulations Relating to Exploration for Minerals and Mining

Between July 1997 and August 25, 2006, Mongolian minerals policies and practices were governed by the 1997 Minerals Law. On July 8, 2006, the Parliament of Mongolia enacted the 2006 Minerals Law, superseding and replacing the 1997 Minerals Law. The 2006 Minerals Law became effective as of August 26, 2006.

The Parliament of Mongolia also enacted supplementary implementation and procedural legislation (the “2006 Implementation Law”) to address various technical issues, including the relevance of the new 2006 Minerals Law to exploration and mining licenses granted under the 1997 Minerals Law.

Under the 1997 Minerals Law, exploration licenses were granted by the DGMC, a subordinate agency of MRAM, which at the time was a subordinate agency of the former cabinet level Ministry of Industry and Trade. In 2006, the Petroleum Authority of Mongolia was merged with and into MRAM – creating the Minerals Resources and Petroleum Authority of Mongolia – and the name of the DGMC was changed to the Cadastral Registration Center. To remain effective, all exploration licenses granted by the DGMC pursuant to the 1997 Minerals Law were required to be re-registered with the Cadastral Registration Center under the 2006 Minerals Law within five months following the effective date of the 2006 Minerals Law.

In December 2008, the Government of Mongolia again modified its minerals-related organizational structure. MRAM and the Petroleum Authority of Mongolia became separate subordinate agencies of the MMRE, and the name of the Cadastral Registration Center was changed back to the DGMC.

Registration with the DGMC is the definitive record of the holders of minerals license rights under the 2006 Minerals Law. Pledges and transfers of exploration licenses must be registered with the DGMC to be effective. Pledges, transfers and certain other transactions are recorded on endorsement sheets that are separate from, but considered to be an integral part of, each exploration license certificate. The DGMC does not maintain records of other liens or encumbrances to which a license may be subject.

Effective as of August 16, 2009 – the effective date of Mongolia’s new Nuclear Energy Law – the definition of minerals under the 2006 Minerals Law no longer includes radioactive minerals, i.e. minerals that contain radioactive isotopes of the uranium or thorium families. All subsequent references to minerals, and to licenses to explore for or to mine minerals, will be limited to minerals other than radioactive minerals as so defined.

Note that references to “mineral reserves” and “mineral resources” in this section entitled “Mongolian Laws and Regulations Relating to Exploration for Minerals and Mining” are not references to mineral reserves and mineral resources determined in accordance with the JORC Code.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Mongolian Exploration Licenses

The holder of an exploration license has rights to access the license area through public or private property (subject to the need for negotiated approvals by owners, possessors and users of such property), to conduct exploration and construct temporary structures within the license area and, if a mineral resource is defined by exploration activities, to apply for a mining license for any part of the exploration license area. Pursuant to the 2006 Minerals Law, exploration licenses granted on or after August 26, 2006 have an initial term of three years. The holder of such an exploration licenses may apply for an extension of the license for two successive additional periods of three years each. Thus, the maximum period that an exploration license may be held by one or more holders is nine years from the date of issue. Exploration licenses granted prior to August 26, 2006 also have an initial term of three years, but the available extensions were for two successive periods of two years each, for a maximum overall period of seven years. Holders of such exploration licenses that became eligible for extensions following August 26, 2006 have, in many instances, been given the benefit of the longer extension terms under the 2006 Minerals Law, but the policies and practices of the DGMC in this regard have been neither uniform nor consistent.

Each exploration license is subject to cancellation if applicable license fees are not paid on time or if the holder fails to comply with certain other requirements of the 2006 Minerals Law or other relevant laws. Only Mongolian legal entities are entitled to hold exploration licenses.

Annual fees are payable per hectare of exploration license area as follows:

Year	Annual fee per hectare
Initial term – Year 1	US\$0.10
Initial term – Year 2	US\$0.20
Initial term – Year 3	US\$0.30
First extension (3 years)	US\$1.00 each year
Second extension (3 years)	US\$1.50 each year

Exploration license holders must spend the following minimum amounts annually on exploration activities per hectare within the license area:

Year	Annual amount per hectare
Initial term – Year 1	No expenditure required
Initial term – Year 2	US\$0.50
Initial term – Year 3	US\$0.50
First extension (3 years)	US\$1.00 each year
Second extension (3 years)	US\$1.50 each year

The tables above show the required annual fees and expenditure amounts for each of the first three years, as well as for the succeeding three years (i.e., the “first extension”) and the last three years (i.e., the “second extension”). There are no applicable fees or amounts due after the second extension, since the exploration license will have expired.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Exploration license holders are also subject to various environmental protection obligations. Within 30 days of receiving an exploration license, the holder must prepare, and submit to the relevant authorities, an environmental protection and reclamation plan. Once the plan has been approved by the relevant authorities, the holder of the exploration license must deposit funds equal to 50% of its environmental protection budget for that particular year in a bank account established by the governing authority of the soum (district) in which the exploration license area is located. Holders of exploration licenses must also submit to relevant authorities an exploration plan and annual reports of exploration activities.

Reserves

In Mongolia, the tonnage and grade of a mineral reserve that has been defined by exploration activities must be recorded in official archives. Under the 2006 Minerals Law, a mining license holder must extract all of the mineral reserves that are within the license area. The purpose of this provision is to prevent “high-grading”, but the net effect is to mandate mining practices that are not consistent with practices in countries where free market principles prevail and the concept of mining mineral reserves on an economically viable basis is recognized and understood. It is unclear what consequences, if any, may follow from non-compliance with this provision.

Mining Licenses

If a commercially viable mineral resource is defined within the license area of an exploration license, the holder of the exploration license is entitled to apply for a mining license covering the relevant portion of the license area of the mineral exploration license defined by specified longitude and latitude coordinates. A mining license holder has the right to conduct mining activities throughout the license area and to construct structures within the license area that are related to its mining activities. All such activities must be conducted in compliance with the 2006 Minerals Law and relevant Mongolian laws pertaining to health and safety, protection of the environment and reclamation. Mining licenses are granted by MRAM for an initial term of thirty years and are renewable for two successive twenty-year periods, for a maximum period of seventy years. Upon the expiration of a mining license, the license and the rights under such license revert to the Government of Mongolia. Only Mongolian legal entities are entitled to hold mining licenses. In the case of all minerals other than coal and common construction minerals (e.g., sand and gravel), annual license fees of US\$15.00 are payable per hectare of the relevant mining license area. In the case of coal and construction minerals, the per hectare fee is US\$5.00. A mining license is subject to cancellation if applicable license fees are not paid on time or other requirements of the 2006 Minerals Law or other relevant laws are not complied with.

To receive a mining license, an exploration license holder must submit an application to MRAM together with, among other documents, an environmental impact assessment and a resource report. Holders of mining licenses must also prepare environmental protection and reclamation plans and comply with various reporting and security deposit requirements.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Pre-Mining Agreements

After a mineral reserve has been defined and recorded, an exploration license holder may apply to MRAM for a pre-mining agreement. During the term of this agreement, which may not exceed three years, Mongolian-law compliant final feasibility studies must be completed, mine facilities must be developed, and the mine must be brought into production.

Local Government Approval of Exploration Licenses and Mining Licenses

Pursuant to the Mongolian Licensing Law, the granting of each exploration license and mining license by MRAM must be approved by the governor of the aimag (province) in which the relevant license area is located. The 2006 Minerals Law also provides that the holder of an exploration license has an exclusive right to obtain a mining license covering all or any relevant portion of the exploration license area. As a result of the above-noted Mongolian Licensing Law provisions, this right must be considered to be subject to the approval of the aimag governor.

If the aimag governor wishes to deny the grant of an exploration license, he must submit his reasons to MRAM within thirty days following receipt of notice of the license application from MRAM. The 2006 Minerals Law provides that the reasons for the denial must be based on the laws of Mongolia. However, there is no clear guidance as to what legal grounds will suffice to warrant denial of a license application. If the aimag governor does not timely submit his reasons for denial of the granting of the license, it will be deemed that he has approved the grant.

Note that the thirty-day notice and response requirements of the 2006 Minerals Law do not apply to the grant of a mining license, but that the Mongolian Licensing Law requirements clearly apply to both exploration licenses and mining licenses. It is not clear how these issues will be resolved in the case of mining licenses.

Approval to Commence Mining Operations

Pursuant to the 2006 Minerals Law, before a mining license holder can bring a mine into production, the MMRE appoints a commission (the “Commission”) to review and audit pre-mining requirements compliance by the mining license holder that proposes to put a mine into operation. The Commission consists of the following members: (i) the head of the Geological and Mining Department of the MMRE; (ii) the head of the Technology and Environmental Division of MRAM; (iii) representatives from the inspection agencies of the relevant aimag in which the mine is located; and (iv) any other experts appointed by the MMRE. In particular, the Commission reviews the license holder’s compliance with all pre-mining requirements provided for in the 2006 Minerals Law and reviews the following key documents (among others) to determine whether they have been prepared in compliance with applicable laws and regulations to which they relate:

- a certified copy of the mining license;

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

- a Mongolian-law compliant feasibility study and mining plan reviewed by the relevant authority;
- the environmental impact assessment;
- the environmental protection plan;
- any minerals sales agreement and any lease agreement relating to the mining assets;
- records on establishing and marking the boundary of the mining area; and
- any agreement on land and water usage.

In addition, the Commission makes an inspection of the mine site and mining-related support facilities, for example electrical power generators, mining equipment, water supply facilities, maintenance shops, and health and safety equipment.

Upon completion of its review of all relevant documentation and its on-site inspection, if all requirements have been satisfied, the Commission will issue a document (signed by all of its members) approving the commencement of mining operations by the mining license holder.

Deposits of Strategic Importance

Either the Government of Mongolia or Parliament may initiate proposals to declare a mineral resource as a Mineral Deposit of Strategic Importance, but Parliament must approve any such proposal. In the event that a deposit is designated as a Mineral Deposit of Strategic Importance, the Government of Mongolia is empowered to participate on an equity basis with the license holder in the exploitation of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such license holder. The 2006 Minerals Law defines a Mineral Deposit of Strategic Importance as a mineral resource that may have the potential to impact national security, or the economic and social development of the country at the national and regional levels, or that is generating or has the potential to generate more than 5% of Mongolia's GDP in any given year.

Pursuant to Parliament Resolution Number 27 dated February 6, 2007, the Parliament has published the Strategic Deposits List, which identifies 15 deposits as Mineral Deposits of Strategic Importance (the "Strategic Deposits List"). Resolution Number 27 also identifies a further 39 deposits in the Tier 2 Deposits List (the "Tier 2 Deposits List") and instructs the Government of Mongolia to further evaluate such deposits and determine if one or more of such deposits should be recommended by the Government of Mongolia to Parliament for designation as a Mineral Deposit of Strategic Importance. In addition to deposits on the Strategic Deposits List and the Tier 2 Deposits List, Parliament may at any time designate other deposits not yet currently on either list to be Mineral Deposits of Strategic Importance. There is no obligation on the Government of Mongolia to complete negotiations and finalize the status of those 54 deposits currently identified before it designates further Mineral Deposits of Strategic Importance.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The 15 Mineral Deposits of Strategic Importance specified by Parliament in the Strategic Deposits List have no defined “edges”. They each consist of concentrations of mineralisation in a general area that is identified only by a name – not by a set of defined coordinates. License areas, on the other hand, are precisely defined by coordinates. Thus, it is not feasible to definitively determine whether or not any given license area is within -or overlaps – a Mineral Deposit of Strategic Importance.

Funded from the State Budget

During the 1970s and 1980s, teams of geologists from the former Union of Soviet Socialist Republics (“USSR”) and other Soviet-Bloc countries, working in conjunction with Mongolian geologists, conducted extensive exploration work throughout Mongolia. Following the collapse of the USSR in 1991, Russia attributed the costs of this exploration work to be part of the overall debt owed to Russia by Mongolia. Mongolia negotiated a settlement of this debt and costs attributable to this work are thus deemed to have been funded from the Mongolian State Budget (the “State Budget”). Mineral resources that have been defined (in whole or part) by such activities are also considered to be deposits that have been funded from the State Budget. In addition, expenses incurred by the Government of Mongolia in connection with subsequent survey and exploration activities are also deemed to be expenses funded from the State Budget and, to the extent that such expenditures are deemed to have been a factor in defining a specified deposit, they may be regarded as debts owing to the State Budget by the relevant license holder.

Under the 2006 Minerals Law, the encumbrance issue may be claimed to have been addressed by the payment of these costs by the license holder.

Both the designation of mineral resources as Mineral Deposits of Strategic Importance, and the claims that such mineral resources have been defined – at least to some extent – by funding from the State Budget, are essentially decisions that are rather arbitrary.

Primarily during the 1970s and 1980s, state funds were used by Russian-Mongolian scientific teams to conduct some of the exploration activities of our deposit. On September 12, 2008, we entered into an agreement with the MRAM. This agreement which required us to repay US\$1.2 million, the amount used in connection with the exploration activities of our deposit, within five years of the date of the agreement. In the year ended December 31, 2008, we repaid US\$0.3 million and in the six months ended June 30, 2010, we repaid the remaining of US\$0.9 million to the MRAM.

State Participation in Mineral Deposits of Strategic Importance

The 2006 Minerals Law provides that the State is entitled to participate to an extent of up to a 50% equity interest or up to a 34% equity interest, respectively, depending on whether the quantity and grade of a Mineral Deposit of Strategic Importance have or have not been defined by exploration deemed to have been funded from the State Budget. The terms and conditions of such participation are subject to negotiation between the Government of

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Mongolia and the license holder and may not necessarily adhere to the 50% or 34% limitations. The 2006 Minerals Law does not provide any guidelines as to the form such negotiations should take. The 2006 Minerals Law further provides that any company which holds a Mineral Deposit of Strategic Importance is required to list at least 10% of its shares on the Mongolian Stock Exchange. This provision has not yet been enforced with respect to any of those companies with deposits on the Strategic Deposits List and it is not clear how it would work in practice

Investment Agreements

A mining license holder that undertakes to invest more than certain threshold amounts over the first five years of a mining project may apply to the State to enter into an Investment Agreement concerning the stability of tax rates, the right to sell products at international market prices, a guarantee that the license holder may receive and dispose of income from such sales at its own discretion, and provisions with respect to the amount and term of the license holder's investment. On April 27, 2010, we applied for an Investment Agreement with the Government of Mongolia. Under Article 30.3 of the 2006 Mining Law, the State will draft the agreement and required documents and review issues. The timing of the draft and review are at the State's own discretion. As of the Latest Practicable Date, we were waiting for a response from the Government of Mongolia relating to our application for an investment agreement. We anticipate that the major terms of the investment agreement will include the following matters: stability of tax rates, the right to sell products at international market prices, a guarantee that we may receive and dispose of income from such sales at our own discretion, and provisions with respect to the amount and term of our investment. While we voluntarily applied for an investment agreement, we do not believe an investment agreement is essential for our future development and prospects as these agreements are normally entered into by mine developers that are at a very early stage. The key concerns of a company in the early stages of development, which are generally covered by investment agreements, are no longer our significant concerns. As our operations have developed without such an investment agreement in place, an investment agreement at this stage would be beneficial but not necessary for our future development and prospects. Without signing the Investment Agreement, we are still free to sell our products at market prices and receive and dispose our income from such sales.

The term of each Investment Agreement will depend on the monetary amount of the five year commitment as follows:

<u>Minimum investment (US\$)</u>	<u>Agreement term</u>
50 million	10 years
100 million	15 years
300 million	30 years

Royalties

A royalty at the rate of 5% is payable in respect of the sales price of all products extracted pursuant to a mining license (other than domestically sold coal and construction minerals) that are sold, shipped for sale, or otherwise used. A portion of this 5% royalty rate goes to the

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

central treasury, while the remaining portion goes to local authorities. The royalty rate for domestically sold coal and construction minerals is 2.5%, whereas the rate for international exports of these materials is 5%.

Sales and Transfers of Exploration Licenses and Mining Licenses

In accordance with the 2006 Minerals Law, the holder of an exploration license may not sell the license itself. The holder may, however, sell the underlying “original materials and reports on prospecting and exploration work” (the “license area data”) in respect of the license. Upon completion of the sale of the license area data, and payment of applicable taxes (evidenced by a document showing payment of such tax), the holder may transfer the license, but for no consideration.

In accordance with the 2006 Minerals Law, the holder of a mining license may not sell the license itself. The holder may, however, sell “the mine, together with its machinery, equipment and documents” that is located within the relevant license area. Upon completion of the sale of the mine, and payment of applicable taxes (evidenced by a document showing payment of such tax), the holder may transfer the license, but for no consideration.

Law on Subsoil was adopted on November 29, 1988. In addition to the 2006 Mining Law the Law regulates certain relation regarding use and protection of subsoil. As in the constitution the Law provides that the subsoil is in the ownership of the Government or the whole nation (Article 3).

The Law on Subsoil has typical provisions and powers of the State Great Hural, the Government, the Ministries in charge of geology, nature and environmental issues, powers of the local governments. In addition to mining and geological exploration, the subsoil may be used for building facilities underground including burying of oil, gas, other poisonous substances and industrial waste or waste water drainage system. Local governments shall provide license to use the subsoil depending on the nature of the project. As in the 2006 Mining Law the subsoil shall be allocated for use for duration of 30 years extendable for another 20 years (Article 19).

Chapter 3 provides requirements and procedures regarding development of design and building facilities underground and plants that would be used for mining minerals. Even though Article 10.2 states that the relations regarding exploration and mining of minerals from the subsoil shall be regulated by the 2006 Mining Law, Chapter 4 provides clauses regarding the procedures of using the subsoil for purposes of mining minerals and it deals with the equipment, procedures for the entity to mine the subsoil, and requirements to the legal entity during the mining operations that will include such requirements as the effective and full use of the deposit and imposing obligations not to selectively mine (Article 32.1 and 32.2), not to damage the deposits laying in the neighborhood of the mine site (Article 32.5) and general requirements for rehabilitation, ensuring safety of the employees and the population in the area (Article 32.8).

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Chapter 5 deals with the use of subsoil for purposes other than the mining or for minerals. Chapter 6 deals with the safety aspects of the subsoil use and Chapter 7 deals with the protection of the subsoil. Chapters 8 and 9 deal with the maintaining minerals reserve and registration of deposits and monitoring the use of subsoil, protection and geological studies conducted in the subsoil. Chapter 10 deals with the dispute resolution.

Mongolian Laws Relating to Additional Permits

Various aspects of mine construction and operation require permits from relevant central and regional governmental authorities. For example, permits must be obtained before proceeding with a general mine development plan and at various stages during the construction of mining facilities and mine start-up. A permit is similarly required for the use of water and for the use of explosives for blasting. In addition, work undertaken pursuant to permits is subject to ongoing review and verification by relevant authorities.

Under the Environmental Protection Law of Mongolia (the “EPL”), originally enacted in 1995 with certain relevant amendments in 2005, business entities and organisations have the following duties with respect to environmental protection:

- to comply with the EPL and the decisions of the government, local self-governing organisations, local governors and Mongolian state inspectors;
- to comply with environmental standards, limits, legislation and procedures and to supervise their implementation within their organisation;
- to keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- to report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

The EPL is enforced at both state and local levels. Both national and local government can require a business entity to desist from, and to eliminate the effects of, certain actions. The Government of Mongolia has the power to require a business entity to limit or refrain for a defined period of time the use, importation or exploration of natural resources and, in accordance with the recommendation of the local governor and the Ministry of the Environment, to prohibit citizens, business entities, and organisations from conducting production or other activities which would have an adverse effect on human health or the environment, regardless of the form of ownership.

Mongolian state inspectors are provided with a range of powers pursuant to the EPL, including the supervision and implementation of environmental legislation, obtaining information and data required for supervision of such legislation from the relevant individuals, business entities, or organisations, and requiring individuals, business entities, and organisations to eliminate adverse environmental impacts and to suspend their activities for a defined period of time in the event of an adverse environmental impact in breach of the EPL, accepted standards, and permissible levels.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Local government is also responsible for administering the implementation of the EPL and supervising the activities of business entities within their jurisdiction. Local government also has the power to take measures to eliminate any breach of the EPL by business entities and, if necessary, to require the suspension of activities of business entities which have an adverse environmental impact.

The 2006 Minerals Law provides three chapters of guidance relating to further environmental protection obligations imposed on mineral license holders. Under the 2006 Minerals Law, mineral rights are divided into exploration and mining rights, each with separate licensing and attendant environmental protection requirements.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining license holder must also annually develop and implement an environmental protection plan (including reclamation measures) in cooperation with the Ministry of the Environment, which should take into account the results of the environmental impact assessment. The license holder is also required to record all instances of adverse environmental impact resulting from its mining activities and prepare and send an annual report to the Ministry of the Environment. In order to ensure compliance with environmental protection obligations, the license holder must deposit 50% of its environmental protection budget for a given year in a bank account established by the Ministry of the Environment. This amount is refundable at the end of each year pursuant to the license holder having complied with its obligations under the environmental protection plan. The 2006 Minerals Law further provides that, in the event a license holder fails to fully implement any of the measures outlined in the environmental protection plan, the relevant authority shall use the funds deposited with it as part of the environmental protection budget to implement those measures and the license holder shall provide any additional funds required.

The 2006 Minerals Law also provides for the following administrative sanctions that may be levied against license holders found in violation of environmental protection obligations:

- MNT500,000 – 1,000,000 fine for failure to comply with legitimate requirements imposed by an authorized Mongolian state inspector regarding the elimination of deficiencies discovered in the course of an inspection. Current information on exchange rate between Mongolian national currency togrog and major international currencies may be found on following link: <http://www.mongolbank.mn/web/guest/statistics/exchange-rates>;
- in the event a license holder continues to be in violation of the EPL or the 2006 Minerals Law, the exploration and mining activities of the license holder shall be suspended for up to two months, and if the deficiencies are not eliminated within this period, the relevant minerals license may be revoked; and
- if a mining license holder causes serious damage to the environment, fauna, or human health by failing to implement safety rules or a technological regime while using toxic substances for its operations, its license shall be revoked and no license shall be issued to such holder for 20 years.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

On July 16, 2009, Parliament enacted a new law (the “Mining Prohibition in Specified Areas Law”) that prohibits minerals exploration and mining in the following described areas:

- headwaters of rivers and lakes;
- forest areas as defined in the Forest Law of Mongolia; and
- land areas adjacent to rivers and lakes as defined in the Water Law of Mongolia.

The Government of Mongolia has been directed to determine the boundary lines of the prohibited areas by mid- October 2009. New exploration licenses and mining licenses overlapping the defined prohibited areas will not be granted and previously granted licenses that overlap the defined prohibited areas will be terminated within five months following the adoption of the law. It is not clear whether such termination will only apply to the overlap areas. The Mining Prohibition in Specified Areas Law provides that affected license holders shall be compensated, but there are no specifics as to the way such compensation will be determined. The implementation of this law is not expected to affect the operations at our UHG mine. As of March 1, 2010, the MRAM, the government body in charge of identifying the exploration and mining licenses affected by the Mining Prohibition in Specified Areas Law, had identified 214 mining licenses and 901 exploration licenses to be terminated pursuant to the aforementioned law. However, our mining license was not included on this list.

The Law on Special Permit for Business Activities (hereinafter the license in Law) was adopted on February 1, 2001. The Law provides for governing relations regarding granting, suspending and revoking special permits for certain business activities that may have impact on the public interest, human health, environment and national safety or that may require certain conditions and qualification. However in the Article 2.3 of the Law it states that licenses to be granted under the Laws on the Land, on Subsoil on Specially protected territories and natural plants, on Games and hunting, on Flora and forest, on Water, on Endangered species, trading with the species or with items originating from them, on Minerals, on Nuclear energy and on Modified live organisms shall be governed by those Laws.

According to Article 6.1 the licenses usually are granted not less than three years unless otherwise stated by the Law and the licenses are extendable for the same terms as initially are granted. According to the Article 6.3 of the Law unless otherwise stated by Law and conditions specified in the Article 13.1 of the Law are not discovered the term of the license shall be extended within 3 working days upon application of the license holder. Article 7 of the Law provides procedures for granting the licenses and according to the Article 7.1 the licenses are usually granted by the central administrative body unless otherwise specified by Law. Central administrative bodies usually mean ministries. However according to Article 7.3 detailed procedures for governing special licenses shall be regulated under the relevant industry Laws. Article 12 provides procedures for granting license for the first time and unless otherwise specified by Law the licensing authority shall grant the license within 21 working days upon receiving the application. If the licenses refused the reasons for the refusal shall be explained in writing. The license authority also has the power to have a relevant organizations to verify

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

the documents submitted to the granting the licensing authority. In case if the term, conditions and requirements of the licenses are violated then the initially granting authority may suspend the license up to 3 months term based on the expert opinion of the professional inspection of the authority. Under/on the Article 14 of the Law on following occasions a license may be revoked:

- 14.1.1 The license holder requested so.
- 14.1.2 The legal entity has been liquidated.
- 14.1.3 It was determined the documents were falsified when applying for the license.
- 14.1.4 The conditions and the requirements of the license were violated repeatedly or seriously violated.
- 14.1.5 The demand to remedy the violations were not remedied during the suspension period of the license.

Article 15 of the Law lists the type of business activities that require special permits or license that include:

- 15.6.2 Protection of poisonous or dangerous chemical substance other than explosive material.
- 15.6.3 Importing exporting transporting over the border use trading and liquidation of poisonous chemical or dangerous substances.
- 15.6.5 Discharging polluting substances acceptable amount of which is not determined under the standards.
- 15.6.6 Conducting detailed environmental impact assessment, importing, trading and servicing poisonous chemical or dangerous substance that may negatively impact the environment.
- 15.8.2 Construction of electricity power source or a transmission line a production of electricity transmission dispatching coordination distribution and supply and sales of electricity. Assembly and maintenance of boilers pressure tanks and park lines.
- 15.10.4 Production of explosive substance and explosive equipment for explosions and conducting explosions.
- 15.15 Minerals exploration.
- 15.16 Minerals mining.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

- 15.10.1 Activities related to oil.
- 15.10.3 Production and wholesale and trade of oil products.
- 15.14.6 Designing construction and facilities, conducting construction activities production of construction material and production assembly and maintenance of lifting equipment and its spare parts.
- 15.15.1 Construction and use of railway base structure.
- 15.15.2 Conducting civil aviation operation.
- 15.15.3 Conducting railway transportation activities.
- 15.15.4 Construction and maintenance of after road and road facilities.
- 15.15.6 International and intercity public transportation postal and tourist transportation and international cargo transportation.
- 15.15.11 Production assembly and maintenance of railway base structure and rolling stock.
- 15.16.1 Using radio wave and setting up communication service network and its use and provision of services.

The Law on Environmental Impact Assessment was adopted on February 22, 1998. The purpose of this law is to govern relations regarding the environment protection prevention of ecological imbalance coordinating use of mineral resource, assessing environmental impact projects and making a decision to whether implement the projects.

The general environmental impact assessment shall be made for projects that include construction of new plants, service, building facility or expansion of existing such premises or other projects that would use natural resources and preliminary impact that the projects would cause to the environment shall be assessed during such assessment. For mineral resources mining projects obtaining land, possession or use rights or implementing a project the environmental impact assessment shall be obtained beforehand. The local environmental monitoring inspector, the citizen's representative's hural's and the presidiums of aimag, capital city, soum and district shall monitor whether the environmental impact assessment has been conducted for any projects that are being implemented by the citizen's legal entities and organizations.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The Ministry of Nature and Environment shall approve the methodological instructions for conducting environmental impact assessment for a project. The (Article 4.5) impact assessment shall be conducted by an expert within 12 working days and shall include conclusions on following matters:

- 4.6.1 Whether it's possible to implement the project without conducting detailed environmental impact assessment.
- 4.6.2 Whether it's possible to implement the project with certain conditions and terms.
- 4.6.3 Whether it's necessary to conduct environmental impact assessment.
- 4.6.4 To return projects that do not comply with the Laws and regulations or equipment and technology to be used detrimental to the environment or the project is not included in the general land organization plan.

Once its considered that detailed impact assessment is necessary then legal entity that this license according to Article 9 shall conduct the assessment. And Article 5 of the Law provides the components of the environmental impact assessment report. Under the Article 6.3 of the Law any organization that is implementing a project but (no including mining project) shall deposit not less that 50% of the funds to be used a given year for environmental rehabilitation activities. Once a detailed environmental impact assessment report is complete the report shall be submitted to the Government authority that has conducted the general impact assessment and an expert of the authority shall review the assessment within 18 working days (Article 7.2). The central administrative authority in charge of environmental matters shall resolve whether to allow the project implementation based on the expert opinion of the environmental impact assessment and also the comments of the citizen's of a place where the project is to be implemented (Article 7.3).

The Railway Transportation Law was on adopted on June 5, 2007 and the purpose of the Law is to define the principles of the railway transportation operation and to govern relations regarding ensuring safety of the railway traffic. According to the Article 4 of the Law this Laws shall govern all types of railway transportation operation irrespective of the type and form of ownership.

Article 5 lists the principles that shall apply to the railway transportation operation which are:

- 5.1.1 There should be unified coordination of a schedule
- 5.1.2 There should be permanent monitoring
- 5.1.3 Access quality and safety of the services should be ensured
- 5.1.4 The operation shall be uninterrupted

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

5.1.5 Market competition condition shall be created

5.1.6 Operations with other transportation industry shall be coordinated

Article 6.2 states that a railway base structure may be created with a condition that the railway is owned by a legal entity of state property or prevailing state property or to be transferred to the ownership of such an entity after a certain period of usage and this railway base structure shall have significant importance for the economy and the society of the nation and alignment of such a railway base structure and railway shall be determined by the Government. Article 7.1 states that the railway transportation services, fees and tariffs of the railway entity related to natural monopoly and market dominating works and services shall be set according to this Law and Law on prohibiting unfair competition.

Article 7.2 of the Railway Transportation Law states that international transportation tariff shall be set according to international agreement to which Mongolia is a party. And according 7.3 any changes in tariffs shall be published to the general public not less than 10 days before such change become effective.

According to Article 9.1.2 the Government shall grant and revoke the license to build railway base structure whereas the Government's administrative authority in charge of railway transportation matters shall grant extend the term suspend or revoke licenses for use of base structure railway transportation operation and production assembly maintenance of railway base structure and rolling stock (Article 12.4.4).

According to the Article 13 of the Railway Transportation Law there shall be railway transportation Monitoring Department who shall implement the administrative monitoring of the safety of railway, transportation quality of such services, labor protection and safety.

Under Article 13.5.3 of the Law the Monitoring Department has the power to limit or suspend use of railway object in case of potential conditions for accident and defaults. The Department also has the power to propose to relevant authorized body to suspend or revoke the license and related certificate (Article 13.5.5). According to Article 15 of the Law the Railway Authority shall approve the package of general procedures.

Article 16 of the Law describes the types of railway licenses and also provides procedures for issuing such licenses especially in Article 16.4 (verification of an application by the Government administrative body), 16.5 (verification and opinion of the central Government administrative body regarding certain issues), 16.6 (allowing the applicant an opportunity to extend the term of the application review due to need to comply with additional requirements), 16.7 (the Government administrative body making a decision of either granting the license or refusing to grant the license), 16.8 (the Government administrative body (the RAM) review the application within 14 days and shall submit its opinion to the central Government administrative body (the Ministry)), the relevant authority shall review and make a decision on granting the licenses within 21 days (except the railway base structure construction license which requires 45 days) and if necessary may extend the term another 14 days. In Article 16.10

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

it is stated that the license holder shall apply 21 days before expiry of the license term to the authorized body, and that body shall resolve the extension of the license term within 14 days. Any response in respect to granting or refusing to grant a license shall be provided in writing within the timeline provided by this Law (16.11).

The Law on Water was adopted on April 22, 2004 and the purpose of the Law as stated in the Article 1 is to govern relations regarding proper use of water and water bed area protection and rehabilitation. Article 19 of the Law provides Water Bed Area Council, which according to Article 19.1 shall be set up for purposes of involving local population in management of the local water in order to protect, restore properly and use the water resources. Article 23 titled 'Water user' states in the paragraph 23.1 that any citizen, legal entity or organization shall obtain the right to use the water with entering an agreement and obtaining the permission. According to Article 23.2 the agreement to use water shall be entered for the term of 20 years and as long as the user complied with its obligations then the agreement can be extended for another 5 years. The Articles 24-28 deals with the requirements for the water user and procedures for entering into water use agreement and granting the permission to use water. Chapter 4 deals with the protection of water resources its quality and rehabilitation of environment. Chapter 5 deals with the requirements to be imposed on water use facilities such as approval of the design construction and use of the facilities.

Law on Energy was adopted on February 1, 2001. The purpose of the Law is to govern the relations regarding production, transmission, distribution, dispatching coordination and services using energy reserves and construction of energy infrastructure and use of energy. Chapter 2 deals typically with the Government powers including the State Great Hural, the Cabinet, the Ministries and local Governments regarding the policy determination and enforcement of the Law on energy. Chapter 3 deals with the special permits or licenses to be granted under this Law:

- 12.1.1 Production of energy
- 12.1.2 Production of heat
- 12.1.3 Transmission of electricity
- 12.1.4 Transmission of heat
- 12.1.5 Providing dispatching coordination
- 12.1.6 Distribution of electricity
- 12.1.7 Distribution of heat
- 12.1.8 Regulated supply of energy
- 12.1.9 Unregulated supply of energy

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

12.1.10 Importing and exporting electricity

12.1.11 Construction of energy related buildings and facilities

Chapter 4 deals with the setting of price and tariffs. Chapter 5 deals with the relations between the supplier and consumers and Chapter 6 deals with the monitoring and imposing liabilities under the Law.

The Law on Construction was adopted on February 15, 2008. The purpose of the Law is to govern the relations regarding development of design for buildings and facilities, production of construction material, use of construction works and rendering technical supervision over construction works. Under Article 3.1.4 (Definitions) it is stated that the “building and facilities” shall mean accommodation, buildings for public and industrial use, facilities for energy communication, roads, bridges, water channel, dams and shields and other engineering networks built by a licensed legal entity based on design and drawing accredited and developed according to construction norms and rules.

Chapter 2 deals with the powers of the Government institutions including the State Great Hural, the Government, the Ministry and local Governments. Chapter 3 provides clauses regarding requirements to be imposed on design, construction material, product and construction agreements for building facilities and accrediting construction design. Chapter 4 provides for rights and obligations of investor, client, contractor, and designer and construction material producer. Chapter 5 provides requirements to be imposed on use of buildings and facilities and also norms and normative documents, registration and information regarding buildings and facilities.

The Law on Protection of Nature and Environment was adopted on March 30, 1995. The purpose of the Law is to govern the relations regarding ensuring the right of a human being to live in healthy and safe environment, to coordinate social and economic development along with the environmental balance, to protect the nature and environment for the interests of the current and future generations, to properly use natural wealth, and restoring the possible natural wealth. Article 7.2 of the Law states that any citizen, legal entity or organization that is willing to use natural wealth for industrial purposes shall have the environmental assessment conducted for its own costs or if such assessment has been already done then shall pay for the related costs. Chapter 3 of the Law deals with the powers with the Government organizations including the State Great Hural, the Government, The Ministry and local Governments. Chapter 4 describes actions for protecting nature and environment, using natural wealth and rehabilitation works.

Chapter 5 deals with the environmental inspection and monitoring including the powers and the obligations of the environmental inspectors. In the Article 27.1.10 it is stated that the environmental inspector shall have the right to purpose and authorized body to revoke or suspend licenses, permissions and other rights of legal entity and organizations who has caused damages to the nature and environment due to violations of Laws, regulations and the technology. In the Article 27.1.3 the inspector also has the right to suspend operations of

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

citizens, legal entities and organizations who have negatively impacted nature and environment due to violations of the Laws, regulations, standards and acceptable levels. Chapter 6 deals with the obligations of legal entities and organizations with respect to protection of nature and environment and the natural wealth. Chapter 7 deals with the form of the information regarding nature and environment.

Law on Monitoring Explosive Substances and Turnover of Explosion Equipment was adopted on May 6, 2004. The Law deals with the detailed procedure insuring safe operation dealing with explosive substances and explosion equipment. Chapter 3 of the Law deals with the data pool regarding explosive substance and explosion equipment. Chapter 4 deals with the supervision of the substances and equipment.

The Law on Poisonous Chemicals and Dangerous Substances was adopted on May 25, 2006. This Law has the same importance as the Law on Explosive substances and Explosion Equipment.

The Law on Arbitration was adopted May 9, 2003. According Article 3 (Scope of the Law) it is stated that the decisions of foreign arbitration shall be acceptable in Mongolia and enforcement actions shall be regulated according to the New York Convention of 1958 on acceptance and enforcement of decision of the foreign arbitration and Chapter 8 of the Law (Article 3.2).

List of Other Applicable Mongolian Laws

Law on Auto Road was adopted on January 2, 1998.

The Law on Renewable Energy was adopted on January 11, 2007.

The Law on Auto Transportation was adopted on June 4, 1999.

The Law on Civil Aviation was adopted on January 21, 1999.

The Law on using Air Space for Aviation was adopted on May 30, 2003.

The Law on Water Way Transportation was adopted on November 20, 2008.

The Law on Foreign Investment was adopted on May 10, 1993.

The Law on Free Economic Zone was adopted on June 28, 2004.

The Law on Legal Status on Zamyn-Uud Free Economic Zone was adopted on June 20, 2003.

Mongolian Laws and Regulations Relating to Labor, Health and Safety

The Mongolian Labour Law (1999) (“Labour Law”) and the Labour Safety and Sanitary Law (2008) (“Labour Safety Law”) contain provisions of general application in relation to labor, health and safety.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Labor legislation in Mongolia includes the Law on Setting up Minimum Labor Wage (1998) according to which the Government (Cabinet) shall set the minimum labor wage based on comments provided by the national organization that would represent the interest of the employers and all the workers. The minimum labor wage shall be renewed at least once a year.

Law on Labour provides general provisions and detailed provisions regarding collective bargaining and contract, detailed clauses regarding independent contract and provisions regarding the grounds for terminating employment agreement, provisions governing wage and allocation of wages including the overtime, holiday and afterhours wages or day-off time, provisions regarding the labor condition, safety and health standards, the labor of women, juveniles, disabled and senior citizen's and foreign citizens in Mongolian entities. The Law also deals with the collective and individual dispute resolution.

An employer is responsible for maintaining a safe working environment that meets applicable safety and sanitation requirements. Furthermore, if the nature of an employee's work so requires, the employer must provide special work garments and arrange for such employees to receive regular, preventative health examinations related to their work. Mining companies must create a special department, or appoint an officer, dedicated to overseeing matters of safety and sanitation. The Ministry of Social Welfare and Labor is responsible for adopting regulations governing labor safety and sanitation.

The Labour Law and the Labour Safety Law provide that in the event of an industrial accident the employer, at its own expense, must immediately transport injured employees to a hospital and take steps to eliminate any causes of harm created by the accident. Employers are obligated to investigate and report all industrial accidents. Regardless of whether an employee was covered by insurance for injuries sustained during an industrial accident, the employer must reimburse the employee in an amount determined as a percentage of the average salary of the employee. If the employee died as a result of the accident, the employer must reimburse the employee's family in an amount equal to not less than the deceased employee's average compensation for 36 months. Reimbursement under these provisions of the Labour Law and Labour Safety Law do not affect the employee's entitlement to pensions or other benefits under social insurance or other laws.

If a company's activities are proven to have an adverse impact on the health and safety of its employees, the State Professional Inspection Agency of Mongolia or other authorized official may take steps to force the company to remedy the breaches. If the company fails to remedy such breaches, it may be ordered to wholly or partially suspend business activities until the labor safety and sanitation requirements are satisfied. Additionally, failing to comply with labor safety and sanitation regulations, causing or concealing an industrial accident, or failing to pay requisite compensation for an industrial accident, may result in the imposition of administrative fines. In extreme cases, criminal sanctions may be imposed for violating the applicable Labour Law provisions.

The 2006 Minerals Law provides that local administrative and self-governing bodies are responsible for monitoring compliance with respect to health and safety regulations for workers and local residents. A mining license holder must carry out activities that ensure i)

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

safety for the citizens of the relevant soum or district and ii) labor safety and proper sanitary conditions for its employees. The license holder must also submit an annual report on safety to the State Professional Inspection Agency and MRAM.

If a license holder is found to have continually violated mining operation safety regulations, its license(s) may be suspended by a State inspector for up to two months, and if the deficiencies are not eliminated within this period, the license(s) may be revoked. If a mining license holder causes serious damage to human health through failure to implement safety rules and appropriate technical standards while using toxic chemicals and substances, its license may be revoked and no new license issued for a period of up to twenty years. Criminal sanctions may also be imposed for violating the health and safety provisions of the 2006 Minerals Law, in extreme cases.

Under the Subsoil Law of Mongolia (1988), a special mining rescue unit has been established by the Government of Mongolia, and mine operators are required to pay fees to support and maintain the services of this unit. Also under this law, the Ministry of Environment and Tourism of Mongolia and the Ministry of Minerals Resources and Energy are responsible for ensuring compliance with applicable safety rules and standards while conducting subsoil-related activities. If a mine operator is not in compliance with these safety rules and standards, it may be ordered to suspend its activities.

The Mongolian Fire Safety Law (1999) requires companies to observe fire prevention and extinguishing regulations, norms and standards and to train employees in fire fighting skills.

Specific provisions of the regulations implemented by the Government of Mongolia's Ministry of Social Welfare and Labour pursuant to the Labour Law, newly amended and supplemented by the Labour Safety and Sanitary Law (2008), effective from June 16, 2008, as the same may amended and supplemented from time to time (the "Regulations on Health and Safety in Mining") govern:

- the air quality structure and permitted levels of poisonous gas in the atmosphere;
- fire prevention measures; permitted levels of dust in the atmosphere;
- provision of amenity rooms for mine operating personnel, medical and first-aid care, and a clean water supply;
- establishment of ancillary facilities for the health and welfare of mine operating personnel; and
- compliance with radiation safety norms and permitted levels of radioactive exposure.

Mine operators, as well as all employees working at a mine site, are responsible for complying with these regulations. A breach of the regulations, regardless of whether or not it results in an industrial accident, may result in disciplinary, administrative or criminal liability depending on the severity of the breach.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Law on Sending Work Force Abroad and Accepting Work Force and Specialists From Abroad was adopted on April 12th 2001. As the Article 1 states the purpose of the Law is to govern the relations regarding sending Mongolian citizens abroad and accepting foreign citizens to Mongolia for the purposes of employment and for protecting their right and interests.

Chapter 2 and the especially Article 7 deals with the general conditions of a contract under which the work force and specialists are received in Mongolia and according to the Article 9, business entity, organization or individual citizens shall pay a fee equal to two times of the minimum monthly wage for a accepting a foreign citizen to employment in Mongolia and that fee is per month per each foreign citizen. Article 9.3 of the Law states that if a mining license holder employs foreign citizens in numbers more than stated in Article 43.1 of the Mining Law than the fees stated in the Article 43.2 of the same Law shall be paid each month. (Article 43.1 of the Mining Law states that the license holder is obliged to employ the citizens of Mongolia and up to 10 percent of the employees may be foreign citizens. Article 43.2 provides that if the number of foreign citizens employed exceeds the percentage set forth in Article 43.1 the license holder shall pay 10 times the minimum the monthly salary for each foreign citizen every month.)

Mongolian Laws and Regulations Relating to Taxation

Mongolian tax law is rudimentary, providing a general structure of taxation which is similar to that found in developed countries, but which in many circumstances fails to provide clear or detailed guidance as to how the general provisions contained in the law are to be applied to specific transactions. This lack of detailed guidance leads to inconsistent implementation of the law by the tax authorities.

The basic Mongolian tax law is the General Law on Taxation which provides the overall structure of the tax regime and the general rights and obligations of taxpayers and the taxation authorities. This law has been substantially amended, effective as of July 1, 2008. Specific laws, such as the Economic Entity Income Tax Law, the Personal Income Tax Law and the Value-Added Tax Law, address discrete areas of the tax law regime. These three tax laws were substantially amended, effective as of January 1, 2007. Notwithstanding such amendment, these laws remain rudimentary.

A summary of the principal tax legislation that may affect the operations of the Company in Mongolia is as follows:

- The general income tax rate applicable to business entities with Mongolian source income is 10% on the first MNT3 billion of taxable income and 25% on amounts in excess thereof. These rates are applicable to operating and certain other types of income (e.g., capital gains on the sale of shares and equipment). Other types of income (e.g., capital gains on the sale of real property, interest, royalty and dividend income) are subject to other, varying rates of income tax.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

- Taxable operating income of a Mongolian business entity is determined by taking into account operating income received less permitted deductions. Mongolian tax law does not always permit all items of expense incurred in the furtherance of the business purpose of the enterprise (as such concept would be understood in more developed jurisdictions) to be fully deducted when determining taxable operating income.
- Effective from January 1, 2010, the Economic Entity Income Tax Law has been amended to allow for operating losses accumulated by mining companies to be carried forward and deducted from taxable income for a period of from four to eight years following the year in which the loss was incurred, the determination of the carry-forward period applicable to any particular mining company to be determined by the Government of Mongolia after taking into consideration the investment made by such company in its mining operations. In the case of mining companies, the loss carry-forward deduction can be applied to 100% of the taxable income calculated in the relevant tax year.
- In the absence of a tax treaty, dividends, interest and royalties received by a non-resident legal entity from a Mongolian source are subject to Mongolian income tax rate of 20% that is withheld by the payer. The Mongolian legal entity making such payments is obligated to withhold the Mongolian income tax from such payments. Mongolia has entered into double tax treaties with a number of countries. Such treaties provide for lower rates of taxation in certain circumstances.
- Pursuant to the Agreement between the Government of the Republic of Singapore and the Government of Mongolia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, if a recipient of dividends paid by a Mongolian company is the beneficial owner of such dividends, and is a resident of Singapore and holds at least 25% of the capital of the Mongolian company, the Mongolian income tax payable on such dividends will be 5%. In respect of interest, if a recipient (other than a bank or similar financial institution) of interest paid by a Mongolian company is the beneficial owner of such interest and is a resident of Singapore, the Mongolian income tax payable on such interest will be 10%.
- A value-added tax at a rate of 10% is payable in respect of all goods sold, work performed and services provided within Mongolia. Value-added tax is also payable in respect of goods imported into Mongolia and in respect of certain service fee payments made by Mongolian taxpayers to non-resident service providers. If a legal entity is registered as a value-added taxpayer, it can obtain credits for such tax paid to its suppliers of goods and services and can use such credits to offset value-added, or other, taxes owed in Mongolia. However, the Value-Added Tax Law provides certain conditions which can limit the ability of a legal entity to register as a value-added taxpayer. Additionally, the Value-Added Tax Law was recently amended to exempt all sales of mineral products with the exception of exported

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

“finished mineral products,” which are zero-rated. Under the aforementioned amendments to the Value-Added Tax Law, the Government of Mongolia is to determine the types “finished mineral products,” however no such classification is available as of this date. Effective as of July 21, 2009, any VAT paid by the producer of mineral products cannot be claimed back – i.e. the producer is deemed to be the end-user and must bear the burden of VAT paid to produce such product. Finished products that are exported are, however, zero-rated and VAT paid to produce such products may be claimed back.

- Equipment and other goods imported into Mongolia are also subject to an import duty, generally at the rate of 5%. An additional excise tax is payable on the importation of petroleum products and some motor vehicles. It should be noted that value-added tax is also imposed on them.
- Mongolian employers are required to withhold income tax and social insurance fees owed by their employees from salaries payable to such employees, and to make an additional employer payment to the Mongolian social insurance fund. The relevant laws have been substantially revised, and effective from May 8, 2008 participation by foreign citizens in the pension, unemployment, workers compensation and social benefits plans is now mandatory. Participation in the health insurance plan is mandatory for foreign citizens. Participation by Mongolian citizens in each of the plans remains mandatory, and pursuant to the recent amendment to the law, participation by independent contractors has also been made mandatory. Payments to the social insurance fund are to be made in respect of all salary, bonus and benefit payments (e.g., housing and transportation allowances) received by the individual. Employees must pay 10% of such total compensation package (to be withheld by the employer), but such percentage will be applied to a maximum compensation amount which is adjusted annually but which is currently set at US\$770 per month (i.e., income in excess of this amount is not subject to the 10% assessment). The employer must pay an additional 11-13% (13% in respect of employees engaged in dangerous occupations, such as mining) and such percentage is applied to all compensation paid to the employee with no maximum amount limitation.
- Company and Company’s subsidiaries will be obligated to make other regular payments which do not fall under the above-noted tax laws of Mongolia. For example, fees will be payable in respect of foreign citizens employed in Mongolia, for the use of water, for lease payments in respect of land surface rights, for environmental bonding obligations (addressed in more detail above), for annual mineral license fees and other license renewal fees, for mineral royalties (addressed in more detail above), and for annual vehicle taxes.

This section does not purport to be a comprehensive description of all tax considerations that may be relevant. Any person wishing to have a detailed summary of the laws and regulations relating to tax in Mongolia, or advice on matters relating to tax in Mongolia, is recommended to seek independent tax advice from a tax consultant.

Mongolian Laws Relating to Coal Export Requirements

A Mongolian mining company, holding a valid mining license, that extracts and processes coal has the right to export and sell the coal on the international market. There is no additional export license required. There are, however, certain requirements that must be complied with and procedures that must be followed in order to lawfully export coal.

First, a coal mining company must pay the appropriate royalty (addressed in more detail above) and obtain a document evidencing such payment from the relevant tax office. The royalty rate is based on the sales value, which in turn is dependent on a deemed sales price. In order to provide a uniform standard in this regard, the Ministry of Finance and the MMRE have issued a joint order to the effect that the prices to be used in calculating the royalty are those published in China Coal Weekly, a publication that is widely accepted as a definitive source of reliable information concerning the coal market in China. Coal is not subject to Mongolian export tax.

Second, the coal producer/exporter must obtain a certificate of origin from the Mongolian Chamber of Commerce and Industry in respect of each shipment of coal. This certificate of origin certifies that the source of the coal is from within Mongolia.

Finally, the producer/exporter must obtain a certificate from the Mongolian National Centre of Standardisation and Measurement certifying that the coal to be shipped is properly classified. A representative from the Centre examines each shipment of coal and attests that it corresponds to a specified class of coal, for example thermal coal or coking coal.

In order to complete the coal export process, the coal producer/exporter must present the three aforementioned documents, along with the following additional documents, to the customs authority at the border crossing:

- a copy of the producer's mining license (to establish that the coal has been extracted and processed by a duly authorized Mongolian entity);
- a copy of the coal sales contract;
- a copy of the shipping contract; and
- other standard commercial shipping documentation.

In compliance with these requirements, since the commencement of our coal exports, we have obtained and submitted all the necessary documentation for each of our 14 customers.

Mongolian Laws Relating to Borrowing and Lending Activities

The Civil Code of Mongolia allows citizens, legal bodies and organizations to borrow money or other property in two ways: from other citizens, legal bodies or organizations or from banks or financial institutions. Article 281.1 of the Civil Code regulates the regular loan relationship between legal bodies while Article 451.1 of Civil Code regulates loan relation between legal bodies and banks or financial institutions. There is no restriction in the laws and legislation of Mongolia on borrowing from any individual, who might be considered a connected persons of the borrower.

Mongolian Laws and Regulations Relating to Land Tenure

Land Tenure

Land tenure in Mongolia is divided into: (i) ownership rights; (ii) possession rights; and (iii) use rights. Only Mongolian citizens can own land. Mongolian citizens, organizations and legal entities that are not deemed to be a business entity with foreign investment (“BEFI”) are entitled to possess land, which entitles them to pledge their interest and to transfer and/or lease it, all subject to approval by relevant authorities. BEFIs may only acquire use rights over land, which may not be transferred, pledged or leased.

Land possession and land use rights are evidenced by certificates issued by the local government authority in the city, aimag (province) or soum (district) in which the relevant property is located. Such certificates are issued in conjunction with a document that provides for the term of the land possession or land use rights and the requirements for maintaining such rights in good standing, most notably the payment of recurring fees to the local government (together a “Land Use Certificate”).

To engage in mining activities the license holder, if it is a BEFI, must acquire land use rights to the relevant land area. Under the Land Law of Mongolia enacted on June 7, 2002, and effective from January 1, 2003, as the same may be amended and supplemented from time to time (the “Land Law”), land use rights can be granted for a period of up to sixty (60) years, although in practice Land Use Certificates are typically issued for shorter terms. The Land Law provides that renewals may be made once or more than once, but that the maximum term of any renewal may not exceed a period of forty (40) years. The Foreign Investment Law of Mongolia enacted on May 10, 1993, effective from July 1, 1993, and amended May 29, 2008, as the same may be amended and supplemented from time to time (“Mongolia’s Foreign Investment Law”) further provides, in respect of BEFIs, that such renewals may not be made more than once.

Land Use Certificates are issued for a specific number of years and for a specific purpose stated in the relevant land use agreement, and are usually renewable if the holder has complied with relevant requirements. Land possession and land use rights are subject to revocation by the issuing authority if the holder fails to comply with i) applicable provisions of the Land Law, ii) the terms of the relevant Land Use Certificate (most notably failure to make timely payment of recurring land use fees), or iii) applicable environmental protection obligations.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

While the law provides for a public registry where parties should be able to confirm the current status of a Land Use Certificate, in practice this registry is not used. It is, however, sometimes possible to obtain written confirmation from the relevant regional issuing authorities as to the current status of a specific Land Use Certificate. A mining license is not a real property interest and does not convey either land possession or land use rights to the holder.

A mining license holder must enter into either a land possession or land use agreement with relevant land owners, possessors, or the governing authorities of soums and districts and obtain the Land Use Certificate.

An exploration license is also not a real property interest and does not convey either land possession or land use rights to the holder. But it is not clear whether an exploration license holder must obtain a Land Use Certificate before conducting minerals exploration activities. The 2006 Minerals Law does not specifically provide that such holders must obtain such Land Use Certificates. All minerals in the ground are owned by the Mongolian State – i.e. the people of Mongolia. The holder of a mining license is entitled to extract and sell the minerals located within the land area covered by the license, and is eligible to hold them for up to a maximum of 70 years so long as it complies with all applicable legal requirements. We may sell minerals extracted from the relevant license area, subject to the payment of applicable royalties and income taxes. The mining license will be issued at first for 30 years and is extendible two times for 20 years each.

Land Use for Special Needs

The Land Law provides that land can be taken for special needs by the relevant local government body for the purpose of turning the land into: (i) specially protected areas; (ii) lands allocated for ensuring national defence and security; (iii) land granted to foreign diplomatic and consular offices and representative offices of international organisations; (iv) sites reserved for conducting scientific and technological tests and experiments; (v) permanent environment and weather prediction and observation sites; (vi) pastures and hayfields; (vii) areas designated for oil exploration pursuant to production sharing agreements and (viii) free trade zones. Pursuant to the 2006 Minerals Law, the DGMC may revoke a license on the grounds that the exploration or a mining area has been designated as special needs territory and the license holder has been fully compensated. Mongolia's Foreign Investment Law provides that the property of a foreign investor may be expropriated exclusively for public purposes or interests and only in accordance with due process of law on a non-discriminatory basis and with payment of full compensation. The 2006 Minerals Law further provides that a government agency which has issued a decision to take the land for special needs shall be obligated to compensate the license holder. If the parties fail to reach agreement, the amount of compensation shall be determined based on an adequate compensation amount determined by an authorized independent body. The 2006 Minerals Law provides that disputes relating to compensation shall be decided by a court.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Mongolian Laws Relating to Foreign Investment

Where twenty-five percent (25%) or more of the paid-in-capital of a Mongolian company is contributed from foreign sources, such company is deemed to be a BEFI and the company must register with the Foreign Investment and Foreign Trade Agency (“FIFTA”), a department under the umbrella of the Ministry of Foreign Affairs and Trade, and obtain a document certifying the company’s status as a BEFI.

Mongolia’s Foreign Investment Law defines the BEFI concept and provides for the duties and powers of the FID. In August 2008, Mongolia’s Foreign Investment Law was amended to increase the minimum paid-in capital requirement for BEFIs from the equivalent of US\$10,000 to the equivalent of US\$100,000. In addition, the amendments expand the regulatory authority of the FID, giving it greater bureaucratic discretion in registering and supervising the operations of BEFIs. The FID may now terminate the BEFI status of, or order the cessation of activities by, any BEFI that the FID determines has not met various specified requirements or is deemed by the FID to have violated Mongolian laws.

After the Reorganization, we will be deemed a BEFI and will therefore be required to register with FIFTA as a BEFI. We intend to complete our FIFTA registration by the end of 2010.

Mongolian Laws Relating to Payments for Goods and Services in Local Currency

The newly enacted Law of Mongolia on Implementing Payments in National Banknotes provides that (i) all posted tariffs and contracts between two parties within the territory of Mongolia must be stated in MNT; (ii) all payments made between two parties within the territory of Mongolia must be made in MNT; and (iii) parties within the territory of Mongolia are prohibited from including an adjustment mechanism in the terms of a contract that adjusts the agreed MNT price based on changes in foreign exchange rates. The Law of Mongolia on Implementing Payments in National Banknotes does not prohibit an offshore party and a Mongolian party from transacting in the currency of their choice, nor does the law prohibit a Mongolian party from paying into an offshore account or being paid in an offshore account in foreign currency.

Penalties for non-compliance with the Law of Mongolia on Implementing Payments in National Banknotes include confiscation of the proceeds of an illegal payment by the State, other administrative fines and revocation of a non-complying business’s operating license.

Mongolia-China Bilateral Treaties

There were several bilateral agreements between Mongolia and China.

Mongolia-China Border Railroad Agreement: The agreement has been entered between the Ministry of Infrastructure Development of Mongolia and ministry of railroad of the People’s Republic of China on October 17, 1955 in Ulaanbaatar, Mongolia. The agreement is

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

only has a few provisions such as traffic conditions of trains, procedure on arrangement of the cargo and transportation plans, telegraphic and telephone communication between the 2 parties the adherence to the time schedule, terms and procedures to use the opposites of the boarder stations, and constructions of roads and stations, staying of railroad employees in the other parties territory, procedure for serving trains interchange operations, traffic interruption, maintenance of rolling stock and railway, procedures during accident and breakdown issues regarding passenger transportation cargo transportation, responsibilities of the parties for any damages the transportation of spare parts material communication issues.

The agreement also has a number of rules and procedures mainly for coordinating train traffic Zamyn-Uud and Yerliyan boarder stations. And procedure on maintaining a log book on both sides procedures on mutual warning on traffic and other necessary events procedures on passing for employees from both sides and their staying on the other territory of the other side. The agreement also has numerous forms for notification and log maintenance.

The Agreement on Friendly Relations and Cooperation between Mongolia and China was ratified by the State Great Hural on July 4, 1994 (the agreement was signed on April 29, 1994).

The InterGovernmental Agreement between Mongolian Government and the Government of the People's Republic of China on Protection and Use of Border Area Water which was signed on April 29, 1994 was ratified by the State Great Hural on January 3, 1995.

Finally on June 9, 2006 the State Great Hural ratified InterGovernmental Agreement between the Government of Mongolia and the Government of the People's Republic of China signed on November 28, 2005 titled 'General Loan Agreement' regarding usage of export soft loan for the amount of US\$300 million.

Mongolian Legal Matters

Economic & Legal Consultancy LLC, our legal advisors as to Mongolian law, has issued a letter of advice confirming that it has reviewed the summaries of Mongolian laws and regulations relating to the industry as contained in this prospectus and that, in its opinion, they are correct summaries of relevant Mongolian laws and regulations. This letter is available for inspection as referred to in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection – Documents Available for Inspection". Any person wishing to have a detailed summary of Mongolian law or advice in relation to Mongolian laws and regulations relevant to the mining industry, or advice on the differences between it and the laws of any other jurisdiction is recommended to seek independent legal advice.

Our beliefs on matters stated in this section are based on the legal opinion of our Mongolian legal advisors.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Overview

We were incorporated in the Cayman Islands as an exempted company with limited liability on May 18, 2010 in anticipation of the Global Offering. We operate our business through a subsidiary in Mongolia, namely, ER LLC. Through Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.A. and Energy Resources Corporation LLC, each a direct or indirect wholly-owned subsidiary of the Company, we indirectly own 100% of ER LLC. For details of our corporate structure, please see “History, Reorganization and Corporate Structure – Corporate Structure” below.

Prior to the establishment of our Company on May 18, 2010, our business was operated by ER LLC in Mongolia.

In 1999, Mine Info LLC, a Mongolian exploration and mining consulting company, which was wholly-owned by Mr. Batsaikhan Danzanvanchig until August 16, 2007, was granted with two exploration licenses (licenses 1900X and 1901X) to conduct exploration activities in the Tavan Tolgoi area of Mongolia. In 2000, these two exploration licenses were transferred to Energoresources LLC, a Mongolian limited liability company established on August 30, 2000, which was owned as to 80% by Mr. Battur Baldan (a Mongolian businessman who was involved in the Tavan Tolgoi coal mine development project) and 20% by Mine Info LLC from August 30, 2000 to May 20, 2005 (the date on which Energoresources LLC was liquidated). The areas covered by these two exploration licenses (licenses 1900X and 1901X) were later split into six separate parts, of which Energoresources LLC retained three areas under licenses 1900X, 1901X and 1901-1X. The remaining three areas were returned to MRAM.

In 2002, Darkhankhaan Uul LLC, a Mongolian company wholly-owned by Mr. Batkhuyag Damdin, obtained three exploration licenses (licenses 5188X, 5189X and 5190X) covering the above-mentioned remaining three areas to conduct exploration activities in the Tavan Tolgoi area of Mongolia. Both Energoresources LLC and Darkhankhaan Uul LLC were primarily engaged in coal exploration and mine development in the Tavan Tolgoi area.

In 2005, the shareholders of Energoresources LLC approached the shareholder of Darkhankhaan Uul LLC with a proposal to set up a company for the purpose of holding all the exploration licenses. ER LLC was therefore established for such purpose on April 22, 2005 and was jointly owned by the shareholders of Energoresources LLC and the shareholder of Darkhankhaan Uul LLC. On May 2, 2005, the shareholders of Energoresources LLC and Darkhankhaan Uul LLC transferred all six of their exploration licenses to ER LLC with the aim of enhancing the attractiveness of the Tavan Tolgoi project and the opportunities for foreign investment. These six exploration licenses covered separate deposits in UHG, Tavan Tolgoi-1, Tavan Tolgoi, Bor Teeg-1, Shar Teeg and Bor Tolgoi. As there was no change in the ultimate ownership of the exploration licenses, no consideration was paid by ER LLC for the acquisition of the six exploration licenses, except for the subscription price for shares of ER LLC at par value by the shareholders of Energoresources LLC and Darkhankhaan Uul LLC. In 2006, these six exploration licenses were converted into mining licenses.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On March 21, 2008, ER LLC entered into the Minerals License Transfer Agreement. The transfer of such mining licenses was completed on May 28, 2008. For details of the circumstances leading to the transfer of the mining licenses and details of our UHG mining license, please see “Business – Our Location and License”.

We are engaged in the mining, processing and manufacturing of coal products, and currently operate the UHG deposit and the relevant processing facilities through ER LLC and its subsidiaries. For details of our products and mining operations, please see “Business – Coal Products” and “Business – Mining Operations”.

Our Corporate History

We operate a Mongolian subsidiary, namely ER LLC, our indirect wholly-owned subsidiary, which is held through several holding companies. For details of our corporate structure, please see “History, Reorganization and Corporate Structure – Corporate Structure” below.

ER LLC

Prior to the establishment of our Company on May 18, 2010, our business was operated by ER LLC, a company incorporated in Mongolia on April 22, 2005 with a statutory capital of MNT1,000,000, divided into 1,000 shares with a par value of MNT1,000 each on the date of incorporation. On the same day, Mr. Battur Baldan became the sole legal and beneficial owner of ER LLC holding 1,000 shares in total.

On May 4, 2005, ER LLC issued shares to the then shareholders of Energoresources LLC and Darkhankhaan Uul LLC. As such, 2,500, 2,000 and 3,500 new shares, representing approximately 25%, 20% and 35% of the then enlarged issued share capital, were issued to Mr. Battur Baldan, Mine Info LLC and Mr. Batkhuyag Damdin, respectively. A further 1,000 new shares, representing 10% of the then enlarged issued share capital, were issued to Mr. Tsogt Togoo, the then executive director of Energoresources LLC and ER LLC for a nominal consideration of MNT1,000 per share. After such issuance of new shares, ER LLC was owned as to approximately 35%, 35%, 20% and 10% by Mr. Battur Baldan, Mr. Batkhuyag Damdin, Mine Info LLC and Mr. Tsogt Togoo, respectively.

On March 20, 2007, Mr. Tsogt Togoo transferred his shares in ER LLC to Vector International LLC. After the said transfer, ER LLC was owned as to approximately 35%, 35%, 20% and 10% by Mr. Battur Baldan, Mr. Batkhuyag Damdin, Mine Info LLC and Vector International LLC, respectively.

On April 14, 2007, ER LLC issued an additional 1,112 new shares, representing approximately 10% of the then enlarged issued share capital, to ERI, for a nominal consideration of MNT1,000 per share. After such issuance of new shares, ER LLC was owned as to approximately 31.5%, 31.5%, 18.0%, 9.0% and 10.0% by Mr. Battur Baldan, Mr. Batkhuyag Damdin, Mine Info LLC, Vector International LLC and ERI, respectively. The then

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

shareholders of ERI were MCS Holding (approximately 10.0%), Petrovis LLC (approximately 4.0%), Shunkhlai Group LLC (approximately 5.0%), Altai Holding LLC (approximately 15.0%), Khasvuu LLC (approximately 4.0%), Tengeriin Tsag LLC (approximately 4.0%), Vector International LLC (approximately 10.0%), MSB LLC (approximately 10.0%), Mine Info LLC (approximately 7.5%), UBG LLC (approximately 4.0%), Tugsan LLC (approximately 4.0%), Eastzone LLC (approximately 7.5%) and Gerelttulga LLC (approximately 15.0%).

On June 27, 2007, Mr. Batkhuyag Damdin's shares in ER LLC were transferred to Ms. Altansuvd B. After the said transfer, ER LLC was owned as to approximately 31.5%, 31.5%, 18.0%, 9.0% and 10.0% by Mr. Battur Baldan, Ms. Altansuvd B, Mine Info LLC, Vector International LLC and ERI, respectively.

On June 29, 2007, Ms. Altansuvd B transferred her shares to Mr. Batnasan B. After the said transfer, ER LLC was owned as to approximately 31.5%, 31.5%, 18.0%, 9.0% and 10.0% by Mr. Battur Baldan, Mr. Batnasan B, Mine Info LLC, Vector International LLC and ERI, respectively.

On June 30, 2007, ER LLC issued an additional 3,334 new shares to ERI and MCS Holding for a nominal consideration of MNT1,000 per share, of which 334 shares, representing approximately 2.3% of the then enlarged issued share capital, were issued to ERI and 3,000 shares, representing approximately 20.8% of the then enlarged issued share capital, were issued to MCS Holding. After such issuance of new shares, ER LLC was owned as to approximately 24.2%, 24.2%, 13.9%, 7.0%, 10.0% and 20.8% by Mr. Battur Baldan, Mr. Batnasan B, Mine Info LLC, Vector International LLC, ERI and MCS Holding, respectively. Together with its approximately 1.0% shareholding interest held through ERI, MCS Holding's shareholding interest in ER LLC was increased to approximately 21.8%.

On December 28, 2007, Mine Info LLC (which was wholly-owned by Mine Info Holding LLC at that time) and Vector International LLC transferred their respective shares (3,000 shares in total, representing approximately 20.8% of the then issued share capital) in ER LLC to MCS Holding. After the said transfers, ER LLC was owned as to approximately 24.2%, 24.2%, 10.0% and 41.5% by Mr. Battur Baldan, Mr. Batnasan B, ERI and MCS Holding, respectively. Together with its approximately 3.6% shareholding interest held through ERI, MCS Holding's shareholding interest in ER LLC was increased to approximately 45.1%.

On January 21, 2008, Mr. Batnasan B transferred 156 of his shares, representing approximately 1.1% of the then issued share capital in ER LLC, to Petrovis LLC. After the said transfer, ER LLC was owned as to approximately 24.2%, 23.2%, 10.0%, 41.5% and 1.1% by Mr. Battur Baldan, Mr. Batnasan B, ERI, MCS Holding and Petrovis LLC, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

ERI became the sole legal and beneficial owner of ER LLC on January 25, 2008 by purchasing the shares of the other shareholders. On the same day, the par value of the shares of ER LLC was re-evaluated to US\$1.75 per share. After the re-evaluation of the shares, the total number of issued shares was 14,446.

On January 29, 2008, ER LLC issued an additional 4,085,754 new shares, representing approximately 99.7% of the then enlarged issued share capital, to ERI.

On January 30, 2008, the shareholders of ERI resolved to merge ERI with ER LLC pursuant to which the business activities of ERI were to be terminated and ER LLC was to acquire all the rights and duties of ERI.

On March 3, 2008, the merger of ERI and ER LLC was completed. As such, the then existing shareholders of ERI became the immediate direct shareholders of ER LLC with MCS Holding, Petrovis LLC, Shunkhlai Group LLC, Tengeriin Tsag LLC (a Mongolian limited liability company established on July 2, 1997, which was wholly-owned by Mr. Ochirbat Punsalmaa) and Monnis Mining LLC (a Mongolian mining company established on November 21, 2006, which was then a wholly-owned subsidiary of Monnis International Inc.) holding 1,875,970 shares (approximately 45.8%), 724,550 shares (approximately 17.7%), 263,755 shares (approximately 6.4%), 943,165 shares (approximately 23.0%) and 292,760 shares (approximately 7.1%), respectively. Economic & Legal Consultancy LLC, our legal advisors as to Mongolian law, confirms that the termination of ERI was duly completed on August 5, 2008 and in compliance with the applicable laws and regulations in Mongolia. Prior to the merger of ERI and ER LLC, the assets of ERI comprised investments in ER LLC and cash deposits. The liabilities of ERI comprised payables to the other shareholders of ERI. The merger of ERI and ER LLC has not resulted in any contingent liabilities to the Group.

On May 22, 2008, ER LLC increased the par value of its share to US\$2 each and issued an additional 3,344,975 new shares, representing approximately 44.9% of the then enlarged issued share capital, proportionally to its then existing shareholders. After such issuance of new shares, ER LLC was owned as to approximately 45.8%, 17.7%, 6.4%, 23.0% and 7.1% by MCS Holding, Petrovis LLC, Shunkhlai Group LLC, Tengeriin Tsag LLC and Monnis Mining LLC, respectively.

On September 30, 2008, Tengeriin Tsag LLC transferred all its shares in ER LLC to Monnis Mining LLC. After the said transfer, ER LLC was owned as to approximately 45.8%, 17.7%, 6.4% and 30.2% by MCS Holding, Petrovis LLC, Shunkhlai Group LLC and Monnis Mining LLC, respectively.

On December 1, 2008, ER LLC issued 2,287,372, 883,455, 321,388 and 1,507,785 new shares, representing approximately 18.4%, 7.1%, 2.6% and 12.1% of the then enlarged issued share capital, to MCS Holding, Petrovis LLC, Shunkhlai Group LLC and Monnis Mining LLC, respectively. After such issuance of new shares, ER LLC was owned as to approximately 45.8%, 17.7%, 6.4% and 30.2% by MCS Holding, Petrovis LLC, Shunkhlai Group LLC and Monnis Mining LLC, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On January 26, 2009, Monnis Mining LLC transferred all of its shares in ER LLC to its then sole shareholder, Tengeriin Tsag Group LLC, by way of a share swap. Tengeriin Tsag Group LLC is a Mongolian trading company which also implements mining projects and was established on September 2, 2008. After the said transfer, ER LLC was owned as to approximately 45.8%, 17.7%, 6.4% and 30.2% by MCS Holding, Petrovis LLC, Shunkhlai Group LLC and Tengeriin Tsag Group LLC, respectively.

Pursuant to a joint venture agreement entered into between Kerry and MCS Holding on February 19, 2009, MCS Holding transferred all of its shares in ER LLC to its indirect subsidiary, MCS Mining LLC at a consideration of US\$25,000,000, which was similar to the acquisition cost of such shares paid by MCS Holding. On the same day, Shunkhlai Group LLC transferred all of its shares in ER LLC to one of its subsidiaries, Shunkhlai Mining LLC at a consideration of MNT1,855,426,200 which was calculated based on the then par value of shares of ER LLC; and Petrovis LLC transferred 354,687 of its shares, representing approximately 2.9% of the then issued share capital, to Tengeriin Tsag Group LLC at a consideration of US\$1,000,000 which was determined on normal commercial terms. After the said transfers, ER LLC was owned as to approximately 45.8%, 14.8%, 6.4% and 33.0% by MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC and Tengeriin Tsag Group LLC, respectively.

In March 2009, Kerry became a beneficial owner of ER LLC when it acquired an approximately 23.0% indirect shareholding interest in MCS Mining LLC, which held 5,693,668 shares (approximately 45.8%) in ER LLC and an approximately 0.01% shareholding interest in Gobi Investment Limited, an indirect shareholder of ER LLC.

On March 19, 2009, Ancora Investments No. 2 Limited became a beneficial owner of ER LLC when it acquired an approximately 24.2% indirect shareholding interest in Tengeriin Tsag Group LLC, which then held 4,106,907 shares (approximately 33.0%) in ER LLC.

Pursuant to shareholders' resolutions dated February 20, 2009, ER LLC issued to EBRD 655,010 new shares, representing approximately 5.0% of the then enlarged issued share capital. The subscription agreement was signed on February 24, 2009 and the registration of EBRD as a shareholder of ER LLC with the State Registration Office of Mongolia was made on March 26, 2009. In connection with EBRD's investment, ER LLC and all the then existing shareholders of ER LLC and Shunkhlai Group LLC entered into a shareholders agreement on February 24, 2009, which granted EBRD veto rights over certain corporate actions, pre-emptive rights for issuances of shares, a put right to all the then existing shareholders, a board seat on ER LLC's board for so long as EBRD holds shares of ER LLC and imposed transfer restrictions on transfers of the shares of ER LLC. Upon completion of the Reorganization, the shareholders agreement was terminated. As of the Latest Practicable Date, EBRD has exercised none of its rights under the shareholders agreement. After such issuance of new shares, ER LLC was owned as to approximately 5.0%, 43.5%, 14.1%, 6.1% and 31.4% by EBRD, MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC and Tengeriin Tsag Group LLC, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On March 26, 2009, MCS Holding acquired an approximately 75.8% indirect shareholding interest in Tengeriin Tsag Group LLC. Together with its approximately 33.5% shareholding interest held through MCS Mining LLC, MCS Holding's indirect interest in ER LLC was increased to approximately 57.2%. The aggregate consideration paid by MCS Holding for its approximately 57.2% interests in ER LLC amounted to approximately US\$78 million.

On August 19, 2009, MCS Holding, an indirect shareholder of Tengeriin Tsag Group LLC, decided to hold shares in ER LLC directly. As such, Tengeriin Tsag Group LLC swapped 298,709 of its shares, representing approximately 2.3% of the then issued share capital of ER LLC with MCS Holding's interests in Tengeriin Tsag Group LLC.

As of August 19, 2009, ER LLC was owned as to approximately 43.5%, 14.1%, 6.1%, 5.0%, 2.3% and 29.1% by MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding and Tengeriin Tsag Group LLC, respectively.

On September 14, 2010, MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding, Tengeriin Tsag Group LLC, Energy Resources Corporation LLC and our Company entered into a share swap agreement, pursuant to which each of MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding and Tengeriin Tsag Group LLC transferred its respective shares in ER LLC to Energy Resources Corporation LLC, in consideration of which our Company allotted and issued, credited as fully paid, 1,715,999,999, 423,000,000, 183,000,000, 150,000,000, 300,000,000 and 228,000,000 Shares to MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively.

Since September 17, 2010, ER LLC became a wholly-owned subsidiary of Energy Resources Corporation LLC.

Save as disclosed above, there are no relationships between the Group's past shareholders, the Group's current shareholders and any connected persons of the Group.

The subsidiaries of ER LLC

Energy Resources Rail LLC

The Government of Mongolia issued a resolution granting ER LLC a license to build a railway base infrastructure between UHG and GS for a three year term from January 19, 2009, based on Resolution 252 of the Government of Mongolia dated June 18, 2008.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Energy Resources Rail LLC was incorporated in Mongolia on July 1, 2008 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. ER LLC became the sole legal and beneficial owner of Energy Resources Rail LLC since July 1, 2008. On February 18, 2009 and February 23, 2010, Energy Resources Rail LLC issued 1,999,000 new shares, representing more than 99.9% of the then enlarged issued share capital, and 8,700,000 new shares, representing approximately 81.3% of the then enlarged issued share capital, to ER LLC, respectively.

Energy Resources Rail LLC is responsible for the implementation of the construction of the railway base infrastructure.

Energy Resources Mining LLC

Energy Resources Mining LLC was incorporated in Mongolia on December 23, 2008 with a statutory capital of US\$1,000 divided into 1,000 shares with a par value of US\$1 each. ER LLC became the sole legal and beneficial owner of Energy Resources Mining LLC on December 23, 2008 and has held 1,000 shares in total since then.

Energy Resources Mining LLC is responsible for the mining and technical operations of the UHG deposit.

Enreotechnology LLC

Enreotechnology LLC was incorporated in Mongolia on June 25, 2009 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. Energy Resources Mining LLC and Khangad Exploration LLC each held a 50% shareholding interest on the date of incorporation. Khangad Exploration LLC is an indirect wholly-owned subsidiary of Quincunx (BVI) Ltd (“QGX”), which is effectively owned as to approximately 90% by Kerry, 4.9% by MCS Holding and 5.1% by Mr. Odjargal Jambaljamts. On December 24, 2009, Energy Resources Mining LLC acquired from Khangad Exploration LLC all of its interests in Enreotechnology LLC and became the sole legal and beneficial owner of Enreotechnology LLC. On May 3, 2010, Enreotechnology LLC issued 3,465,163 new shares, representing more than 99.9% of the then enlarged issued share capital, to Energy Resources Mining LLC. Enreotechnology LLC is an indirect wholly-owned subsidiary of ER LLC.

Enreotechnology LLC is responsible for owning and operating the coal handling and washing plant of the UHG deposit.

Ukhaa Khudag Water Supply LLC

Ukhaa Khudag Water Supply LLC was incorporated in Mongolia under the name United Water LLC on June 24, 2009 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. Energy Resources Mining LLC and Khangad Exploration LLC each held a 50% shareholding interest on the date of incorporation. On December 25, 2009, the company’s name was changed to Ukhaa Khudag Water Supply LLC and Energy Resources Mining LLC acquired from Khangad Exploration LLC all of its interests

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

in Ukhaa Khudag Water Supply LLC and became the sole legal and beneficial owner of Ukhaa Khudag Water Supply LLC. Ukhaa Khudag Water Supply LLC is an indirect wholly-owned subsidiary of ER LLC.

Ukhaa Khudag Water Supply LLC is responsible for the water exploration and supply of water to the UHG deposit.

United Power LLC

United Power LLC was incorporated in Mongolia on June 24, 2009 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. Energy Resources Mining LLC and Khangad Exploration LLC each held a 50% shareholding interest on the date of incorporation. On December 25, 2009, Energy Resources Mining LLC acquired from Khangad Exploration LLC all of its interests in United Power LLC and became the sole legal and beneficial owner of United Power LLC. On May 3, 2010, United Power LLC issued 3,024,219 new shares, representing more than 99.9% of the then enlarged issued share capital, to Energy Resources Mining LLC. United Power LLC is an indirect wholly-owned subsidiary of ER LLC.

United Power LLC is responsible for the construction and operation of the power plant.

Transgobi LLC

Transgobi LLC was incorporated in Mongolia and registered with the registration office of the city of Ulaanbaatar on September 1, 2008 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. ER LLC became the sole legal and beneficial owner of Transgobi LLC since September 1, 2008. On February 24, 2009, Transgobi LLC issued 9,121,641 new shares, representing more than 99.9% of the then enlarged issued share capital, to ER LLC. On June 30, 2009, Transgobi LLC was re-registered with the aimag-level registration authority in Umnugobi. The issuance of 9,121,641 new shares, representing more than 99.9% of the then enlarged issued share capital, to ER LLC on February 24, 2009 was re-registered with the aimag-level registration authority in Umnugobi on September 3, 2009.

Transgobi LLC is responsible for the transportation of coal extracted from the UHG deposit.

Tavan Tolgoi Airport LLC

Tavan Tolgoi Airport LLC was incorporated in Mongolia on October 7, 2009 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. ER LLC became the sole legal and beneficial owner of Tavan Tolgoi Airport LLC on October 7, 2009. On March 31, 2010, Tavan Tolgoi Airport LLC issued 3,474,379 new shares, representing more than 99.9% of the then enlarged issued share capital, to ER LLC.

Tavan Tolgoi Airport LLC is responsible for the operation and management of the airport in Tsogttetsii soum serving the miners' camp with several Mongolian commercial airlines.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Energy Resources Road LLC

Energy Resources Road LLC was incorporated in Mongolia on April 21, 2010 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. ER LLC became the sole legal and beneficial owner of Energy Resources Road LLC on April 21, 2010 and has held 1,000 shares in total since then.

Energy Resources Road LLC is responsible for the coal transportation and road construction.

Gobi Road LLC

Gobi Road LLC was incorporated in Mongolia on March 24, 2010 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. ER LLC was the sole legal and beneficial owner of Gobi Road LLC on the date of incorporation. On May 12, 2010, Energy Resources Road LLC acquired from ER LLC all of its interests in Gobi Road LLC and became the sole legal and beneficial owner of Gobi Road LLC. Gobi Road LLC is an indirect wholly-owned subsidiary of ER LLC.

Gobi Road LLC is responsible for the construction of a new road for transportation of coal extracted from the UHG deposit.

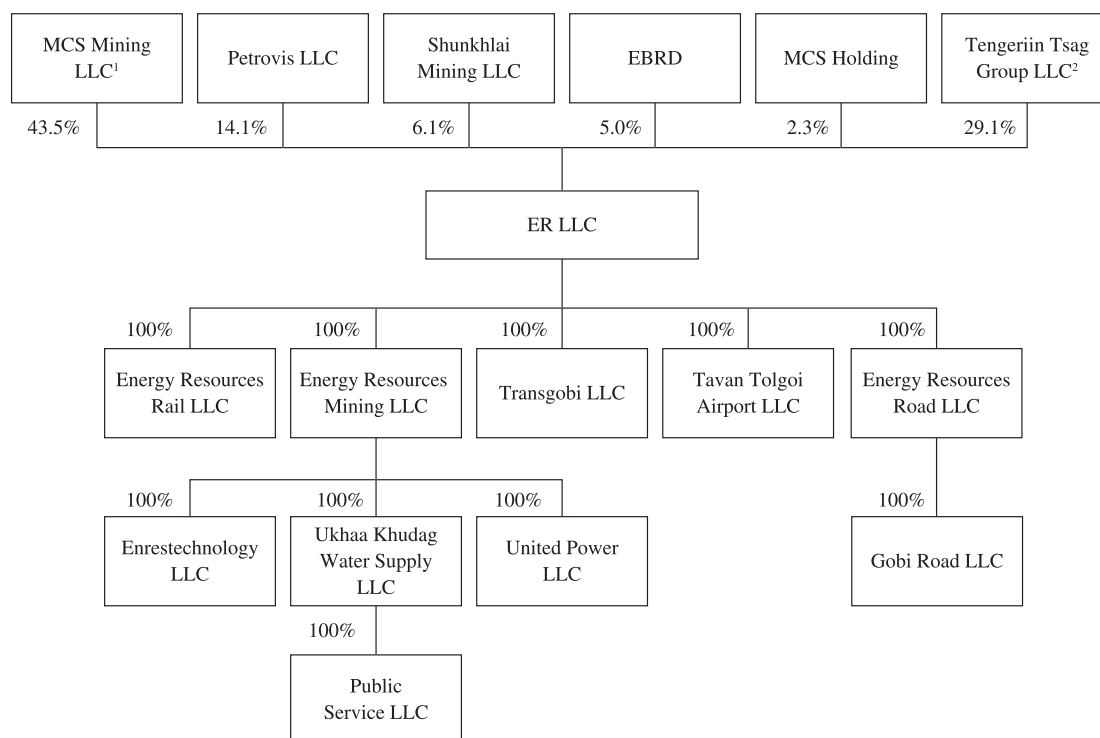
Public Service LLC

Public Service LLC was incorporated in Mongolia on August 19, 2009 with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each. Khot Service LLC (a company owned as to 75% by Mr. Odgerel Ts. and 25% by Mr. Baasandorj Tsogoo, the executive director of Ukhaa Khudag Water Supply LLC) was the sole legal and beneficial owner of Public Service LLC on the date of incorporation. On January 15, 2010, Public Service LLC issued 19,000 new shares, representing 95% of the then enlarged issued share capital, to Khot Service LLC. On July 1, 2010, ER LLC acquired from Khot Service LLC, all of its interests in Public Service LLC and became the sole legal and beneficial owner of Public Service LLC. Pursuant to a board resolution dated July 23, 2010, the board of directors of ER LLC resolved to reorganize Public Service LLC as a wholly-owned subsidiary of Ukhaa Khudag Water Supply LLC. The registration of Ukhaa Khudag Water Supply LLC as the sole shareholder of Public Service LLC with the State Registration Office of Mongolia was made on August 13, 2010. Public Service LLC is an indirect wholly-owned subsidiary of ER LLC.

Public Service LLC is responsible for holding a special permit required for provision of public utility services at the UHG deposit.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Our corporate structure immediately before the Reorganization was as follows:



Note:

1. The entire issued share capital of MCS Mining LLC is owned by Mongolian Coking Coal Corporation Pte. Ltd. which in turn is owned as to approximately 23.0% by Kerry and 77.0% by MCS Holding.
2. The entire issued share capital of Tengeriin Tsag Group LLC is owned by Richfield Global Pte. (with approximately 7.3% of Tengeriin Tsag Group LLC's shares being held as treasury stock). The entire issued share capital of Richfield Global Pte. is owned by Wickenburg Ventures Ltd. which in turn is owned as to approximately 26.1% by Ancora Investments No.2 Limited and 73.9% by Gobi Investment Limited. Gobi Investment Limited is more than 99.9% owned by MCS Group Limited and the rest of its shares being owned by Kerry. MCS Group Limited is a wholly-owned subsidiary of MCS Holding.

Reorganization

We underwent the Reorganization in anticipation of the Global Offering. The Reorganization involved the incorporation of our Company, Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.A. and Energy Resources Corporation LLC, and the acquisition of the entire issued share capital of ER LLC by Energy Resources Corporation LLC, pursuant to which ER LLC became an indirect wholly-owned subsidiary of our Company through Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.A. and Energy Resources Corporation LLC. The rationale for the organizational structure of our Group, including the use of Mongolian Coal Corporation S.A. and Mongolian Coal Corporation Limited as intermediate holding companies, is to enhance the tax efficiency of our Group in relation to dividend income and capital gains. According to the Double Tax Agreement between Luxembourg and Mongolia (the "DTA"), the withholding tax (the "WHT") imposed on the distribution of dividends by a Mongolian subsidiary may be reduced from 20% to nil in Mongolia. At present, there is no WHT on the distribution of dividends from Luxembourg to

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Hong Kong. In addition, upon a future sale of shares in the Mongolian subsidiary, the taxing right on any capital gains arising from such sale may be allocated to Luxembourg and therefore, the gains may not be taxable in Luxembourg provided that certain conditions are satisfied. Whereas, in the absence of the DTA, the capital gains derived by a non-resident company will generally be taxed at a rate of 20% in Mongolia.

Our Directors believe that ER LLC has the power to govern our Group's financial and operating policies after the Reorganization such that it should be treated as the acquirer in preparing the Group's financial information as it indirectly owns all of our Group's onshore assets both prior to and immediately after the Reorganization.

On May 18, 2010, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorized share capital of US\$50,000 divided into 5,000,000 Shares of a nominal value of US\$0.01 each. Codan Trust Company (Cayman) Limited was the initial subscriber for one Share. On May 18, 2010, the initial subscriber transferred its Share to MCS Mining Group Limited.

On June 11, 2010, Mongolian Coal Corporation Limited was incorporated in Hong Kong with an authorized share capital of HK\$10,000 divided into 10,000 shares of a par value of HK\$1.00 each. One share of a par value of HK\$1.00 was issued to our Company on June 11, 2010 and our Company became the sole legal and beneficial owner of Mongolian Coal Corporation Limited on June 11, 2010.

On July 20, 2010, Mongolian Coal Corporation S.A. was incorporated in Luxembourg with an authorized share capital of €31,000 divided into 3,100 shares of a par value of €10 each. 3,100 shares of a par value of €10 each were issued to Mongolian Coal Corporation Limited on July 20, 2010 and Mongolian Coal Corporation Limited became the sole legal and beneficial shareholder of Mongolian Coal Corporation S.A. on July 20, 2010.

On August 20, 2010, Energy Resources Corporation LLC was incorporated in Mongolia with a total capital of US\$100,000 divided into 100,000 shares with a par value of US\$1 each. Mongolian Coal Corporation S.A. became the sole legal and beneficial owner of Energy Resources Corporation LLC on August 20, 2010.

On August 23, 2010, the authorized share capital of our Company was increased from US\$50,000 to US\$60,000,000, divided into 6,000,000,000 Shares.

On September 14, 2010, MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding, Tengeriin Tsag Group LLC, Energy Resources Corporation LLC and our Company entered into a share swap agreement, pursuant to which each of MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding and Tengeriin Tsag Group LLC transferred its respective shares in ER LLC to Energy Resources Corporation LLC, in consideration of which our Company allotted and issued, credited as fully paid, 1,715,999,999, 423,000,000, 183,000,000, 150,000,000, 300,000,000 and 228,000,000 Shares to MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively. Upon completion of the said allotment and issue and prior to completion of the Global Offering, our Company was owned as to approximately 57.2%, 14.1%, 6.1%, 5.0%, 10.0% and 7.6% by MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Economic & Legal Consultancy LLC, our legal advisors as to Mongolian law, has confirmed that we have complied with all the relevant rules and regulations during the Track Record Period and up to the Latest Practicable Date and have obtained all necessary permits, certificates and licenses for our operations in all jurisdictions in which we operate. The Controlling Shareholders have confirmed that they have also complied with the relevant laws and regulations in respect of the Reorganization.

Our Current Shareholders

Following the Reorganization and immediately before the Global Offering, our Shareholders are MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No.2 Limited. The background of each of our current Shareholders is as follows:

MCS Mining Group Limited

MCS Mining Group Limited is a member of the MCS Group. It is an indirect wholly-owned subsidiary of MCS Holding. Apart from the approximately 9.5% of MCS Holding's shares that are held by itself as treasury stock, the shareholders of MCS Holding are Mr. Odjargal Jambaljamts (approximately 46.9%), Mr. Od Jambaljamts (the brother of Mr. Odjargal Jambaljamts) (approximately 27.0%), Mr. Enkhtuvshin Dashtseren (approximately 2.0%), Ms. Enkhtsetseg Damdinsuren (approximately 7.2%), Mr. Enkh-Amgalan Luvsantseren (approximately 3.0%), Mr. Eldev-Ochir Lkhagvaa (approximately 3.0%), Ms. Otgonchimeg Bazarragchaa (approximately 0.5%), Mr. Gankhuyag Adilbish (approximately 0.4%) and Ms. Chimgee Ochirvaani (approximately 0.5%).

MCS Co. Limited, the predecessor of the MCS Group, was founded in 1993 as the first Mongolian private consulting company in the energy sector. Since its establishment, the MCS Group has expanded its business operations in a diversity of fields such as energy and infrastructure, information and communication technology, beverage manufacturing and distribution, wholesale and retail, property development and construction.

The in-house research team of the MCS Group began analyzing the coking coal market in anticipation of developing the Tavan Tolgoi deposit in Mongolia. Coking coal consumption projections were developed which demonstrated a continued demand for coking coal products. The UHG mine is located close to the Mongolian border with China – one of the world's largest coking coal consuming nations. As such, MCS Group was of the view that ER LLC would be well positioned to sell its products to China and could be expected to benefit from China's increasing coking coal consumption demand. In addition, the long term financial projections developed by the MCS Group showed that its investment in ER LLC would be a value adding, long term solid investment for the MCS Group. MCS Holding became a beneficial owner of ER LLC on April 14, 2007 through its shareholding interest in ERI when ER LLC issued 1,112 shares to ERI.

Petrovis Resources Inc.

Petrovis Resources Inc. is a direct wholly-owned subsidiary of Petrovis LLC.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Petrovis LLC was founded in 1997 and has become one of the largest petroleum companies in Mongolia. It is owned as to approximately 33.4% by Dr. Oyungerel Janchiv, 33.3% by Mr. Davaanyam Choindon and 33.3% by Mongol Contract LLC, which in turn is a wholly-owned company of Ms. Tuya Danzandarjaa. Petrovis LLC's primary business activities are the importation, storage, marketing and distribution of petroleum products in Mongolia. Petrovis LLC has a presence throughout Mongolia through its nationwide network of petroleum storage depots and retail distribution gas stations.

In 2003, Petrovis LLC began looking to diversifying its business through upstream investment in oil exploration projects and other projects in the energy sector, including the Tavan Tolgoi coal deposit. Due to the strategic importance of the mining and mineral sector of Mongolia, the largest national companies decided to establish a joint company to invest in mineral resources exploration, mining, production and processing. ERI was established on August 26, 2006 with Petrovis LLC being one of the shareholders. Based on the study of potential investee companies, ERI decided to invest into ER LLC. On April 14, 2007, Petrovis LLC became a beneficial owner of ER LLC through its shareholding in ERI when ER LLC issued 1,112 shares to ERI. Petrovis LLC and Shunkhlai Group LLC operate a joint venture, Gobi Oil.

Shunkhlai Mining

Shunkhlai Mining is an indirect wholly-owned subsidiary of Shunkhlai Group LLC, established for the purpose of mining operations. Shunkhlai Group LLC is owned as to 50% by Mr. Batkhoo Gavaa and 50% by Mr. Batsaikhan Purev. Mr. Batkhoo Gavaa is the brother of Mr. Batsaikhan Purev.

Shunkhlai Group LLC was one of the first private companies in Mongolia. Since its establishment in 1993, it was led by two well-known Mongolian entrepreneurs, Mr. Batkhoo Gavaa and Mr. Batsaikhan Purev. Shunkhlai Group LLC has grown into one of the largest petroleum companies in Mongolia, engaging in the importation, storage and distribution, both wholesale and retail, of petroleum products. Mr. Batsaikhan Purev currently heads the company. Due to the strategic importance of the mining and mineral sector of Mongolia, the largest national companies decided to establish a joint company to invest in mineral resources exploration, mining, production and processing. ERI was established on August 26, 2006 with Shunkhlai Group LLC being one of the shareholders. Based on the study of potential investee companies, ERI decided to invest into ER LLC. On April 14, 2007, Shunkhlai Group LLC became a beneficial owner of ER LLC through its shareholding in ERI when ER LLC issued 1,112 shares to ERI. Petrovis LLC and Shunkhlai Group LLC operate a joint venture, Gobi Oil.

EBRD

EBRD is an international financial institution that supports projects in 29 countries, from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, EBRD promotes entrepreneurship and fosters transaction towards open and democratic market economies.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

EBRD began investing in Mongolia in October 2006 and has made provision of finance to the mining and mining services sector a priority. Pursuant to shareholders' resolutions dated February 20, 2009, ER LLC issued to EBRD 655,010 new shares, representing approximately 5.0% of the then enlarged issued share capital of ER LLC. The subscription agreement was signed on February 24, 2009 and the registration of EBRD as a shareholder of ER LLC with the State Registration Office of Mongolia was made on March 26, 2009. Since EBRD's investment, EBRD has helped ER LLC in establishing itself as a growing domestic private mining company, introducing best-practice mine management into Mongolia, and has helped ER LLC in operating in accordance with high environmental standards.

Kerry Mining (UHG) Limited

Kerry Mining (UHG) Limited is a wholly-owned subsidiary of Kerry and a member of the Kuok Group of companies which has diversified businesses throughout the Asia Pacific region in commodities trading, vegetable oil, sugar, property development, hotel ownership and management, logistics, plantations, media, entertainment and leisure facilities. Kerry became interested in ER LLC in March 2009 through its indirect interests in MCS Mining LLC, one of the shareholders of ER LLC at that time.

Kerry and MCS Group operate several joint venture projects in mining and exploration. Kerry's investment in our Group is one of those joint venture projects.

Ancora Investments No. 2 Limited

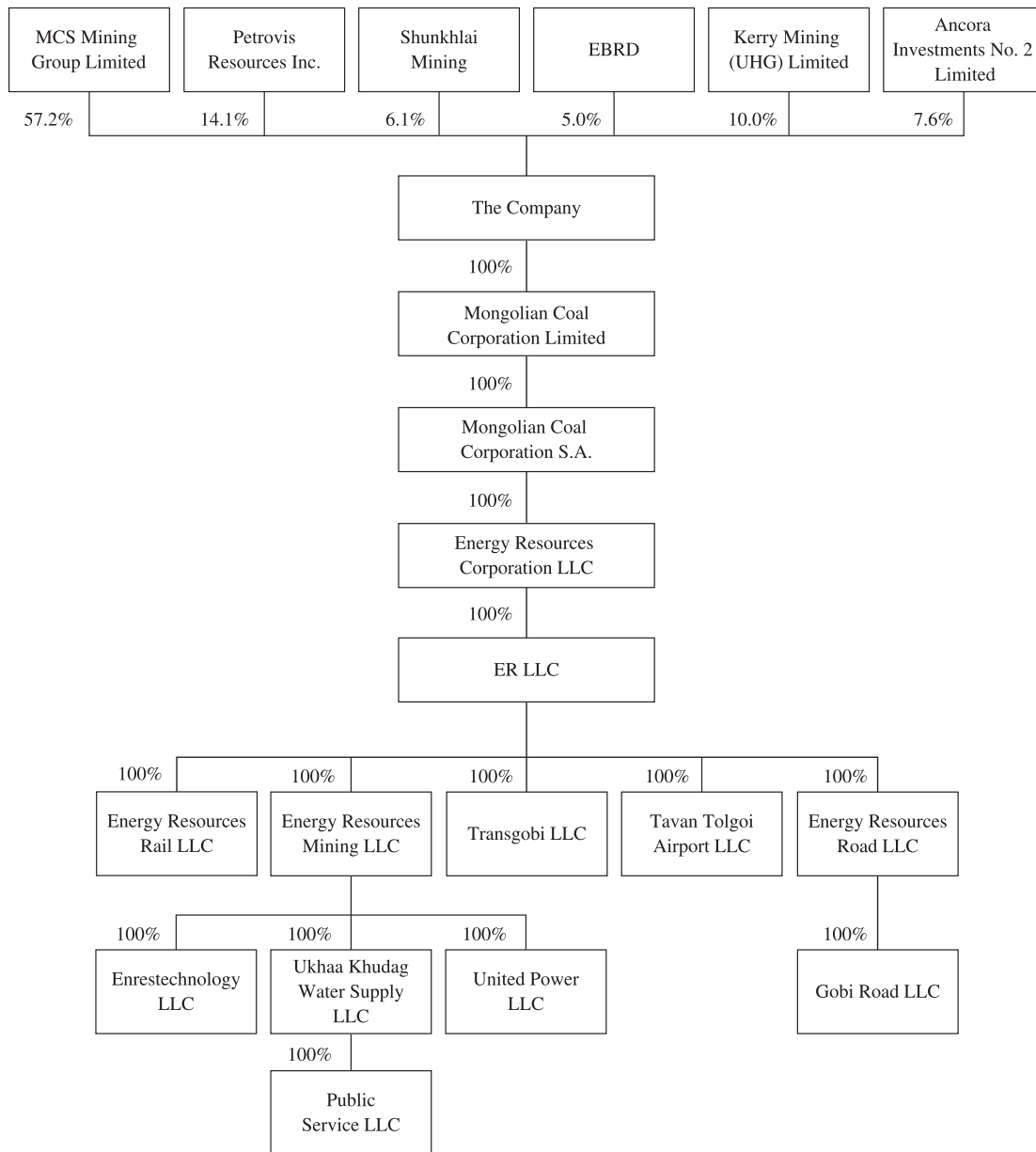
Ancora Investments No. 2 Limited was formed by the principals of the Ancora Capital private equity funds which specialize in investing in the natural resources sector. The principals have broad experience in managing private equity funds and working in investment banks and energy companies specializing in mergers, acquisitions and financings in the mining industry. Ancora Investments No. 2 Limited is owned as to approximately 20.8% by Ancora Investments HK Ltd. and 79.2% by Casafina Offshore Limited. The owners of Ancora Investments HK Ltd. are Mr. Ivor Orchard (approximately 52.6%), Mr. Jason Cheng (approximately 45.9%) and Mr. Gar Lon Liu (approximately 1.5%). Casafina Offshore Limited is wholly owned by Graydens Development Ltd which in turn is wholly owned by Ms. Veronica Lukito.

The founder of Ancora Capital, in his investment banking capacity, advised various parties regarding their strategic options with respect to the Tavan Tolgoi coal deposit in South Gobi, Mongolia and became acquainted with our Group. Given the experience of Ancora Investments No.2 Limited in the natural resources sector and its international relationships, it was given the opportunity to invest in ER LLC on March 19, 2009 when it acquired an approximately 24.2% indirect shareholding interest in Tengeriin Tsag Group LLC, one of the shareholders of ER LLC at that time.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Corporate Structure

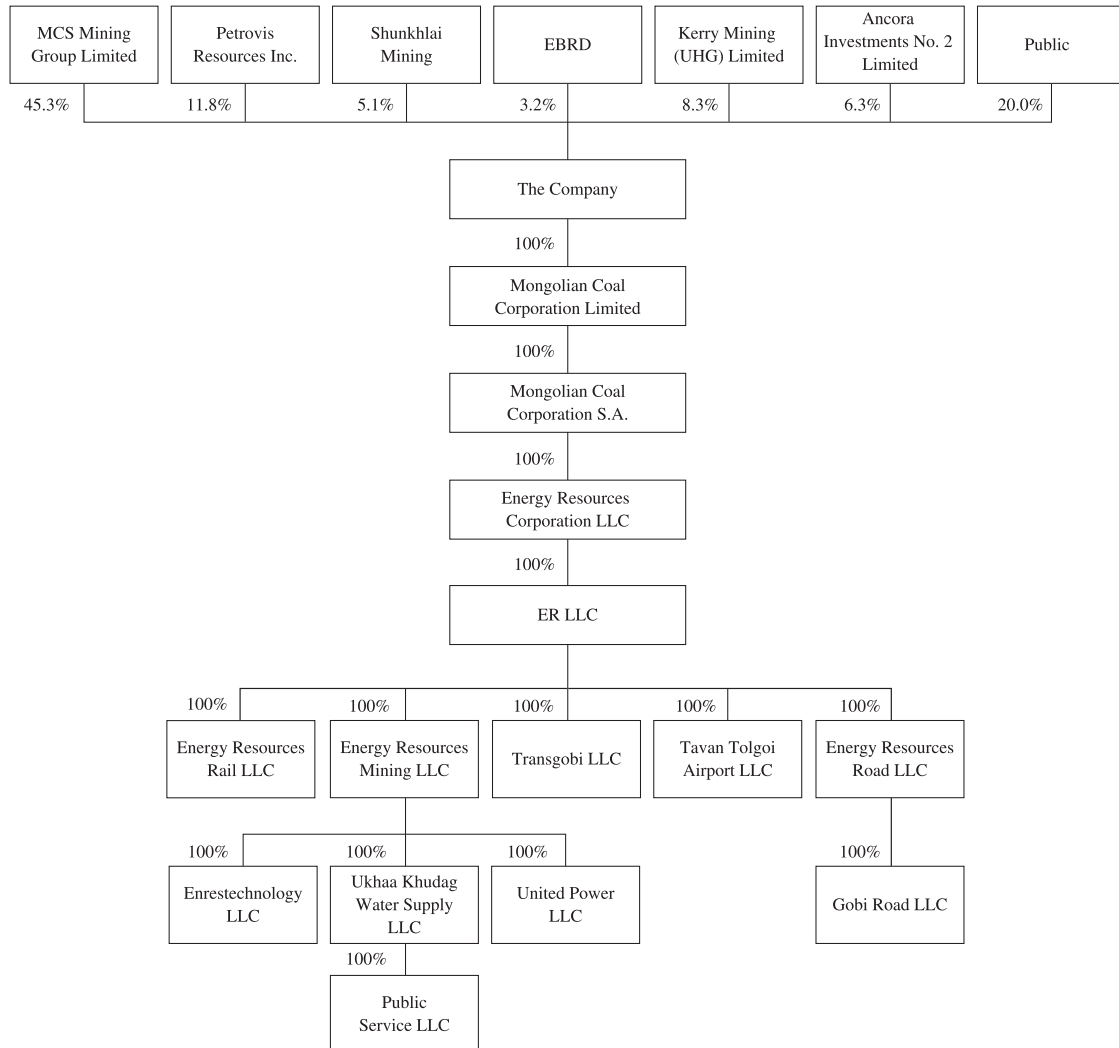
The diagram below sets out our corporate structure immediately before the Global Offering:



The identities of our Group’s ultimate shareholders remained the same immediately before and after the Reorganization.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets out our corporate structure immediately following the completion of the Global Offering (but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option).



Note: Each of Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No.2 Limited will be counted towards public float.

We hold a mining license for the UHG deposit as well as a license to build the proposed railroad. After the Listing, we may separate the infrastructure assets from the mining assets in order to diversify our risk and clearly delineate our assets. From the perspective of potential investors and lenders, the mining assets and the infrastructure assets (such as the paved road and the proposed railway) should be separated to ensure the segregation of assets, cash flow and current and future liabilities of the two business operations. Separating the assets can help maximize the sources of financing available from financial institutions.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shareholdings in our subsidiaries and associated companies

Set out below is a table providing further information on shareholdings in all our subsidiaries and associated companies.

Name	Incorporation date (place of incorporation)	Principal business	Equity interests
Our Company	May 18, 2010 (Cayman Islands)	Ultimate holding company	<ul style="list-style-type: none"> • Mongolian Coal Corporation Limited (100%)
Mongolian Coal Corporation Limited	June 11, 2010 (Hong Kong)	Holding company	<ul style="list-style-type: none"> • Mongolian Coal Corporation S.A. (100%)
Mongolian Coal Corporation S.A.	July 20, 2010 (Luxembourg)	Holding company	<ul style="list-style-type: none"> • Energy Resources Corporation LLC (100%)
Energy Resources Corporation LLC	August 20, 2010 (Mongolia)	Holding company	<ul style="list-style-type: none"> • ER LLC (100%)
ER LLC	April 22, 2005 (Mongolia)	main operating company for the UHG deposit	<ul style="list-style-type: none"> • Energy Resources Rail LLC (100%) • Energy Resources Mining LLC (100%) • Transgobi LLC (100%) • Tavan Tolgoi Airport LLC (100%) • Energy Resources Road LLC (100%)
Energy Resources Rail LLC	July 1, 2008 (Mongolia)	operating company for the implementation of the construction of the railway base infrastructure	–
Energy Resources Mining LLC	December 23, 2008 (Mongolia)	operating company for the mining and technical operations of the UHG deposit	<ul style="list-style-type: none"> • Enreotechnology LLC (100%) • Ukhaa Khudag Water Supply LLC (100%) • United Power LLC (100%)
Transgobi LLC	September 1, 2008 (Mongolia)	operating company for the transportation of coal extracted from the UHG deposit	–
Tavan Tolgoi Airport LLC	October 7, 2009 (Mongolia)	operating company for the operation and management of the airport	–
Energy Resources Road LLC	April 21, 2010 (Mongolia)	operating company for the transportation of coal and construction of road	<ul style="list-style-type: none"> • Gobi Road LLC (100%)
Gobi Road LLC	March 24, 2010 (Mongolia)	operating company for the construction of a new road for transportation of coal extracted from the UHG deposit	–

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

<u>Name</u>	<u>Incorporation date (place of incorporation)</u>	<u>Principal business</u>	<u>Equity interests</u>
Enreotechnology LLC	June 25, 2009 (Mongolia)	operating company for owning and operating the coal handling and washing plant of the UHG deposit	–
Ukhaa Khudag Water Supply LLC	June 24, 2009 (Mongolia)	operating company for water exploration and supply of water to the UHG deposit	• Public Service LLC (100%)
Public Service LLC	August 19, 2009 (Mongolia)	operating company for the provision of public utility services at the UHG deposit	
United Power LLC.	June 24, 2009 (Mongolia)	operating company for the construction and operation of the power plant	–

Overview

We are a Mongolian-owned mining company engaged in the open-pit mining of coking coal at our UHG deposit located within the Tavan Tolgoi coal formation in South Gobi, Mongolia. Our UHG mine had 499.9 million tonnes and 286.0 million tonnes of JORC-compliant measured and indicated coal resources and proven and probable reserves, respectively, as of May 31, 2010. We were granted Mining License MV-11952 covering the UHG deposit on August 29, 2006 for an initial period of 30 years to engage in coal mining activities. Our license area covers 2,960 hectares, and as of the Latest Practicable Date, our mine plan to 2013 will cover approximately 6% of our license area. Currently, all our coking coal is transported by trucks to our customers in China. According to Wood Mackenzie, our coking coal is of high-quality.

We own and operate the largest coking coal mine in Mongolia held by a private company, by aggregate production and sales volume. As coking coals are either consumed by coke plants or steel mills in Mongolia or exported and according to the MRAM, there are no officially registered coke plants or steel mills operating in Mongolia, we believe export volumes can be a proxy for production volumes. The official record of the Mongolian Customs Office, which shows data on the total exports of coking and hard coals by major exporters, indicates that for each of the three years ended December 31, 2009 and the six months ended June 30, 2010, there were a total of one, two, three and two major exporters of coking coal, respectively.⁽¹⁾ For the six months ended June 30, 2010, we were the largest exporter of coking coal in Mongolia exporting approximately 61.9% of the total exports of coking coal shown on the official record of the Mongolian Customs Office. As a result of the foregoing, we believe we are the largest producer and exporter of coking coal in Mongolia for the six months ended June 30, 2010 and we are well positioned over any other mining company to pursue exploration activities in Mongolia.

Our UHG deposit is located within the Tavan Tolgoi coal formation, which according to Wood Mackenzie, is one of the few remaining largely unexploited sources of high-quality coking coal in the world and the closest coking coal formation to China.

We commenced mining at our UHG deposit in April 2009, and for the year ended December 31, 2009, we produced 1.8 million tonnes of coking coal. We plan to produce approximately 3.8 million tonnes of coking coal in 2010 and increase our coal production to approximately 14.7 million tonnes for the year ending December 31, 2013. See “Risk Factors – Risks Relating to our Business and Industry – We face risks under our expansion program”. We currently sell only unwashed coking coal.

Based on public information about comparable Shanxi coking coals, unwashed coking coal is sold at an approximate 35-40% discount to washed coking coal, and as of June 30, 2010,

Note:

(1) While the Mongolia Customs Office does not have its own definitions of “coking coal” and “hard coal”, we understand that its “coking coal” category refers to hard coking coal and its “hard coal” category refers to semi-soft coking coal and thermal coal. Hard coking coal is primarily used in the process of manufacturing steel. Thermal coal is primarily used in coal-fired power plants. Semi-soft coking coal is generally used to blend with hard coking coal for the process of manufacturing steel and is also used in coal-fired power plants.

BUSINESS

unwashed coking coals sold at an approximate 35% discount to washed coking coals. For example, based on public information, a comparable washed coking coal sold at approximately RMB1,530 per tonne whereas the price for unwashed coking coal was RMB1,000 per tonne, as of June 30, 2010. During the Track Record Period, the discount from washed coking coal to unwashed coking coal ranged from 16% to 35%.

As part of our mine expansion and to further improve our margins, we are constructing a coal handling and washing plant that will produce high-quality washed coking coals. The ramp-up of our coal handling and washing plant will coincide with the ramp-up of our coal mine production. We expect the first 5.0 Mtpa of our coal handling and washing plant to be operational by early 2011, which will be the first of its kind in Mongolia, with the second and third phases of 5.0 Mtpa each to be operational in the second half of 2011 and by the end of 2012, respectively.

We are the closest coking coal producer to Baotou, the closest railway transportation hub providing access from Mongolia to the largest steel producing provinces in China. Our UHG deposit is located approximately 540km south of Ulaanbaatar, the capital of Mongolia, and approximately 240km from the Mongolia-China border crossing at GS. Our coal is hauled by trucks from our UHG deposit to our trans-shipment stockpile at TKH, located approximately 21km from the Mongolia-China border crossing, then to GS where it is further trans-shipped to markets in China. See “– Logistics and Transport”. We plan to sell our high-quality coking coal into China pursuant to long-term agreements with a diversified group of end-use customers, including iron and steel mills and coke and chemical plants. In 2010, we contracted to sell approximately 4.4 million tonnes of coking coal to a combination of coal traders and end-use customers. We expect to deliver approximately 3.8 million tonnes of coking coal in 2010 and expect to deliver the remaining contracted amounts in 2011. From July 1, 2010 to the Latest Practicable Date, the weighted average selling price per tonne under our contracts was US\$76.72.

For the years ended December 31, 2008 and 2009, the four months ended April 30, 2010 and as of the Latest Practicable Date, we had one, four, eight and 17 customers, respectively. As of the Latest Practicable Date, we have entered into long-term agreements with most of our end-use customers which included Baogang, Shagang, Risun and Qinghua.

Currently, our coal is transported from our UHG deposit to TKH using approximately 500 trucks. We own 107 of these trucks, while the others are owned and operated by our customers or contract trucking companies. From TKH, a fleet of approximately 400 trucks owned and operated by our customers and contract trucking companies is used to transport our coal to GS. Each truck can carry approximately 80-100 tonnes of coal. With approximately 900 trucks serving UHG-GS, our current overall hauling capacity is approximately 3.5-4.0 Mtpa using the existing gravel road. As of the Latest Practicable Date, the existing gravel road itself had a capacity of approximately 6.0-7.0 Mtpa.

To keep pace with our rapid expansion, we are improving our transportation infrastructure by constructing a paved road and planning to construct a railway from our UHG deposit to GS. The Government of Mongolia has (1) granted us the land use rights to build our paved road and

BUSINESS

railway and (2) issued us the licenses to build the paved road and to build our railway base infrastructure. Our paved road will be parallel to the existing coal transport gravel road we currently use and we expect to complete a substantial portion of our paved road by the end of 2010. Our paved road will be sufficient to support our current expansion plans and excess capacity may be used by third parties for a toll fee. In order to lower transportation costs and increase reliability and operational efficiency, we are also planning to construct a railway directly from our UHG deposit to GS in 2011-2012, subject to final approval from the Government of Mongolia. See “Risk Factors – Risks Relating to Our Business and Industry – We are not sure when we can commence construction of our railway”.

We have partnered with a number of industry leading experts throughout the planning, development and operating phases of our mine. We work closely with our mining contractor, Leighton, a major mining operator, in all aspects of our coal mining operations and have entered into a long-term contract with them to train and supervise our employees to conduct mining operations. In addition, Leighton has committed to work with us to build out our coal production capacity to 15.0 Mtpa. We are working together with Sedgman, a coal handling and washing plant expert, to construct our coal handling and washing plant. In addition, we have communicated our expansion plans to our other major contractors and suppliers and are working with them to ensure they have sufficient resources to support our expansion.

Our revenue for the three years ended December 31, 2009 and four months ended April 30, 2010 was US\$0, US\$0, US\$67.0 million and US\$32.3 million, respectively. Our net (loss)/profit for the three years ended December 31, 2009 and four months ended April 30, 2010 was US\$(3.0) million, US\$(3.6) million, US\$10.3 million and US\$5.0 million, respectively.

Our Competitive Strengths

High-quality coking coal assets with abundant resources

Our UHG mine is part of the Tavan Tolgoi coal formation located in South Gobi, Mongolia. Historical exploration activities by Russian and Mongolian geologists, which were later duplicated by other international exploration and mining companies, have accumulated sufficient data to confirm that the Tavan Tolgoi coal formation is a world class coking coal resource. According to Wood Mackenzie, the quality parameters of our washed coking coal are comparable to the leading Australian coking coals and are highly marketable in Chinese and other international seaborne markets.

Our UHG deposit had 499.9 million tonnes and 286.0 million tonnes of JORC-compliant measured and indicated coal resources and proven and probable reserves, respectively, as of May 31, 2010.

Closest coking coal exporter to major Chinese steel mills

We are the closest coking coal exporter to the largest steel producing provinces in China. Our UHG mine is approximately 240km from GS. We are also only approximately 600km from

BUSINESS

Baotou. Proximity to Baotou is of strategic importance to Mongolian coking coal producers for its railway network which provides access to the largest steel producing provinces of China, such as Hebei and Jiangsu. Through Baotou, our coking coals can be transported by rail to the ports of Tianjin, Qinhuangdao and Huanghua, which, we believe, will allow our coals to be sold in the international seaborne market.

China is the world's largest steel producer, the world's largest coking coal consumer, and one of the fastest growing importers of coking coal. We are strategically positioned to benefit from China's large steel production and strong demand for coking coal. We have already contracted to sell our scheduled production of coal for the year ending December 31, 2010 to a combination of coal traders and end-use customers located in China. As of the Latest Practicable Date, we have entered into long-term agreements with Chinese end-use customers, such as Baogang, Shagang, Risun and Qinghua.

One of the lowest cost coking coal producers in the world

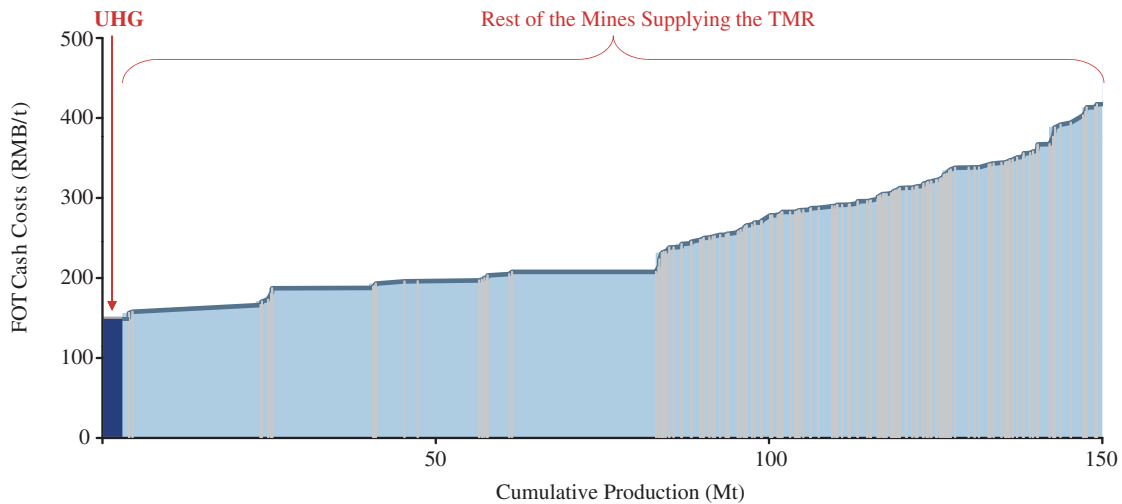
We operate a large-scale, open-pit mine with low stripping ratios. As a result, we are ranked in the lowest 10% of global coal producers of coking coal who supply to the TMR by 2009 FOT cash cost per tonne, according to Wood Mackenzie. Our low cost structure is partly attributable to the favorable geological conditions of the coal seams at the UHG deposit, according to Norwest. In order to optimally use our mining equipment and personnel, we operate 24 hours a day, seven days a week and 365 days a year, subject to weather conditions. During the Track Record Period and up to the Latest Practicable Date, we suspended our mining operations for a total of six days due to inclement weather. We suffered no material losses due to the inclement weather, but there can be no assurance that inclement weather will not cause significant losses in the future.

According to Norwest, favorable geological conditions relate to our coal quality, deposit structure and friability of our coal. Several of our coal seams have high coking properties and characteristics which greatly increase its average selling price and Norwest estimates that 57% of our measured and indicated open-pit resources is of coking quality. In terms of deposit structure, our coal seams are thick, relatively uniform and only slope slightly. All of these characteristics increase the efficiency of our mining operations and the productivity of our mining equipment. Our coal also has a high degree of friability, which means it can be easily broken into smaller pieces without drilling or blasting. This makes it easier for us to both mine and transport our coal.

Our cost of production is lower than our principal competitors serving China, namely coking coal producers from China and Australia. Coking coal from China is predominantly produced from underground mines. In general, underground mining is significantly more capital intensive, costly and operationally challenging than open-pit mining. In the last several years, mine production costs have significantly increased in Australia due to high levels of taxation, increased labor, operational and infrastructure costs, transportation capacity bottlenecks, inflation and currency appreciation. Furthermore, mining operations in Australia are becoming increasingly mature which results in higher stripping ratios, thereby yielding higher costs per tonne of coal produced.

BUSINESS

FOT 2010 Cost Curve TMR – Metallurgical Supply



Source: Wood Mackenzie, Norwest

- (i) The cash costs curve chart is prepared on a FOT basis for comparability purposes. This includes all of the mine's costs of producing product coal loaded onto any given form of transport on a cash cost basis, thus excluding depreciation and amortization costs and financing costs such as interest on loans and leasing expenses.
- (ii) The 2010 cash costs for the UHG mine, excluding transportation costs by road or rail or selling, general and administrative costs will be approximately US\$22.03 (RMB150.25) per tonne, according to Norwest.
- (iii) FOT cash costs components include mine "labor", "materials", "power, simple maintenance and other", "washing" (including delivery to wash plant, reclamation, loading and yield adjustments), "administration and overhead" and "extractive taxes". Please note that for the year ending December 31, 2010, the UHG mine had no "washing" costs as we do not expect to complete the construction of our coal handling and washing plant in 2010.
- (iv) Wood Mackenzie's operating cost models for the TMR supplying mines were estimated from public domain information including geological reports, production and labor statistics and company annual reports. The estimates have been corrected by reference to information of a non-confidential nature gained by visits to operations, and discussions with industry participants. The estimates are comparable in that the methodology utilized to produce them is consistent for all operations.
- (v) The costs curve is a chart of the FOT cash costs as a function of production. The chart is constructed with data from mines which is available to Wood Mackenzie or estimated by Wood Mackenzie and includes data for the UHG mine. Each block in the chart represents a mine. The width of the block represents the estimated production of that particular mine in 2010, and the height of the block represents the estimated FOT cash costs of that particular mine in 2010. Each block is arranged in a chart left to right from the mine with lowest costs to the mine with highest costs. A mine located to the left of the UHG mine, of which there are none, on the costs curve chart has lower FOT cash costs compared to the UHG mine, while a mine located to the right of the UHG mine on the cost curve chart has higher FOT cash costs compared to the UHG mine.

According to Norwest, our total cash operating cost on an FOT basis was US\$22.03 (RMB150.25) per tonne comprising US\$20.90 (RMB142.54) per tonne of mining costs and US\$1.13 (RMB7.71) of coal processing costs. According to Wood Mackenzie, the average FOT cash cost of mines that would provide coking coal to the TMR is US\$42.32 (RMB288.50) per tonne. Therefore, we believe we have one of the lowest mining and processing cash operating cost of production among the mines supplying to the TMR.

BUSINESS

High growth with established plan for margin expansion

We began mining operations in April 2009 and for the year ended December 31, 2009, we produced 1.8 million tonnes of coking coal. We plan to produce approximately 3.8 million tonnes, 7.0 million tonnes, 10.7 million tonnes, and 14.7 million tonnes in the four years ending December 31, 2013, respectively. See “Risk Factors – Risks Relating to our Business and Industry – We face risks under our expansion program”. As a result of our open-pit mining operations and our mine characteristics, we believe we will be able to achieve this ramp-up plan on schedule. Production ramp-up in an open-pit coal mine is largely dependent on the availability of mining equipment. We have partnered with Leighton, who has agreed to commit the necessary mining equipment for our production ramp-up up to 15.0 Mtpa. In addition, we are constructing a paved road to significantly improve our transportation infrastructure to support our production growth.

We expect that our margins will grow through a combination of the operation of our coal handling and washing plant, the construction and use of our railway and benefiting from economies of scale. We are constructing a coal handling and washing plant that will produce high-quality washed coking coals. As a result, we will be able to establish our own brand identity, which we believe, will significantly increase our market recognition and competitiveness. The Government of Mongolia has (1) granted us the land use rights to build our paved road and railway and (2) issued us the licenses to build the paved road and to build our railway base infrastructure. See “– Logistics and Transport”. Our paved road will be parallel to the existing coal transport gravel road we currently use and we expect to complete a substantial portion of our paved road by the end of 2010. Our paved road will be sufficient to support our current expansion plans and excess capacity may be used by third parties for a toll fee. In order to lower transportation costs and increase reliability and operational efficiency, we expect to commence construction of a railway directly from our UHG deposit to GS in 2011-2012. See “Risk Factors – Risks Relating to Our Business and Industry – We are not sure when we can commence construction of our railway”. With the steps we have already planned for the near future, we believe we have a strong potential for future growth and margin expansion.

We believe the development with the most direct impact on our margins will be our coal handling and washing facility. The difference between the average selling price for washed and unwashed coal is significant even if the additional costs of operating the handling and washing facility are factored into the cost of revenue. We believe that the paved road would indirectly improve our margins by (1) reducing repair and maintenance costs of our coal hauling trucks; (2) decreasing the amount of fuel used by each coal hauling truck; and (3) allowing us to use trucks with increased transportation capacity. While overall transportation costs may increase in the future due to significantly increased production/shipment volumes, we expect that transportation costs on a per unit basis will reduce as the new paved road and railway are developed.

Most advanced coking coal operations in Mongolia

As of the Latest Practicable Date, we believe we had the most advanced coking coal operations in Mongolia. We have been the quickest to ramp-up to large-scale profitable coking coal production. In terms of railway plans, we have conducted extensive feasibility studies, obtained the construction license and land use rights. No other coking coal operation in Mongolia has taken such significant steps to improving their transportation infrastructure, based on publicly available information. Our coal handling and washing plant will be operational by the end of 2010. No other coking coal operation in Mongolia has commenced construction of a similar facility, based on publicly available information. We received a letter from the Head of the Mining and Research Department of the MRAM, dated June 7, 2010, stating that we are a leading producer of coking coal in Mongolia, our production has increased rapidly in a short period of time, our coal production represented a significant percentage of Mongolian coking coal exported, we have taken significant steps to develop a technologically advanced coal handling and washing plant and that no other coal producer in Mongolia has been quicker to ramp up its coal production capacity.

Combination of Mongolian and international shareholders implementing international best practices

We have a combination of Mongolian and international shareholders. MCS Holding, one of our Controlling Shareholders, is the largest and most diversified private holding company in Mongolia. Petrovis LLC and Shunkhlai Mining LLC, two of our Shareholders, are established Mongolian enterprises engaged in the petroleum business. Kerry Mining (UHG) Limited, one of our Shareholders, is a member of Kuok Group, one of Asia's most diversified multinational conglomerates and has provided us with extensive insight into conducting business outside of Mongolia. EBRD, one of our Shareholders, is owned by 61 countries and two intergovernmental institutions and supports the development of market economies and democracies in countries from central Europe to central Asia. EBRD monitors our development by monitoring our compliance with the environmental and social action plan adopted for our UHG mine, which sets forth an international level of social development and environmental awareness.

We have qualified and sophisticated Mongolian shareholders with local access and experience and international shareholders implementing international best practices. We believe our Mongolian shareholders have been instrumental in assisting us in running our mining operation as there have been very few successful private sector mining operations in Mongolia. Their knowledge of Mongolian laws, customs and local practices have facilitated the rapid ramp-up of our mining operations. Through each stage of our development, our Mongolian shareholders have supported us in raising issues, concerns and guiding us through the regulatory procedures to obtain the required permits, approvals and other authorizations to operate a successful mine in Mongolia. MCS Holding, Petrovis LLC and Shunkhlai Mining LLC are all well-established entities in Mongolia with many years of private-sector experience and have supported our development through a wide variety of activities, ranging from sharing their human resource expertise to assisting us in building our infrastructure. For example, MCS

BUSINESS

subsidiaries have provided skilled engineers to supervise and construct our power plant, miners camp, airstrip terminal and mining equipment workshop. Petrovis LLC and Shunkhlai Mining LLC have invested and established fuel storage and supply facilities for our UHG mine. Without their support and guidance, we would not have been able to ramp-up our mining operations in such a short period of time. Our international shareholders have been instrumental in providing us with the guidance in how to operate our business at international standards.

Strong management team partnered with internationally recognized experts

Our directors and senior management include representatives of Shareholders and professionals who have extensive industry knowledge and experience as well as many years of work experience in their respective industries, which include mining operations, exploration, development, finance and marketing. Mr. Odjargal Jambaljamts, our executive Director, chairman of the Board and executive chairman, has overseen the development of our business from the time of our establishment. Dr. Battengel Gotov, our chief executive officer, has been instrumental in transforming the UHG mine from a greenfield project to a full-fledged mining operation. Mr. Enkhtuvshin Dashtseren, our chief marketing officer, has played a key role in obtaining and maintaining our current customer base. Mr. Gary Ballantine is our principal geologist. Mr. Oyunbat Lkhagvatsend, our vice president for transportation and logistics, is primarily responsible for developing our transportation infrastructure. We have chosen to work with internationally recognized experts to develop our mining and transportation infrastructure. Working alongside these experts allows our personnel to acquire the knowledge necessary to operate a world-class coking coal mine.

We selected Leighton as our mining contractor to assist us in mine planning, training of our mining personnel, supervising our mining activity and also sources a large proportion of our mining equipment from internationally recognized equipment manufacturers like Liebherr and Caterpillar. We are working closely together with Sedgman to design our coal handling and washing plant. This plant is expected to be the one of the largest coking coal processing plants in the world and the most advanced in Asia, and will have the highest process recovery efficiencies in the industry. We are also working with other leading contractors in their respective areas of expertise including: Parsons Brinckerhoff (power plant design and construction management); Deutsche Bahn and its sub-contractor Wilbur Smith Associates (railway feasibility studies); and Aquaterra (water supply facility design and construction). We believe partnering with these internationally recognized experts gives us a strategic advantage over our competitors as we are able to learn from these experts and apply their knowledge and experience to our business.

Our Strategy

Expand coal mine production

For the year ended December 31, 2009, we produced 1.8 million tonnes of coal. We plan to increase our coal production to approximately 3.8 million tonnes, 7.0 million tonnes, 10.7 million tonnes, and 14.7 million tonnes in the four years ending December 31, 2013,

BUSINESS

respectively. See “Risk Factors – Risks Relating to our Business and Industry – We face risks under our expansion program”. As of the Latest Practicable Date, we had equipment sufficient to support 5.0 Mtpa and we have ordered equipment to support an additional 5.0 Mtpa. We have worked together with Leighton to implement an equipment procurement and use schedule that will maximize the use of our existing equipment given our mine production ramp-up plans.

Complete construction of our coal handling and washing plant

We are currently only able to sell unwashed coking coal and we rely on coal traders and customers to wash our coal. Upon completion of our coal handling and washing plant, we will be able to sell washed coking coals directly to the market. We are working closely together with Sedgman pursuant to an EPCM contract for our coal handling and washing plant. According to Norwest, this coal handling and washing plant is expected to be the one of the largest coking coal processing plants in the world, the most advanced in Asia and will have the highest process recovery efficiencies in the industry. The ramp-up of our coal handling and washing plant will coincide with the ramp-up of our coal mine production. The first 5.0 Mtpa of our anticipated 15.0 Mtpa is expected to be fully operational by early 2011 with the second and third phases of 5.0 Mtpa each to be operational in the second half of 2011 and by the end of 2012, respectively. We are also working with several of our contractors to design and construct the infrastructure (power and water supply) necessary to support our coal handling and washing plant.

Improve our transportation infrastructure

Our coal is hauled by trucks from our UHG deposit to our trans-shipment stockpile located at TKH, then 21km to GS where it is further trans-shipped to markets in China. We have our own fleet of trucks which is supplemented by contract trucking companies and trucks provided by our customers. In the near term we intend to significantly increase the number of trucks that transport our coal by increasing the size of our own fleet and requesting additional trucking capacity from our trucking contractors and customers. See “– Logistics and Transport”.

We commenced construction of a paved road parallel to the existing coal transport gravel road from our UHG deposit to GS and we expect to complete a substantial portion of our paved road by the end of 2010. We have already obtained the construction license and land use rights for our paved road. Once completed, we expect it to have the capacity to transport up to 18.0 Mtpa. We signed a contract with the Government of Mongolia on a BOT basis for ten years whereby we will be able to charge tolls for operating such road. We intend to use a portion of these tolls to offset the costs we incur to construct, maintain and operate this road. Prior to the completion of our railway, we anticipate using this road as our primary transportation link to China. In order to lower transportation costs and increase reliability and operational efficiency, we plan to commence construction of a railway directly from our UHG deposit to GS in 2011-2012. See “Risk Factors – Risks Relating to our Business and Industry – We are not sure when we can commence construction of our railway”. The Government of Mongolia has granted us the land use rights and issued us a license to build the railway base infrastructure.

BUSINESS

We expect the completion of this railway to take approximately two years from the date we commence construction and will be able to support 15.0 Mtpa which could be expanded up to 30.0 Mtpa. This railway is intended to support our own coal production and will be able to serve mineral production from adjacent mines with excess capacity.

Continue to develop and diversify our long-term customer base and establish our own brand

We plan to sell our high-quality coking coal into China pursuant to long-term agreements with a diversified group of end-use customers, including iron and steel mills and coke and chemical plants. Even in our sales to coal traders, we have made the identification of our actual end-use customers a priority and will endeavor to contract with them directly. We recognize the importance of coal traders and will strategically cooperate with them in the future to broaden our customer base and to manage our operating cashflows. Although we believe there is sufficient demand for our coking coal in China, we also expect to supply our coal to the international seaborne market as part of our long-term diversification strategy.

With our coal handling and washing plant, we will be able to produce washed coking coals at consistent quality levels. As a result, we will be able to sell directly to end-use customers under our own brand. We believe this will significantly increase our market recognition and competitiveness.

Optimize existing resources and reserves

We are engaged in detailed mine planning activities that provide insight into how to most efficiently utilize our existing coking coal resources and reserves. Our detailed plan allows us to: 1) gain a thorough understanding of the coking qualities of each of the seams in our UHG deposit; 2) conduct careful geological modeling to optimize our mine plan; and 3) further define the coal seams in the western parts of our UHG mine. Understanding the different coking qualities in each of our coal seams allows us to develop a blending strategy for coals of different seams, which will help us maximize the revenues to be generated from our high-quality coking coal sales. Through careful geological modeling, we are and will be able to economically develop our mine to optimize our existing coking coal resources and reserves. We intend to further define the seams located in the western parts of our UHG deposit so we can refine our long-term mine plan with the quality parameters of those seams.

Exploration and acquisition as an established Mongolian mining company

We are considering opportunities to strategically acquire other resources in the steel industry supply chain. We are a Mongolian-owned mining company and we believe we are the largest producer and exporter of coking coal in Mongolia. We own and operate the largest coking coal mine in Mongolia held by a private company. As a result of the foregoing, we believe we are well positioned over any other mining company to pursue exploration activities in Mongolia.

BUSINESS

We are selectively pursuing coking coal and iron ore exploration opportunities that are close to the Mongolia-China border. We believe mining iron ore is a natural extension of our existing operations as the iron ore assets in Mongolia are open-pit where we could leverage our knowledge and experience gained from our existing open-pit coking coal mining operations. In addition, the consumers of high-quality coking coal and iron ore are virtually the same. We believe the production of both high-quality coking coal and iron ore would provide us with significant leverage on pricing as both are critical raw materials used in the steel industry. Other key investment considerations include: (1) scalability of existing resources; (2) proximity to our existing asset base and infrastructure; and (3) an internal rate of return on the project of 30%.

Each potential acquisition undergoes a thorough, multi-stage evaluation process before it is presented to our Directors. Exploration targets will be evaluated internally and externally. Internal evaluation would include an analysis conducted by our own geology department. External evaluation would be conducted by an external consultant who would prepare a JORC compliant resource model and pre-feasibility study. If the outcome of this study is positive, we would formally engage a reputable industry consultant to conduct the full feasibility study. If a target gets to the feasibility study stage and the results are positive, it would be reviewed by our executive management team, who will then set the execution timetable for Board approval. Final decisions are made by the Board. As of the Latest Practicable Date, we were evaluating several potential targets for both coking coal and iron ore, but nothing had been formally presented to our Directors for consideration.

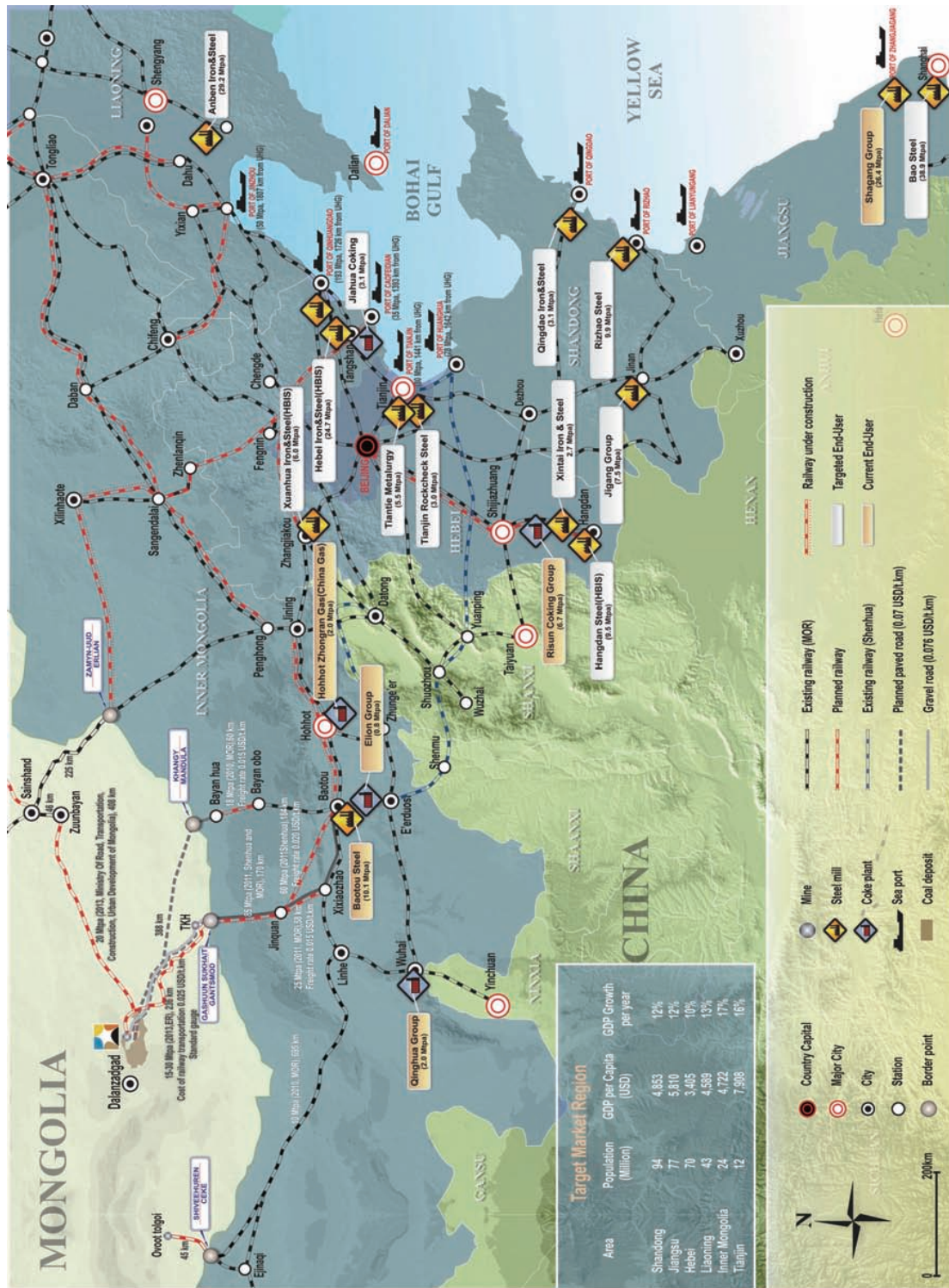
Strong commitment to corporate social responsibility

We operate in Tgogtsetsii soum in South Gobi, Mongolia. In 2009, the settled population was 2,713, of which mine and contract workers accounted for approximately 1,500. Maintaining strong relationships with local communities is very important as operational sustainability is fundamental to our long-term success. As coal mining and transportation can be harmful for the environment and surrounding communities, close communication and collaboration with the persons whose livelihoods are directly impacted by our operations is critical. We have planned and implemented a number of community development programs, which focus on employment, development of local businesses, localization of procurement, education, health, community infrastructure development and cultural heritage preservation. In addition, we have integrated corporate social responsibility programs. For the year ended December 31, 2009, we employed approximately 43% of our workforce from South Gobi, Mongolia and expect to employ approximately 50% by the end of 2010. In addition, we plan to predominantly employ our trainees from South Gobi, Mongolia by training unskilled job applicants to meet our employment requirements. In 2009, EBRD became our Shareholder and has been and will continue to work with us to establish socially and environmentally sustainable development policies.

We recognize that our responsibilities extend beyond the immediate areas affected by our mining operations. As a result, we are considering projects away from our UHG mine including the development of subsidized housing for low-income persons in Ulaanbaatar.

Our Location and License

The following map shows the location of our mining operations and our existing and proposed transportation infrastructure that are located in South Gobi, Mongolia.



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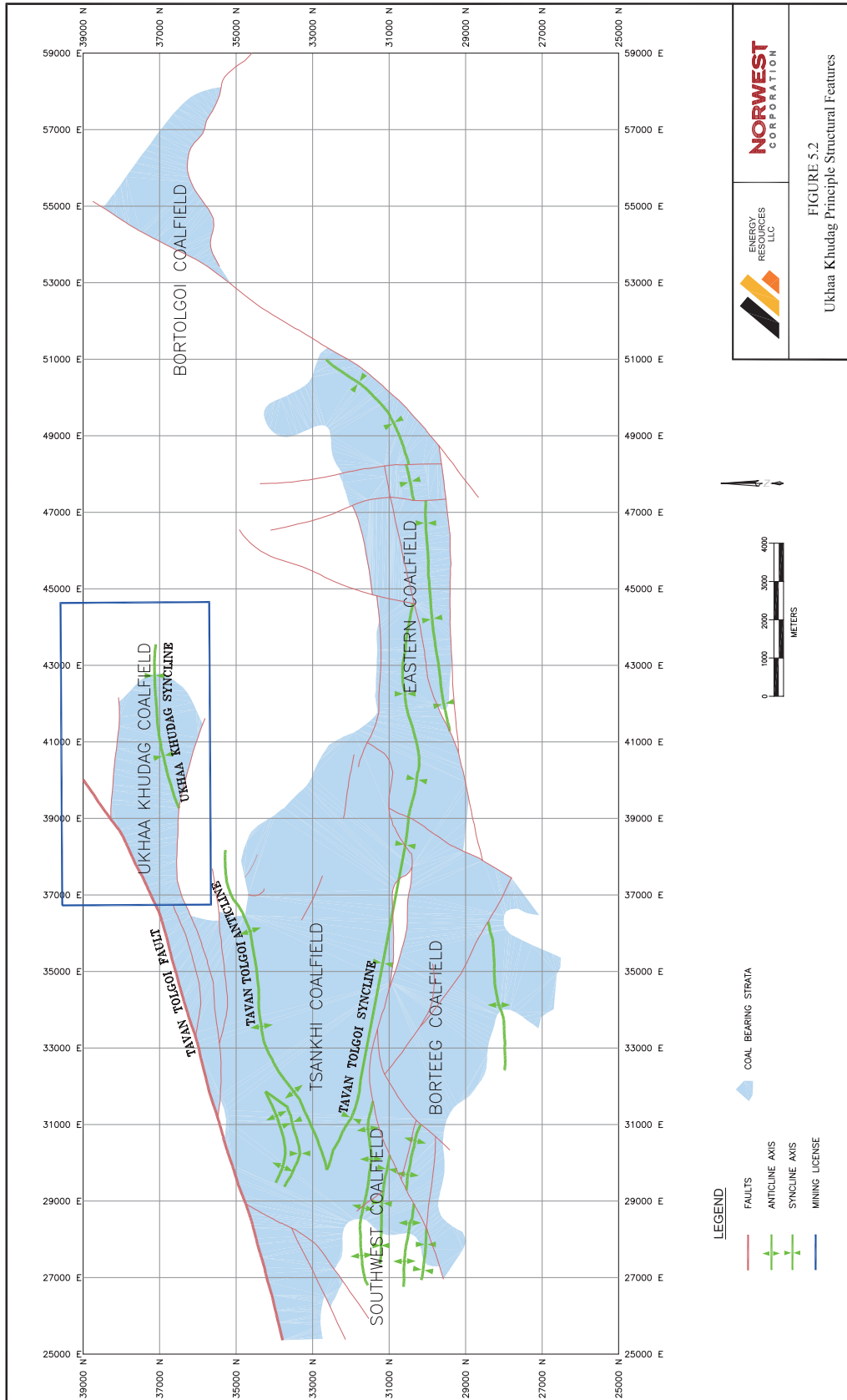
Umnugobi is Mongolia's largest aimag, by territory, with a population of approximately 48,000 and is divided into 15 soums. Our UHG deposit is located in the Tsogttsetsii soum. A small town site located approximately 7km from our mine may serve as an administrative and logistical center for our UHG mine. The mine itself is located approximately 540km south of Ulaanbaatar and approximately 240km from the Mongolia-China border crossing at GS.

The airport in Dalanzadgad has one runway and is served by regular domestic flights to and from Ulaanbaatar by several commercial airlines. Travel by road from Ulaanbaatar to Dalanzadgad takes approximately 10 hours. Our mine site is 75km from Dalanzadgad. Heavy equipment is typically transported to the region using a combination of a sealed road along the Trans-Mongolian Railway and relatively well-established tracks to the mine. While this is a longer route, it is typically used by other operators in the region.

We have constructed and operate an airstrip just north of Tsogttsetsii soum. We use this airstrip principally for staff rotations. The airstrip consists of one runway of about 2.5km length and is designed for Saab 340 and Fokker 50 two-engine turboprop aircraft capable of carrying 30-50 passengers. We only operate this airstrip during daylight hours. There is a terminal building and provisions to accommodate terminal personnel, a fire truck and other emergency facilities.

Access within our UHG deposit is by way of sealed and unsealed roads. In-pit trucking of mined coal is conducted by roads and ramps.

We hold the Mining License MV-11952 covering the UHG deposit located in the Tavan Tolgoi coal formation located in South Gobi, Mongolia. Our license area covers 2,960 hectares and was initially issued on August 29, 2006 by the former Mineral Resources and Petroleum Authority for a period of 30 years. Our license does not specify what kind of mining method we are permitted to use. We pay US\$5 per hectare annually as a license fee. Our UHG deposit is one of six separate deposits of the greater Tavan Tolgoi coal formation, which include the Tsankhi, UHG, Southwest, Bortee, Eastern and Bortolgoi deposits.



BUSINESS

In July 2006, the 2006 Minerals Law was adopted which introduced the concept of a Mineral Deposit of Strategic Importance. See “Risk Factors – Risks Relating to Our Business and Industry – The Government of Mongolia could determine that any one or more of our projects in Mongolia is a Mineral Deposit of Strategic Importance”. The 2006 Minerals Law stated that the Government of Mongolia had the right to participate up to 50% jointly with private entities in the exploitation of a minerals deposit of strategic importance in situations where Government of Mongolia funded exploration was used to determine the proven reserves of the deposit.

When we were granted our mining licenses on August 29, 2006, we paid US\$1,000 for the conversion of each of these licenses into mining licenses. We did not pay any consideration for the acquisition of any underlying “original materials and reports on prospecting and exploration work” in relation to the six exploration licenses. In February 2007, the Parliament of Mongolia declared that the six mining licenses originally held by us to be Mineral Deposits of Strategic Importance under the 2006 Minerals Law. Subsequent to February 2007, we entered into various discussions with the Mongolian Government and concluded that the capitalized drilling and exploration expenditures in relation to the six mining licenses would no longer bring future economic benefits to us. After taking into consideration the economic development policies of Mongolia, we decided to sign the Minerals License Transfer Agreement, under which we agreed to transfer five out of our six mining licenses to the Government of Mongolia. The five mining licenses that were transferred to the Government of Mongolia were all within the Tavan Tolgoi formation. We assumed no liability after these five mining licenses were transferred to the Government of Mongolia. We received no cash consideration for the transfer of five of the six mining licenses to the Government of Mongolia. In the year ended December 31, 2007, we wrote off US\$3.5 million, almost all of which relate to the write off of the carrying amount of the relevant capitalized drilling and exploration expenditures to profit and loss. Our UHG deposit is a Mineral Deposit of Strategic Importance, but the Government of Mongolia guaranteed in the Minerals License Transfer Agreement that our mining license would not be terminated or amended by requiring state equity participation on the development. As a result of the foregoing, we believe that we will not be required to list our Shares on the Mongolian Stock Exchange. The Government of Mongolia never participated in the operation of the UHG deposit nor did it ever obtain any equity interest in the UHG deposit during the period from February 2007 to March 2008.

At the time of the transfer of those licenses, none of the six licenses (including the UHG license) had been sufficiently researched or developed in order to produce any reliable information. Therefore, we do not have any specific information relating to the size, fair value, reserve and resource estimate of the five mining licenses transferred to the Government of Mongolia. To our knowledge, none of the other five mining license areas have been developed although the Government of Mongolia is currently considering the development of the Tavan Tolgoi deposit.

BUSINESS

Our Mongolian counsel, Economic & Legal Consultancy LLC, has confirmed that the Minerals License Transfer Agreement is valid, binding and enforceable in accordance with its terms and is binding on the Government of Mongolia. Economic & Legal Consultancy LLC has also confirmed that the Government of Mongolia has validly waived its right under the Minerals Law to participate jointly with us (by compulsorily taking a 50% or other ownership interest in ER LLC or the relevant minerals) in the exploitation of the minerals deposit covered by Mining License MV-11952, or withhold any further permits or licenses or access to infrastructure necessary for such exploitation provided that we apply for the same in accordance with relevant rules.

There are no conditions or restrictions on our mining license. However, it has been pledged to EBRD as part of the collateral pledged to secure the US\$180 million loan arranged by EBRD.

To the best of their knowledge and belief, the Directors are not aware of any claims that may exist over the land on which mining activity is being carried out.

As of the Latest Practicable Date, we held no exploration rights.

Coal Resources and Reserves

Our coal resources and reserves are contained in the UHG deposit, which is located within the Tavan Tolgoi coal formation. Our UHG mine had 499.9 million tonnes and 286.0 million tonnes of JORC-compliant measured and indicated coal resources and proven and probable reserves, respectively, as of May 31, 2010. See “Appendix V – Independent Technical Report”. Since the commencement of mining operations, all of our coal production has been from our UHG deposit and we expect that our coal production will be focused in our UHG deposit in the near to medium term.

The following table sets out our estimated resources and reserves at our UHG deposit, as of May 31, 2010:

Summary of Our Coal Reserves⁽¹⁾⁽²⁾

	<u>Proven</u>	<u>Probable</u>	<u>Total</u>
	(million tonnes)		
UHG deposit	191	95	286

Summary of Our Coal Resources⁽¹⁾⁽²⁾⁽³⁾

	<u>Measured</u>	<u>Indicated</u>	<u>Total Measured and Indicated</u>	<u>Inferred⁽⁴⁾</u>
	(million tonnes)			
UHG deposit (open-pit)	206.0	205.3	411.3	11.7
UHG deposit (underground)	–	88.6	88.6	69.3
Total UHG deposit	<u>206.0</u>	<u>293.9</u>	<u>499.9</u>	<u>81.0</u>

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Notes:

- (1) *These numbers have been prepared in accordance with the JORC Code.*
- (2) *For our deposit, “open-pit” refers to coal deposits shallower than 300m from the surface and “underground” refers to coal deposits deeper than 300m from the surface.*
- (3) *Resources are a less accurate measure when compared to reserves. See “Risk Factors – Risks Relating to our Business and Industry – The accuracy of our resources and reserves estimates are based on a number of assumptions and we may produce less coal than our current estimates”.*
- (4) *Inferred mineral resource is that part of a mineral resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.*

According to Norwest, bulk sampling and drill hole sampling programs by Russian-Mongolian geologists and later by other international exploration and mining companies have accumulated sufficient data to identify significant coking coal resources in the Tavan Tolgoi coal formation. The Tavan Tolgoi coal formation is one of the few remaining largely unexploited sources of high-quality coking coal in the world. Of the 13 coal seams identified in the UHG deposit, four seams (3, 4, 8 and 9) are known to have favorable coking properties. Norwest has further distinguished between coking and thermal coals in our resource estimates. They have assumed that the traditional Tavan Tolgoi coking coal seams, namely seams 3, 4, 8 and 9, will principally be of coking quality in our UHG deposit. Additional testing and study within our UHG deposit may reveal that other seams also have coking qualities. The following table sets out the proportion of our resources that are of coking and thermal quality, as of May 31, 2010:

	Measured	Indicated	Total Measured and Indicated	Inferred
	(in million tonnes)			
UHG deposit (open-pit)				
Coking coal	85.8	153.4	239.2	–
Thermal coal.	120.2	51.9	172.1	11.7
UHG deposit (underground)				
Coking coal	–	50.7	50.7	42.2
Thermal coal.	–	37.9	37.9	27.1

Over the next two to three years, we have planned to implement a drilling program to effectively increase the drilling density across the entire UHG deposit to a 500m by 500m spacing. This program is intended to generally serve two key purposes: 1) to establish the actual ash content of coal that has been mined is lower than Russian drill hole data; and 2) to test seams other than the four traditional coking coal seams for coking qualities. Lower ash content will improve wash yields, resulting in more saleable coking coal product.

BUSINESS

Drilling to date has shown that coal seams 0A, 0B, 5 and 10 have the potential, where occurring with a low to moderate ash content, to be classified as a coking coal. Past drilling activities have only one or two core samples of Seams 11 and 12 and little is currently known of the coking potential for these seams. We may be able to blend coal from the 0A/0B seam group with our HCC product prior to washing to produce blended coking coal. If we are successful in blending our coking coal without significantly degrading the key coking properties of our HCC product, then the overall value of this seam group would increase. Seams 5 and 10 will likely be better defined after the 500m by 500m drilling program. A thorough understanding of the sizing, washability and coking properties of these seams may lead to their classification as coking coal.

While Norwest has identified resources below 300 meters in our UHG deposit, our near-to medium-term plan is to focus on the open-pit mining of our resources and reserves above 300 meters.

No material changes have occurred in our coal resources and reserves since the effective date of the Independent Technical Report included in Appendix V to this prospectus.

Coal Production and Ramp-Up Schedule

The following table sets forth our production volumes, sales volumes, overburden strip and stripping ratio for the periods indicated:

	Year Ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	(in million tonnes)			
Coal production (million tonnes)	–	–	1.8	0.7
Coal sales (million tonnes)	–	–	1.4	0.6
Average stripping ratio (actual)	–	N/A	3.4	5.5

The following table sets forth our coal production ramp-up schedule:

Year Ending December 31,	Estimated Tonnes of ROM Coal Produced
2010	3.8 million
2011	7.0 million
2012	10.7 million
2013	14.7 million

Please note that the table above is not a projection of actual production. The actual production may vary from the Estimated Tonnes of ROM Coal Produced, and there can be no assurance that we will be able to achieve the planned production. See “Risk Factors – Risks Relating to our Business and Industry – We face risks under our expansion program”.

BUSINESS

Coal Products

Our coals in the UHG deposit are Permian coals, which generally require washing before being sold as coking coal. Coking coals are produced as the primary product after washing and processing, providing a quantity of thermal coal from the remainder as a secondary product, known as middlings. Thermal coal is also available without processing from seams with poorer coking qualities. However, we intend to use our thermal coals in our onsite power plants and also blend them with our coking coals.

Currently, we are only able to produce unwashed coking coal. Upon completion of our coal handling and washing plant we will be able to produce and sell washed coking coals directly to the market. We expect the first 5.0 Mtpa processing capacity to be fully operational by early 2011 with the second and third phases of 5.0 Mtpa each to be operational in the second half of 2011 and by the end of 2012, respectively. Based on information we have collected up to the Latest Practicable Date, we anticipate being able to produce HCC, SHCC or thermal coal from our UHG deposit. The type of coal we produce will depend on the specific seam being mined at the time and adjustments to our coal handling and washing plant (once operational). We anticipate producing HCC from the coal mined from seams 0C, 3A, 3B, 3C, 4A, 4B, and 4C and thermal coal from our other seams and from the middlings produced by our coal handling and washing plant in 2013. See “Appendix V – Independent Technical Report”.

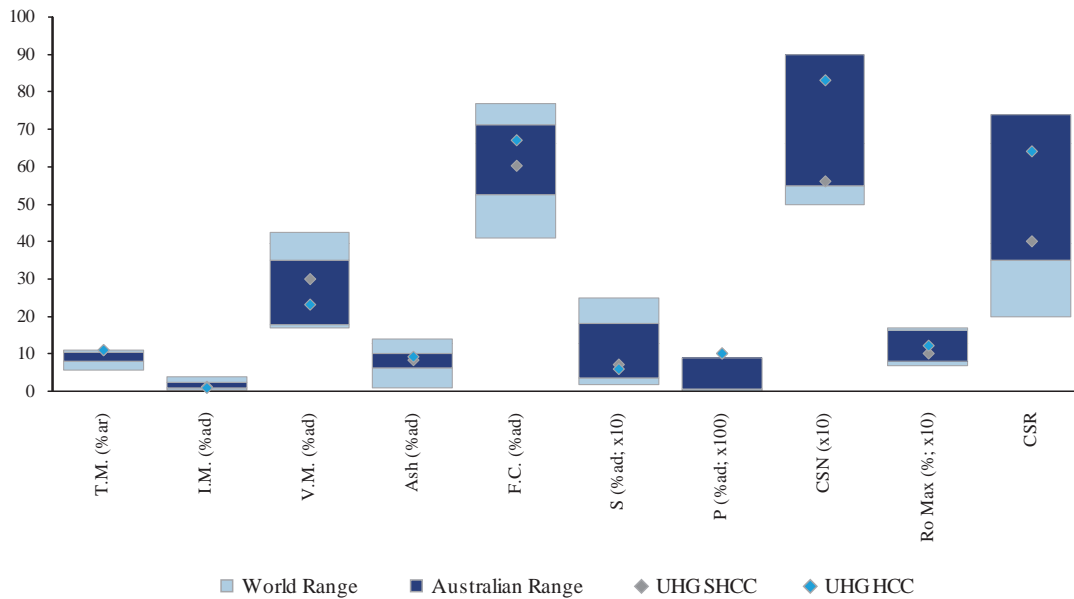
We are currently producing unwashed HCC. According to Wood Mackenzie, our HCC will likely be viewed by most consumers as high-quality coking coal and will be readily used by coke manufacturers in their coking operations both in China and abroad. The Chinese classification of coking coals differs from common international standards with many of the attributes that we test for are omitted. The following table compares our HCC with two well-known coking coal brands in China which share the same testing parameters as our HCC:

<u>Quality Attribute</u>	<u>Our HCC</u>	<u>Gujiao Coking</u>	<u>Shaqu Coking</u>
Ash % (ad)	9.1	9.5	8.8
Volatile Matter % (ad)	23	22.0	18.8
Total Sulphur % (ad)	0.60	1.00	0.50
CSN	8.5	7	8
Vitrinite Reflectance (Romax)	1.23	1.29	1.57

Our HCC will most likely compete directly with these (and similar) coking coals in the Chinese market. According to Wood Mackenzie, there are no outstanding quality characteristics that justify significant discounts (or premiums) to these premium brands of Chinese coking coals.

Extensive exploration and coal quality assessment indicates that our coal compares favorably with international coals. Our HCC ranks high in CSN parameter. Conversely, our coals rank at the lower end of sulfur content. With the exception of phosphorus content, our coals clearly fall within the acceptable to premium quality parameter ranges. According to Wood Mackenzie, our coking coals will compete favorably within a defined target market region in China which includes major steel mills who are the principal consumers of coking coal. In addition, according to Wood Mackenzie, while our thermal coal is expected to be of high quality, it will be less competitive (cost-wise) than thermal coal supplied by existing Chinese suppliers. The table below indicates how our coking coal may compare with international coals, including those from Australia.

Comparison of UHG Coking Coals with Australian and World Ranges



Source: Wood Mackenzie.

Note:

- T.M.: Total moisture
- I.M.: Inherent moisture
- V.M.: Volatile matter
- F.C.: Fixed carbon
- S: Sulphur
- P: Phosphorus
- CSN: Crucible Swelling Number
- Ro Max: Maximum vitrinite reflectance
- CSR: Coke Strength after Reduction

Mining Operations

General

We engage in open-pit mining at our UHG deposit with primary overburden stripping and coal mining being handled by hydraulic excavators and trucks. The typical open-pit mining process begins with land clearing, which is referred to as the “clear and grub” process. Top soil is then stripped from the area to be mined. A combination of drilling and blasting is then used to remove overburden. Coal is loaded by excavators into rear-dump haul trucks and deposited in our coal stockpile near our mine. Mining operations are conducted through two 12 hour shifts, 7 days a week, 365 days a year, subject to weather conditions.

We cooperate with Leighton, as our mining contractor and work closely with it in all aspects of our coal mining operations. Leighton is one of the largest mining contractors in the world. Actual mining activities are conducted by our employees who have been trained by Leighton personnel. As of the Latest Practicable Date, Leighton had committed to work with us to build out our coal production capacity to 15.0 Mtpa. Pursuant to the Leighton contract, we must advise Leighton in writing of our intention to renew the contract on or before December 31, 2013. Leighton must consider our request to renew the contract and the terms of the proposed extension in good faith.

Severe winter temperatures may result in the reduction of mining operations to protect our mining equipment and may impact flights to our private airstrip, which is located close to our mine. During the Track Record Period and up to the Latest Practicable Date, we suspended our mining operations for a total of six days due to inclement weather. We suffered no material losses due to the inclement weather, but there can be no assurance that inclement weather will not cause significant losses in the future.

Critical to our production capacity expansion to 15.0 Mtpa for the year ending December 31, 2013 will be the ability to acquire sufficient mining equipment. Leighton has agreed to procure the necessary amount of equipment to support this expansion. See “– Equipment”. In addition, in order to support this expansion, we will need to significantly improve our transportation infrastructure. We expect this to largely be supported by our paved road project and our proposed railway project. As of June 30, 2010, the balance of construction in progress in relation to the paved road was approximately US\$10.0 million and approximately US\$80.0 million has been committed. See “– Logistics and Transport – Road Paving” We estimate the total cost of constructing the proposed railway will be approximately US\$698.8 million, which will primarily include costs associated with: (1) construction of the railway; (2) construction of the main terminal, workshop, depots and other ancillary buildings; (3) acquisition of railway signals; and (4) the ownership and/or lease of 500 wagons and 20 locomotives. As one of our mine and transportation infrastructure development projects, we expect to finance approximately 30-50% of the railway construction costs with proceeds from the Global Offering. As of June 30, 2010, no amounts had been committed to this project. See “– Logistics and Transport – Railway”.

BUSINESS

Equipment

Substantially all of the principal mining equipment used in our UHG mine is sourced through Leighton. Leighton is one of the world's largest purchasers of mining equipment and is able to realize significant savings in equipment purchase cost. As of the Latest Practicable Date, the mining equipment used in our UHG mine consisted of the following:

Quantity	Equipment	Make/Model	Size
1	Hydraulic Shovel	Liebherr R996	33.0 m ³
2	Hydraulic Shovel	Liebherr R9250	15.0 m ³
1	Hydraulic Shovel	Liebherr R984	7.7 m ³
4	Mining Trucks	Caterpillar 793	240 tonnes
9	Mining Trucks	Caterpillar 785C	150 tonnes
4	Track Dozer	Caterpillar D10	22.0 m ³
1	Motor Grader	Caterpillar 14G	193 kW
1	Water truck	Caterpillar 773	50 tonnes
1	Rotary drill	Sandvik D45KS	152-299 mm (diameter)
2	Front end loader	Caterpillar 988	350 kW

All of this equipment is currently owned by Leighton. We expect the additional equipment needed for our production expansion to 10.7 Mtpa will principally include: 1) two Liebherr R996 hydraulic excavators; 2) fourteen Caterpillar 793 mining trucks; 3) seven Caterpillar 785C mining trucks; 4) three Caterpillar D10 tractor dozers; 5) one Caterpillar 992 loader; and 6) two Caterpillar 16M graders. Leighton has agreed to acquire such additional equipment to support the production ramp-up at our UHG mine. This additional equipment would also be owned by Leighton. As of the Latest Practicable Date, we had no intention of acquiring this equipment from Leighton.

We pay an hourly usage fee for the use of the Leighton owned equipment at the UHG mine. The fees reflect the depreciation, repair and maintenance, insurance and financing costs for the equipment. These fees are included in our mining costs. See "Financial Information – Factors Affecting Results of Operations and Financial Condition – Mining Costs".

Leighton provides us with consulting and support services, which include full technical review of any mining proposal from any stage of development, pre-feasibility and budget mining studies, pit, dump and hauling optimization, and mine design and mine planning and budgeting. In February 2009, we signed a mining contract with Leighton. As part of this contract, we agreed with Leighton on a process to establish and manage the relationships between clients and contractors and to implement proven practices and techniques to optimize project outcomes. This contract includes an arrangement for formalizing the risk-sharing arrangements, and is founded on the principle that there is a mutual benefit to the client and the contractor to deliver the project at the lowest cost. The contract with Leighton includes the following key provisions: (1) contract termination after four years at our discretion, (2) contract to "re-set" with significant capital expenditures from Leighton; and (3) an equipment buyback mechanism. Our contractual arrangement with Leighton allows us the flexibility to amend and renegotiate on the basis of our further ramp-up and increase in coal production

BUSINESS

volumes and connected with Leighton's equipment investment in our UHG mine. The contract may be terminated by us or Leighton for cause, or it may be terminated by mutual agreement in writing. On May 5, 2010, our contract was increased from 5.0 Mtpa to 10.0 Mtpa. On July 20, 2010, Leighton confirmed its commitment to support our production capacity increase up to 15.0 Mtpa. Pursuant to the Leighton contract, we have the option to buy all the equipment, spare parts and consumables Leighton has provided to us to be used in our mining operations. We would be able to acquire such assets for the written down value of each asset offered and pay the break costs of the leases and other associated expenses. The break costs of the leases are determined by reference to the present value of all unpaid lease payments. We have been in regular contact with Leighton since 2008 and entered into our formal mining contract with it in February 2009. See "Financial Information – Factors Affecting Results of Operations and Financial Conditions – Mining Costs".

We generally use the larger excavators and mining trucks to extract and transport overburden and use our smaller excavators and mining trucks for coal extraction and transport. While some of our smaller equipment will be slowly replaced, we will continue to use excavators and mining trucks of different sizes depending on practical necessity. We have worked together with Leighton to implement an equipment procurement and use schedule that will maximize the use of our existing equipment given our mine production ramp-up plans.

We pay Leighton on a monthly basis. These fees are recorded as mining costs under our cost of revenue. See "Financial Information – Factors Affecting Results of Operations and Financial Condition". Costs relating to Leighton include plant rate, wages of our mining contractor's expatriate staff and overhead and contractor fees. Plant rate primarily includes costs related to the depreciation, repair and maintenance of the mining equipment used at our UHG mine and also includes costs associated with major repair provisions, insurance and financing costs. The contractor fee is proportional to the mining contractor's agreed investment in the mining equipment, supplies and infrastructure used at our UHG mine. As of the Latest Practicable Date, Leighton had committed to procure sufficient equipment and services to us to support our production capacity build out to 15.0 Mtpa. Penalties for late performance under our contract with Leighton is reflected in the amount of contractor fees paid on each monthly period. In addition, prior to the mining contract with Leighton, we paid Leighton approximately US\$3.4 million for boxcut work in the year ended December 31, 2009.

Repair and maintenance

The repair and maintenance of our coal hauling trucks is conducted onsite near our coal stockpile. We only provide repair and maintenance services for our own coal hauling trucks. Leighton is responsible for the repair and maintenance of all the equipment it procures for our operations. In connection therewith, Leighton has signed maintenance and repair contracts with Liebherr and Caterpillar. Both equipment manufacturers have pledged to support their products within Mongolia, and have provided Leighton with preferential maintenance and repair contract pricing. We also have an onsite workshop for our mining equipment for routine repairs and maintenance.

Coal handling and washing plant

We are cooperating with Sedgman to construct a coal handling and washing plant. Sedgman is a market leader in the design, construction and operation of coal handling and washing plants. In 2009, we signed a US\$6.0 million contract with Sedgman covering Sedgman's work relating to the first 5.0 Mtpa module of our coal handling and washing facility. We initiated contact with Sedgman in 2008 and entered into our EPCM contract with it in February 2009.

With our coal handling and washing plant, we will be able to produce washed coking coals at consistent quality levels. As a result, we will be able to sell directly to end-use customers under our own brand. We believe this will significantly increase our market recognition and competitiveness.

The ramp-up of our coal handling and washing plant will coincide with the ramp-up of our coal mine production. The coal handling and washing plant will comprise the three processing modules of 5.0 Mtpa of ROM capacity and a single product handling system. The first 5.0 Mtpa module is expected to be fully operational in early 2011. The second and third 5.0 Mtpa modules are each expected to be operational in the second half of 2011 and late 2012, respectively. The second and third modules will be replicated from the first module and we intend to source the equipment from the same suppliers. Based on current ash assumptions, the coal handling and washing plant at its full capacity of 15.0 Mtpa of ROM infeed will be able to produce between 8.0-8.8 Mtpa of product coal on an air-dried basis. According to Norwest, our coal handling and washing plant is expected to yield 72% of washed coal which translates into 3.6 Mtpa upon completion of Phase 1, 7.2 Mtpa upon completion of Phase 2 and 10.8 Mtpa upon completion of Phase 3. We expect actual ash levels of our raw coals to be lower than our current assumptions, which would directly result in higher product coal yield.

We contracted with Sedgman pursuant to an EPCM contract for our coal handling and washing plant. The principal parameters for the construction of our coal handling and washing plant were as follows: 1) to include a coal processing plant, coal handling systems and related infrastructure; 2) to produce coking coal for export with 8% to 10% ash, thermal coals for either export or domestic use and middlings thermal coals; 3) to operate a minimum of 6,000 hours per year; and 4) to maximize coking coal recovery. We pay Sedgman on a monthly basis. Costs relating to the Sedgman contract include costs incurred during the front-end engineering, engineering design, procurement management, construction management and plant commissioning stages of the project. This EPCM contract expires on December 31, 2010 and we are currently in discussions with Sedgman to extend this contract. We sourced the equipment for our coal handling and washing plant from a large number of suppliers, including Ludowici Limited and Xstrata Technology Pty. Ltd, independent third parties recommended by Sedgman. We may terminate the contract without cause upon giving a thirty day written notice to Sedgman.

BUSINESS

We completed the concrete foundation work for our first 5.0 Mtpa module in December 2009. As of mid-2010, structural steel is being installed and all major processing equipment is being manufactured and shipped to our UHG site.

We estimate the total cost of constructing our coal handling and washing plant will be approximately US\$343.8 million. We intend to finance the first module of our coal handling and washing plant with borrowings and cash flow from operations. As each module should be identical to the first module, we anticipate each module to cost approximately US\$64-78 million (which figure does not include capitalized costs, interest, certain labor costs and others). We expect to fund the second and third modules with a combination of borrowings and cash flow from operations. As of June 30, 2010, the balance of construction in progress relating to this project was approximately US\$27.5 million and approximately 15% had been committed to complete the plant. We intend to incur the remaining amounts in accordance with its project development schedule. As one of our mine and transportation infrastructure projects, we expect to finance approximately US\$80 million of our coal handling and washing plant with proceeds from the Global Offering.

According to Norwest, the cash costs of operating our coal handling and washing plant will likely range between US\$2.00 to US\$2.30 per ROM tonne of coking coal processed. See “Appendix V – Independent Technical Report”. According to Norwest, the cost structure breakdown will be approximately 8% labor, 6% materials, 35% utilities, 38% maintenance and 13% overhead.

Power plants

We commenced construction of a 3x6MW on-site power plant in August 2009. We intend to complete construction of this power plant in three phases ending 2011. The on-site power plant will principally be used to power our coal handling and washing plant and also provide excess power to areas around the mine. The power plant will use middlings from our coal handling and washing plant and is designed to comply with applicable environmental regulations of the World Bank and other international institutions. We have contracted with Chengdu Engineering to design the power plant and Parsons Brinckerhoff to review such design. Parsons Brinckerhoff has agreed to provide technical advisory and support services with respect to the completion of design review for the 2x6 MW power plant. As of June 30, 2010, the contract had been completed and we had paid US\$0.6 million in connection with these services. This was paid in stages of the power plant project. We will source our boilers from China Western Power Industrial Co., Ltd. (formerly Dongfang Boiler Industry Group Co., Ltd), turbines and generators from Hangzhou Steam Turbine Co., Ltd. and Hangzhou Generator Co., Ltd. and the air cooled condenser from GEA Shanghai. The contract may be terminated by us or Parsons Brinckerhoff with a thirty day written notice upon the occurrence of certain events, such as breach of the other party or bankruptcy.

The concrete foundation work for the power plant has been completed in December 2009, and as of the Latest Practicable Date, contractors installed all three boilers, all structural steel installation had been completed, the 50m power plant chimney had been completed and we were in the process of surface shedding building.

BUSINESS

We estimate the total cost of constructing our power plant will be approximately US\$40.9 million. We intend to finance our power plant with borrowings and operating cash flows. As of June 30, 2010, the balance of construction in progress relating to this project was approximately US\$18.3 million and approximately 100% had been committed to construct the facility. We intend to incur the remaining amounts as the project progresses to completion.

Water supply facility

We will need a steady supply of water to be used in our coal handling and washing plant and as our production capacity expands, we will need increased amounts of water for dust suppression, power stations and domestic use. We have contracted with Aquaterra to design our water supply facility. We have signed a consultancy service contract with Aquaterra, under which Aquaterra has undertaken to design the local control measures to manage contaminated water at individual process facilities. The terms of our contracts with Aquaterra are between one month to one year. As of June 30, 2010, the balance of construction in progress relating to services provided by Aquaterra was approximately US\$2.0 million. Some of the payments were paid upon completion, while others were paid in stages of the provision of their services. We have commenced construction of a water supply facility in early 2010 and intend to complete construction of our water supply facility by the early 2011. The contract may be terminated by Aquaterra with cause or through a written notice by us without cause.

We estimate the total cost of constructing our water supply facility will be approximately US\$48.7 million. We intend to finance our water supply facility with borrowings and operating cash flows. As of June 30, 2010, the balance of construction in progress relating to this project was approximately US\$8.0 million and approximately 63% had been committed to construct the facility.

Suppliers

Our suppliers include our contractors, fuel suppliers and suppliers for equipment and ancillary materials. For the two years ended December 31, 2009 and the four months ended April 30, 2010, our five largest suppliers accounted for approximately 0%, 51% and 54% respectively, of our total purchases, while the largest supplier accounted for approximately 0%, 20% and 23%, respectively, of our total purchases for the same periods. During the Track Record Period, our five largest suppliers were MCS Property, Gobi Oil, Major Drilling, Leighton and Sedgman. MCS Property provided us the concrete for the coal handling and washing plant and power plant's foundation work, served as the general contractor for our heavy mining equipment workshop, mine camp facility and supervised our airstrip and terminal building construction. Gobi Oil is a joint venture between two of our beneficial owners, Shunkhlai Mining LLC and Petrovis LLC. Gobi Oil has been providing fuel for us since late 2008 and the fuel supply contracts we signed with them were each on an arm's length basis.

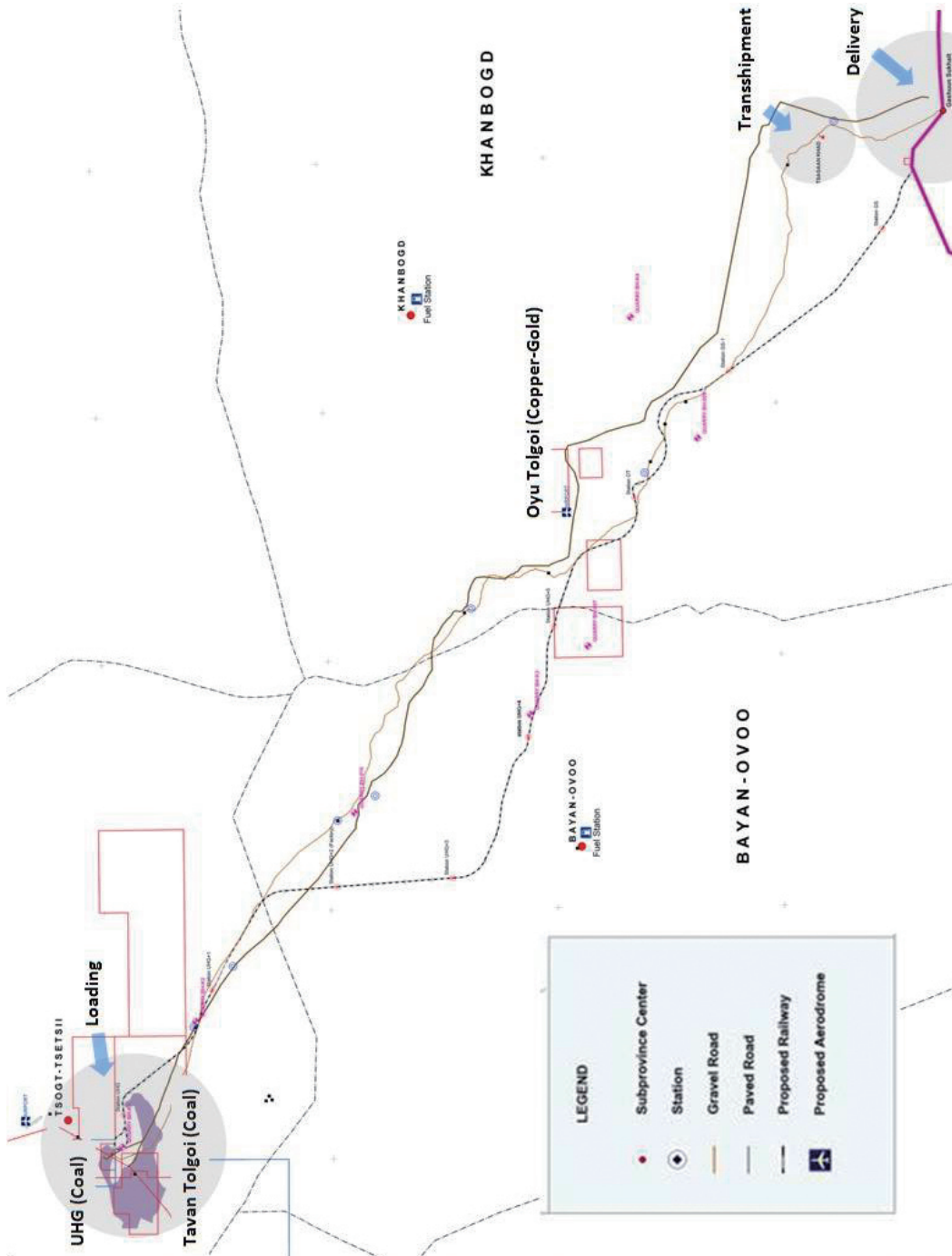
BUSINESS

The principal terms of our long-term contracts with suppliers and contractors are the terms of payment, delay penalties, testing and commissioning and acceptance of the completion. In general, we require a minimum performance security from the supplier and contractor prior to the commencement of the contract. There are normally payment requirements pursuant to the contract for advance, final and interim payments. Most of our contracts contain penalties for delayed performance by our suppliers and contractors. Testing and commissioning are conducted on a regular basis and any defects or failure in the performance of a work or delivery of a product is the responsibility of the supplier or contractor. Once the contract is completed, we will grant a completion certificate to evidence that all work or all product has been completed or delivered.

Logistics and Transport

Our coal is hauled by trucks from our UHG deposit to our trans-shipment stockpile at TKH located approximately 21km from the Mongolia-China border crossing, then to GS where it is further trans-shipped to markets in China.

We commenced construction of a paved road parallel to the existing coal transport gravel road from our UHG deposit to GS and expect to complete a substantial portion of our paved road by the end of 2010. We expect this paved road to be able to transport up to 18.0 Mtpa, which is enough to cover our own use at approximately 10.0 Mtpa. In order to increase transportation capacity, improve reliability and reduce transportation costs, we also plan to commence construction of a railway directly from our UHG deposit to GS in 2011-2012. The railway is expected to have a capacity of 15.0 Mtpa once completed, upgradeable to 30.0 Mtpa. While the railway is intended to primarily serve our own operations, any excess will also be able to serve other mines. See “Risk Factors – Risks Relating to Our Business and Industry – We are not sure when we can commence construction of our railway”. We have received license and land use rights to construct the railway. See “– Railway”.



Currently, the border crossing at GS is open six days a week for approximately 10 hours a day. While we do not expect this to be a significant bottleneck for our coal transportation in the near future, the Chinese and Mongolian authorities are currently in discussion to make this border crossing open seven days a week for 24 hours a day. At the current operating hours, we believe the border is able to handle approximately 10.0 million tonnes of coal a year. An improvement in the border crossing capacity will allow us to continue to increase the amount of coal we ship to China as we build out our production capacity.

BUSINESS

Once our coal crosses the Mongolia-China border, it is transported by trucks to Jinqian, Inner Mongolia, then to the city of Baotou, Inner Mongolia. Proximity to Baotou is of strategic importance to Mongolian coking coal producers for its railway network which provides access to the largest steel producing provinces of China, such as Hebei and Jiangsu. Through Baotou, our coals can be transported by rail to the ports of Tianjin, Qinhuangdao, and Huanghua, which, we believe, will allow our coals to be sold in the international seaborne market.

We are currently working with the Mongolian customs office to establish customs bonded yards in our UHG mine. This would allow our coking coals to clear customs onsite, greatly improving the border crossing rate at GS and increasing the total amount of coking coal we are able to sell into China.

Trucking fleet

Currently, our coal is transported from our UHG deposit to TKH using approximately 500 trucks. We own 107 of these trucks, while the others are owned and operated by our customers or contract trucking companies. From TKH, a separate fleet of approximately 400 trucks is used to transport our coal to GS. Each truck can carry approximately 80-100 tonnes of coal. With approximately 900 trucks serving UHG-GS, our current overall hauling capacity is approximately 3.5-4.0 Mtpa, using the existing gravel road. As of the Latest Practicable Date, the existing gravel road itself had a capacity of approximately six to seven Mtpa. As the actual number of trucks needed each month varies depending on our coal production, we maintain flexible arrangements with our customers since they have the largest number of trucks in both sections, enabling them to quickly respond to changes in the number of trucks we need.

We commenced coal production in April 2009. For the year ended December 31, 2009 and the four months ended April 30, 2010, we had coal trucking capacity of approximately six to seven Mtpa representing the total hauling capacity of the existing gravel road. As of the Latest Practicable Date, we had experienced no difficulty securing coal trucking capacity sufficient for our coal production. We anticipate that we will need approximately 400 and 500 trucks for the years ending December 31, 2011 and 2012, respectively. In line with our increased production, we intend to acquire an additional 100 trucks by March 31, 2011 and to request additional trucking capacity from our trucking contractors and customers. We intend to acquire trucks with double trailers that will increase the pay load of each truck. At the same time, we will request our customers and trucking contractors to acquire similar trucks. As of the Latest Practicable Date, we had entered into transportation agreements with three different trucking contractors. In cases where transportation arrangements are provided by our customers, we apply similar pricing arrangements as those in place with our trucking contractors. We have allocated US\$10.0 million for the acquisition of 100 trucks at a purchase price of US\$100,000 per truck, which will be financed by lease arrangements, bank loans and cash flows from operations. We have also held discussions with our customers and trucking contractors regarding the possibility of expanding their trucking fleet for our expanding coal output because of our need for more efficient trucks with lower axle loads and higher pay loads. Our customers and trucking contractors have preliminarily agreed to expand their trucking fleets with more efficient trucks.

BUSINESS

As of the Latest Practicable Date, 69 of our own trucks were licensed to cross the Mongolian-China border at Ganqimaodu. We are in the process of obtaining the same border crossing licenses for our remaining trucks and have recommended our contract trucking companies to obtain such border crossing licenses for their own trucks.

From the commencement of operations on April 6, 2009 to the Latest Practicable Date, we produced approximately 4.2 million tonnes and shipped approximately 4.0 million tonnes of coking coal. We have not experienced any serious transportation bottlenecks between our UHG mine and GS since our commencement of operations. While we experienced minor bottlenecks caused by inclement weather which slowed down our loading and unloading of coal, we were able to work through these problems with minimal disruption to our operations.

Two main factors determine transportation capacity: (1) road capacity, and (2) trucking capacity. We believe that the paved road will have a total transportation capacity of 18.0 Mtpa by 2011, of which 10.0 Mtpa will be available for our use. Our expansion plan is to be able to produce 14.7 million tonnes of ROM coal in the year ending December 31, 2013, which would be processed and washed prior to shipment. We expect to be able to produce approximately 10.0 Mtpa of washed coal to be delivered on the paved road. Therefore, we believe the paved road is sufficient for our capacity expansion to 15.0 Mtpa of ROM coal. Although we expect that we could still use the original un-paved road, we believe that road capacity will not affect our expansion plans. In addition, we have not historically encountered problems procuring trucks to haul our coal, nor do we expect to experience such problems in the future. Therefore, we do not expect that transportation constraints will have any significant effect on our expansion plans.

Our transportation costs were approximately US\$14.20 and US\$17.80 per tonne, for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively. Transportation costs borne by us are included in cost of sales. In the year ended December 31, 2009, our average selling price was US\$56.0 per tonne when we managed and organized the transportation of our coal in Mongolia, and US\$42.3 per tonne when the customer managed and organized the transportation of our coal in Mongolia. The transportation costs borne by our customers are reflected in a reduction in the average selling price. We do not deliver our coal to locations within China. We manage and organize the transportation of our coal in Mongolia. Once our coal crosses the border into China, the customer is fully responsible for the transportation. See “Financial Information – Factors Affecting Results of Operations and Financial Conditions – Average Selling Prices” and “– Transportation Costs”.

Road paving

The existing gravel road we use for coal trucking is also used by the existing small coal mine operated by Small TT. Our drivers typically drive this approximately 250km route at an average speed of 20-30km/hr when loaded and 40-50km/hr on return.

In order to increase transportation capacity, improve reliability and reduce transportation costs, we commenced construction of a 245km paved road parallel to the existing coal transport gravel road from our UHG deposit to GS. We have already obtained the construction license

BUSINESS

and land use rights for our paved road. We paid no consideration in connection with obtaining land use rights for the paved road, but we pay the MNT1.6 million (US\$1,134.6) per annum land use fee for the land use rights for our paved road. We expect to complete a substantial portion of our paved road by the end of 2010. Once completed we expect it to have the capacity to transport up to 18.0 Mtpa. We engaged Leighton to conduct a study relating to the feasibility of our paved road project. We have signed a contract with the Government of Mongolia on a BOT basis for ten years from the date of the commissioning of the road whereby we will be able to charge tolls for operating such road. We were granted our construction license through a formal decision by the Government of Mongolia dated March 31, 2010 (Resolution No. 83), and the license was effective on the date of the decision. The BOT contract was executed on June 9, 2010, and the contract was effective on the date of execution. We intend to use a portion of these tolls to offset the costs we incur to construct, maintain and operate this road. Prior to the completion of our railway project, we anticipate using this road as our primary transportation link to China. We anticipate that our paved road project, once completed, will significantly increase the amount of coal we are able to sell and reduce our transportation costs thereby having a direct positive impact on our profitability. Most importantly, this paved road will significantly reduce the negative environmental and social impacts caused by coal trucking operations on the existing gravel road.

Other principal terms of the BOT contract we signed with the Government of Mongolia include: (1) as the road is deemed a private project and not a public infrastructure project, there are no investment or financial conditions for its use; (2) completion timetable of 24 months from the execution of this agreement; (3) our road operating subsidiary, Gobi Road LLC (“Gobi Road”) has the right to set toll fee in order to recover its investment in the road; and (4) Gobi Road is licensed to: (a) use private funds to build the road; (b) possess, use, operate the road and charge road user toll fees for 10 years after the road is commissioned for service; and (c) transfer the road to the Government of Mongolia upon expiration of the ten year term. We expect to recover the cost of construction within the ten year period as we have the flexibility to set the toll fee at a level that would allow us to recover our costs within ten years of commissioning. In addition, we are not required to make any payments to the Government of Mongolia under the BOT contract.

Gobi Road, its investors and contractors will have priority use of the road. If excess capacity is available, Gobi Road may allow any other third parties licensed to engage in transportation activities under the relevant Mongolian laws, to use the road on a toll fee basis. Toll fees would be set by us independently at a level determined to at least recover our investment costs in this project. There is no renewal clause in the BOT contract. After ten years from the commissioning of the paved road has passed and the paved road is transferred to the Government of Mongolia, we expect to be able to continue using the paved road upon payment of the Government of Mongolia’s set tolls and tariffs. In addition, by that time, our railway should have been completed and in full use thereby significantly reducing our reliance on the paved road to transport its coal. There will be no consideration paid by the Government of Mongolia to us when we transfer the road after ten years of operations.

BUSINESS

Construction of the road commenced in May 2010. We have begun clearing construction sites, potential quarry locations have already been identified, water surveys are being carried out and key materials (cement and bitumen) have been ordered and are in transit. In addition, we have already conducted environmental and social impact studies and have prepared mitigation plans. We have also already reached agreement with the local authorities in relation to quarry and water usage and the construction of temporary workers' camps.

In April and May 2010, we entered into agreements with Leighton to prepare a feasibility study for our paved road and to manage the construction of our paved road, which included overseeing construction implementation, quality assurance and scheduling. Fees payable to Leighton pursuant to this contract are monthly payments of MNT134 million plus applicable VAT. The total contract value is US\$95,800 plus 10% of VAT payable in monthly installments.

We estimate the total cost of constructing this paved road will be approximately US\$147.0 million. We intend to finance approximately 25% of the cost of our paved road with operating cash and approximately 75% with existing borrowings. A portion of the costs may be financed by joint venture arrangements with other users of this road. As of the Latest Practicable Date, we remain in discussion with potential joint venture parties, but no joint venture entities have yet been formed or agreed upon. However, this will not delay our construction progress. As of June 30, 2010, the construction in progress in connection with this project was approximately US\$10.0 million, and approximately US\$80.0 million had been committed. Approximately 85% of this committed amount is expected to be used in the year ending December 31, 2010, with the remainder to be spent in the year ending December 31, 2011.

Railway

In order to lower transportation costs and increase reliability and operational efficiency, we intend to construct a railway directly from our UHG deposit to GS in 2011-2012. See "Risk Factors – Risks Relating to our Business and Industry – We are not sure when we can commence construction of our railway". We engaged Deutsche Bahn, a German national railway company, to conduct a feasibility study for the railway and outline design. The terms of our contracts with Deutsche Bahn are between two weeks to one year. For the six months ended June 30, 2010, the services provided by Deutsche Bahn amounted to approximately US\$3.6 million. This was paid in stages of the provision of their services. We selected Snowy Mountain Engineering Corporation ("SMEC") to develop a detailed railway design and appointed Leighton as the construction contractor for this railway project. The railway will be approximately 240km in length and will be used to transport coal and other minerals into China and ultimately to other international seaborne markets through GS. Based on the feasibility study conducted by Deutsche Bahn, we expect to use approximately 500 wagons and 20 locomotives on this railway. The contract may be terminated by us or Deutsche Bahn with a thirty day written notice upon the occurrence of certain events, such as force majeure or breach of the other party.

BUSINESS

The Government of Mongolia issued Resolution 252 dated June 18, 2008 granting us the license to build our railway base infrastructure between UHG and GS for a three year term from January 19, 2009. We entered into the license agreement for railway construction with the Railway Authority of Mongolia on September 5, 2008 and a detailed supplement to the license agreement on January 19, 2009. The key terms of such license agreement include: (1) our pre-emptive right to use the railway; (2) if excess capacity is available, we can allow third parties to use the railway; (3) tariffs for the access of infrastructure and transportation will be set by us in accordance with Mongolian laws based on commercial principles; and (4) the majority ownership of the railway infrastructure will be transferred to the Government of Mongolia after 30 years.

The commercial principles to be used to guide our tariff settings are demand, cost and competitive alternative considerations. The Government of Mongolia does not have any direct influence on the tariff, aside from stipulating that it must comply with relevant laws and regulations (i.e., the unfair competition law). However, the Government of Mongolia will set a formula to determine the access fee (tariff) for use of the railway base infrastructure. The formula to be used to calculate the fee has not been set and the Government of Mongolia intends to seek assistance from international experts to help develop such formula. Aside from this formula, railway usage fees will be set independently by the railway operator.

According to current agreed terms of such license agreement, the majority ownership of the railway infrastructure will be transferred to the Government of Mongolia 30 years after the date of commissioning. The amount of consideration and other terms relating to this transfer are not currently specified in such agreement, but we expect to engage directly with the Government of Mongolia when the contract term nears completion. There is no renewal clause in such agreement.

We hold the land use rights for the land strip underlying the intended railway of 6,740 hectares for 60 years commencing August 7, 2009. Upon obtaining these land use rights, we did not pay any consideration to the Government of Mongolia. Under relevant laws and regulations, we are obligated to pay land use fees on a quarterly basis. We paid no consideration in obtaining land use rights for the railway, but the land use fee associated with the land use rights for the railway is MNT27.2 million (US\$19,287.6) per annum which we anticipate paying once we commence use of the railway.

This single-line heavy-haul, freight railway will take approximately two years to complete from the construction commencement date, which capacity will be able to support 15.0 Mtpa upon completion and could be upgraded up to 30.0 Mtpa. We have the first right to use the capacity of the railway. While the railway is intended to primarily serve our operations, it will be able to serve other mines if excess capacity exists.

An inter connecting railway to the Mongolia-China border from the China-side is one of our key considerations in deciding whether to go forward with the project. Our coking coal must pass through Baotou in order to reach the largest steel producing provinces of China. The PRC Ministry of Railway has commenced construction of a railway connecting Ganqimaodu

BUSINESS

to Xixiaojie that passes through Jinquan, Inner Mongolia. The PRC Ministry of Railway already operates a railway between Xixiaojie and Baotou. Completion of the Ganqimaodu-Xixiaojie railway would allow our coals to travel from Ganqimaodu to Baotou using the PRC Ministry of Railway's railway. Shenhua Group has also commenced construction of a railway connecting Ganqimaodu to Baotou. In order to use the Shenhua Group railway, we would need to obtain the consent of Shenhua Group.

Mongolia and China are both members of international conventions and parties to bilateral treaties and have been working together for the last 50 years on railway interconnection, border crossing and transit initiatives. Building and connecting new railway networks to the Mongolia-China borders are a focus of both governments and they have been successful in connecting railways from both countries at the Mongolia-China border crossing at Erlian. A number of bilateral trade, economic and other agreements were entered into in connection with the Erlian border crossing in order to realize its value for both countries. Both the Mongolian and Chinese governments have indicated their interest in replicating the success of Erlian to other border crossings such as GS-Ganqimaodu and SK-Ceke. As evidenced by the commencement of construction of a Ganqimaodu railway by the PRC Ministry of Railway and the Shenhua Group (as announced in January 2009), we believe both governments will continue to work together to create more railway border crossings between Mongolia and China (including the GS-Ganqimaodu border crossing).

In early 2010, the Ministry of Road and Transport of Mongolia presented a new policy paper to the Government of Mongolia regarding the proposed expansion and development railway network in the country. The policy paper was to consider the need for new railway infrastructure for new mining projects being developed or planned around the country. As Mongolia is a broad gauge country using Russian railway technology, and the proposed railways target standard gauge system, the Ministry of Road and Transport of Mongolia also wanted to set a clear policy on the efficient interconnectivity and interoperability of the country's rail systems. Although we have obtained key licenses to proceed with the railway construction, we decided to delay construction to allow the Government of Mongolia to present its policy paper. Recently, the Parliament of Mongolia passed a resolution announcing its railway development policy. According to the policy, railway development will be conducted in three stages: (1) Tavan Tolgoi-Sainshand-Choibalsan (railway to be started in 2010); (2) our UHG-GS railway and other railways that go directly to the border of Mongolia; and (3) railways going to western Mongolia from Tavan Tolgoi. Also, the policy specified that Russian gauge rails would be used for crossing or connecting to existing railways, and use of standard gauge rails at the border will be discussed and decided by the Parliament of Mongolia at a later time. The timing to start construction and the gauge of those railways in the second stage shall be determined by Government of Mongolia at a later stage. We expect to commence railway construction after the commencement of the first stage of the aforementioned railway development policy.

Prior to the delay in our railway project, we were in contract negotiation with Leighton and SMEC for the design and construction of key aspects of our railway project. As of the Latest Practicable Date, these discussions were still suspended. In addition, we signed a

BUSINESS

consulting contract with Deutsche Bahn. Under the contract, at the early stages of the railway project, Deutsche Bahn will assist us when we visit suppliers, contractors and potential operators or investors. Deutsche Bahn's role will also include identifying the authorities and responsibilities of the parties and participants, establishing a tender schedule, coordinating the schedule with the project schedule, and issuing the invitation to tender.

We estimate the total cost of constructing the railway will be approximately US\$698.8 million, which will primarily include costs associated with: (1) construction of the railway; (2) construction of the main terminal, workshop, depots and other ancillary building; (3) acquisition and installation of railway signals and communication; and (4) the ownership and/or lease of 500 wagons and 20 locomotives. As of June 30, 2010, no amounts had been committed to this project. We intend to finance approximately 50-70% of our railway with borrowings and approximately 30-50% with proceeds from the Global Offering and our operating cash flows. As of June 30, 2010, the balance of prepayments related to this project was approximately US\$10.6 million.

Capital Expenditures

For the year ending December 31, 2010, our major planned capital expenditures total US\$279 million, approximately 80% of which is expected to be funded by bank loans and the remainder to be funded by cash flow from operating activities. In connection with our current plans for mine and transportation infrastructure development beyond 2010, we expect our capital expenditures to the end of 2013 to be approximately US\$1.1 billion to US\$1.3 billion, approximately 20% of which would be funded by proceeds from the Global Offering, 50% of which would be funded by borrowings and 30% of which would be funded by our operating cashflows and additional fundraising activities. The foregoing percentages are estimates only and are subject to adjustment to reflect developments in our business and industry.

(US\$ million)	Commencement date	Completion date	Total capital expenditure budget	Construction in progress/property and equipment cost and other non-current assets balance as of June 30, 2010	Capital committed as of June 30, 2010	Capital expenditure time schedule ⁽³⁾				
						Year ending December 31,				
						2010 ⁽⁴⁾	2011	2012	2013	2014
						(Forecast)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
Coal handling and washing plant	August 2009	1st module in early 2011	343.8	27.5	50.2	116.4	105.6	114.2	5.2	2.3
Road ⁽¹⁾	May 2010	End of 2010	147.0	10.0	80.0	68.2	36.9	5.1	30.1	6.7
Water supply	April 2010	Early 2011	48.7	8.0	30.6	24.1	4.1	19.5	1.0	-
Power plant	August 2009	End of 2011	40.9	18.3	40.9	36.4	4.5	-	-	-
Property (camp, airport and workshop)	June 2010	Early 2011	5.9	-	-	5.9	-	-	-	-
Railway	2011-2012	2013-2014	698.8	10.6	-	1.8	380.0	288.0	21.0	8.0
Trucks and equipment	N/A	N/A	13.4	0.9	-	3.4	10.0	-	-	-
Others ⁽²⁾	N/A	N/A	75.9	1.3	-	23.0	20.1	13.7	9.7	9.5
Total						<u>279.2</u>	<u>561.2</u>	<u>440.5</u>	<u>67.0</u>	<u>26.5</u>

BUSINESS

Notes:

- (1) Includes 100% share of paved road related costs*
- (2) Others include capitalized expenses related to township development, explorations activities and studies*
- (3) Capital expenditure schedule for 2011 to 2014 based on estimates included in "Appendix V – Independent Technical Report"*
- (4) 2010 capital expenditure based on audited historical capital expenditure for the four months ended April 30, 2010, actual results for the two months ended June 30, 2010, and management estimates for the six months ending December 31, 2010*

Marketing and Sales

For the year ended December 31, 2009, we sold our coal principally to coal traders, iron and steel mills and coke and chemical plants. For the year ending December 31, 2010, we are selling approximately 60% of our intended coal production to end-use customers and the remainder through coal traders. Our total revenues were derived from four and five customers for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively. For the year ended December 31, 2009 and the four months ended April 30, 2010, revenue from our single largest customer represented approximately 39% and 43% of our revenues for those periods, respectively. For the two years ended December 31, 2009 and the four months ended April 30, 2010, our five largest customers accounted for approximately 0%, 100%, and 100%, respectively, of our total revenues. We plan to sell our high-quality coking coal into China pursuant to long-term agreements with a diversified group of end-use customers, including, iron and steel mills and coke and chemical plants. Even in our sales through coal traders, we have made the identification of our actual end-use customers a priority and will endeavor to contract with them directly. We recognize the importance of coal traders and will continue to use them in the future in order to support our transportation and logistics. Although we believe there is sufficient demand for our coking coal in China, we also expect to supply our coal to the international seaborne market as part of our long-term customer-base diversification strategy.

The principal terms of our customer sales and purchase contracts include: (1) specified volumes; (2) contract prices linked to existing market prices which are subject to periodic review; (3) credit terms limited to one month or less; and (4) delivery at TKH and DAF. We recognize sales when the risks and rewards of ownership of the coal have been passed to the customer, which is typically upon delivery of the coal to the respective customers. Our coal is priced off of a combination of the benchmark market prices for coking coal sourced from Baotou, Tangshan, Shanxi and Australia.

With our coal handling and washing plant, we will be able to produce washed coking coals at consistent quality levels. As a result, we will be able to sell directly to end-use customers under our own brand. We believe this will significantly increase our market recognition and competitiveness.

BUSINESS

Customer Base

The table below sets forth our major customers and the quantities we have agreed to sell to them:

Customer	Effective Date	Duration of Contract	Contract terms
Baogang (Steel Mill/End-User)	October 22, 2009	10 Years	500,000 to 2,000,000 tonnes per year based on market prices (contracted with Puxing (Baogang's subsidiary and designated coal trader) for 500,000 tonnes for 2010)
Customer A (Steel Mill/End-User)	May 24, 2010	5 Years	500,000 to 2,000,000 tonnes per year based on market prices reviewed quarterly with a price floor
Shagang (Steel Mill/End-User)	June 11, 2010	10 Years	minimum 600,000 tonnes per year based on market price reviewed quarterly with a price floor
Qinghua (Coke and Chemical Plant/End-User)*	October 17, 2008	10 Years	800,000 tonnes in 2009 based on market prices reviewed monthly with a price floor At least 1.5 million tonnes of raw coal in 2010 based on market prices reviewed quarterly At least 2 million tonnes of washed coking coal in each year beginning and including 2011
Risun Coal Chemicals Group (Coke Plant)	September 9, 2010	5 Years	500,000 to 2,000,000 tonnes per year based on market prices
Winsway (Coal Trader)	February 1, 2010	1 Year	1,500,000 to 2,000,000 tonnes of coal in February 2010 – February 2011 at market prices reviewed quarterly with a price floor

* According to the abovementioned long term contract, Qinghua is required to make certain prepayments. As of April 30, 2010 the prepayment balance was approximately US\$15 million (RMB100 million), which is regarded as long term payables. We sold 297,968 tonnes and 631,505 tonnes of coal to Qinghua in the year ended December 31, 2009 and the six months ended June 30, 2010, respectively.

BUSINESS

For the year ended December 31, 2009 and the four months ended April 30, 2010, we generated approximately 45% and 68%, respectively, of our revenues from coking coal delivered under our long-term coal sales contracts, and we expect to continue selling significant amount of our coking coal under long-term coal sales contracts in the future. We define long-term contracts as those with a term of one year or longer and these contracts have terms ranging from one to ten years. For the years ending December 31, 2011, 2012 and 2013, we have long-term coal sales contracts that represent at least 95%, 95% and 95%, respectively, of our 2010 estimated coal production of 3.8 million tonnes. During the years ending December 31, 2011, 2012 and 2013, we have committed to deliver at least 3.6 million tonnes of coking coal each year under our existing long-term coal sales contracts.

Our long-term sales contracts have average selling prices that are linked to market prices which are subject to periodic review. All of our contracts set forth a price floor no lower than US\$46.5 per tonne of raw coal in 2010. We expect to renegotiate these price floor provisions once we begin to sell washed coal. Price floors are negotiated and determined with reference to historical prices and fluctuations, cost of the competitors in the same industry, current market conditions and forecasts of future trends.

The terms of our coal sales contracts result from competitive bidding and negotiations with customers. As a result, the terms of these agreements – including price floors, coal quality requirements, quantity parameters, transportation means, permitted sources of supply, settlement of disputes, force majeure, confidentiality and non-disclosure, termination and assignment provisions – vary by customer.

Quality and volumes for the coal are stipulated in our coal sales contracts, and in some instances our customers have the option to vary annual or monthly volumes. Most of our coal sales contracts contain provisions requiring us to deliver coal within certain ranges for specific coal characteristics such as total moisture, ash, volatile matter and sulphur content. Some of our coal sales contracts specify approved locations from which coal must be sourced. Failure to meet these specifications can result in economic penalties, suspension or cancellation of shipments or ultimately termination of the agreements. Some of our contracts set out mechanisms for temporary reductions or delays in coal volumes in the event of a force majeure, including events such as fire, flood, war, conflict, military actions, quarantine, natural disaster, strikes, uprising, rioting, demonstration, epidemic, explosion, introduction of a ban or prohibition, or any other conditions beyond the control of any party. The party who is not able to perform its obligation due to force majeure shall deliver within five working days after the occurrence of the force majeure factor a confirmation issued by a relevant authorized organization of the relevant country to the other party in writing. Furthermore, some of our contracts stipulate that in the event our customer fails to pay us, we have a right to terminate the contract upon giving sufficient notice.

Under the liabilities and termination clause of our annual sales and purchase agreements, the customer has the right to send notice and request redemption if we fail to honor the agreed sales volume for a specified period of time. Furthermore, if we fail to respond to the notice within a time frame set by the customer, the customer has the right to request that the contract terminate upon reasonable notice.

BUSINESS

For the year ended December 31, 2009, approximately 46% of our revenues were derived from sales to direct end-user customers and the remainder was sold to coal traders. For the four months ended April 30, 2010, approximately 67% of our revenues were derived from sales to direct end-user customers and the remainder was sold to coal traders. As stated in the above table, our average selling prices were all based on market prices which are subject to periodic review. Some of our contracts stipulated a price floor, but average selling prices during the Track Record Period never decreased to a point below any of the price floors.

For the years ended December 31, 2008 and 2009, we had one and four customers, respectively. Our one customer in the year ended December 31, 2008 was Qinghua. We did not recognize sales and revenue in 2008 because the coal was not delivered in 2008. We only record revenue when coal is delivered. Our four customers in the year ended December 31, 2009 were Baogang, Qinghua, Sinoglory, Winsway and Customer A. As of the Latest Practicable Date, we had 17 customers. As of the Latest Practicable Date, we have entered into long-term agreements with most of our end-use customers which included Baogang, Shagang, Risun and Qinghua. Our major customers during the Track Record Period are described below:

Baogang

We signed a long-term sales contract with Baotou Iron and Steel (Group) Co., Ltd, a member of the Baogang Group which is located in the Hexi Industrial Zone in Inner Mongolia. The Baogang Group is a public company engaged in steelmaking and rare earth production. Based on public information, the Baogang Group has a steel production capacity of 10 Mtpa and an iron and rare earth production capacity of 0.2 Mtpa.

Shagang

We signed a long-term sales contract with Shagang, located in Jiangsu, China. It is a private company engaged in the production of steel and steel product sales. Based on public information, Shagang has a steel production capacity of 35 Mtpa.

Qinghua

We signed a long-term sales contract with the Inner Mongolia Qinghua Group, a large resource-oriented enterprise with several affiliated coal and iron ore mines across Inner Mongolia, Qinghai, Ningxia and Xinjiang. It is a private enterprise engaged in mining, mineral processing, coke production and is engaged in chemical industry. Based on public information, Qinghua has a coke production capacity of 8.5 Mtpa, iron production capacity of 1.8 Mtpa, methanol production capacity of 0.1 Mtpa, crude benzene production capacity of 0.02 Mtpa and a coal tar production capacity of 0.07 Mtpa.

China Gas

We signed a sales contract with Huhehaote Zhongran City Gas Development Co., Ltd, a subsidiary of China Gas. China Gas is a public company located in Inner Mongolia, China and engaged in the production of coal chemicals, natural gas transportation and distribution. Based on public information, it has a coke production capacity of 1 Mtpa, methanol production capacity of 0.1 Mtpa and a heating area of 7.25 million square feet.

Winsway

Winsway is one of our coal trader customers. It is based in Beijing, China and is engaged in the trade and distribution of chemicals, petroleum and coal. Based on public information, it trades 3.3 million tonnes of coal in 2009. In July 2010, we amended an agreement with Winsway to sell coal crossing the Mongolia-China border at Ganqimaodu. Transportation services are to be provided by third-parties. We intend to continue selling our coal at Ganqimaodu.

Risun

Risun is one of our end-use customers. It is a private company based in Hebei and is engaged in the production of coke and chemicals. Based on public information, Risun has a coke production capacity of 6.7 Mtpa.

Elion

Elion is one of our end-use customers. It is a public company based in Ordos, Inner Mongolia and is engaged in the production of coke making and coal chemical industry. Based on public information, Elion has a coke production capacity of 1 Mtpa.

FengDa

FengDa is one of our coal trader customers. It is based in Ordos, Inner Mongolia and is engaged in the trade and distribution of chemicals. Based on public information, it trades 300,000 tpa of coal.

Sinoglory

Sinoglory is one of our coal trader customers. It conducted trial sales to Customer A in 2009.

We regularly monitor the selling prices of washed and unwashed coking coals sold in the TMR. Recently, several of our major end-use customers have indicated to us as a reference point that the average selling price for washed coking coals comparable to our UHG coking coal was trading at approximately RMB1,500-1,600 per tonne at Tangshan on an as delivered basis. See “Risk Factors – Risks Relating to our Business and Industry – Coal prices are cyclical and subject to significant fluctuation”.

BUSINESS

The rest of our customers include a large Chinese state-owned enterprise and privately held coal traders located in Shenzhen, Hebei and Inner Mongolia, China.

As of the Latest Practicable Date, we received no notice of any threatened or pending proceedings by our customers, which if adversely determined, would materially and adversely affect us.

Except as set forth in “– Mining Operations – Suppliers”, none of our Directors, senior management, their associates, or shareholders holding more than 5% of our issued share capital had any interest in any of our top five customers or top five suppliers. All of our customers are Independent Third Parties.

The price per tonne of coking coal sold to end-users and coal traders was not significantly different. As of the Latest Practicable Date, the price per tonne of coking coal sold to end-users ranged from US\$77.0 per tonne to US\$77.5 per tonne and the price per tonne for coal sold to coal trader was US\$78.0 per tonne. The spot sales price was higher than the quarterly negotiated prices whether the customer was an end-user or a coal trader. As of the Latest Practicable Date, spot sales price for unwashed coal ranged from US\$80.0 per tonne to US\$90.0 per tonne.

Competition

We intend to sell substantially all of the coal we produce into the PRC. Competition in the PRC coal industry is based on many factors, among others, price, production, capacity, coal quality and characteristics, transportation capability and costs. There are over 600 large-size mines/regions supplying coal into our target market region. Most of our competition in coking coal comes mainly in central and western Shanxi, northeast Hebei, eastern Heilongjiang and Wuhai, Inner Mongolia. Due to their location, some of our PRC competitors may have lower transportation costs than we do. In addition, the PRC coal market is highly fragmented and we face price competition from some small local coal producers that produce coal for significantly lower costs than us due to various factors, including their lower expenditure on safety and regulatory compliance. Outside of China, our main competition in the PRC coal market comes from Australia. Some of our international competitors may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than we do, and may benefit from more established brand names in international markets.

According to Wood Mackenzie, our coals are likely to be most competitive and ultimately used in the following provinces in China: Inner Mongolia, Liaoning, Hebei, Beijing, Gansu, Ningxia, Shandong and Jiangsu. This region includes the major Bohai Sea coal loading ports Qinhuangdao, Tianjin, and Huanghua, which collectively are expected to load about 365 million tonnes of coal in 2010. Approximately 35 million tonnes of this amount is for export, with the remainder sold to domestic buyers in coastal China. This region would be our target market region. We believe that the strategic location of our UHG mine enables us to deliver our coal more efficiently and effectively to our target market region.

BUSINESS

Our cost of production is lower than our principal competitors serving China, namely coking coal producers from China and Australia. Coking coal from China is predominantly produced from underground mines. In general, underground mining is significantly more capital intensive, costly and more operational challenging than open-pit mining. In the last several years, mine production costs have significantly increased in Australia due to high levels of taxation, increased labor, operational and infrastructure costs, transportation capacity bottlenecks, inflation and currency appreciation. Furthermore, the mining operations in Australia are becoming increasingly mature which results in higher stripping ratios thereby yielding higher costs per tonne of coal produced.

The Government of Mongolia has publicly announced its intention to develop other coal deposits in the Tavan Tolgoi coal formation. We believe the Government of Mongolia will most likely develop the Tsankhi deposit, which is located five km from our UHG deposit. The Tsankhi deposit would yield coking coal with similar qualities as our coking coal. While it currently remains undeveloped, if the Tsankhi deposit were developed, our competitiveness and market share would be diminished. In addition, it is likely that the Tsankhi deposit would be developed in part by a state-owned enterprise, which would likely provide it with greater access and support to public financing, infrastructure and other related benefits. See “Risk Factors – Risks Relating to our Business and Industry – An oversupply of coal could adversely affect our profitability”. Other coal deposits in the Tavan Tolgoi region are all still in the greenfield stage, with no exploration activity. While we assume that the coal quality in the other coal deposits in the Tavan Tolgoi coal formation may contain the same or substantially similar coal seams as the UHG deposit, we have no knowledge as to the actual size of the coal deposits contained in any of the other deposits in the Tavan Tolgoi coal formation.

We believe that it would take at least two years from the commencement of the development of the Tsankhi deposit to begin producing coking coal at a level that would have any significant competitive impact on our business. At that point, we will have had approximately three years of ongoing operations, a functional coal handling and washing facility, significantly improved infrastructure and time to establish our brand name in the coking coal markets. We believe these factors would provide us with significant advantages over the Tsankhi deposit or any other Tavan Tolgoi deposit the Government of Mongolia may choose to develop. Nonetheless, it is difficult to quantify the actual impact that development of the Tsankhi deposit or any other Tavan Tolgoi deposit may have on our business.

Quality Control

We implement quality control from the exploration stage through the mining, hauling and loading stages of our coal production. We have an onsite geology department and lab where we conduct our mine planning and quality testing. Our full-time onsite geology team is led by our senior geologist, Mr. Lkhagva-Ochir Said, with over four years of experience, who leads a team of ten other geologists to routinely work with Mr. Gary Ballantine in our geology department. Our team of eight chemists working in our onsite laboratory is led by Mr. Khatantuu Chuluunbat, our laboratory supervisor, who has over seven years of laboratory testing experience. In addition, we have engaged Stewart Laboratories (Ulaanbaatar) to conduct quarterly independent audits of our coal laboratory testing procedures and accuracy. They also provide training for our laboratory personnel.

BUSINESS

We engage in careful mine planning activities from 500m by 500m drilling to 50m by 50m field test drilling for day to day mine planning. Core samples taken from the holes undergo a full analysis covering all major coal quality parameters. Representative samples are also chosen for trace minerals analysis. This coal quality data is then entered into the geological database and ultimately incorporated into our mining plans. We take coal quality into account when we prepare mine plans to ensure consistent coal quality throughout the life of the mine.

During mining, samples are taken for short-term quality projections from coal seams exposed at each operating face to confirm the data that had been collected during the exploration phase. The data is then incorporated into our short-term mining plans, which include using selective mining methods to exclude coal that does not comply with quality specifications.

Once our coal handling and washing plant is functional, we will be able to produce washed coking coals at consistent quality levels. We believe this will greatly enhance our quality control.

After coal is extracted from the mine, it is transported to our coal stockpile, and is then loaded onto coal hauling trucks that take our coal to our trans-shipment facility 21km from GS. Transport trucks are weighed: 1) upon entry into our loading site for coal pickup; 2) upon departure from our loading site after picking up coal; and 3) upon entry into our trans-shipment facility. The average amount of coal lost in the transport process has been approximately 100kg per 80-100 tonnes coal hauling truck.

Properties

As of the Latest Practicable Date, we held: (i) 11 property interests in Mongolia with an aggregate site-area of approximately 13,399.50 hectares, being land used for our mining operations and supporting infrastructure; (ii) an apartment with a gross floor area of approximately 40 square meters; and (iii) two leased properties for office use.

Pursuant to land use certificates issued by the governor of the Umnugobi Aimag, an official of the Government of Mongolia, we are permitted to use the 11 parcels of land for an airport, camp, railway, mining site construction, customs control filed for loading and unloading exporting coal, water supply pipeline, power line and hard paved road. Economic & Legal Consultancy LLC, our legal advisors as to Mongolian law, has confirmed that our use of the land is in compliance with the relevant Mongolian laws and regulations.

American Appraisal China Limited, an independent property valuation firm, valued our property interests in Mongolia as of June 30, 2010, and attributed no commercial value to the above mentioned 11 parcels of land and the leased properties, either as a result of their non-assignability in the market, because there are prohibitions against subletting and/or assignment contained in the respective leases and/or tenancy agreements, or otherwise due to the lack of substantial profit rent. See “Appendix IV – Property Valuation”.

BUSINESS

Site infrastructure principally consists of a dedicated airstrip and terminal, and mine-site accommodations for project personnel. The airstrip and terminal have been commissioned and constructed. The employees and foreign consultants at our UHG mine are transported to the mine site from Ulaanbaatar by air. We have a private airstrip near our mine site. The airport is fully operational and licensed with the Mongolian Civil Aviation Authority. A temporary camp of approximately 170 gers has already been established at the project site to accommodate about 650 people. The facilities include permanent shower/washing/toilet facilities and large gers for offices, cooking and eating. While some current residents of the ger camp will move to other accommodations including the mine camp, the ger camp will continue to function until the railway operation commences. The mine camp can accommodate a total of approximately 650 persons, and includes 150 rooms, a canteen, and a recreation area. The mine camp serves all employees, including mine, washing plant and power plant.

No	Company name	Certificate		Period	Size	Location	Designation	Issued by
		number	Issue date					
1.	ER LLC	0203104	2010.03.30	60 years	811.2 hectares	Tsogtsetsii	for mining site construction	Head of Land Division, Tsogtsetsii Soum, Umnugobi Aimag
2.	ER LLC	0203103	2010.03.30	60 years	834.7 hectares	Tsogtsetsii	mining site at UHG	Head of Land Division, Tsogtsetsii Soum, Umnugobi Aimag
3.	ER LLC	0203102	2010.03.30	60 years	1,510.6 hectares	Tsogtsetsii	mining site reserve located to the east of the UHG	Head of Land Division, Tsogtsetsii Soum, Umnugobi Aimag
4.	ER LLC	0173666	2009.01.08	15 years	10 hectares	Khanbogd	for customs control field for loading and unloading exported coal	Head of Land Division, Khanbogd Soum, Umnugobi Aimag
5.	ER LLC	0203101	2010.03.30	10 years	600 hectares	Tsogtsetsii	of site construction located to the north of UHG	Head of Land Division, Tsogtsetsii Soum, Umnugobi Aimag
6.	ER LLC	0173540	2008.09.19	60 years	10 hectares	Tsogtsetsii	building a camp	Head of Land Division, Tsogtsetsii Soum, Umnugobi Aimag
7.	ER LLC	0173536	2008.09.09	40 years	115 hectares	Tsogtsetsii	an airport	Head of Land Division, Tsogtsetsii Soum, Umnugobi Aimag
8.	ER LLC	0173591	2009.08.07	60 years	6,740 hectares	Tsogtsetsii- Bayan- Ovoo- Khanbogd	building a railway from the Tsogtsetsii soum to the inland port of Gashuun Sukhait	Head of Land Division, Umnugobi Aimag
9.	ER LLC	0173625	2009.12.30	60 years	134 hectares	Tsogtsetsii	water reservoir, water sources, water supply pipeline	Head of Land Division, Umnugobi Aimag
10.	ER LLC	0203112	2010.04.27	40 years	184 hectares	Tsogtsetsii	Power line for water supply facilities	Head of the Land Division, Tsogtsetsii Soum, Umnugobi Aimag
11.	Gobi Road LLC	0173628	2010.05.01	10 years	2,450 hectares	Tsogtsetsii	paved road	Head of the Land Division, Umnugobi Aimag

Each Group entity has obtained all land use rights required to conduct their business, free and clear of all defects and encumbrances and all such land use rights are legal, valid, binding and enforceable in accordance with the terms of their establishment.

Corporate Social Responsibility

We have a team of health, safety and environmental specialists led by Ms. Baigalmaa Shurka, the head of our health, safety and environment department. Ms. Shurka obtained a master's degree in environmental engineering from the Red Labor Banner Orders Polytechnic Institute of Irkutsk, Russia in 1986, a master's degree in public administration from the Mongolian University of Science & Technology in 2002 and a master's degree in civil engineering from the School of Mines & Technology in South Dakota, United States. Ms. Shurka has over 22 years of experience. Mr. Munkhзориг Dalanbayar is our health, safety and environment manager. Mr. Dalanbayar obtained his bachelor's degree in forestry from Mongolian National University in 1996 and has over 14 years of experience associated with health, safety and environmental operations in Mongolia. He works with a team of one environmental supervisor, three environmental coordinators and two environmental officers. From time to time, we also use internationally renowned consultants to assist our staff. In addition, our entire workforce is charged with complying with our environmental policies, which has been bolstered by EBRD's heightened environmental standards. All our employees receive environmental training at initiation and are routinely re-trained on matters regarding environmental compliance.

We have implemented a number of internal policies to take responsibility for the impact of our business activities on the environment, employees and local communities.

Community and Public Awareness

We maintain an ongoing dialogue with the public, government agencies and regulators. We believe directly engaging in the communities in which we operate is important. We are committed to communities near our mining operations, our employees and their families, the investment community, local and central governments, our suppliers, contractors and consultants and interested non-governmental organizations. In cooperation with Environmental Resources Management, we developed a stakeholder engagement plan as part of our environmental and social action plan. In accordance with this plan, we conducted a series of public consultation and disclosure activities which we intend to continue from time to time to keep our communities informed of recent developments and any potential impact such developments may have. Starting in 2008, we conducted a number of open house public consultations in all soums that would be affected by our operations. For each significant phase in our mine and community infrastructure development we have conducted public consultations and intend to continue to do so in the future.

Compliance with Environmental Laws and Regulations

Open-pit mining is used throughout the world. Environmental challenges associated with this mining method include pit closure plans and the water potentially impounded in the final pit. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, we seek to minimize the impact of our activities on the environment. We also aim to introduce an ISO 14001 environmental management system that will drive continual performance improvements. In addition, we have

BUSINESS

conducted over a dozen environmental impact studies relating to our mine and community infrastructure development projects and closely monitor the continuing impact of our projects.

We employ a full time environmental manager tasked with monitoring and implementing environmental compliance. We also have environmental officers both at our UHG deposit and our office in Ulaanbaatar. From time to time we also use internationally renowned consultants to assist our staff. In addition, our entire workforce is charged with complying with our environmental policies. All employees receive environmental training at initiation and annual refresher training on environmental compliance.

As a responsible and committed entity to the local community, we recognize the importance of internationally accepted social and environmental management practices that go beyond Mongolian Government requirements, including EBRD environmental and social standards and guidelines, and are using our best efforts to adhere to these practices.

For the year ended December 31, 2009 and the four months ended April 30, 2010 our environmental compliance costs amounted to US\$290,741 and US\$13,578, respectively. Our environmental compliance costs are budgeted at US\$508,866 for the year ending December 31, 2010. We have complied with such environmental laws and regulations in all material respects. As of the Latest Practicable Date, we received no complaints, fines or penalty orders from relevant environmental authorities. See “Laws and Regulations Relating to the Industry”.

Environmental Policy

We are committed to conducting our operations in a manner that complies with environmental laws and regulations, and endeavor to mitigate the adverse impact of our operations on the environment. Mining processes inherently generate surface subsidence, solid waste, dust, waste matter, and other industrial pollution and disposal of waste and hazardous materials. We have obtained all requisite environmental permits and approvals to conduct our business, and our mining and production facilities, construction, operation, process and equipment are in compliance with relevant national environmental and safety standards.

We aspire to become a leading supplier of coal from Mongolia through implementing industry best practices and demonstrating leadership in environmental practices. We are committed to performing all of our mining and exploration activities in an environmentally conscious manner and returning the environment to a natural state as required by the Government of Mongolia. We believe that conducting our activities in an environmentally responsible manner is integral to good business management.

All our employees and contractors are encouraged to accept, as their shared responsibility, that minimizing environmental harm is a priority when performing all activities. We expect to fulfill our commitment to the environment by:

- complying with all applicable legislation and regulations, and exceeding those requirements where necessary, with a view towards maintaining a healthy and pollution free environment;

BUSINESS

- identifying, assessing and managing the environmental risks of our activities in all planning and operational decisions;
- establishing and implementing management programs relevant to our environmental risks to prevent, reduce or mitigate impacts at all stages of exploration and mining;
- promoting the participation of our employees and contractors in implementing this policy by identifying their competency requirements and providing training appropriate to their responsibilities;
- regularly evaluating our performance through auditing business processes and practices and monitoring the surrounding environment in which we operate; and
- periodically reviewing our environmental management system and operational procedures to improve efficiency, minimize waste, prevent pollution and achieve continuous improvement.

According to a study done by Environmental Resources Management, there are no social-economic issues that threaten the feasibility of our mine. Furthermore, We have taken several measures to mitigate the social-economic impact of the project. These include:

- improving local healthcare and educational facilities;
- establishing monitoring programs to ensure that pit dewatering and other water sourcing for the mine does not adversely affect shallow ground water sources that are used by herders; and
- implementing controls to verify contracts adjust designs and behaviors to minimize risks of depleting shallow ground water sources that are used by herders.

We have also implemented several measures to specifically mitigate various aspects of our mine and supporting infrastructure. In the construction of our transportation infrastructure, we have committed to ensuring that quarry rock and fill materials will be sourced from areas that will not adversely affect cultural heritage, and monitoring contractors to ensure that only approved quarry sites are used to source construction materials. In connection with our water supply project we will implement procedures that will monitor the levels of local shallow wells to assess if our use of water sources has any impact on wells used by herders in and outside of our UHG mining area. In addition, we may compensate herders, through improved wells and/or access to secure water sources, for any loss of utility or access to water.

In general, the large amount of earth works planned for mine expansion, including the creation of large waste rock dumps and topsoil piles, naturally high winds in South Gobi could create additional dust impacts. This risk adversely affecting herders and their livelihoods, both through direct health impacts to humans as well as by damaging pasture land and animal health. As a result, we have implemented specific mitigation and management measures to reduce dust impacts, and will provide compensation for economic displacement to all those affected by expanded land use as a result of expanded mine activities.

Health and Safety Standards

We believe that one of our most important assets is our employees. We consider injuries to our employees and/or damage to our physical assets a threat to our reputation and success. We are therefore committed to a target of zero incidents in all of our activities by implementing industry best practices and demonstrating leadership in loss control. We will also continue to provide effective training and appropriate and sufficient resources for people to work safely and effectively.

We insist that all employees and contractors must accept as their shared responsibility that zero harm and loss is a priority when performing all work related activities. To achieve this target it is essential that our employees and contractors believe that all loss is preventable and accept responsibility for their personal safety and the safety of others and to protect the integrity of our physical assets at all times.

We endeavor:

- to plan for safe, efficient and productive work;
- to ensure that all employees and contractors are made aware of their responsibilities minimize wastage (time, resources, expenses);
- to assess and control the risk of loss as part of every decision we make;
- to comply with relevant legislation and internal loss control policies and procedures;
- to ensure that all our employees, contractors and managers will demonstrate and promote safety leadership;
- to ensure that our employees and contractors will participate in managing health and safety related issues;
- to ensure that final contractor selection will include an acceptable review of potential contractors' health and safety programmes and a commitment to minimize wastage (time, resources, expenses); and
- to ensure that all reported incidents will be investigated with a view to preventing recurrence.

We have complied with applicable health and safety regulations in all material respects. See "Laws and Regulations Relating to the Industry – Mongolian Laws and Regulations Relating to Labor, Health and Safety".

BUSINESS

Leighton is currently operating in coordination with us to ensure that UHG activities are controlled in such a way as to provide a safe and healthy working environment while satisfying Mongolian legislative requirements, industry best practices and client's expectations. A training program is in development and currently being implemented that will provide all employees with the tools required to conduct their work in a safe manner. Our heavy machinery operators undergo extensive onsite simulator trainings conducted by Leighton personnel in order to minimize potential damage from equipment failure or accidents. In addition, it is a requirement of Mongolian labor law that all employees are to take safety and hygiene training annually, and all of our employees have undertaken safety and hygiene training. As part of the Safety Management System implementation, all staff, employees and visitors are subjected to a drug /alcohol testing program.

Workers safety during construction and while living in work camps will be managed consistently with Mongolian laws and EBRD performance requirements. Contractors health and safety programs will be required to meet these standards. Similar requirements will be met by as construction of our new projects commence.

Community Development

We have planned and implemented a number of community development programs focusing on employment, development of local businesses, localization of procurement, education, health, culture, community infrastructure development and cultural preservation.

Our goal is to generate employment in the communities in which we operate thereby directly contributing to the development of the communities surrounding our UHG mine. For the year ended December 31, 2009, we employed approximately 43% of our workforce from South Gobi, Mongolia and expect to employ approximately 50% by the end of 2010. In addition, we have plans to employ 100% of our trainee positions from South Gobi, Mongolia by training unskilled job applicants to meet our employment requirements.

We value and support local businesses in our operations, to promote fair competition and compliance with relevant laws and regulations. We have localized a portion of our procurement. For the year ended December 31, 2009, we contracted with 38 individual entrepreneurs and 17 small to medium sized enterprises for the procurement of goods and services at our UHG mine. We plan to continue to do so in the future.

We have established a number of education programs including a scholarship program, promoting cooperation among secondary schools and a cooperation agreement with the Mongolian University of Science and Technology ("MUST"). Our scholarships are aimed to prepare young and skillful minds with the future goal of contributing to the community. For the year ended December 31, 2009, we arranged teachers' training for secondary school teachers in Tsogttsetsii soum. We are cooperating with MUST to provide employment opportunities for qualified graduates, exchange scientific information, conducting joint research and implementing scholarship and internship programs.

BUSINESS

For the year ended December 31, 2009, we provided hospitals in Tsogttsetsii soum medical equipment valued at US\$8,300 and also donated fully equipped medical service vans to three soums to provide timely and accessible health services.

We strongly believe in community infrastructure development as it plays a vital role in the progress of such communities. We are working with ESTO Company to develop and maintain the Tsogttsetsii soum road. Construction work started in September 2009. We are also considering this as part of our paved road project. We have made a number of donations for local secondary schools, kindergardens and cultural organizations. We also sponsored the construction of a new stadium for Tsogttsetsii soum which was completed in July 2009 and the repair of the secondary school dormitory, accommodating 155 children.

The preservation of cultural heritage is an important aspect of fostering community support. We are committed to protect and preserve tangible and intangible forms of cultural heritage. For the year ended December 31, 2009, we helped to restore the “Tsagaa Ovoo” Worship Mountain, sponsored local festivals and made donations targeted at book publication.

We have secured land in Tsogttsetsii soum center to accommodate 100 families with standing pipe water supplies. Families that move into this accommodation will receive a subsidy of US\$715, equivalent to three months of cost savings to us from not housing the employee at the camp. In addition, construction will commence on 92 to 114 apartments and houses in Tsogttsetsii soum. These houses will be rented and sold (with financial assistance) to employees.

Employees

As of December 31, 2007, 2008 and 2009 and April 30, 2010, we had a total of six, 45, 700 and 820 direct employees, respectively. As of the Latest Practicable Date, we had a total of 1,041 direct employees based in Mongolia. As of the Latest Practicable Date, we had no employees based in China.

For the year ended December 31, 2009, we employed approximately 43% of our workforce from South Gobi, Mongolia and expect to employ approximately 50% by the end of 2010. In addition, we plan to employ 100% of our trainee positions from South Gobi, Mongolia by training unskilled job applicants to meet our employment requirements.

The majority of our employees are employed under employment contracts which set out fully, among other things, the employee’s responsibilities, remuneration and grounds for termination of employment. Our mine operates 24 hours a day, seven days a week and 365 days a year. Our mine operators work 12 hour shifts and are on a three week rotation: (1) first week, day shift; (2) second week, evening shift; and (3) third week, off.

BUSINESS

We have maintained good working relationships with our employees and have not encountered any difficulties in recruiting and retaining experienced staff. In April 2010, we entered into a Memorandum of Understanding with the newly established Mine Worker's Trade Union of Mongolia pursuant to which we agreed to cooperate with any trade union or organization existing under applicable labor laws, regulations and requirements. There were no labor disputes, strikes or related negotiations in the past that led to the signing of this Memorandum of Understanding. We believe that this memorandum will further improve our relationship with our employees by providing them with a more formal platform through which to communicate with us about their questions and concerns.

We have complied with all the relevant laws, regulations and requirements in relation to fair labor standards, working conditions, employment contracts and codes of conduct in respect of our employees in Mongolia. As of the Latest Practicable Date, we had not received notice of any threatened or pending proceedings by employees, which if adversely determined, would materially and adversely affect us.

Employee Remuneration Policy

Our remuneration policy is designed to attract, retain and motivate highly talented individuals to ensure the capability of our workforce to implement our business strategy. Key principles of the remuneration policy are to:

- set competitive rewards to attract, retain and motivate highly skilled people;
- provide detailed feedback to develop employees' skills and critically analyze employees' contributions;
- establish short and long-term incentive programs across, including, but not limited to, the equity incentive plan;
- ensure remuneration planning continues to be integrated within our business planning process; and
- ensure total reward levels and performance targets are set at appropriate levels to reflect the competitive market in which we operate, the prevailing economic environment and the relevant performance of similar companies.

We seek to accomplish the above goals by conducting annual remuneration reviews which take into account individual performance, the economic environment, the unique requirement for certain employees to travel and spend time in Mongolia, particularly at mine sites and relevant job and industry comparisons. We value the contribution of both individuals and teams in achieving the goals and objectives of our business.

BUSINESS

Benefit Schemes

We maintain benefit schemes for our employees as required by relevant laws in Mongolia.

Injuries

As a result of these 15 accidents, damages of MNT351.2 million which are subject to insurance coverage, have been incurred by the Company. Tenger Insurance has covered the losses for 13 of the 15 accidents and has paid us insurance proceeds of MNT234.5 million as of June 30, 2010. One accident, which resulted in damages of MNT58 million, is currently being investigated by Tenger Insurance. The party at fault fully compensated the Company against the damages of MNT28 million caused by the last accident. As of Latest Practicable Date, 10 of these 15 accidents were resolved, dismissed, or settled finally. The remaining 5 accidents, including the 2 fatalities, were still being investigated by the Umnugobi aimag police department and our internal safety department. We are unable to estimate the level of our potential liability in relation to these remaining 5 accidents. Also, as of the Latest Practicable Date, none of these accidents resulted in any significant financial or operational impact to our operations.

In an effort to reduce further accidents such as those that occurred during the Track Record Period, we have taken the following steps: (1) assisting the local police to control traffic along the existing coal hauling road by setting up two police stations; (2) establishing a traffic safety unit, a professional team whose purpose is to prevent future traffic accidents; and (3) meeting with all transport companies to discuss safety issues and how to comply with applicable laws and regulations.

Insurance

Our insurance may not fully cover all of potential losses, damages and liabilities, including those caused by fire, weather, disease, civil strife, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining raw materials and equipment, natural disasters, terrorist incidents, industrial accidents or other causes. We also do not have any business interruption insurance or third party liability insurance other than motor vehicle insurance. Any business disruption or natural disaster may result in substantial costs and diversion of resources. Losses incurred or payments we may be required to make may have a material adverse effect on our business, prospects, financial condition and results of operations to the extent such losses or payments are not insured or the insured amount is not adequate.

We maintain, and intend to continue to maintain, insurance within ranges of coverage consistent with industry practice. We will continue to assess our risk portfolio and make necessary and appropriate adjustments. Our Directors confirm that they believe that we maintain more than sufficient insurance coverage considering our risk exposure.

Research and Development

As our Directors believe is typical for a mining operation of our size, we do not currently engage in any research and development activities.

Intellectual Property

We own the trademark to our logos under the Certificate of Trademark in Mongolia registration numbers 7827, 7828, 7829, 7830, 7831 and 7832. We have applied to register our logo in Hong Kong as a service mark.

Compliance/ Internal Controls

We have complied in all material respects with the applicable laws and regulations in Mongolia. We believe that our internal control procedures are designed to assist with our compliance with all applicable laws and regulations. Furthermore, we have an experienced in-house team of nine Mongolian qualified lawyers with work experience ranging from one to 20 years in the legal field in Mongolia. The team is led by our chief legal counsel with over 20 years of legal work experience as a qualified lawyer in Mongolia, and routinely consults with outside counsel regarding ongoing compliance with applicable laws and regulations.

In preparation for the Global Offering, we have implemented the following measures to improve our internal control:

1. we have appointed three independent non-executive Directors who possess the relevant industry, financial and management experiences to enhance the corporate governance of our Group. Initial training has been provided to all Directors and senior management with regard to compliance with the Listing Rules, duties and responsibilities of directors, disclosure requirements and connected transactions;
2. an Audit Committee comprising three independent non-executive Directors has been established in accordance with the Listing Rules. The Audit Committee will review annually and supervise the financial reporting process and internal control system of our Group to ensure, among other things, that we comply with the relevant laws and regulations in relation to accounting and taxation related matters. In addition, the Audit Committee will also be required to report to the Board on any suspected non-compliance;
3. we will retain a Mongolian lawyer to act as our advisor for Mongolian legal issues. We will seek legal advice when required from time to time to ensure compliance with relevant laws and regulations;
4. we have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor to advise on compliance matters in accordance with Rule 3A.19 of the Listing Rules; and

BUSINESS

5. we have appointed Ms. Ng Sin Yee, Clare as the company secretary on July 23, 2010. Ms. Ng has experience in handling compliance matters for listed companies in Hong Kong and will be responsible for overseeing the day-to-day compliance matters of the Listing Rules of our Group subsequent to the Listing.

We intend to continue to monitor and take further steps to improve our internal controls in the future.

Legal Proceedings

As of the Latest Practicable Date, we were not a party to any material legal or administrative proceedings.

Except as set forth in “– Employees – Injuries”, as of the Latest Practicable Date, we had not received notice of any threatened or pending proceedings by government authorities or third parties, which if adversely determined, would materially and adversely affect us.

We confirm that as of the Latest Practicable Date, we were not aware of any claims in relation to exploration rights or our mining rights made or notified either by third parties against us or vice versa.

Confirmation

Except as set forth herein, the Directors confirm that none of the risk factors set forth in the “Risk Factors” resulted in any material losses or claims during the Track Record Period.

CONNECTED TRANSACTIONS

Overview

We have entered into transactions in the ordinary course of our business with certain of our connected persons which we expect to continue following Listing. These connected transactions are entered into with (i) MCS Holding, and its subsidiaries; and (ii) Petrovis LLC (“Petrovis”), and its subsidiaries (“Petrovis Group”). Set out below is a summary of the connected transactions as well as the waivers from strict compliance with the relevant requirements of the Listing Rules that we have received from the Stock Exchange:

Transactions with the MCS Group

Category	Nature of Transaction	Applicable Listing Rule	Waiver Sought
1	Lease from the MCS Group	Listing Rule 14A.33(3)	None
2	Rental of equipment from the MCS Group	Listing Rule 14A.34	Waiver from announcement requirements
3A	Supply of goods and services by the MCS Group – information technology and management services	Listing Rule 14A.35	Waiver from announcement and independent shareholders’ approval requirements
3B	Supply of goods and services by the MCS Group – offices and camp sites supporting services	Listing Rule 14A.35	Waiver from announcement and independent shareholders’ approval requirements
3C	Supply of goods and services by the MCS Group – construction supporting and ancillary supporting services	Listing Rule 14A.35	Waiver from announcement and independent shareholders’ approval requirements

Continuing Connected Transactions

Details of the continuing connected transactions with the MCS Group are set out below.

1. Lease from the MCS Group (Category 1)

- *Background:* We have entered into an agreement with a subsidiary of MCS Holding to lease a space located at 3 khoroo, MCS Anun Centre, Khan-Uul District, Ulaanbaatar, Mongolia, with an aggregate gross floor area of approximately 87 square meters as our Company’s office.

The contract commenced on February 15, 2010, and US\$0 payment has been made by us during the Track Record Period.

- *Connected Person:* MCS Holding’s subsidiary. MCS Holding is a Substantial Shareholder and connected person of our Company. Accordingly, any subsidiary of MCS Holding is also a connected person of our Company.

CONNECTED TRANSACTIONS

- *Connected Transactions:* Any leases between (i) our Group and (ii) our connected persons which continue after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The rent payable by our Group under the agreement is determined by reference to the market rent.
- *Reasons for such transaction:* There are alternative offices which our Company may lease as our office in Mongolia. Such alternatives offer comparable pricing. However, the office provided by the MCS Group is of a higher quality in terms of the location of the office, the facilities and the supporting services when compared to other alternatives available. Further, as we are currently occupying the space specified in the agreement and our Company has no intention to continue to lease this space upon expiration of the agreement, we do not consider it cost effective to incur additional costs to move to other premises.
- *Future lease:* We have entered into a lease agreement with a subsidiary of MCS Holding, which commenced on February 15, 2010 and will expire on December 31, 2010.

We estimate that the total rent payable by our Group under the agreement will be approximately MNT15,064,920 (US\$11,134) for the year ending December 31, 2010.

American Appraisal China Limited, our property valuer, has confirmed to us that the rental payments to be made by us for the leased space located at 3 khoroo, MCS Anun Centre, Khan-Uul District, Ulaanbaatar, Mongolia for the year ending December 31, 2010 are in line with the then prevailing market rates of comparable space, and are fair and reasonable.

2. Rental of equipment from the MCS Group (Category 2)

- *Background:* During the Track Record Period, we rented office equipment, such as computers, printers, monitors, fax apparatus, duplicating machines, scanners, and various other office equipment from MCS Holding's subsidiaries. For the year ended December 31, 2009 and the four months ended April 30, 2010, the total rent paid to the MCS Group for the use of office equipment amounted to approximately MNT152,673,628 (US\$106,076) and MNT127,393,494 (US\$94,156), respectively.
- *Connected Person:* MCS Holding's subsidiaries. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.

CONNECTED TRANSACTIONS

- *Connected Transactions:* Any rental between (i) our Group and (ii) our connected persons which continue after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The rental payable by our Group with regard to the use of the office equipment is determined by reference to the market rent.
- *Reasons for such transaction:* The service provider, a subsidiary of MCS Holding, is one of the largest office equipment providers in Mongolia. It provides an extensive variety of office equipment that can fully satisfy our needs for our daily operation. Although there are alternative equipment providers that offer comparable pricing, the MCS Group offers a wider range of office equipment that are of higher quality when compared to other available alternatives. We have been renting the office equipment specified in the agreements for a period of time and hence we do not consider it cost effective to terminate the existing rental agreements and rent similar office equipment from other providers.
- *Future rentals:* We have entered into rental agreements with various subsidiaries of MCS Holding. The rental agreements commenced at different intervals during the Track Record Period with the last one ending on April 21, 2013. Each of the agreements will subsist for no more than three years following Listing.

We estimate that the total rent payable by our Group under the above agreements will be approximately US\$369,602, US\$630,199 and US\$503,189 for each of the three years ending December 31, 2012, respectively. Our Group anticipates that more administrative support is needed as it expands its business operations and, therefore, the level of usage of the rental equipment is projected to increase with our Group's production ramp-up. Rental of office equipment is charged at a monthly rate on a per unit basis. The proposed annual caps for the three years ending December 31, 2012 have been determined based on the monthly rates and the projected level of usage (i.e. number of units) of the rental equipment, taking into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT. The reason for the substantial decrease in the annual cap for the year ending December 31, 2012 is due to the expiration of a vast majority of the agreements during the year of 2012.

3A. Supply of Goods and Services by the MCS Group – information technology and management services (Category 3A)

- *Background:* During the Track Record Period, we have entered into agreements in relation to the information technology services with certain subsidiaries of MCS Holding, pursuant to which such subsidiaries agreed to provide to certain subsidiaries of our Company: (i) services for the maintenance of time and attendance system used for registration of attendance of employees; (ii) services for the maintenance of reliable operations of a computer program in relation to finance and

CONNECTED TRANSACTIONS

accounting; (iii) iridium satellite communication services; (iv) satellite internet connection services; (v) computer systems; and (vi) a domain name. On February 1, 2008, we also entered into an agreement with MCS Holding (the “Management Agreement”), pursuant to which MCS Holding agreed to provide our Company with various management services such as services to organize and manage activities related to investment and financing sourcing, marketing, legal consulting and planning and operation of mining operation.

For the two years ended December 31, 2008 and 2009 and the four months ended April 30, 2010, the total fees paid to the MCS Group for its provision of information technology and management services amounted to approximately MNT1,716,699,400 (US\$1,472,500), MNT3,281,864,780 (US\$2,280,213) and MNT1,126,432,558 (US\$832,544), respectively.

- *Connected Person:* MCS Holding and MCS Holding’s subsidiaries. MCS Holding is a Substantial Shareholder, hence a connected person of our Company. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.
- *Connected Transactions:* Any continuing services provided by the MCS Group to our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The fees for the services payable by our Group under the agreements in relation to the information technology services are determined by reference to market rate. Under the Management Agreement, our Company shall pay MCS Holding a monthly fee of US\$70,000 together with a percentage of EBITDA set as 6% in 2010 and a monthly fee of US\$70,000, together with a percentage of EBITDA set as 5.5% in 2011. EBITDA is defined as the profit for the year plus net financing costs, investing income, income tax, depreciation and amortisation and minority interests. At the time when the Management Agreement was entered into, ER LLC was not a profit generating company. All the shareholders of ER LLC concluded that as an incentive to MCS Holding, which had been assigned to manage the operation of ER LLC for the first few years, to assist ER LLC to rapidly expand its business and to develop a strong management structure, a compensation in the form of a percentage of EBITDA was appropriate under the circumstances.
- *Reasons for such transactions:* In relation to the services for the maintenance of time and attendance system used for registration of attendance of employees and the services for the maintenance of operations of computer programs and systems, there are no alternative suppliers who are able to provide maintenance services in relation to the particular systems and programs adopted by the Company. There are suppliers who provide maintenance services in relation to other registration systems and computer programs and systems that serve similar functions. However, our Company would incur unnecessary additional costs to replace the current systems and programs.

CONNECTED TRANSACTIONS

In relation to the iridium satellite communication services, there are two to three alternative service providers from whom our Company may obtain its cell phone communication services. Although such alternatives offer comparable pricing, the MCS Group offers more reliable connection services when compared to other alternatives available.

In relation to the services for the maintenance of the domain name of ER LLC, as the domain name is a unique name acquired from the current service provider, there are no alternative service providers who are able to provide maintenance services in relation to the current domain name of ER LLC. There are service providers who provide maintenance services in relation to domain names maintained under other systems. However, our Company would incur unnecessary additional costs to replace such domain name.

In relation to the high speed satellite internet connection services, the relevant subsidiary of the MCS Group is the only high speed satellite internet connection provider in UHG and Tsagaan Khad in Mongolia. There are no alternative providers available in the market. Further, as we have been using the information technology services provided by the MCS Group for a period of time and such providers have been providing a stable and high quality source of information technology services to our Company, we do not consider it cost effective to incur additional costs to engage another service provider for providing similar services.

In relation to the management services, at the time when the Management Agreement was entered into, we were in the early stages of development and looked to our major shareholder, MCS Holding, for guidance on how to operate and develop the UHG deposit. Being a major conglomerate in Mongolia, MCS Holding has a professional team of personnel who has the requisite expertise and experience in areas which are relevant to our Group's business operations and development. Further, it was then agreed among MCS Holding and the other shareholders of ER LLC that MCS Holding should be given the role of managing our Group and developing the UHG deposit in the initial years. For the foregoing reasons, the Management Agreement was put in place to require MCS Holding to designate certain of its resources to develop and operate ER LLC and, in return, MCS Holding is compensated in accordance with the pricing basis as described above.

For each of the services provided under the Management Agreement, such as operational and strategic planning, management, administration and organization of operations, development of business plans and policies for fund raising, design solutions with suitable mechanics and technologies for business operations, provide market studies and industry forecasts information, research and identify sales and marketing channels, overall guidance on financial reporting and accounting policies and liaison with governmental authorities, there are alternative suppliers who are able to provide similar services to our Company separately. The MCS Group, being one of the largest conglomerates in Mongolia, however, has a more experienced team of professionals who can provide the relevant services of the highest quality when compared to other alternatives available.

CONNECTED TRANSACTIONS

- *Future services:* We have entered into agreements with various subsidiaries of MCS Holding for the provision of information technology services during 2009 and 2010 and the Management Agreement during the Track Record Period. Each of the agreements will subsist for no more than three years following Listing, with the last one ending on December 6, 2012. Over the last few years, we have further developed and enlarged our operations and strengthened our own management team. To ensure minimal disruption to our current operations and in the interests of our Shareholders as a whole, we do not intend to terminate the Management Agreement prior to expiration as we will require time for the transition of such services to be assumed by our own management team. We have started performing some of these management-related services ourselves and anticipate that we will be able to perform all such services on or before the expiration of the Management Agreement on January 1, 2012.

We estimate that the total fees payable by our Group under the agreements in relation to the information technology services will be approximately US\$128,548, US\$16,851 and US\$19,627 for each of the three years ending December 31, 2012, respectively. Our Group anticipates an increase in usage of information technology services, such as finance and administrative functions, to support our Group's expanded business operations as a result of our Group's production ramp-up. The proposed annual caps for the three years ending December 31, 2012 have been determined based on the existing service fees paid for the information technology services provided by the MCS Group and the expected increase in service fees as a result of the expected growth of our Group's business operations, taking into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT. The reason for the substantial decrease in the annual caps for the years ending December 31, 2011 and 2012 is due to the expiration of a vast majority of the agreements before year 2012.

We estimate that the total fees payable by our Group under the Management Agreement will be approximately US\$6,860,000 and US\$17,380,000 for the two years ending December 31, 2011, respectively. The proposed annual cap for the year ending December 31, 2010 has been determined after taking into account the total fees paid to the MCS Group for the six months ended June 30, 2010 and the estimated management service fees payable to the MCS Group for the six months ending December 31, 2010, taking into account the anticipated increase in EBITDA for the period as a result of our planned ROM coal production ramp-up from 1.8 million tonnes to 3.8 million tonnes and the anticipated change in forecast exchange rate of the MNT. The proposed annual cap for the year ending December 31, 2011 has been determined based on our estimated increase in EBITDA for the year as a result of our planned ROM coal production ramp-up from 3.8 million tonnes to 7.0 million tonnes, the estimated inflation rate in Mongolia of 25% and the anticipated forecast exchange rate of the MNT.

CONNECTED TRANSACTIONS

Having considered the above, we estimate that the aggregate fees payable by our Group under this category will be approximately US\$6,988,548, US\$17,396,851 and US\$19,627 for each of the three years ending December 31, 2012, respectively. The reason for the substantial decrease in the annual caps for the year ending December 31, 2012 is due to the expiration of the Management Agreement on January 1, 2012.

3B. Supply of Goods and Services by the MCS Group – offices and camp sites supporting services (Category 3B)

- *Background:* We have entered into agreements with various subsidiaries of MCS Holding, pursuant to which such subsidiaries agreed to provide to certain subsidiaries of our Company (i) cleaning and repairing services of office space, office fittings and office equipment; (ii) cafeteria, laundry and cleaning services for employees' camp sites located at UHG; (iii) security services; and (iv) human resource recruitment services of the power plant of our Company at UHG.

We paid an aggregate of approximately MNT2,090,354,240 (US\$1,452,361) and MNT1,133,553,536 (US\$837,807) for the relevant services provided by the subsidiaries of MCS Holding for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

- *Connected Person:* MCS Holding's subsidiaries. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.
- *Connected Transactions:* Any continuing services provided by the MCS Group to our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The prices for the services payable by our Group under the agreements are determined by way of a tender process. The selection process involves reviewing and assessing the quotes submitted by various companies, including the MCS Group. We have selected the current service providers based on the experience and expertise of such service providers and the relevant fees quoted in the tenders submitted. We consider that the prices payable by us to the MCS Group are in line with the market rates and, from our perspective, no less favourable than those obtainable from third parties.
- *Reasons for such transactions:* In view of the increasing demand for offices and camp sites supporting services as a result of the recent expansion of our Company's business, including the development of the UHG deposit, we have decided to outsource our offices and camp sites works, including cleaning, laundry, and recruitment to other professional supporting services providers. We have gone through a tender process to select a service provider for the provision of supporting services for our camps located at UHG. As our Company's operations are mainly located at our camp sites at UHG, a substantial portion of the total expenditure for

CONNECTED TRANSACTIONS

offices and camp sites supporting services were utilized for the provision of supporting services at the camp sites. Approximately 1% of the total expenditure for offices and camp sites supporting services were utilised for the cleaning and security services for our offices located at Central Tower in Ulaanbaatar, Mongolia, which are provided by the MCS Group. Our Group also retained the MCS Group for the provision of human resource recruitment and training services as MCS International LLC, a subsidiary of MCS Holding, is a leading energy supply company in Mongolia, which possesses the relevant expertise and knowledge to assist our Company to recruit skilled personnel and provide training to such personnel for the power plant of our Company at UHG. We consider that the prices payable by us to the MCS Group are in line with the market rates and, from our perspective, no less favourable than those obtainable from third parties.

Although there are alternative suppliers who are able to provide offices and camp sites supporting services to our Company at comparable pricing, the MCS Group has a more organized and experienced team of professionals which provides services of a higher quality when compared to other alternatives available.

- *Future services:* We have entered into agreements with various subsidiaries of MCS Holding for the provision of offices and camp sites supporting services during 2009 and 2010. Each of the agreements will subsist for no more than three years following Listing, with the last one ending on December 31, 2010.

We estimate that the total contract sum payable by our Group will be approximately US\$4,189,805 for the year ending December 31, 2010. The aggregate amount of service fees payable by our Group for the office and camp sites supporting services provided by the MCS Group is associated with the number of employees utilizing the permanent UHG camp site and the temporary ger camp at UHG as a fixed monthly fee will be charged for each employee. Our Group had an average of 208 employees utilizing the camp sites during 2009 and our Group anticipates that an average of 435 employees will be utilizing the camp sites during 2010. The proposed annual cap for the year ending December 31, 2010 has been determined based on the existing service fees paid for the office and camp sites supporting services provided by the MCS Group, the anticipated respective increase in the number of employees of our Company utilizing the different camp sites in 2010 to cope with our expanding business, the different service fees applicable to the different camp sites and the additional security service fees and maintenance fees for the office. Our Company has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in deriving the proposed annual cap.

3C. Supply of goods and services by the MCS Group – construction supporting and ancillary supporting services (Category 3C)

- *Background:* We have entered into agreements with various subsidiaries of MCS Holding, pursuant to which such subsidiaries agreed to provide to our Company or certain subsidiaries of our Company (i) electricity plant operational services; (ii)

CONNECTED TRANSACTIONS

maintenance, repair and management services in relation to the heating supply of our power plant; (iii) construction management services; and (iv) engineering, procurement and construction management services for the construction of overhead power line and substations.

We paid an aggregate of approximately MNT463,737,455 (US\$322,201) and MNT537,866,059 (US\$397,536) for the relevant services provided by MCS Holding and its subsidiaries for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

- *Connected Person:* MCS Holding's subsidiaries. As described in Category 1 above, any subsidiary of MCS Holding is also a connected person of our Company.
- *Connected Transactions:* Any continuing services provided by the MCS Group to our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The fees for the services payable by our Group under the agreements are determined by reference to the market rate.
- *Reasons for such transactions:* It is a pre-requisite of the Government of Mongolia that all service providers providing services in relation to electrical operations and heating supply systems must hold the relevant special permit issued by the Government of Mongolia. MCS Group, being one of the few companies in Mongolia that has been granted such special permits, is the only service provider in Mongolia that is able to provide the relevant services to our Group at the UHG deposit. As MCS Holding is one of the largest conglomerates in Mongolia, it possesses the relevant expertise and has extensive experience in the area. It is familiar with the conditions of the UHG mine area and has sufficient professional engineers. For these reasons, there are no alternative service providers available in the market in Mongolia that are able to provide similar services. We consider that the engagement of MCS Group as our service provider in relation to the above services is in the interest of our Company.

We are a company with a vision to expand our business operations globally. In order to conform our business with international standards, we require construction management service providers with international experience. MCS Group is one of the very few companies in Mongolia that possesses the relevant international experience to facilitate the construction operations of our Company.

In order to facilitate the operation of our expanding business and secure reliable and high quality supporting services, we consider that the engagement of MCS Group as our supporting service provider is in the interest of our Company.

CONNECTED TRANSACTIONS

- *Future services:* We have entered into agreements with various subsidiaries of MCS Holding for the provision of construction supporting and ancillary supporting services at various intervals during 2009 and 2010. Each of the agreements will subsist for no more than three years following Listing with the last one ending on May 31, 2012.

We estimate that the total contract sum payable by the Group will be approximately US\$4,174,180, US\$190,659 and US\$222,080 for the three years ending December 31, 2012, respectively. Our Company expects to undergo a number of construction projects in the course of our Group's production ramp-up which we anticipate to require additional supporting services from experienced service providers. As such, the proposed annual caps for the three years ending December 31, 2012 are determined based on the existing service fees paid for the construction supporting and ancillary supporting services and the expected increase in the demand for such services. Our Company has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in deriving the proposed annual caps. The reason for the substantial decrease in the annual caps for the two years ending December 31, 2012 is due to the expiration of some of the agreements before 2011.

Transactions with the Petrovis Group

Category	Nature of Transaction	Applicable Listing Rule	Waiver Sought
4	Insurance from the Petrovis Group	Listing Rule 14A.34	Waiver from announcement requirements
5	Supply of goods by the Petrovis Group	Listing Rule 14A.35	Waiver from announcement and independent shareholders' approval requirements

Details of the continuing connected transactions with the Petrovis Group are set out below.

1. *Insurance (Category 4)*

- *Background:* We have entered into insurance agreements with a subsidiary of Petrovis as the insurer, pursuant to which such subsidiary of Petrovis agreed, in consideration for the insurance premium stipulated by the respective agreements, to pay insurance compensation for the loss, damage and injury to the following insured items or personnel as a result of the insured event in accordance with the terms and conditions set out in the respective agreements:

- (i) vehicles;
- (ii) equipment and construction materials of projects implemented by ER LLC;

CONNECTED TRANSACTIONS

- (iii) construction of facilities including power plant, coal handling plant and water system plant;
- (iv) liability in connection with operations of the airport located at Tavan Tologi;
- (v) properties of the airport located at Tavan Tologi;
- (vi) coal stockpile; and
- (vii) full time employees of ER LLC.

For the year ended December 31, 2009, the total insurance premium paid by us to the subsidiary of Petrovis amounted to approximately MNT2,177,631 (US\$1,513).

- *Connected Person:* Petrovis's subsidiary. Petrovis is a Substantial Shareholder and connected person of our Company. Accordingly, any subsidiary of Petrovis is also a connected person of our Company.
- *Connected Transactions:* Any continuing transactions between the Petrovis Group and our Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The insurance premium payable by our Group under the agreements are determined by way of a selection process. The selection process involves reviewing and assessing the quotes submitted by various insurance companies, including the Petrovis Group. We have selected the current insurance provider based on the variety of products offered and the relevant fees quoted in the tenders submitted. We consider that the prices payable by us to the Petrovis Group are in line with the market rates and, from our perspective, are no less favourable than those obtainable from third parties.
- *Reasons for such transactions:* Tenger Insurance, a subsidiary of Petrovis, is one of the largest insurance companies operating in Mongolia. It provides a variety of insurance products that provide our Group with protection against liability and loss. Although there are several alternative insurance providers who are able to provide insurance coverage for our Group, Tenger Insurance offers the most comprehensive protection at the lowest price. We do not consider it cost effective to terminate the currently existing insurance agreements and obtain similar insurance products from other insurance providers.

CONNECTED TRANSACTIONS

- *Future services:* We have entered into insurance agreements with a subsidiary of Petrovis for the provision of insurance services during 2009 and 2010. Each of the agreements will subsist for no more than three years following Listing with the last one ending on April 30, 2011.

We estimate that the total premium payable by our Group under the agreements will be approximately US\$641,821 and US\$329,268 for each of the two years ending December 31, 2011, respectively. The proposed annual caps for the two years ending December 31, 2011 have been determined based on the expectation of our Company that there will be an increase in insurance cover as a result of the anticipated increase in the number of employees, assets and construction projects of our Company as our Group is undergoing a production ramp-up. Insurance charges in relation to equipment and construction materials, construction of facilities, airport and coal stockpile are determined based on fixed contract values. Insurance charges in relation to vehicles are estimated based on the value of such vehicles to be insured and the premium to be paid. Insurance charges in relation to full time employees are estimated based on the insurance cover per individual and the premium to be paid. Our Company has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in deriving the proposed annual caps. The reason for the substantial decrease in the proposed annual cap for the year ending December 31, 2011 is due to the expiration of the agreements before 2011.

2. *Supply of goods (Category 5)*

- *Background:* We have entered into contracts with various subsidiaries of Petrovis, pursuant to which such subsidiaries agreed to provide certain subsidiaries of our Company with (i) fuel cards for the purpose of purchasing fuel from the gas stations of Petrovis; and (ii) petroleum products.

We paid an aggregate of approximately MNT10,651,766,232 (US\$7,400,760) and MNT2,891,458,518 (US\$2,137,072) for the purchases of fuel from the Petrovis Group for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

- *Connected Person:* Petrovis's subsidiaries. As described in Category 4 above, any subsidiary of Petrovis is also a connected person of our Company.
- *Connected Transactions:* Any continuing purchases between our Group and the Petrovis Group after the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.
- *Pricing:* The prices of the fuel cards and the fuel payable are determined by market rate. Our Directors have confirmed that the prices payable by us to the Petrovis Group were determined on normal commercial terms, and will be in line with market rates and no less favourable than those obtainable from third parties.

CONNECTED TRANSACTIONS

- *Reasons for such transactions:* Due to the size of our mine, we require large scale mining equipment to facilitate our mining activities, and such equipment requires a substantial amount of fuel to operate. Our coal is then hauled by trucks from our UHG deposit to our trans-shipment stockpile at TKH, located approximately 21km from the Mongolia-China border crossing, then to GS where it is further trans-shipped to markets in China. Petrovis is an oligopoly in the fuel market in Mongolia and there are few alternative suppliers of fuel with comparable pricing at market rate. However, the gas stations owned by Petrovis are distributed conveniently within the close proximity of the UHG deposit and along the road to the Mongolia-China border. When compared to other alternatives available, we consider that it is efficient and cost-effective for our Company to continue to purchase fuel from the gas stations operated by the Petrovis Group.
- *Future purchases:* We have entered into contracts with various subsidiaries of Petrovis for the supply of fuel cards for the purpose of purchasing fuel from the gas stations of the Petrovis Group and petroleum products. Each of the contracts will subsist for no more than three years following Listing with the last one ending on June 7, 2011.

We estimate that our total purchases of fuel cards and fuel from the Petrovis Group will amount to approximately US\$19,535,509 and US\$22,730,504 for the year ending December 31, 2010 and the period commencing on January 1, 2011 and ending on June 7, 2011, respectively. The proposed annual caps for the two years ending December 31, 2011 have been determined based on the historical figures for the year ended December 31, 2009 and the four months ended April 30, 2010 and the anticipated increase in fuel consumption due to the increasing level of mining activities conducted by our Company. In deriving the annual caps, our Group has considered the estimated fuel consumption data provided by our Group's mining contractor, Leighton. It is estimated that our Group will purchase approximately 16 million liters and 15 million liters of fuel from Petrovis during the six months ending December 31, 2010, and the six months ending June 30, 2011, respectively. Our Group has also taken into account the anticipated inflation in Mongolia and the exchange rate fluctuation of the MNT in determining the proposed annual caps for 2010 and 2011. After taking into account the anticipated inflation and the exchange rate fluctuation, the estimated price of fuel per liter for 2010 and 2011 is US\$1.22 and US\$1.53, respectively (inclusive of VAT).

CONNECTED TRANSACTIONS

Waivers

No waivers applied for in respect of certain categories of connected transaction

For the continuing connected transaction described under Category 1 above, each of the percentage ratios (other than profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, is expected on an annual basis to be less than 0.1%. Accordingly, this transaction qualifies under Rule 14A.33(3) of the Listing Rules as a de minimis transactions that is exempt from the annual review, reporting, announcement and independent shareholders' approval requirements.

Waivers from compliance with announcement and independent shareholders' approval requirements

The transactions contemplated in Categories 2 and 4 above (the "discloseable continuing connected transactions") constitute continuing connected transactions which are subject to annual review, reporting and announcement requirements under Rules 14A.45 to 14.47 of the Listing Rules on each occasion on which they arise following the completion of the Global Offering.

The transactions contemplated in Categories 3A, 3B, 3C and 5 above (the "non-exempt continuing connected transactions") constitute continuing connected transactions which are subject to, (i) annual review, reporting and announcement requirements under Rules 14A.45 to 14.47 of the Listing Rules, and (ii) independent shareholders' approval requirements set out in Rule 14A.48 on each occasion on which they arise following the completion of the Global Offering.

In relation to the discloseable continuing connected transactions described above, each of the percentage ratios (other than the profit ratio) based on the relevant annual cap as set out below, where applicable, in relation to each of these categories is, on an annual basis, expected to be less than 2.5% under Rule 14A.34 of the Listing Rules. Accordingly, such transactions are exempt from the independent shareholders' approval requirement but are subject to annual review, reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As the discloseable and non-exempt continuing connected transactions described above are expected to continue on a recurring basis after Listing, and have been entered into prior to the Listing Date, have been fully disclosed in this prospectus and potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the reporting and announcement and/or the independent shareholders' approval requirements would add unnecessary administrative costs for us. Accordingly, we have requested the Stock Exchange, and the Stock Exchange has granted us, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the discloseable and non-exempt continuing connected transactions from compliance with the announcement and/or independent shareholders' approval requirements under the Listing Rules. In addition, we confirm that we will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules in relation to the discloseable and non-exempt continuing connected transactions.

CONNECTED TRANSACTIONS

In respect of Rules 14A.35(2) and 14A.36(1) of the Listing Rules, the maximum aggregate annual value, if any, for the discloseable and non-exempt continuing connected transactions shall not exceed the applicable limit set out below:

Category	Nature of transaction	Applicable Listing Rules	Historical amount (US\$)			Annual cap (US\$)		
			For the year ended December 31,			For the year ending December 31,		
			2007	2008	2009	2010	2011	2012
<i>Discloseable continuing connected transactions</i>								
2	Rental of equipment from the MCS Group	Listing Rule 14A.34	–	–	106,076	369,602	630,199	503,189
4	Insurance from the Petrovis Group	Listing Rule 14A.34	–	–	1,513	641,821	329,268	–
<i>Non-exempt continuing connected transactions</i>								
3A	Supply of goods and services by MCS Group – information technology and management services	Listing Rule 14A.35	–	1,472,500	2,280,213	6,988,548	17,396,851	19,627
3B	Supply of goods and services by the MCS Group – offices and camp sites supporting services	Listing Rule 14A.35	–	–	1,452,361	4,189,805	–	–
3C	Supply of goods and services by the MCS Group – construction supporting and ancillary supporting services	Listing Rule 14A.35	–	–	322,201	4,174,180	190,659	222,080
5	Supply of goods by the Petrovis Group	Listing Rule 14A.35	–	–	7,400,760	19,535,509	22,730,504	–

Confirmation from our Directors

Our Directors, including our independent non-executive Directors, are of the opinion that the transactions described in the section above headed “Continuing Connected Transactions” have been entered into, and will be carried out following the completion of the Global Offering, in the ordinary and usual course of our business and on normal commercial terms, and that the terms of the transactions and the annual caps above are fair and reasonable and in the interests of our Shareholders as a whole.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that (1) the discloseable and non-exempt continuing connected transactions as described above that have been entered into, are in the ordinary and usual course of our business, on normal commercial terms, are fair and reasonable and in the interest of our Shareholders as a whole, and (2) the annual caps for such discloseable and non-exempt continuing connected transactions are fair and reasonable as far as our Shareholders as a whole are concerned.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

General

The Board consists of 12 Directors, comprising two executive Directors, seven non-executive Directors and three independent non-executive Directors.

The principal functions and duties conferred on our Board include:

- convening Shareholders' general meetings and reporting our Board's work at Shareholders' general meetings;
- implementing the resolutions passed by our Shareholders in general meetings;
- deciding our business plans and investment plans;
- preparing our annual financial budgets and final reports;
- formulating the proposals for profit distributions, recovery of losses and for the increase or reduction of our authorized share capital; and
- exercising other powers, functions and duties conferred by our Shareholders in general meetings.

The following table provides information about our Directors and other senior managers of our Company.

<u>Name</u>	<u>Age</u>	<u>Residential address</u>	<u>Date of commencing employment with the Group</u>	<u>Position</u>
Odjargal Jambaljamts	44	House E-3, Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	June 2007	Executive Director and Chairman of the Board
Battsengel Gotov	37	Apartment 11 Building 45, Erel Town 1st Housing Committee Khan-Uul District Ulaanbaatar Mongolia	June 2008	Executive Director and Chief Executive Officer

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

<u>Name</u>	<u>Age</u>	<u>Residential address</u>	<u>Date of commencing employment with the Group</u>	<u>Position</u>
Gantumur Lingov	40	Jargalan Town 1-3 1st Housing Committee Khan-Uul District Ulaanbaatar Mongolia	September 2010	Non-executive Director
Enkhtuvshin Gombo.	39	Apartment 18 Building 32/1 Olympic Street 1st Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	September 2010	Non-executive Director
Enkh-Amgalan Luvsantseren	40	House D-4, Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	April 2009	Non-executive Director
Badamtsetseg Dash-Ulzii	34	House E-1 Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	September 2010	Non-executive Director
Batsaikhan Purev	43	Apartment 57, Block C Shine Tugul 2nd Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	March 2008	Non-executive Director
Oyungerel Janchiv	55	Apartment 401 Building 202 Royal Green Villa 11th Housing Committee Section 2 Khan-Uul District Ulaanbaatar Mongolia	March 2008	Non-executive Director

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

<u>Name</u>	<u>Age</u>	<u>Residential address</u>	<u>Date of commencing employment with the Group</u>	<u>Position</u>
Philip Hubert ter Woort	49	Apartment 214 Building 200 Bella Vista Complex Zaisangiin Am 11th Housing Committee Khan-Uul District Ulaanbaatar Mongolia	November 2009	Non-executive Director
Unenbat Jigjid	48	Apartment 9 Building 26/1 2nd Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	September 2010	Independent non-executive Director
Ochirbat Punsalmaa	68	Building 11, Olympic Street 1st Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	September 2010	Independent non-executive Director
Chan Tze Ching, Ignatius	53	Flat 6D, Portofino Villas 88 Pak To Avenue Clearwater Bay Kowloon Hong Kong	September 2010	Independent non-executive Director
Enkhtuvshin Dashtseren	34	House E-8, Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	May 2008	Chief Marketing Officer
Bayarbayasgalan Dorjderem	36	Apartment 34 Building 48 3rd Housing Committee Baganuur District Ulaanbaatar Mongolia	January 2009	Vice President, Mining

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

<u>Name</u>	<u>Age</u>	<u>Residential address</u>	<u>Date of commencing employment with the Group</u>	<u>Position</u>
Gary Ballantine	42	House F-47 Selbe Town 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	July 2010	Principal Geologist
Buljinsuren Gelenkhuu . . .	51	Apartment 12 Building 8 1st Housing Committee Baganuur District Ulaanbaatar Mongolia	January 2009	Vice President, Safety
Oyunbat Lkhagvatsend . . .	34	Apartment 35 Building 20 Olympic Street 1st Housing Committee Sukhbaatar District Ulaanbaatar Mongolia	July 2008	Vice President, Transportation and Logistics and Chief Executive Officer of Energy Resources Rail LLC
Davaakhuu Chultem	37	Apartment 18 Building 64 Section 7 11th Housing Committee Khan-Uul District Ulaanbaatar Mongolia	February 2010	Vice President, Project Management
Bat-Erdene Gansukh	30	Apartment 25 Building 402 Bayan Mongol Town 12th Housing Committee Bayahzurkh District Ulaanbaatar Mongolia	October 2008	Vice President, Finance

Authorized representatives

Ms. Badamtsetseg Dash-Ulzii and Ms. Ng Sin Yee, Clare have been appointed as the authorized representatives of our Company under Rules 3.05 and 19.36(6) of the Listing Rules. The authorized representatives will act as the principal communication channel with the Stock Exchange and will make themselves readily available in Hong Kong whenever necessary to deal with inquiries from the Stock Exchange. When the Stock Exchange contacts the authorized representatives, they will be able to contact all members of the Board immediately, ensuring an effective communication channel with the Stock Exchange.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

In addition to appointing the authorized representatives, our Company has also retained the services of a compliance advisor which, in addition to the authorized representatives of the Company, will act as the principal channel of communication with the Stock Exchange from the Listing Date until the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year following Listing.

Executive Directors

Mr. Odjargal Jambaljamts Executive Director and Chairman of the Board

Odjargal JAMBALJAMTS, aged 44, is our executive Director and chairman of the Board. Mr. Jambaljamts was brought up in Mongolia and was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute in 1989, a diploma in business and management from the Academy of Management, Government Agency of Mongolia in June 1992 and a master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia in April 2000.

From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at the Hydropower LLC for the Project of Egiin River. From 1993 to the present, Mr. Jambaljamts is the chairman of the MCS Group. Under his management, the MCS Group has become one of the largest and most diversified privately-held holding companies in Mongolia. The MCS Group has interests in sectors such as mining, energy and infrastructure, information and communication technology, beverage manufacturing and distribution, wholesale and retail trading, property development and management. Most of the companies in the MCS Group are leaders in their respective sectors and have been acknowledged as leaders through a number of industry and governmental awards.

Mr. Jambaljamts has been closely involved in several mining projects and exposed to all different stages of mining, including exploration, feasibility, mine development and mine production since 1997. Mr. Jambaljamts was the person in charge and had overall responsibility for Metal Invest LLC's, a Mongolian-Canadian joint venture, Mongolian operations. This principally included overseeing and managing the exploration and mining activities in Bayankhongor aimag, in the area that was known for its coal and other mineral deposits. By the end of 1997, the following had been completed in connection with Metal Invest LLC: (1) Mongolian geologists were trained in North America; (2) lithochemical reconnaissance; (3) soil geochemical reconnaissance; (4) geological mapping reconnaissance; (5) thorough reports, maps and analyses; (6) all other works needed to assess the potential for the exploration license under study; (7) selection of a reduced area for further exploration; (8) review of the plan and budget for the first exploration period; and (9) the approval for the plan and budget for the second exploration period.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

From 1997 to 2005, Mr. Jambaljamts was a shareholder of MINCON Co., Ltd. (“MINCON”). MINCON is the local consulting company for the Baga-nuur and Shivee-Ovoo Coal Mine Development Project (“BASOCO”). MINCON provided to BASOCO local consulting services on mining machinery, equipment, technology and mine service facilities, including coal handling plants, de-watering systems, garages, heating systems, civil and building works and environmental monitoring in the mine area, mine management and economic issues and developing BASOCO’s environmental impact assessment. In addition, MINCON assisted in the preparation of the feasibility study for the Alag togoo coal mine.

He became involved in management of ER LLC after MCS Holding became a beneficial shareholder of ER LLC via its shareholding interests in ERI in April 2007. He was responsible for the overall management of its Tavan Tolgoi project, which at that time included six coal deposits (including our UHG deposit). He worked closely to produce the bankable feasibility study, to submit the reserve calculations for approval and to obtain mining rights. Under his management, the UHG mine project became clearly defined, and studies on the proposed mine’s geology and coal resources, mining, coal processing, main markets and transportation, infrastructure, including rail, power plant and township, environmental impacts and considerations, and socioeconomic issues were completed.

He assembled the current management for ER LLC and formulated the long-term plan for ER LLC’s mine development at the UHG mine and managed the mine construction. Under his leadership, he transformed ER LLC from simply an exploration license-holder engaging in minimal exploration activities into the largest producer and exporter of coking coal in Mongolia (according to the official record of the Mongolian Customs Office), the largest Mongolian exporter of high-quality coking coal (by aggregate export volume, for the six months ended June 30, 2010) and the most advanced coking coal operation in Mongolia.

Through MCS Group, Mr. Jambaljamts is also involved in other mining projects. Olova LLC, a mining joint venture established in September 2007, is a tin mine with an operational tin concentrate production line with capacity of 35 m³/h sand washing, which produces 50 tonnes of 60% tin concentrate. UCC LLC, a mining joint venture established in February 2006, is a copper and zinc mine, and currently exploration work on the main deposit is being finalized for registration with the Government of Mongolia. Mr. Jambaljamts is a chairman of the Board of Directors of Spirit Bal Buram Joint Stock Company which was a company listed on the Mongolia Stock Exchange. On April 16, 2010, the MCS Group decided to take this company private. Mr. Jambaljamts is currently the non-executive chairman of MCS Holding and was appointed as our executive Director on May 18, 2010. Mr. Jambaljamts has over 14 years of experience in exploration and/or extraction activities.

Dr. Batt sengel Gotov Executive Director and Chief Executive Officer

Batt sengel GOTOV, aged 37, is our executive Director and chief executive officer. He was awarded a master’s degree in science in May 1996 by Comenius University, Bratislava, Slovakia and a PhD in Organic Chemistry in October 1999 by the same university. Dr. Gotov is a board member of the Mongolian National Mining Association, the Mineral Industry Safety Association and South Gobi Business Counsel.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

From 1996 to 2000, Dr. Gotov was an assistant professor at Comenius University in Bratislava, where he was heavily engaged in basic research studying stereoselective catalytic reactions using as the catalyst either transition metal complexes or organocatalysts. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation. He stayed at the University of Cologne, Germany from September 2000 until October 2003 as a postdoctoral fellow. For two years he was financed by a scholarship of the Alexander von Humboldt Foundation. The research project he worked on concerned the development of ligands for the enantioselective catalysis. The success of his research led to a series of publications in scientific journals and to cooperation with Degussa AG in a joint research project regarding synthesis and synthesis optimization of phosphor-containing ligands.

Dr. Gotov joined the MCS Group in February 2004 as the head of quality assurance department at MCS Coca-Cola LLC. In October 2004, he was appointed as the director of production and procurement at Spirit Bal Buram Joint Stock Company, Mongolia's major producer of distilled grain spirit and vodka brands. In October 2006, he was appointed as the commercial director of MCS APB LLC (a joint venture of the MCS Group and a Singapore-listed enterprise).

Dr. Gotov joined our Group in June 2008 as the chief executive officer of ER LLC. In 2008, ER LLC, together with Norwest Corporation, started an exploration drilling program at the UHG deposit which resulted in the publication of a JORC compliant resource statement for the UHG coking coal deposit. Dr. Gotov also supervised the organization of samples handling and shipment to SGS Tianjin laboratories for performing coal washability and metallurgical testing. Also in 2008, Dr. Gotov led the discussion and commercial negotiations with bidders for the contract mining and coal handling preparation plant which resulted in the conclusion of a contractual engagement with Leighton to act as the contract miner and Sedgman to act as the contractor under the EPCM. Since October 2008, he has been involved in managing the UHG deposit's site preparatory work, boxcut, establishment of temporary mining site facilities, the setting up of facilities at the UHG deposit and obtaining various governmental permits and licenses which resulted in the launch of coal mining transporting and exporting commercial operations in April 2009 and a total of 2.3 million tonnes of coal being mined in the first 12 months of operations at the UHG deposit. Over the years, Dr. Gotov, with his academic background in organic chemistry which involves the scientific study of structure, properties, composition, reactions and preparation of carbon-based compounds such as coal, has successfully transformed the UHG deposit from a green-field project to a profitable, full-fledged mining operation. He represents ER LLC in all matters with state and local governmental and regulatory authorities, non-governmental organizations and local community. He is also responsible for managing, supervising and coordinating mining and processing projects in association with related infrastructure projects such as water exploration and supply and distribution facilities, power supply and distribution facilities, coal trucking road maintenance and construction project and other support infrastructure such as airport and mine workers camp. As at the Latest Practicable Date, Dr. Gotov did not hold any directorship in any Hong Kong or overseas listed company. Dr. Gotov was appointed as our executive Director on May 18, 2010. Dr. Gotov has over two years of experience in exploration and/or extraction activities.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Non-executive Directors

Mr. Gantumur Lingov Non-executive Director

Gantumur LINGOV, aged 40, is our non-executive Director. He was awarded a diploma as engineer-economist of fuel & energy industry by the State Academy of Management, Moscow, Russian Federation in June 1993, a master's degree in business administration by the Mongolian Technical University, Ulaanbaatar, Mongolia in January 1995 and a master's degree in business administration (international business) by the Maastricht School of Management, Maastricht, Netherlands in September 1998.

Mr. Lingov taught at the Computer Science & Management School of Mongolian Technical University from 1993 to 1997. During February to August 1997, Mr. Lingov worked as a national project coordinator on the UNESCO/DANIDA Project where he was involved in frequent direct interactions and cooperation with UNESCO headquarters in Paris, UNDP representative office in Ulaanbaatar, the cabinet secretariat of the Government of Mongolia and the provincial governments. Mr. Lingov joined Procter & Gamble ("P&G") in March 1999 as a retail account manager and was later promoted to be the country manager for Mongolia and head of P&G Eastern Europe Inc. in Mongolia. Mr. Lingov became P&G's distributor operations manager for the whole Central Asia & Caucasus region in April 2004 and the manager on special assignment in October 2005. Mr. Lingov joined the MCS Group in July 2006 as a vice-president for human resources of MCS Holding LLC where he was responsible for the human resources and organization development. He became the managing director of MCS Management LLC in October 2007 and is responsible for the overall management of MCS Management LLC. As at the Latest Practicable Date, Mr. Lingov did not hold any directorship in any Hong Kong or overseas listed company. Mr. Lingov is currently an executive director and vice president of MCS Holding. Mr. Lingov is a representative of MCS Holding and was appointed as our non-executive Director on September 16, 2010.

Ms. Enkhtuvshin Gombo Non-executive Director

Enkhtuvshin GOMBO, aged 39, is our non-executive Director. Ms. Gombo was awarded a bachelor's degree in banking and finance by the Economic College of Mongolia in June 1994, a master's degree in business administration by the University of Birmingham in December 1998 and a master's degree in science by the University of Colorado in December 2001.

Between 1994 and 1997, Ms. Gombo worked in the Trade and Development Bank as an assistant worker, supervising accountant and senior accountant. Ms. Gombo joined the MCS Group in 2003 as a financial analyst of MCS Holding where she participated in various development projects such as the development of the office tower and residential properties. Ms. Gombo became the head of the planning unit of the finance department in 2006 and she was in charge of the preparation of consolidated budgets for financial statements, analysis of MCS Group's financial performance and financial information, the development of management reports and the organization and management of planning units of the subsidiary companies. Ms. Gombo was appointed as a director of MCS Group's finance department in

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

2008 when she successfully organized the first international auditing and established a strong financial team, good relationships with international financial organizations as well as with commercial banks. As at the Latest Practicable Date, Ms. Gombo did not hold any directorship in any Hong Kong or overseas listed company. Ms. Gombo is currently the director of finance department of MCS Holding. Ms. Gombo is a representative of MCS Holding and was appointed as our non-executive Director on September 16, 2010.

Mr. Enkh-Amgalan Luvsantseren Non-executive Director

Enkh-Amgalan LUVSANTSEREN, aged 40, is our non-executive Director. Mr. Luvsantseren was awarded a diploma in arts by the Sankt-Petersburg University in June 1992 and a master's degree in business administration by Handong Global University, Pohang, Korea in August 2003.

From 1992 to 1995, Mr. Luvsantseren was the editor-in-chief of "Il Tovchoo," a national weekly newspaper. From 1995 to 1997, Mr. Luvsantseren was the managing director of the Interpress Company based in Ulaanbaatar. Mr. Luvsantseren joined the MCS Group in 1997. During his tenure with the MCS Group, he held various positions, including as a deputy director of MCS Holding and the managing director of MCS Electronics LLC. Mr. Luvsantseren has also been a vice president of the MCS Group since 2002. Since 2009, Mr. Luvsantseren has been a director of ER LLC. He was also the executive vice president for infrastructure development of ER LLC until June 1, 2010. He is also a board director of Coal Road LLC, United LLC and Sky Resort LLC. As at the Latest Practicable Date, Mr. Luvsantseren did not hold any directorship in any Hong Kong or overseas listed company. Mr. Luvsantseren is currently an executive director and an executive vice-president of MCS Holding. Mr. Luvsantseren is a representative of MCS Holding and was appointed as our non-executive Director on September 16, 2010.

Ms. Badamtsetseg Dash-Ulzii Non-executive Director

Badamtsetseg DASH-ULZII, aged 34, is our non-executive Director. Ms. Dash-Ulzii was awarded a bachelor's degree in business administration by George Washington University in January 1999 and a master's degree in international affairs by Columbia University in May 2001.

Ms. Dash-Ulzii worked in the World Bank's East Asia and Pacific Vice Presidency's Chief Economist's office in Washington, D.C. from 1999 to 2000 and at JP Morgan in New York when she obtained financial and economic analysis experience. From 2002 to 2003, she was an advisor/economist for the USAID's Economic Policy Support Project in Ulaanbaatar, Mongolia and was responsible for project work in mining, minerals, banking, energy, insurance and financial sectors. She also co-drafted the Economic Development Strategy for Mongolia and was a member of the project team advising the Prime Minister's office on economic policy in mining, minerals and financial sectors. From 2005 to 2006, she was a director of the investments department of the Trade and Development Bank of Mongolia. Ms. Dash-Ulzii was appointed as a director of MCS Holding in 2007 and she was responsible for the management

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

of the Tavan Tolgoi project. Since 2007, she has also been the director of the National Venture Capital LLC, the first venture capital firm in Mongolia. As at the Latest Practicable Date, Ms. Dash-Ulzii did not hold any directorship in any Hong Kong or overseas listed company. Ms. Dash-Ulzii is currently an executive director of MCS Holding. Ms. Dash-Ulzii is a representative of MCS Holding and was appointed as our non-executive Director on September 16, 2010.

Mr. Batsaikhan Purev Non-executive Director

Batsaikhan PUREV, aged 43, is our non-executive Director. He was awarded a bachelor's degree in mechanical engineering from the Mongolian Technical University in December 1995.

In 1993, Mr. Purev founded Shunkhlai LLC, which was one of the first private companies established in Mongolia and one of the largest Mongolian petroleum companies. Mr. Purev has been the general director of Shunkhlai LLC, Shunkhlai Group LLC and executive director of Shunkhlai Mining LLC since 1993, 2003 and 2009 respectively. Mr. Purev is responsible for the strategic planning and supervision of day-to-day management activities of the group companies. He is also in charge of investment programmes into various mining projects, including ER LLC's UHG project. Besides his involvement with the Shunkhlai Group, Mr. Purev was appointed as the managing director and chairman of APU Joint Stock Company (a company listed on the Mongolia Stock Exchange) in July 2004 and April 2008, respectively, where he was responsible for the supervision of the company's executive management, strategic decision making, policy formulation and day-to-day management of production, sales and financial operations. Save as disclosed above, as at the Latest Practicable Date, Mr. Purev did not hold any directorship in any Hong Kong or overseas listed company. Mr. Purev is a representative of Shunkhlai Mining and was appointed as our non-executive Director on September 16, 2010.

Dr. Oyungerel Janchiv Non-executive Director

Oyungerel JANCHIV, aged 55, is our non-executive Director. Dr. Janchiv was awarded a Diploma of Doctor (Ph.D.) in January 2007 from Russian State University of Oil and Gas by Gubkin and a diploma of engineer-economist of petroleum and gas industry by the Moscow order of Red Banner Labor Institute of Oil and Gas named after I. M. Gubkin, Moscow, Russian Federation in June 1979.

Dr. Janchiv started her career as a petroleum economist at the central oil supply depot of the Oil Supply Management Authority from 1979 to 1982. From 1988-1990, she served as a chief economist in the Oil Supply Management Authority, Mongolia. From 1990 to 1996, she was the general director of the board of directors of the Neft Import Concern ("NIC") and was responsible for managing the importation and distribution of petroleum products. Since 1996, she has been the chairperson and the general director of Petrovis LLC, the largest petroleum importation and distribution company of Mongolia. She is also a non-executive director and the deputy chairperson of Petro Matad Limited, a subsidiary of Petrovis LLC engaged in oil

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

exploration and listed on the London Stock Exchange. Save as disclosed above, as at the Latest Practicable Date, Dr. Janchiv did not hold any directorship in any Hong Kong or overseas listed company. Dr. Janchiv is a representative of Petrovis Resources Inc. and was appointed as our non-executive Director on September 16, 2010.

Mr. Philip Hubert ter Woort Non-executive Director

Philip Hubert TER WOORT, aged 49, graduated from the University of Amsterdam in March 1988 with a Masters degree in Economics (“Doctoraal”) and joined after his studies Billiton International Metals BV (“Billiton”) (at that time part of the Royal Dutch Shell Group) as finance trainee.

Between 1990-1997, Mr. ter Woort worked in ING Bank N.V. and he held various positions within the ING Group (and its predecessors), including as account officer of corporate banking with ING in Belgium and account manager of export & project finance and senior account manager specialized commodity finance, both based with ING Bank Amsterdam. In those positions he gained substantial product expertise in corporate banking, export & project finance and structured commodity finance.

From 1997 to 1998, Mr. ter Woort worked for Cargill Financial Services in Geneva, Switzerland as a senior structured financier where he worked on various structured commodity finance transactions.

In 1998, Mr. ter Woort moved to Moscow, Russia to join ABN AMRO Bank A.O. Moscon, Russia where he was appointed as vice president corporate banking during which period he managed a team which was responsible for various sectors of ABN AMRO Bank Moscow’s corporate banking activities.

From 2000 to 2001, he was appointed as branch manager of ABN AMRO Bank St. Petersburg Branch responsible for managing ABN AMRO Bank Russia’s commercial banking activities in the northwestern part of Russia.

From 2001-2005, Mr. ter Woort served as Chairman of Supervisory Board of Directors of Rabo Invest OOO, Moscow, a soft commodity financier in Russia and a full subsidiary of Rabobank the Netherlands.

From 2005 to 2009, Mr. ter Woort was active as a private residential property investor during which period he built and managed a residential property investment portfolio in a number of countries.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

In 2009 Mr. ter Woort was appointed as the Head of the Resident Office of the EBRD and in this capacity he is responsible for initiating and coordinating EBRD's equity and commercial banking activities in Mongolia policy and dialogue activities with the various Mongolian authorities on a wide range of issues affecting private businesses in Mongolia. As at the Latest Practicable Date, Mr. ter Woort did not hold any directorship in any Hong Kong or overseas listed company. Mr. ter Woort is a representative of EBRD and was appointed as our non-executive Director on September 16, 2010.

Each of the non-executive Directors of our Company is appointed in accordance with the terms stated in our Articles of Association.

Independent Non-Executive Directors

Mr. Unenbat Jigjid Independent non-executive Director

Unenbat JIGJID, aged 48, is our independent non-executive Director. Mr. Jigjid was awarded a master's degree in arts by the Moscow's Institute of Economics and Statistics in June 1985 and a master's degree in international affairs by the Columbia University in 1994.

From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including as an economist, senior economist, director of the monetary policy department and governor. During 2000 and 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. Since 2000 and until present, he has been the head of the department of finance of the Institute of Finance and Economics. He is also a member of the supervisory board of the Bank of Mongolia and the board of Microfinance Development Fund. Since 2009, he has been an executive director of the Corporate Governance Development Center, a non-profit organization providing training, consulting and advocacy functions with an aim to advance corporate governance in Mongolian companies. As at the Latest Practicable Date, Mr. Jigjid did not hold any directorship in any Hong Kong or overseas listed company. Mr. Jigjid was appointed as our independent non-executive Director on September 16, 2010.

Mr. Ochirbat Punsalmaa Independent non-executive Director

Ochirbat PUNSALMAA, aged 68, is our independent non-executive Director. Mr. Punsalmaa was awarded a PhD in technical science by the Moscow Mining Institute of Labor Red Banner named after S. Ordjonikidze, USSR in March 1975, an honorary doctorate by Dankook University of Republic of Korea, Mongolia Technical University and Saint Petersburg Mining Institute in October 1991, October 1994 and May 1996 respectively. Mr. Punsalmaa was credited as a Barrister Emeritus by School of Law, Texas Wesleyan University, the United States in October 1995 and was awarded a doctor's degree in economy by the Higher Education Attestation Commission of the Ministry of Education of Russian Federation in December 1999. Mr. Punsalmaa is an engineer of mining. Mr. Punsalmaa was awarded the National Order "Polar Star," 60th Anniversary medals of the People's Revolution, Medal for Distinguished Service of Hungary and "Mugunghwa" Order of the Republic of Korea.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

From 1966 to 1967, Mr. Punsalmaa was an officer of the Ministry of Industry. He was the chief engineer of the Sharyn Gol mine from 1967 to 1972. During 1972 to 1990, Mr. Punsalmaa held various positions with the Government of Mongolia, including as a deputy minister of the ministry of power energy and mining, minister for ministry of fuel and power energy of Mongolia, chairman of the state committee of external economic relations and cooperation of Mongolia and minister for external economic relation of Mongolia. Mr. Punsalmaa was a speaker of the Parliament from March 1990 to September 1990 and was the President of Mongolia between 1990 and 1997. Since 1997, he has been the chairman of the board of Ochirbat Foundation. As at the Latest Practicable Date, Mr. Punsalmaa did not hold any directorship in any Hong Kong or overseas listed company. Mr. Punsalmaa was appointed as our independent non-executive Director on September 16, 2010. Mr. Punsalmaa has over 20 years of experience in mining and/or exploration activities.

Mr. Chan Tze Ching, Ignatius (陳子政) Independent non-executive Director

CHAN Tze Ching, Ignatius (陳子政), aged 53, is our independent non-executive Director. Mr. Chan was awarded a bachelor's and a master's degree in business administration by the University of Hawaii, the United States in 1977 and 1979, respectively. He is also a certified public accountant with the American Institute of Certified Public Accountants.

From 1980 to 2007, Mr. Chan held various positions with Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. In 2008, he was the deputy chief executive of the Bank of China (Hong Kong) Limited. Mr. Chan was a consultant for the Bank of East Asia, Limited in 2009 and has been a senior advisor for the bank since December 2009. Mr. Chan is actively involved in community and public services. He was a council member of the Treasury Markets Association, a member of the Banking Advisory Committee of the Hong Kong Monetary Authority, a vice-president and fellow of the Hong Kong Institute of Bankers, a council member of the Employers' Federation of Hong Kong and an honorary chairman of the Hong Kong Chinese Bankers Club. Mr. Chan was appointed as a Justice of the Peace in 2002 and awarded the Bronze Bauhinia Star in 2007. At present, Mr. Chan is the chairman of the Advisory Committee on Human Resources Development in the Financial Services Sector and the Travel Industry Compensation Fund Management Board. He is also a board member and the chairman of the investment sub-committee of the Hong Kong Community Chest, a member of the Greater Pearl River Delta Business Council, a member of the Advisory Committee on Bond Market Development, a council member and the chairman of the audit committee of the Hong Kong Polytechnic University and a council member of the Hong Kong Red Cross. Mr. Chan has been an independent non-executive director of Hong Kong Exchanges and Clearing Limited (stock code: 388), a company listed on the Stock Exchange, since April 2009. He is currently a member of the Disciplinary Appeals Committee of Hong Kong Securities Clearing Company Limited. He is a director of The Portofino (165) Limited, a privately-held investment company. Save as disclosed above, as at the Latest Practicable Date, Mr. Chan did not hold any directorship in any Hong Kong or overseas listed company. Mr. Chan was appointed as our independent non-executive Director on September 16, 2010.

Other Senior Management

Mr. Enkhtuvshin Dashtseren Chief Marketing Officer

Enkhtuvshin DASHTSEREN, aged 34, is our chief marketing officer. Mr. Dashtseren was awarded a bachelor's degree in Finance & Management by the Mongolian National University, Ulaanbaatar, Mongolia in June 1997.

Mr. Dashtseren joined the MCS Group in 1997 and worked as a financial manager in MCS International LLC from 1997 to 2000. As the head of the financial department, he was responsible for the overall financial management of the company. From 2001 to 2005, he was promoted to be the chief financial officer of the MCS Group and a vice president of the finance department of the MCS Group. During his tenure as the chief financial officer, he was responsible for auditing, tax planning, corporate management, and budget management. From 2005 to 2006, Mr. Dashtseren served as the vice president of the corporate strategy department of the MCS Group. During this period, Mr. Dashtseren developed and implemented corporate strategies for diversification and expansion of current business lines as well as identification of new business opportunities. In May 2008, Mr. Dashtseren was appointed as the executive vice president of the sales and marketing department of ER LLC where he had a broad scope of responsibilities in strategic market planning, business development, sales forecasting, marketing, pricing, training of sales personnel. Mr. Dashtseren is the key person for the sales and marketing of the coal mined at the UHG deposit developed by the Group. He has developed an extensive marketing strategy and research for potential coal markets with the major focus on the China market. Mr. Dashtseren's sales and marketing efforts combined with visits to all major steel and coke plants of China identified the major off-takers of the coal from the UHG deposit. Mr. Dashtseren identified the major end-users of the 10 million tonnes of the coking coal to be produced over the next two years and successfully completed the negotiations of major off-take agreements. Mr. Dashtseren also plays an instrumental role in the setup and solutions for the coal transportation logistics by obtaining the necessary government authorizations and approvals. Mr. Dashtseren is a non-executive director of MCS Holding and was appointed as our chief marketing officer in May 2010. Mr. Dashtseren has over two years of experience in exploration and/or extraction activities.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Bayarbayasgalan Dorjderem Vice President, Mining

Bayarbayasgalan DORJDEREM, aged 36, is our vice president, mining. Mr. Dorjderem was awarded a bachelor's degree majoring in mine surveyor by the Mongolian Technical University in December 1995.

From 1995 to 2000 and from 2000 to 2009, Mr. Dorjderem was respectively a mine surveyor and a mine chief surveyor of the Baganuur Joint Stock Company, a majority state-owned enterprise listed on the Mongolian Stock Exchange in which the Baganuur coal mine was the then largest open cut coal mine operating in Mongolia producing around 3 million tonnes of coal for Mongolia's major power plants #3 and #4 in Ulaanbaatar. During this period, he was responsible for mine pit surveying, upgrading the geological database and geological model, short and long term mine production planning, pit design and optimization, drill and blast planning and the designing of mine site infrastructure such as pit dewatering pipelines, coal hauling roads, railway link and coal loading facility. In 1998, Mr. Dorjderem was involved in the "Mongolian Coal Project" for the Baganuur coal mine's technical innovation for overcoming the difficulties faced by the mine after the social transformations taken in the early 1990s in Mongolia. This project was continued in 2000 by the World Bank sponsored project in collaboration with Norwest Corporation in order to update Baganuur coal mine's long term mine planning and final pit design in accordance with western industry standards. In 2001, Mr. Dorjderem participated in the design of coal crushing and loading facility with an annual capacity of 1 million tonnes and the associated 6 km long rail link to a major railway. In 2005, he was in charge of the geological model design and progress update of the Baganuur coal mine and in 2006, he was responsible for the annual mine planning and pit design of the Baganuur coal mine. In 2007, he worked with technical experts from Micromine on the designing and long term planning of the newly planned second pit of the Baganuur coal mine. Mr. Dorjderem joined our Group in January 2009 as a chief surveyor of Energy Resources Mining LLC and worked as part of the integrated and joint ER LLC-Leighton mining team at the UHG deposit. From October 2009 to February 2010, he was the mine planning engineer of ER LLC at the UHG deposit. In March 2010, he was promoted as the senior mining engineer of ER LLC at the UHG deposit. During his employment with our Group, Mr. Dorjderem formed the mining survey team which is responsible for the continuous update of the mine pit design, mine site infrastructure and topography and survey of overburden and coal mining volumes. He also contributed to the UHG deposit's short and long term mine planning, drill and blast planning, preparation and submission of the annual mine plan and annual mining report to the MRAM. Mr. Dorjderem has 15 years of experience in exploration and/or extraction activities which

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

include a range of survey work such as topography, mine survey, cadastral survey, railway, haul road, pipe line construction survey and preparation of all mine plans and section. In view of the professional background and skills, extensive knowledge of the Mongolian coal industry's regulatory requirements in connection with extensive work experience with western mine planning and operating methods. Mr. Dorjderem was appointed as our vice president, mining in April 2010.

<u>Term of Office</u>	<u>Positions</u>	<u>Past Experience and Responsibilities</u>
1995-2000.	Surveyor, Baganuur coal mine	Mr. Dorjderem was involved in all types of survey work such as topography, mine survey, cadastral survey, railway, haul road, pipe line construction survey, preparation of mine plans and sections.
2000-2009.	Chief surveyor, Baganuur coal mine	Mr. Dorjderem had experience of working on railway and mine haul road design, pit design, drill and blasting design, short and long term mine planning, geological model design, mine haul road maintenance management.
Jan 2009 – Sep 2009	Chief surveyor, UHG deposit	Mr. Dorjderem worked as part of the integrated and joint ER LLC-Leighton mining team at the UHG deposit.
Oct 2009 – Feb 2010	Mine planning engineer, UHG deposit	Mr. Dorjderem was involved in the continuous updating of the mine pit design, mine site infrastructure and topography, and survey of overburden and coal mining volumes.
Mar 2010 – April 2010.	Senior mine planning engineer, UHG deposit	
Apr 2010 – present	Vice president – Mining, ER LLC	Mr. Dorjderem was in charge of the UHG deposit's short and long term mine planning, drill and blast planning, annual mining reporting to the MRAM.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Gary Ballantine Principal Geologist

Gary BALLANTINE, aged 42, is our principal geologist. He was awarded a bachelor's degree by the University College of Southern Queensland, Australia in April 1990 and a postgraduate diploma of science by the James Cook University of North Queensland in May 1991. Mr. Ballantine is a member of the Australian Institute of Mining and Metallurgy since May 1996 and is a competent person for JORC and NI43-101 reporting.

From November 1990 through July 1993, Mr. Ballantine worked as a subcontract geologist for Gary Lebland and Associates on a number of mines of BHP Coal Pty Ltd. in Queensland. During this period, he supervised the coring and percussion chip drilling, the usage of various PC (Datcol) and UNIX (Geodas) systems for storing and modelling data, geophysical studies in structural fault delineations using the SIROTEM Mark 3 unit and "in seam seismic" techniques, interpretation of downhole geophysical tools for log corrections, extensive hydrology program, including the supervision of the construction and positioning of piezometers and water quality monitoring including pH and conductivity and development piezometers and aquifer flow rates and falling head tests for permeability analysis. He also supervised a drilling program for coal seam gas, on site monitoring of gas desorption bombs, computer modelling and analysis of geological data and interpretation of downhole geophysical tools for log corrections etc. From July 1993 to June 2002, Mr. Ballantine served as the director and senior consultant of Geoserv Pty Ltd., Bundaberg, Queensland and was involved in several coal mine projects as a senior contract geologist for Geoserv Pty Ltd. These projects included acting as the contract geologist for BHP Coal Pty Ltd., Transnata Pty Ltd, SeamGas Pty Ltd., Himap Pty Ltd. and BHP Billiton Pty Ltd (which was formerly known as Billiton Australia Pty Ltd, Ingwe Australia Pty Ltd and Transnata Pty Ltd). During this period, he was involved in the supervision of Greenfield drilling program and a coal seam gas drilling program for a proposed underground mine at Ramp Zero, Goonyella mine. He was also responsible for the overall management of a large exploration drilling project for coal seam gas at the Moura mine and the project management of an underground Longwall Coal project. From July 2002 to March 2005, he worked for Micromine Pty Ltd as a geological consultant engaging in GBIS sales, training, installation, support and consulting for Micromine. From April 2005 to February 2006, he was the chief mine geologist BMA – BHP Billiton Mitsubishi Alliance as a chief mine geologist for Blackwater mine. From February 2006 to October 2007, he was the global group leader of BHP Billiton's coal specialist team and responsible for BHP Billiton's global coal exploration strategy for thermal and coking coal. Since October 2007, Mr. Ballantine has been the director, coal specialist and senior consultant of GeoCheck Pty Ltd. and he was a competent person responsible for JORC and NI43-101 standard reporting for the AIMS, Hong Kong and Toronto stock exchanges of a number of mining projects including the Saikhan Ovoo Project and Erdenetsogt Project for CEC Resources, the Lun Zhang Project and Wang Jian Ling Project for Allied Rise Group, the Gujiao Mine for Nubrandts etc. In his capacity as a senior consultant of GeoCheck Pty Ltd., Mr. Ballantine provided consultancy services to ER LLC at the UHG deposit and was responsible for developing the business development opportunity team, managing the laboratory and geological departments, providing competent person advice with upcoming resource review, approving borehole data for JORC

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

compliance, designing, budgeting and supervising the 5 year exploration program and setting up of the geology department etc. Mr. Ballantine was appointed as our principal geologist on July 1, 2010. Mr. Ballantine has over 20 years of experience in exploration and/or extraction activities.

Term of Office	Positions	Past Experience and Responsibilities
Nov 1990 – Jul 1993	Subcontract geologist, Garry Leblang and Associates	Mr. Ballantine was in charge of the supervision of drilling, coal quality and gas desorption programs for Moura, Peak Downs and Crinum mines in Queensland.
Jul 1993 – Jun 2002	Director and senior consultant, Geoserv Pty Ltd.	Mr. Ballantine was in charge of the supervision of drilling programs for coal seam gas, project management, data management, geological modeling, coal quality modeling and resource evaluation reported to JORC standards.
Jul 2002 – Mar 2005	Geological consultant, Micromine Pty Ltd.	Mr. Ballantine was responsible for GBIS sales, training, installation, support and consulting for Micromine.
Apr 2005 – Feb 2006	Chief mine geologist for Blackwater Mine, Queensland, BMA-BHP Billiton Mitsubishi Alliance	Mr. Ballantine was responsible for Competent Person JORC compliant resource reporting for the mine, design and management of budgets for exploration drilling, maintenance of geological database, supply of technical information to technical services departments and maintenance of grade control model.
Feb 2006 – Oct 2007	Global group leader for the coal team, BHP Billiton	Mr. Ballantine was responsible for BHP Billiton's global exploration coal strategy for thermal and coking coal, due diligence and special projects, exploration budgets and special funding applications, contract negotiations, competent person for BHPB for JORC compliant reporting, project generation and initiation, and development of coal skills throughout BHP Billiton's minerals exploration group of 200 geologists worldwide.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Term of Office	Positions	Past Experience and Responsibilities
Oct 2007 – present	Director, coal specialist and senior consultant, GeoCheck Pty Ltd.	Mr. Ballantine was responsible for China and Mongolia coal projects, competent person responsible for JORC and NI43101 standard reporting for the AIMS, Hong Kong and Toronto stock exchanges of various projects.
Jul 2010 – present.	Principal geologist	

Mr. Buljinsuren Gelenkhoo Vice President, Safety

Buljinsuren GELENKHUU, aged 51, is our vice president, safety. He was awarded a diploma, majoring in mining electrical mechanics engineer, by the Mongolian National University in June 1983.

Mr. Gelenkhoo worked in Baganuur Joint Stock Company for 20 years and had held various positions, including as an electrical engineer from 1989 to 1997, as a maintenance manager of the maintenance workshop from 1997 to 2002, and as a safety manager of the monitoring section from 2002 to 2009. Mr. Gelenkhoo joined our Group in January 2009 as a safety supervisor of ER LLC and he worked as part of the integrated and joint ER LLC-Leighton mining team at the UHG deposit. Mr. Gelenkhoo was appointed as a labor safety manager at the TKH coal stockpile and trans-shipping facility at the Mongolian-Chinese border in 2009. During his engagement with our Group, he was part of the safety team, implementing and supervising day to day safety procedures, working place inspections, safety induction and training, accident preventive management of the operations at the UHG deposit and at the TKH coal trans-shipping facilities. In view of his professional background and skills, extensive knowledge of Mongolia’s coal industry’s safety requirements for open pit coal mining operations, Mr. Gelenkhoo was appointed as our vice president, safety in April 2010. Mr. Gelenkhoo has over 20 years of experience in exploration and/or extraction activities.

Term of Office	Positions	Past Experience and Responsibilities
1989-1997.	Electrical engineer, Baganuur open cut coal mine	Mr. Gelenkhoo was responsible for the design of electrical systems to provide a useful and safe workplace. Mr. Gelenkhoo was in charge of electrical design of low and medium voltage systems, design of cable trays, lighting systems, heat tracing, and grounding systems.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Term of Office	Positions	Past Experience and Responsibilities
1997-2002.	Maintenance manager, Baganuur open pit coal mine	Mr. Gelenkhuu was responsible for the maintenance of mining equipment, which includes dozers, track loaders, wheel loaders, haul trucks, rollers, graders, maintenance planning, safety, and facility improvements.
2002-2009.	Technical inspector, Baganuur Joint Stock Company	Mr. Gelenkhuu was responsible for the preparation of safety manuals for mining equipment, job descriptions for scope of work for safety officers, inspection of working places at the mine, safety training and safety induction for new managers and employees.
Jan 2009 – Oct 2009	Safety supervisor, UHG deposit, ER LLC	
Oct 2009 – Mar 2010.	Labor safety manager, Tsagaan Khad coal stockpile, ER LLC	
Apr 2010 – present	Vice president, Safety	

Mr. Oyunbat Lkhagvatsend Vice President, Transportation and Logistics and chief executive officer of Energy Resources Rail LLC

Oyunbat LKHAGVATSEND, aged 34, is our vice president, transportation and logistics. Mr. Lkhagvatsend was awarded a bachelor’s degree in law by the National University of Mongolia in June 1999. He also underwent executive training held by the Michigan Business School in August and November 2004.

From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. Mr. Lkhagvatsend joined our Group in 2008 as the chief executive officer of Energy Resources Rail LLC and is responsible for the overall business planning of Energy Resources Rail LLC. He was appointed as our vice president, transportation and logistics in March 2010. Mr. Lkhagvatsend has over 1.5 years of experience in exploration and/or extraction activities.

Mr. Davaakhuu Chultem Vice President, Project Management

Davaakhuu CHULTEM, aged 37, is our vice president, project management. Mr. Chultem was awarded a diploma in power engineering by the Mongolian Technical University, Ulaanbaatar in December 1995 and completed a program run by La Trobe University, Australia where he was awarded a master’s degree in business administration in October 2009. Mr. Chultem underwent the 5-Gold Ring Leadership and Management training held by the Coca-Cola University in September 2008.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

From September 1998 to February 2010, Mr. Chultem was the deputy director and engineer of MCS International LLC and was in charge of the district heating engineering work. He was also involved in the preparation of bidding document and the implementation of power plant and district heating projects. Mr. Chultem joined our Group in February 2010 as the vice president, operation and project management of ER LLC. Since then, he has been in charge of the daily operation of the management and operation of mining and infrastructure projects. Mr. Chultem has over 13 years of experience in project implementation of heating systems and power plants and was previously involved in various energy sector projects including the Choibalsan Heat and Power Station Rehabilitation Project-1 and Project-2 in Germany and the Energy Authority of Mongolia's Darkhan city district heating system improvement project. Mr. Chultem was appointed as our vice president, project management in February 2010. Mr. Chultem has over 13 years of experience in exploration and/or extraction activities (heating systems and power plants).

Mr. Bat-Erdene Gansukh Vice President, Finance

Bat-Erdene GANSUKH, aged 30, is our vice president, finance. He was awarded a bachelor's degree in business administration and applied maths by the Khan-Uul Institute, Mongolia in April 2003.

From December 2003 to June 2007, Mr. Gansukh was the head of finance and planning department of MCS Coca-Cola, Mongolia. His main duties included planning, monitoring and evaluating the operations of finance, supervising cash management activities, executing capital-raising strategies to support the company's expansion and recruiting, organizing, training and managing the staff. In addition, he was responsible for providing financial reports and analysis to the management team, offering professional perspective on financial matters, preparing the annual budget and summarizing and forecasting the organization's financial position. From February 2008 to October 2008, he was the project financial manager of MCS Holding when he performed and supervised investment analysis, developed and tracked annual fiscal plans, created and presented periodic financial projections, tracked program and project budgets and cash flows. Mr. Gansukh joined our Group in October 2008 as the head of finance and planning division of ER LLC and was mainly responsible for providing integrated financial management to all subsidiaries, preparing short and long term budget, financial planning, implementing continuous financial audit and control system and setting up financial procedures and standards to be complied within all subsidiaries of our Group. In 2010, Mr. Gansukh was appointed as the deputy director, finance and planning of ER LLC and is responsible for managing and developing the finance functions designed to monitor and control all aspects of the business – budgeting, financial planning and cash flow management, liaising with banks and investors and presentation of financial matters and developing the set of key performance indicators. He is also responsible for the company's financial and operating budgets and cash flow forecasts, and development of the internal financial reporting requirements and is in charge of managing and supporting departmental staff, giving direction to their training and development. During his employment with ER LLC, Mr. Gansukh improved the financial planning of the company and enhanced the mechanisms and procedures for budget management and financial accounting. Mr. Gansukh was appointed as our vice president, finance on July 1, 2010. Mr. Gansukh has over two years of experience in exploration and/or extraction activities.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Special Advisors

Mr. Sundui Rentsen Special Advisor to the Chief Executive Officer (Mining Operations)

Sundui RENTSEN, aged 59, is the special advisor to our chief executive officer (mining operations). He was awarded a master's degree in mining exploitation technology by the Mongolian University of Science and Technology in November 2009. Mr. Rentsen had also attended professional upgrading training in business management, open pit mining, mining technology, mining production environment, mine planning and development studies. Mr. Rentsen is a registered consulting engineer in the field of coal mining technology and operation in Mongolia since November 2007.

From 1976 to 1978, Mr. Rentsen was a researcher at the Institute of Science and Design which is affiliated with the Ministry of Fuel and Energy. During these years, he assisted with field and office tasks such as gathering, documenting and quality checking of geologic data and literature, planning and coordinating field logistics, collecting and labelling samples, locating station locations using maps and GPS, measuring and recording stratigraphic sections and building databases following prescribed standards and formats. From 1978 to 1992, Mr. Rentsen held various positions at the Baganuur coal mine, including as a mining engineer, department head, chief technologist, chief engineer and head of the production department. During these years, he was involved in determining the location and planning the extraction of coal, making geological and topographical surveys, evolving methods of mining best suited to character, type and size of deposits and supervising mining operations. From 1992 to 2007, Mr. Rentsen served as the head of the coal department at the Ministry of Fuel and Energy, the head of mining department as well as an advisor to the fuel and energy minister. Since 2008, he started to teach at the School of Mining and Engineering of the Technical University of Mongolia. Mr. Rentsen is the honorary advisor engineer in the fuel and mining sector. He has published numerous publications on coal mining such as open cast coal mines in Mongolia and some aspects of mining equipment selection, coal mining situation in Mongolia and future trends, privatization process of coal mines, coal policy and the trend of the development in Mongolia. During his professional career, Mr. Rentsen has accumulated extensive experience on selection of locations, planning of surface mining operations, specifying processes, labor usage and equipment that will result in safe, economical and environmentally sound extraction of coal, examination of maps, deposits, drilling locations or mines to determine the location, size, accessibility, contents, value and potential profitability of coal and mineral deposits, supervision and coordination of the work of technicians, technologists, survey personnel, engineers, scientists and other mine personnel, preparation of schedules, reports and estimates of the costs involved in developing and operating mines, monitoring of the development of mines, facilities, systems or equipment and implementation and coordination of mine safety programs, including the design and maintenance of protective and rescue equipment and safety devices. Mr. Rentsen has over 30 years of experience in exploration and/or extraction activities. He was appointed as a special advisor to the chief executive officer (mining operations) on April 1, 2010 and is responsible for assisting the chief executive officer, Dr. Battsengel Gotov, in our Group's mining operations.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Term of Office	Positions	Past Experience and Responsibilities
1976-1978.	Researcher, the Institute of Science and Design affiliated with the Ministry of Fuel and Energy	Mr. Rentsen assisted with field and office tasks such as gathering, documenting, and quality checking geologic data and literature, planning and coordinating field logistics, collecting and labeling samples, locating station locations using maps and GPS, measuring and recording stratigraphic sections, and building databases following prescribed standards and formats.
1978-1992.	Several positions, the Baganuur coal mine	Mr. Rentsen was in charge of determining the location and planning the extraction of coal, making geological and topographical surveys; evolving methods of mining best suited to character, type, and size of deposits; and supervising mining operations.
1992-2007.	Several positions, the Government of Mongolia	Mr. Rentsen acted as the head of coal department at the Ministry of Fuel and Energy, head of mining department and advisor to the fuel and energy minister.
2008 – Mar 2010	Teacher, School of Mining and Engineering of the Technical University of Mongolia	Teaching
Apr 2010 – present	Special advisor to the Chief Executive Officer (Mining Operations)	

Mr. Rentsen is an employee of the Company. A summary of his key employment terms are as follows:

- the permanent workplace is at the UHG project site of the Company;
- the employment contract is of an indefinite term and commenced on April 1, 2010;
- Mr. Rentsen is remunerated on a monthly basis; and
- the employment contract could be terminated (i) in accordance with the Labor Code of Mongolia; (ii) by the Company in accordance with the contractual terms; or (iii) by Mr. Rentsen upon 30 days' written notice.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Tulga Gaapil Special Advisor to the Chief Executive Officer (Mining Policy, Development and Safety Regulations)

Tulga GAAPIL, aged 58, is the special advisor to the chief executive officer (mining policy, development and safety regulations). He was awarded a diploma in mining engineering by Mongolian National University in May 1976 and a doctorate degree in mining technology by the Postgraduate School of Moscow Mining Institute in Mining Technology in December 1987. Mr. Gaapil is a mining engineer and is also a registered consulting engineer in the field of surface coal mining technology and operations in Mongolia since July 2001.

From 1976 to 1984, Mr. Gaapil was a research officer at the Research and Design Institute for Fuel and Energy Industry. From 1987 to 1989, he was the senior officer of science of the Technology and Quality Policy Department of the Ministry of Fuel and Energy Industry. From 1989 to 1990, he was the section chief of the Mining Institute. He was appointed as a senior officer at the mining sector of the Mining Institute in 1990. From 1993 to 1997, Mr. Gaapil worked as a senior project officer of the Fuel/Mining Department of the Ministry of Fuel and Energy, Ministry of Energy, Geology and Mining, Ministry of Infrastructure Development. During his employment with the Government of Mongolia, Mr. Gaapil led the studies related to coal demand and study forecasts, coal mining technology and environmental issues. He also worked for the Mongolian Coal Project providing basic data and documents analyses for formulation financed by the World Bank. In 1997, Mr. Gaapil did an initial environmental impact assessment for the development of the Shivee-Ovoo coal mine. From 1997 to 2005, Mr. Gaapil was an executive director of Mincon Co., Ltd when he worked on the Baganuur and Shivee-Ovoo coal mine development when he provided local consulting services on mine technology, environmental monitoring in the mine area, surface facilities (including coal handling plant and dewatering system), project supervision and coordination. He provided local consulting services for coal sector policy and regulation cooperating with IMC. In 2000, he worked on a feasibility study or the development of the Alag-Togoo coal deposit. He was involved in the making of technological solutions, selection of equipment and preparation of environmental monitoring plan. In 2005, Mr. Gaapil was appointed as a manager in charge of the mining business development section of MCS International LLC and became an expert, expertise – monitoring department in October 2009. During these years, Mr. Gaapil worked on several projects including the feasibility study of Ulaan-Ovoo coal mine project (with an annual production capacity of 6 million tonnes of coal); the detailed design of the Nariin Sukhait coal mine project (with an annual production capacity of 3 million tonnes of coal); the pre-feasibility proposal of the Tavan Tolgoi coal mine project (with an annual production capacity of 10 millions tonnes of coal) and the feasibility study of the Olon-Ovoot coal mine project (with an annual production capacity of 5 million tonnes of coal). He also prepared a report on coal and energy situation in Mongolia. Mr. Gaapil has a combination of consulting and practical experience with approximately 26 years of experience in the fuel and mining sector and involvement in all the largest existing coal mines. Mr. Gaapil was appointed as a special advisor to the chief executive officer (mining policy, development and safety regulations) on April 1, 2010 and is responsible for assisting Dr. Battengel Gotov in the policy and regulatory aspects of our Group's operations.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Term of Office	Positions	Past Experience and Responsibilities
1976-1984.	Research officer, Research and Design Institute for Fuel and Energy Industry	
1987-1989.	Senior officer of science, Technology and Quality Policy Department of the Ministry of Energy, Mining and Geology	
1989-1990.	Section chief of the Mining Institute	
1992-1997.	Senior Project Officer, Fuel/Mining Department of the Ministry of Fuel and Energy, Ministry of Energy, Geology and Mining, Ministry of Infrastructure Development	Mr. Gaapil led the studies related to coal demand and study forecasts, coal mining technology and environmental issues. He also worked for the World Bank on the Mongolian Economic Transition Support Project when he was responsible for coal mine development consulting. He also did a detailed environmental impact assessment for the development of the Shivee-Ovoo coal mine.
1997-2005.	Executive director, Mincon Co., Ltd	Mr. Gaapil was an executive director of Mincon Co., Ltd when he worked on the Baganuur and Shivee-Ovoo coal mine development and provided local consulting services on mine technology, environmental monitoring in the mine area, surface facilities (including coal handling plant and dewatering system), project supervision and coordination. He also worked on a feasibility study or the development of the Alag-Togoo coal deposit and was involved in the making of technological solutions, selection of equipment and preparation of environmental monitoring plan.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

<u>Term of Office</u>	<u>Positions</u>	<u>Past Experience and Responsibilities</u>
2005 – Mar 2010	Manager, Mining business development section of MCS International LLC; Expert, expertise – Monitoring department, MCS International LLC	Mr. Gaapil worked on several projects including the feasibility study of Ulaan-Ovoo coal mine project; the detailed design of the Nariin Sukhait coal mine project; the pre-feasibility proposal of the Tavan Tolgoi coal mine project and the feasibility study of the Olon-Ovoot coal mine project. He also prepared a report on coal and energy situation in Mongolia.
Apr 2010 – present	Special advisor to the Chief Executive Officer (Mining Policy, Development and Safety Regulation)	

Mr. Gaapil is an employee of the Company. A summary of his key employment terms are as follows:

- the permanent workplace is at the UHG project site of the Company;
- the employment contract is of an indefinite term and commenced on April 1, 2010;
- Mr. Gaapil is remunerated on a monthly basis; and
- the employment contract could be terminated (i) in accordance with the Labor Code of Mongolia; (ii) by the Company in accordance with the contractual terms; or (iii) by Mr. Gaapil upon 30 days' written notice.

Company Secretary

Ms. Ng Sin Yee, Clare (吳倩儀) Company Secretary

NG Sin Yee, Clare (吳倩儀), aged 50, was appointed as company secretary of our Company on July 23, 2010. Ms. Ng is the senior manager of the Corporate Services Department of Tricor Services Limited. She is an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. Before joining the Tricor Group, Ms. Ng has worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 25 years of experience in company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong. She is an ordinarily resident in Hong Kong and she does not currently hold any position in other listed companies.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Compliance Advisor

Our Company has appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules to provide advisory services to our Company pursuant to the requirements thereunder. Anglo Chinese Corporate Finance, Limited will, inter alia, provide advice to our Company with due care and skill on a timely basis when consulted by our Company in the following circumstances:

- before the publication by our Company of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by our Company including share issues and share repurchases;
- when our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, or results of our Company deviate from any forecast, estimate, or other information in this prospectus;
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules;
- if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in Rule 3A.23 of the Listing Rules;
- in relation to an application by our Company for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise our Company on its obligations and in particular the requirement to appoint an independent financial advisor; and
- assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent the compliance advisor forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps such as training.

The term of the appointment will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

Board Practices

In the absence of extraordinary events, it is the practice of the Board to meet at least four times a year. At such meeting, our Directors conduct, among other things, an operational review of our business.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Board Committees

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the initial establishment and the maintenance of a framework of internal controls and ethical standards for our management to the Audit Committee.

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

Nomination Committee

The Nomination Committee of the Board is responsible for making recommendations to the Board regarding candidates to fill vacancies on the Board.

Our Nomination Committee currently comprises one executive Director, Mr. Odjargal Jambaljamts and two independent non-executive Directors, namely, Mr. Unenbat Jigjid and Mr. Ochirbat Punsalmaa. Mr. Odjargal Jambaljamts is the chairman of our Nomination Committee.

Remuneration Committee

The Remuneration Committee of the Board is responsible for determining and reviewing compensation arrangements for our Directors, the chief executive officer and the senior management. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality board and executive team. To assist in achieving these objectives, the Remuneration Committee considers the nature and amount of executive Directors' and senior executives' emoluments with reference to our Company's financial and operational performance. All senior executives have the opportunity to qualify for participation in the Share Option Scheme, which currently provides incentives where specified criteria are met. Details of the principal terms of our Share Option Scheme are summarized in "Appendix VII – Statutory and General Information – Further Information about Directors, Management and Staff – 12. Share Option Scheme" to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Our Remuneration Committee currently comprises one executive Director, Mr. Odjargal Jambaljamts and two independent non-executive Directors, namely, Mr. Unenbat Jigjid and Mr. Ochirbat Punsalmaa. Mr. Odjargal Jambaljamts is the chairman of our Remuneration Committee.

Employees

Our Company was incorporated on May 18, 2010. Prior to that, our operations were operated by ER LLC.

As at the Latest Practicable Date, we had approximately 1,041 full-time employees and the number of our employees was as follows:

	Number of employees
Administration	114
Sales and Marketing	16
Finance and Planning	32
Safety, Medical, Community and Environment	69
Transportation and Logistics.	372
Operation	438
Total	<u>1,041</u>

The compensation information set out below for our Directors and other employees, insofar as it relates to periods prior to our incorporation, is stated at historical amounts as if our current structure had been in existence throughout the relevant periods.

Our Directors receive remuneration in the form of salaries, allowances, benefits in kind, discretionary bonuses and retirement scheme contributions made on their behalf.

The aggregate remuneration paid to our Directors for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 was approximately US\$0, US\$71,943, US\$212,498 and US\$197,122, respectively.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table provides details of the various components of total remuneration paid to our Directors:

	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	(US\$)	(US\$)	(US\$)	(US\$)
Year ended December 31, 2007	–	–	–	–
Year ended December 31, 2008	56,483	12,962	2,498	71,943
Year ended December 31, 2009	138,670	60,820	13,008	212,498
Four months ended April 30, 2010	94,854	89,589	12,679	197,122

The aggregate amount of remuneration paid by our Group to the five highest paid individuals for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 was approximately US\$42,917, US\$91,758, US\$270,533 and US\$172,279, respectively.

The following table provides details of the various components of total remuneration paid to the five highest paid individuals:

	Basic salaries, allowances and benefit in kind	Discretionary bonuses	Retirement scheme contributions	Total
	(US\$)	(US\$)	(US\$)	(US\$)
Year ended December 31, 2007	37,868	–	5,049	42,917
Year ended December 31, 2008	63,256	22,302	6,200	91,758
Year ended December 31, 2009	189,489	63,439	17,605	270,533
Four months ended April 30, 2010	61,789	99,300	11,190	172,279

Save as otherwise disclosed in this prospectus, none of the executive Directors in office during the past three financial years received any salaries, housing allowances, pension scheme contributions, other allowances and benefits in kind from our Company.

Nil remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2007, 2008 and 2009.

The annual Directors' fee and other emoluments paid and payable by our Group for the year ended December 31, 2009 were approximately US\$212,498. The expected annual Directors' fee and other emoluments to be paid by our Group for the year ending December 31, 2010 will be approximately US\$0.4 million.

Save as disclosed in the section headed "Relationship with Controlling Shareholders" in this prospectus, none of our Controlling Shareholders, Directors and their respective associates are interested in any business which competes or is likely to compete with that of ours.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Controlling Shareholders

Immediately following the completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), MCS Holding will, through MCS Group Limited and MCS Mining Group Limited, each a direct or indirect wholly-owned subsidiary of MCS Holding, be interested in approximately 45.3% of the enlarged issued share capital of our Company after the Global Offering and hence will continue to be the Controlling Shareholder of our Company. As Mr. Odjargal Jambaljamts has a 46.9% shareholding interest in MCS Holding, he will also be regarded as a Controlling Shareholder of our Company. For further details of Mr. Odjargal Jambaljamts, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus.

MCS Holding is one of the largest and most diversified privately held holding companies in Mongolia. It has interests in sectors such as mining, energy and infrastructure, information and communication technology, beverage manufacturing and distribution, wholesale and retail trading, property development and management.

MCS Holding, together with other co-borrowers, entered into a loan agreement with International Finance Corporation (“IFC”) on May 31, 2008 (the “Loan Agreement”) and an amendment agreement on August 23, 2010 (together with the Loan Agreement, the “IFC Loan”).

Pursuant to the IFC Loan, IFC may exercise its conversion right to convert part of the loan to Shares by requiring MCS Holding to transfer the Shares held by MCS Holding to IFC. The conversion price in relation to such Shares will be the lower of the Offer Price per Share and the weighted average closing price per Share for the five trading days immediately preceding the date of the relevant conversion notice. The maximum number of Shares to be transferred by MCS Holding to IFC will not exceed 15% of the total issued share capital of our Company. No special rights have been granted to IFC by our Company.

Since IFC agrees to exercise the conversion right during a period of one year commencing on the date of expiry of the six-month lock-up period imposed under Rule 10.07 of the Listing Rules and concluding on the date falling 12 months thereafter, and MCS Holding agrees to ensure that after it transfers the required Shares to IFC pursuant to the exercise of the conversion right by IFC during the period commencing from the expiry of the first six-month lock-up period to one year from the Listing Date, it will remain as a Controlling Shareholder of our Company, there is no potential implication on compliance with Rule 10.07 of the Listing Rules.

Our Controlling Shareholders, will in effect be able to control the management, policies and business of our Company subject to the Memorandum and Articles of Association and applicable laws and regulations. It will be able to exercise significant influence over the composition of the Board, the selection of the senior management, the timing and amount of the dividend payments, the annual budget and other important corporate transactions of our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Independence of Our Group from MCS Holding

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from MCS Holding and its associates after the Global Offering.

Management independence

The Board comprises two executive Directors, seven non-executive Directors and three independent non-executive Directors. Our executive Director, Mr. Odjargal Jambaljamts and our non-executive Directors, Mr. Gantumur Lingov, Ms. Enkhtuvshin Gombo, Mr. Enkh-Amgalan Luvsantseren and Ms. Badamtsetseg Dash-Ulzii are also directors of MCS Holding.

The table below sets out the details of our Directors' and senior management's positions with MCS Holding and our Company:

Name	Position in the Company	Position in MCS Holding
<i>Executive Director</i>		
Odjargal Jambaljamts	Executive Director and Chairman of the Board	Non-executive Chairman of the board of directors
Battsengel Gotov	Executive Director and Chief Executive Officer	None
<i>Non-executive Director</i>		
Gantumur Lingov	Non-executive Director	Executive director and vice president
Enkhtuvshin Gombo	Non-executive Director	Director of finance department
Enkh-Amgalan Luvsantseren	Non-executive Director	Executive director and executive vice president
Badamtsetseg Dash-Ulzii	Non-executive Director	Executive director
Batsaikhan Purev	Non-executive Director	None
Oyungerel Janchiv	Non-executive Director	None
Philip Hubert ter Woort	Non-executive Director	None
<i>Independent non-executive Director</i>		
Unenbat Jigjid	Independent non-executive Director	None
Ochirbat Punsalmaa	Independent non-executive Director	None
Chan Tze Ching, Ignatius	Independent non-executive Director	None
<i>Senior Management</i>		
Enkhtuvshin Dashtseren	Chief Marketing Officer	Non-executive director
Bayarbayasgalan Dorjderem	Vice President, Mining	None
Gary Ballantine	Principal Geologist	None
Buljinsuren Gelenkhuu	Vice President, Safety	None
Oyunbat Lkhagvatsend	Vice President, Transportation and Logistics and Chief Executive Officer of Energy Resources Rail LLC	None
Davaakhuu Chultem	Vice President, Project Management	None
Bat-Erdene Gansukh	Vice President, Finance	None

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Mr. Odjargal Jambaljamts, being our executive Director and chairman of the Board, is responsible for the overall strategic direction of our Group. He has extensive experience in exploration and/or mining activities and is capable of providing significant contributions to our Group in respect of corporate finance and mergers and acquisitions activities. Although Mr. Odjargal Jambaljamts holds a position in MCS Holding, this position does not require him to be involved in the day-to-day management thereof. It is anticipated that only approximately 15% of his work time will be spent in his position as the non-executive chairman of MCS Holding and approximately 85% of his work time will be devoted to our Group.

Mr. Gantumur Lingov, Ms. Enkhtuvshin Gombo, Mr. Enkh-Amgalan Luvsantseren and Ms. Badamtsetseg Dash-Ulzii, who hold executive directorships or other senior management positions within MCS Holding, will only serve as non-executive Directors after Listing.

Our chief marketing officer, Mr. Enkhtuvshin Dashtseren, is a non-executive director of MCS Holding, but he is not involved in the day to day operations of MCS Holding. Mr. Enkhtuvshin Dashtseren will spend approximately 90% of his work time and attention on the management of our Group.

The table below sets out the details of the time allocation of the overlapping Directors and senior management between our Group and MCS Holding:

Name	Position in our Group	Approximate time devoted to our Group	Position in MCS Holding	Approximate time devoted to MCS Holding
<i>Executive Director</i>				
Odjargal Jambaljamts	Executive Director and Chairman of the Board	85%	Non-executive Chairman of the board of directors	15%
<i>Non-executive Director</i>				
Gantumur Lingov	Non-executive Director	15%	Executive director and vice president	85%
Enkhtuvshin Gombo.	Non-executive Director	15%	Director of finance department	85%
Enkh-Amgalan Luvsantseren . . .	Non-executive Director	15%	Executive director and executive vice president	85%
Badamtsetseg Dash-Ulzii.	Non-executive Director	15%	Executive director	85%
<i>Senior management</i>				
Enkhtuvshin Dashtseren	Chief Marketing Officer	90%	Non-executive director	10%

In the event there are conflicts of interest for approving a proposed transaction due to the dual directorships held by Mr. Odjargal Jambaljamts, Mr. Gantumur Lingov, Mr. Enkh-Amgalan Luvsantseren, Ms. Enkhtuvshin Gombo and Ms. Badamtsetseg Dash-Ulzii at our

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Company and MCS Holding, they shall, pursuant to the relevant provisions of the Articles of Association, abstain from physical meetings and shall not form the relevant quorum in the relevant Board meetings of our Company and MCS Holding for approving such transaction. Such transaction shall also require the approval by our independent non-executive Directors so as to ensure that the best interests of our Company are being served.

Save as disclosed above, our Directors confirm that they do not hold any directorships in MCS Holding.

Although the Controlling Shareholders will retain a controlling interest in our Company after Listing, our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through its subsidiaries) holds all relevant licenses necessary to carry on the business, and has sufficient capital, equipment and employees to operate the businesses independently from the Controlling Shareholders.

On February 1, 2008, MCS Holding and ER LLC entered into the Management Agreement under which MCS Holding shall provide certain management-related services to us. These services include operational and strategic planning, management, administration and organization of operations, development of business plans and policies for fund raising, design solutions with suitable mechanics and technologies for business operations, provide market studies and industry forecasts information, research and identify sales and marketing channels, overall guidance on financial reporting and accounting policies and liaison with governmental authorities. In early 2008, we were in the early stages of development and looked to our major shareholder, MCS Holding, for guidance on how to operate and develop the UHG deposit. Being a major conglomerate in Mongolia, MCS Holding has a team of personnel who has the requisite expertise and experience in areas which are relevant to our Group's business operations and development. Further, it was then agreed among MCS Holding and the other shareholders of ER LLC that MCS Holding should be given the role of managing our Group and developing the UHG deposit in the initial years. For the foregoing reasons, the Management Agreement was put in place to require MCS Holding to designate certain of its resources to develop and operate ER LLC and, in return, MCS Holding is compensated in accordance with the pricing basis for the Management Agreement as described in the section headed "Connected Transactions – 3A. Supply of Goods and Services by the MCS Group – information technology and management services (Category 3A)" in this prospectus. The Management Agreement will expire on January 1, 2012. We do not intend to renew the term or extend the scope of the Management Agreement upon its expiration. At the time of entering into the Management Agreement in early 2008, the scope of services under the Management Agreement was considered important to us as we were in the early stages of the development of our business and operations. Over the last few years, we have further developed and enlarged our operations and strengthened our own management team. To ensure minimal disruption to our current operations and in the interests of our Shareholders as a whole, we do not intend to terminate the Management Agreement prior to expiration as we will require time for the transition of such services to be assumed by our own management team. We have started performing some of these management-related services ourselves including formulating our business plans and strategies, and anticipate that we will be able to perform all such services on or before the expiration of the Management Agreement.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Company's day-to-day management and operational decisions are made by the executive Directors and senior management, who have substantial experience in the industry in which our Company operates. Further, the three independent non-executive Directors will bring independent judgment to the decision-making process of the Board.

Save for the continuing connected transactions disclosed in the section headed "Connected Transactions" in this prospectus, our Directors do not expect that there will be any other transactions between our Group and the Controlling Shareholders upon or shortly after the Listing.

Having considered the above factors, our Directors are satisfied that the management team of our Company is able to perform its role in our Company independently, and our Directors are of the view that our Company is capable of managing its businesses independently from Mr. Odjargal Jambaljamts, Mr. Gantumur Lingov, Mr. Enkh-Amgalan Luvsantseren, Ms. Enkhuvshin Gombo and Ms. Badamtsetseg Dash-Ulzii and their respective associates.

Operational independence

During the Track Record Period, our Group has entered into various agreements with the MCS Group which, had those agreements survived the Listing, would each constitute a continuing connected transaction of our Group. Mongolia has a developing market economy with a relatively small population of approximately 2.9 million people. In Mongolia, the MCS Group is considered a conglomerate with significant interests in a wide variety of sectors including mining, energy and infrastructure, information and communication technology, beverage manufacturing and distribution, wholesale and retail trading, property development and management. In addition, the MCS Group is widely recognized and acknowledged in Mongolia as a market leader in many of the sectors they operate domestically.

The MCS Group currently provides a variety of services to our Group. These services have been broadly categorized as (i) leasing of office space; (ii) leasing of office equipment; (iii) supply of information technology services; (iv) supply of offices and camp sites supporting services; and (v) supply of construction supporting and ancillary supporting services. Our Group requires the foregoing services provided by the MCS Group to facilitate its daily operation. However, these services do not form the core business of our Group and are ancillary to the operation of our Group's business. Our Directors are of the view that such services provided by MCS Group to us do not affect the operational independence of our Group.

(i) Leasing of office space

We have entered into a lease with MCS Holding under which MCS Holding leases to us an aggregate gross floor area of approximately 87 square meters located at 3 khoroo, MCS Arun Centre in Khan-Uul, Ulaanbaatar. The lease will expire in December 2010 and rental payable by us is determined with reference to market rental rates. Our property valuer, American Appraisal China Limited, confirms that the rental payable under the lease is in accordance with the prevailing market rates for rental of comparable properties.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

(ii) Leasing of office equipment

During the Track Record Period, the MCS Group leased office equipment such as computers, printers, monitors, fax machines, photocopiers and scanners, to us for our general office usage. MCS Group owns one of the biggest office equipment providers in Mongolia. It provides a wide range of high quality office equipment at competitive prices. We require the rented office equipment as administrative support for our business and, to the best of our knowledge, the rental rates payable by us for such office equipment are similar to the rates payable by other lessees to MCS Group for the same type of office equipment. The lease agreements for different office equipment commenced on different dates and, as such, the expiration of the latest lease agreement is in April 2013.

If there are other providers leasing office equipment who are able to provide an extensive range of high quality office equipment on terms more competitive than MCS Group as well as strong customer and maintenance support during the lease period, we will strongly consider using other service providers.

(iii) Supply of information technology services

During the Track Record Period, MCS Group provided us with certain information technology services including, iridium satellite communication services, satellite internet connection services, computer systems, domain name and services to maintain time and attendance system used for registration of attendance of employees. These services are ancillary support services that are required as part of the day-to-day operation of our business. MCS Group is the only provider of the iridium satellite communication services and satellite internet connection services in the area of the UHG deposit. Given the UHG deposit is located in a remote area approximately 540 km south of Ulaanbaatar, there is no other established internet connection network in the area and the high speed satellite internet connection is currently the only way in which our Group and other residents in the same area can access the internet in UHG. Also, there are no alternative service providers in Mongolia who are able to provide maintenance services for our computer systems and our domain name.

(iv) Supply of offices and camp sites supporting services

As the UHG deposit is located in a remote area in Mongolia, we have constructed accommodations for our employees at the mine site and it is possible to accommodate up to approximately 650 persons. To meet certain daily needs of our employees as well as for the general maintenance of the accommodations at the camp site, supporting services such as cleaning and cafeteria services are required. We have engaged MCS Group to provide such ancillary supporting services to us.

(v) Supply of construction supporting and ancillary supporting services

As part of our plans to expand our mining activities, we needed to build additional infrastructures and utilities near the UHG deposit including, a power plant and electricity transmission line to generate power for the camp site and sub stations, and to generate

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

electricity to operate various mining machineries and equipment used at the UHG deposit and heating system at the UHG deposit camp site. Our Group engaged the MCS Group to construct the relevant infrastructure as the MCS Group is one of the few companies in Mongolia that has the requisite permits and is the only service provider capable of providing services in the UHG deposit area at the requisite level of professionalism and quality. The relevant maintenance services were provided by the MCS Group on normal commercial terms and on arms-length basis.

In deciding to enter into such agreements with the MCS Group, we considered various factors such as (i) the availability of an alternative supplier; (ii) the quality of the services or products provided by the alternative supplier; and (iii) the price offered by the alternative supplier, as compared to those offered by the MCS Group. As the MCS Group is one of the largest conglomerates in Mongolia, possessing the relevant expertise and experienced personnel in many sectors, and due to the limited alternative suppliers available in the market, we were of the view that each of the transactions entered into with the MCS Group are and will be on normal commercial terms, in line with market rates, and in the ordinary and usual course of business of our Group; and it would be in our best interests to enter into such agreements with the MCS Group to ensure that the services or products acquired by our Group are of the highest quality.

Each of the above services or arrangements are part of our day-to-day operation of our business. Except for the iridium satellite communication services, satellite internet connection services and the construction support services which MCS Group is the sole provider available in Mongolia, if we fail to obtain the ancillary and supporting services from MCS Group or have these arrangements in place, we believe the adverse impact on our Group would be minimal as these services and arrangements are ancillary to our core business operation. We may procure similar services or arrangements from alternative providers, and in general, we currently expect such services will be of a lower quality or on less competitive prices or terms than that offered by the MCS Group. To terminate existing arrangements for such services or arrangements prior to the expiration of the term of these arrangements will cause us to incur unnecessary additional cost to replace the current services or find alternative arrangements.

If we do not have access to the iridium satellite communication services, satellite internet connection services and the construction support services from the MCS Group, whom we believe is the only provider capable of providing such services in Mongolia, we anticipate we will experience some inconveniences to our daily operations. Without access to satellite internet connection at the UHG deposit would mean that we may experience delays in our communication within our Group as well as externally. Although the construction of the power plant and the heating supply system have been completed, we continue to require the maintenance services provided by the MCS Group and the loss of such services will bring certain inconveniences to us, but we do not anticipate that it will have a material adverse impact on the core business of our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Although there is a general lack of alternative service provider in Mongolia offering services we need which are of comparable quality and at competitive prices, we anticipate that, given Mongolia is a developing market, there may be more service providers in the near future who can offer similar services on terms acceptable to us. We will continue to search and identify other service providers who can offer quality services at competitive prices and terms and we will seriously consider engaging such alternative services providers if their offerings are better than MCS Group's. As for services which the MCS Group is currently the only service provider in Mongolia, we will continue to engage the MCS Group until we can find an alternative service provider who can offer at least the same as the MCS Group. In all circumstances, we endeavor to engage service providers who can provide the high quality service on attractive terms and ensure that the engagement is in the best interest of our Group and our Shareholders as a whole.

For details of the continuing connected transactions with the MCS Group, please refer to the section headed "Connected Transactions" in this prospectus.

The table below sets out our Group's operating and administration cost paid to the MCS Group and its percentage to our Group's total operating cost during the Track Record Period:

Year	2007	2008	2009	Jan-Apr 2010
Total operating and administration expenses of our Group*	USD 442,629	USD 4,043,792	USD 49,109,421	USD 27,780,081
Total operating and administration expenses paid to the MCS Group . . .	USD 174,010	USD 1,751,158	USD 5,422,696	USD 2,177,132
Percentage to our Group's total operating and administration expenses	39.31%	43.30%	11.04%	7.84%

* *Total operating and administration expenses of our Group includes cost of revenue and administration expenses for the corresponding period.*

After having reviewed the terms of the transactions and discussed them with us, the Joint Sponsors are of the view that our Group is able to operate independently from the MCS Group given that (i) the fees paid to the MCS Group as a proportion of our total operating and administration expenses have fallen from 2008 to April 2010, with a high of 43.30% (US\$1,751,158 out of US\$4,043,792) in 2008 to a low of 7.84% (US\$2,177,132 out of US\$27,780,081) in the first four months of 2010, and (ii) the services provided by MCS Group are ancillary to the operation of our core business.

Corporate governance measures

We currently have in place a set of procedures for procurement of goods and services which calls for a competitive bidding process and a comparative analysis of bids. Our Directors, however, recognize the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders and will voluntarily adopt upon Listing a more stringent set of procedures to monitor the future connected transactions of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Under Rules 14A.37 and 14A.38 of the Listing Rules, all continuing connected transactions between our Company and our connected persons are subject to annual review by the independent non-executive Directors as well as the auditors of our Company to ensure, among other things, that (i) the disinterested Board has approved the transactions; (ii) the transactions are in the ordinary and usual course of business of our Group; (iii) the transactions are either on normal commercial terms or, if there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to our Group than terms available to or from (as appropriate) Independent Third Parties; (iv) the transactions have been entered into in accordance with the relevant agreement governing them that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. In order to comply with these requirements, the management of our Group will continuously monitor the conducts of all continuing connected transactions between our Company and our connected persons to ensure that all these transactions will be conducted in the above manner, failing which we will need to re-comply with the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the relevant transactions.

In addition to the above annual review requirements as prescribed under the Listing Rules, we will also adopt the following corporate governance measures to monitor future connected transactions of our Company after Listing:

1. quotation from not less than two alternative suppliers (where available) will be sought for each proposed connected transaction, to ensure that the terms of the connected transaction will be on normal commercial terms;
2. all Directors who have interest in the connected person will not attend any Board meeting to discuss matters which relate to transactions with such connected person, and will abstain from voting on all resolutions of the Board approving transactions with such connected person;
3. the Audit Committee will monitor each of the connected transactions of our Company periodically and will be presented with information such as quotation of purchase orders at least semi-annually; and
4. should our senior management and Directors consider necessary and appropriate, they may, at the cost of our Company, engage independent professional(s) to assist in reviewing the terms of the connected transactions with our connected persons.

Our Directors consider that the above corporate governance measures are sufficient to protect the interests of our minority Shareholders.

We hold all relevant licenses and assets necessary to operate our business, and we have sufficient employees to operate our business independently.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

We also have independent access to our customers including end users in coal and coal traders, which are independent from MCS Holding and its associates. We do not rely on MCS Holding and its associates for access to customers.

Our Directors also confirm that our Group carried out all its essential administrative operations, such as cash and accounting management, invoicing and billing and other financial and management control systems independently from MCS Holding and its associates. We have established our own accounting, financial and treasury departments independent from MCS Holding and its associates.

Financial independence

Our Directors confirm that our Company is financially independent from the Controlling Shareholders upon Listing. All outstanding loans and non-trade payables owed to and from, and/or outstanding financial guarantees or indemnities provided by the Controlling Shareholders and their associates have been settled before the Listing.

Our Directors believe that our Group is able to obtain further financing such as bank loans, if necessary, upon market terms and conditions without relying further on the financial assistance from the Controlling Shareholders and their associates after the Listing. Certain banks, for instance, have granted our Company credit lines without requiring assistance from the Controlling Shareholders or their associates as a pre-condition.

The Controlling Shareholders have provided a non-disposal undertaking to the Stock Exchange and our Company, detailed terms of which are set out in the section headed “Underwriting – Undertakings” in this prospectus.

Non-competition Undertaking

In order to maintain a clear delineation of our respective businesses going forward, subject to the exceptions set forth below, the Controlling Shareholders have, pursuant to the deed of non-competition, undertaken to our Company that, at any time during which our Shares are listed on the Stock Exchange and for so long as the Controlling Shareholders and its associates together hold, whether individually or taken together, 30% or more of our issued share capital or are otherwise regarded as a Controlling Shareholder of our Company under the Listing Rules,

- (i) the Controlling Shareholders will not, and will procure that its associates (excluding our Group) will not, directly or indirectly, either on its own account or with each other or in conjunction with or on behalf of any person, firm or company, except through a member of our Group, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business (except for their aggregate 10% interest in QGX) which is or may be in competition with the Restricted Mining Business of any member of our Group from time to time; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) that in the event that any of the Controlling Shareholders and/or any of their associates is offered or becomes aware of any business opportunity directly or indirectly to engage or become interested in a Restricted Transportation Business, it/they:
 - (a) shall promptly notify our Company in writing and refer such business opportunity to our Company for consideration and provide such information as reasonably required by our Company in order to come to an informed assessment of such business opportunity; and
 - (b) shall not and procure its/their associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms on which the Controlling Shareholders or its/their associates invest or participate are no more favourable than those made available to our Company.

The restrictions which the Controlling Shareholders agreed to undertake in the above do not apply in the circumstance where the Controlling Shareholders or their associates have interests in the shares or securities in any company which conducts or is engaged in any Restricted Mining Business or Restricted Transportation Business, whose shares are listed on a recognized stock exchange provided that:

- (i) the total number of the shares held by the Controlling Shareholders and/or their associates in aggregate does not exceed 10% of the issued shares of that class of the company in question and the Controlling Shareholders and their associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company is more than the total number of shares held by the Controlling Shareholders and their associates in aggregate; and
- (ii) the total number of shares held by the Controlling Shareholders and/or their associates shall not exceed 30% of the issued share capital of that company.

Under the deed of non-competition, the Controlling Shareholders further undertake to our Company that:

- (i) each of the Controlling Shareholders shall allow, and shall procure that the relevant associates (excluding us) to allow, the independent non-executive Directors to review, at least on an annual basis, the Controlling Shareholders that each of the Controlling Shareholders is in compliance with the deed of non-competition;
- (ii) each of the Controlling Shareholders shall provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the deed of non-competition;
- (iii) our Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition either through the annual report, or by way of announcement to the public; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (iv) each of the Controlling Shareholders shall provide to our Company with a confirmation annually for inclusion by our Company in its annual report, in respect of their compliance with the terms of the deed of non-competition.

MCS Holding and Mr. Odjargal Jambaljamts currently indirectly owns a 4.9% and 5.1% interest, respectively, in Quincunx (BVI) Ltd (“QGX”). QGX and its subsidiaries (the “QGX Group”) have been exploring for mineral deposits in Mongolia since 1994. QGX’s two most advanced properties are the Baruun Naran coking coal deposit (the “Baruun Naran Deposit”) and the Bayan Airag gold, silver and copper deposit. The Baruun Naran Deposit is located in southern Mongolia, in the aimag of Umnugobi approximately 500 km south of Ulaanbaatar. In relation to the Baruun Naran Deposit, QGX announced in August 2007 an independent NI 43-101 resource for coking and thermal coal comprised of 93.3 Mt of measured, 159.5 Mt of indicated and 11.1 Mt of inferred resources. Production has not yet commenced at the Baruun Naran Deposit.

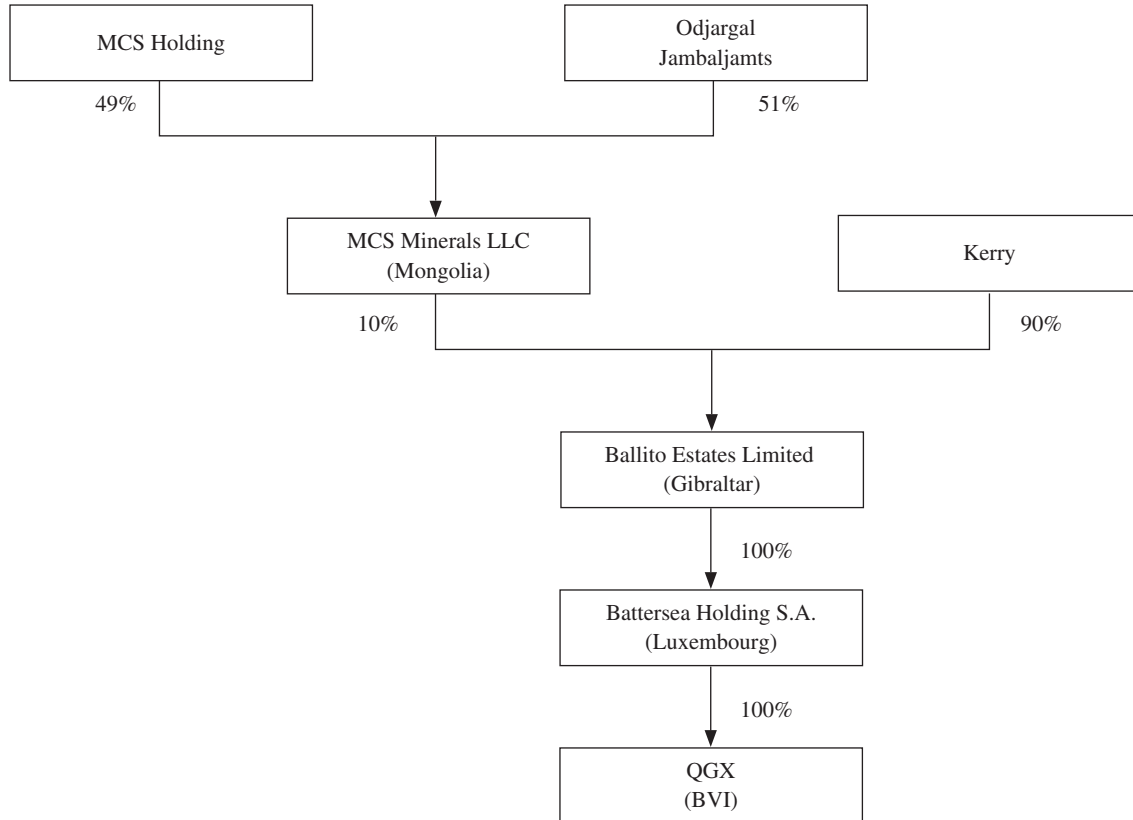
Each of MCS Holding and Mr. Odjargal Jambaljamts has very limited control and influence over the QGX Group’s daily operations. MCS Holding has no involvement in the day-to-day operations of the QGX Group. It has neither corporate governance nor operational or management representation in the QGX Group and has no influence on the financial and operational decisions of the QGX Group, with each of MCS Holding and the QGX Group operating completely independent of each other. MCS Holding does not have any board representation in the QGX Group and Mr. Odjargal Jambaljamts is not a director of the QGX Group. MCS Holding and Mr. Odjargal Jambaljamts hold indirect interests of 4.9% and 5.1% in the QGX Group, respectively, and their control and influence over the QGX Group is limited to their power as a shareholder to vote at the shareholders’ meetings of the QGX Group.

MCS Holding’s relationship with the QGX Group will have no impact on the timing and ramp-up schedule of our Company’s own development plan.

Each of MCS Holding and Mr. Odjargal Jambaljamts is unable to inject the business of the QGX Group into the Group, or inject their 10% interests in the QGX Group into our Group, without the consent of the other shareholders. Our Group has not sought other shareholders’ consent for injecting the QGX’s Group business into our Group and has no present intention to seek other shareholders’ consent to do so. However, our Group will be open to considering all possible options and business opportunities that arise in the future and will seek consent when necessary. The management of our Group constantly seeks external growth opportunities and will evaluate opportunities with a disciplined and conservative approach that primarily focuses on returns on investment and the probability, expected cost and timing of realizing synergies.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The diagram below sets out the shareholding structure of the QGX Group:



Wood Mackenzie, our independent industry consultant, does not expect the Baruun Naran Deposit to come online until 2015. As such, our Directors are of the view that there is currently no competition between our Group and the QGX Group, nor is any expected in the near future.

Also, since MCS Holding and Mr. Odjargal Jambaljamts only have a 10% equity interest in QGX and very limited control and influence over the QGX Group's daily operations, our Directors are of the view that the risk of conflicts of interest between our Group and the QGX Group would be minimal.

In view of the ever changing market conditions and the evolving global economy, the MCS Group is of the view that it is not in its interests to have in place a solid plan to manage any potential competition between our Group and the QGX Group in the future. The MCS Group will continuously monitor the development of the business operations of the QGX Group and will react accordingly to any potential competition that may arise between our Group and the QGX Group, including disposing of all the MCS Group's interests in the QGX Group, acquiring a controlling interest in the QGX Group and any other feasible options available at the relevant time. In any event, the MCS Group will plan, strategize, and deal with any potential competition with the QGX Group that may arise in the future with the objective to maximize the interest of our Shareholders. It is difficult to make a comprehensive assessment on the level of competition at this stage. However, it is expected that such competition may include competition for customers, utility supplies (e.g. power, water),

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

transportation, labor, raw materials etc. As confirmed by each of the Controlling Shareholders, they do not have any present intention to increase their respective interests in the QGX Group.

In addition to the above, MCS Holding also has an effective interest of 16.5%, 35.75%, 16.67% and 5.00% in Universal Copper LLC, Olova LLC, IBE LLC and Khet Borzan LLC, respectively. Universal Copper LLC is a company engaging in the copper industry having its operations in the Bayankhongor aimag in Mongolia. Olova LLC is a company engaging in the tin industry having its operations in the Central aimag in Mongolia. IBE LLC is a company engaging in the copper and gold industry having its operations in the Dornogobi aimag in Mongolia. Khet Borzan LLC is a company engaging in the oil industry having its operation in the Umnugobi aimag in Mongolia. Our Directors do not expect such other mining businesses of the MCS Group to compete with our Group's business.

Save as disclosed above, all Directors confirmed that they do not engage in any business which competes, or is likely to compete, directly or indirectly, with our Company's business.

SUBSTANTIAL SHAREHOLDERS AND SELLING SHAREHOLDERS

Substantial Shareholders

So far as we are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company:

Name	Number of Shares held after the Global Offering	Capacity/Nature of interest	Approximate percentage of shareholding after the Global Offering
MCS Mining Group Limited (<i>Note 1</i>)	1,629,669,000	Registered owner	45.3%
MCS Group Limited (<i>Note 1</i>)	1,629,669,000	Interest of controlled corporation	45.3%
MCS Holding LLC (<i>Note 1</i>)	1,629,669,000	Interest of controlled corporation	45.3%
Mr. Odjargal Jambaljamts (<i>Note 1</i>)	1,629,669,000	Interest of controlled corporation	45.3%
Mr. Od Jambaljamts (<i>Note 1</i>)	1,629,669,000	Interest of controlled corporation	45.3%
Petrovis Resources Inc. (<i>Note 2</i>)	423,000,000	Registered owner	11.8%
Petrovis LLC (<i>Note 2</i>)	423,000,000	Interest of controlled corporation	11.8%
Dr. Oyungerel Janchiv (<i>Note 2</i>)	423,000,000	Interest of controlled corporation	11.8%
Mr. Davaanyam Choindon (<i>Note 2</i>)	423,000,000	Interest of controlled corporation	11.8%
Mongol Contract LLC (<i>Note 2</i>)	423,000,000	Interest of controlled corporation	11.8%
Ms. Tuya Danzandarjaa (<i>Note 2</i>)	423,000,000	Interest of controlled corporation	11.8%
Kerry Mining (UHG) Limited (<i>Note 3</i>)	300,000,000	Registered owner	8.1%
Kerry Mining (Mongolia) Limited (<i>Note 3</i>)	300,000,000	Interest of controlled corporation	8.1%
Fexos Limited (<i>Note 3</i>)	300,000,000	Interest of controlled corporation	8.1%
Kerry Holdings Limited (<i>Note 3</i>)	300,000,000	Interest of controlled corporation	8.1%
Kerry Group Limited (<i>Note 3</i>)	300,000,000	Interest of controlled corporation	8.1%
Ancora Investments No.2 Limited (<i>Note 4</i>)	228,000,000	Registered owner	6.3%
Casafina Offshore Limited (<i>Note 4</i>)	228,000,000	Interest of controlled corporation	6.3%

SUBSTANTIAL SHAREHOLDERS AND SELLING SHAREHOLDERS

Name	Number of Shares held after the Global Offering	Capacity/Nature of interest	Approximate percentage of shareholding after the Global Offering
Graydens Development Ltd (<i>Note 4</i>)	228,000,000	Interest of controlled corporation	6.3%
Ms. Veronica Lukito (<i>Note 4</i>)	228,000,000	Interest of controlled corporation	6.3%
Shunkhlai Mining (<i>Noted 5</i>)	183,000,000	Registered owner	5.1%
Shunkhlai Mining LLC (<i>Note 5</i>)	183,000,000	Interest of controlled corporation	5.1%
Shunkhlai Group LLC (<i>Note 5</i>)	183,000,000	Interest of controlled corporation	5.1%
Mr. Batsaikhan Purev (<i>Note 5</i>)	183,000,000	Interest of controlled corporation	5.1%
Mr. Batkhuu Gavaa (<i>Note 5</i>)	183,000,000	Interest of controlled corporation	5.1%

Notes:

1. *The entire issued share capital of MCS Mining Group Limited is wholly owned by MCS Group Limited which in turn is a direct wholly-owned subsidiary of MCS Holding. MCS Holding is owned as to approximately 46.9% by Mr. Odjargal Jambaljamts, 27.0% by Mr. Od Jambaljamts, 7.2% by Ms. Enkhtsetseg Damdinsuren, 3.0% by Mr. Eldev-Ochir Lkhagvaa, 3.0% by Mr. Enkh-Amgalan Luvsantseren, 2.0% by Mr. Enkhtuvshin Dashtseren, 0.5% by Ms. Otgonchimeg Bazarragchaa, 0.5% by Ms. Chingee Ochirvaani and 0.4% by Mr. Gankhuyag Adilbish and 9.5% by MCS Holding as treasury stock. Mr. Odjargal Jambaljamts is the brother of Mr. Od Jambaljamts. Save as disclosed above, there is no relationship among the nine shareholders of MCS Holding. Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, MCS Holding and MCS Group Limited are deemed to have an interest in the 1,629,669,000 Shares held by MCS Mining Group Limited under the provisions of the SFO.*
2. *The entire issued share capital of Petrovis Resources Inc. is owned by Petrovis LLC which is owned as to approximately 33.4% by Dr. Oyungerel Janchiv, 33.3% by Mr. Davaanyam Choindon and 33.3% by Mongol Contract LLC (which is wholly owned by Ms. Tuya Danzandarjaa). Ms. Tuya Danzandarjaa, Mongol Contract LLC, Mr. Davaanyam Choindon, Dr. Oyungerel Janchiv and Petrovis LLC are deemed to have an interest in the 423,000,000 Shares held by Petrovis Resources Inc. under the provisions of the SFO.*
3. *Kerry Mining (UHG) Limited (“KMUHG”) is a direct wholly-owned subsidiary of Kerry Mining (Mongolia) Limited (“KMM”) which is owned as to approximately 49.38% by Fexos Limited (“Fexos”). Fexos is a direct wholly-owned subsidiary of Kerry Holdings Limited (“KHL”) which in turn is a direct wholly-owned subsidiary of Kerry Group Limited (“KGL”). The Shares in which KMUHG are shown to be interested are also included in the shares in which KMM, Fexos, KHL and KGL are shown to be interested.*
4. *The entire issued share capital of Ancora Investments No.2 Limited is owned as to approximately 79.2% by Casafina Offshore Limited (“Casafina”) and approximately 20.8% by Ancora Investments HK Ltd. Casafina is a wholly-owned subsidiary of Graydens Development Ltd (“Graydens”) which in turn is wholly owned by Ms. Veronica Lukito. Ms. Veronica Lukito, Graydens and Casafina are deemed to have an interest in the 228,000,000 Shares held by Ancora Investments No.2 Limited under the provisions of the SFO.*

SUBSTANTIAL SHAREHOLDERS AND SELLING SHAREHOLDERS

5. *The entire issued share capital of Shunkhlai Mining is wholly owned by Shunkhlai Mining LLC which in turn is a wholly-owned subsidiary of Shunkhlai Group LLC. Shunkhlai Group LLC is owned as to 50% by Mr. Batsaikhan Purev and 50% by Mr. Batkhoo Gavaa. Mr. Batsaikhan Purev is the brother of Mr. Batkhoo Gavaa. Mr. Batkhoo Gavaa, Mr. Batsaikhan Purev, Shunkhlai Group LLC and Shunkhlai Mining LLC are deemed to have an interest in the 183,000,000 Shares held by Shunkhlai Mining under the provisions of the SFO.*

Save as disclosed in this prospectus, we are not aware of any other person who will, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

Selling Shareholders

Pursuant to the International Underwriting Agreement, MCS Mining Group Limited and EBRD will sell 86,331,000 and 35,971,000 Shares respectively, representing approximately 2.4% and 1%, respectively, of the total issued share capital of the Company immediately following completion of the Global Offering without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option. The respective shareholdings of the Selling Shareholders immediately prior to and following the completion of the Global Offering, before giving effect to the exercise of the Over-allotment Option, are set out in the table below.

Selling Shareholders	Number of Shares held by Selling Shareholder prior to sale of Shares	Number of Shares sold by Selling Shareholder	After the Global Offering and the sale of Shares by Selling Shareholders but before the exercise of the Over-allotment Option	
	(Shares)	(Shares)	(Shares)	(%)
MCS Mining Group Limited	1,716,000,000	86,331,000	1,629,669,000	45.3
European Bank for Reconstruction and Development	150,000,000	35,971,000	114,029,000	3.2

For more details of the lock-up arrangements restricting some of our Shareholders to sell or otherwise dispose of our Shares, please refer to the section headed “Underwriting” in this prospectus.

SHARE CAPITAL

The authorized share capital of our Company immediately before the Global Offering is US\$60,000,000, divided into 6,000,000,000 Shares with a nominal value of US\$0.01 per Share.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares and Shareholders	Aggregate nominal value of Shares	Approximate percentage of issued share capital
3,000,000,000	Shares in issue at the date of this prospectus	30,000,000	83%
597,122,500	Shares to be issued under the Global Offering	5,971,225	17%
<u>3,597,122,500</u>	Total	<u>35,971,225</u>	<u>100%</u>

According to Rule 8.08 of the Listing Rules, at the time of Listing and at all times thereafter, we must maintain the “minimum prescribed percentage” of 25% of our Company’s issued share capital in the hands of the public.

Public float

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the issuer’s total issued share capital must at all times be held by the public. We applied to the Stock Exchange to request the Stock Exchange to exercise, and the Stock Exchange has confirmed that it will exercise its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of 20% for us. The above discretion is subject to the condition that we comply with the disclosure requirements under Rule 8.08(1)(d) of the Listing Rules. The Joint Sponsors and us shall be able to demonstrate compliance with Rules 8.08(2) and 8.08(3) of the Listing Rules. We will make appropriate disclosure of the lower prescribed percentage of public float and confirm sufficiency of the public float in our successive annual reports after the Listing. In addition, we will, with a view to ensuring compliance with our obligations under the Listing Rules in relation to the minimum number of our Shares which must be in public hands, (i) monitor our register of members, relevant disclosures made under Part XV of the SFO and other relevant sources of information available to us and (ii) (if at any time we become aware that the number of shares which are in public hands is less than such minimum number) take such steps as are legally available to us to restore the number of shares in public hands to such minimum number.

Assumptions

The above table assumes that the Global Offering becomes unconditional and will be completed in accordance with the relevant terms and conditions. It, however, takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and any Shares which may be allotted and issued, or repurchased by the Company pursuant to the general mandate to issue new Shares and general mandate to repurchase Shares as described below.

SHARE CAPITAL

Ranking

The Offer Shares will rank pari passu in all respects with all Shares now in issue or to be issued as mentioned herein, and will rank in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus.

Save as disclosed in this prospectus, no share or loan capital of our Company or any of its subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

General mandate to issue new Shares

A general, unconditional mandate has been granted to our Directors authorizing them to exercise our powers to allot, issue and deal with Shares or securities convertible into Shares and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued, provided that the aggregate nominal value of the Shares allotted or agreed conditionally or unconditionally to be allotted shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and under the Share Option Scheme).

This mandate does not apply to situations where our Directors allot, issue or deal with the Shares under any rights issue, scrip dividend scheme or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date the mandate was granted, or pursuant to the exercise of any options to be granted under the Share Option Scheme or pursuant to the Global Offering or pursuant to a specific authority granted by our Shareholders in general meeting, on behalf of our Company.

This mandate will expire:

- at the conclusion of our next annual general meeting; or
- at the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held; or
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

Particulars of this general mandate are set forth under “Shareholders’ Resolutions” in Appendix VII to this prospectus.

SHARE CAPITAL

General mandate to repurchase Shares

A general unconditional mandate has been granted to our Directors authorizing them to exercise all the powers for and on behalf of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other approved stock exchange(s) on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set forth under “Repurchase by our Company of our Shares” in Appendix VII to this prospectus.

This mandate will expire:

- at the conclusion of our next annual general meeting; or
- at the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held; or
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

Particulars of this general mandate are set forth under “Shareholders’ Resolutions” in Appendix VII to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial statements, including the notes thereto, set forth in “Appendix I – Accountants’ Report”. to this prospectus. The financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current condition and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of factors over which we have no control. You should review the section headed “Risk Factors” in this prospectus for discussion of important factors that could cause our actual results to differ materially from the results described in or implied by forward-looking statements.

Overview

We are a Mongolian-owned mining company engaged in the open-pit mining of coking coal at our UHG deposit located within the Tavan Tolgoi coal formation in South Gobi, Mongolia. Our UHG mine had 499.9 million tonnes and 286.0 million tonnes of JORC-compliant measured and indicated coal resources and proven and probable reserves, respectively, as of May 31, 2010. We were granted Mining License MV-11952 covering the UHG deposit on August 29, 2006 for an initial period of 30 years to engage in coal mining activities. Our license area covers 2,960 hectares, and as of the Latest Practicable Date, our mine plan to 2013 will cover approximately 6% of our license area. Currently, all our coking coal is transported by trucks to our customers in China. According to Wood Mackenzie, our coking coal is of high-quality.

We own and operate the largest coking coal mine in Mongolia held by a private company, by aggregate production and sales volume. As coking coals are either consumed by coke plants or steel mills in Mongolia or exported and according to the MRAM, there are no officially registered coke plants or steel mills operating in Mongolia, we believe export volumes can be a proxy for production volumes. The official record of the Mongolian Customs Office, which shows data on total exports of coking and hard coals by major exporters, indicates that for of the three years ended December 31, 2009 and the six months ended June 30, 2010, there were a total of one, two, three and two major exporters of coking coal, respectively. For the six months ended June 30, 2010, we were the largest exporter of coking coal in Mongolia exporting approximately 61.9% of the total exports of coking coal shown on the official record of the Mongolian Customs Office. As a result of the foregoing, we believe we are the largest producer and exporter of coking coal in Mongolia for the six months ended June 30, 2010 and we are well positioned over any other mining company to pursue exploration activities in Mongolia.

Our UHG deposit is located within the Tavan Tolgoi coal formation, which according to Wood Mackenzie, is one of the few remaining largely unexploited sources of high-quality coking coal in the world and the closest coking coal formation to China.

FINANCIAL INFORMATION

We commenced mining at our UHG deposit in April 2009, for the year ended December 31, 2009, we produced 1.8 million tonnes of coking coal. We plan to produce approximately 3.8 million tonnes of coking coal in 2010 and increase our coal production to approximately 15.0 Mtpa for the year ending December 31, 2013. We currently sell only unwashed coking coal.

Based on public information about comparable Shanxi coking coals, unwashed coking coal is sold at an approximate 35-40% discount to washed coking coal, and as of June 30, 2010, unwashed coking coals sold at an approximate 35% discount to washed coking coals. For example, based on public information, a comparable washed coking coal sold at approximately RMB1,530 per tonne whereas the price for unwashed coking coal was RMB1,000 per tonne, as of June 30, 2010. During the Track Record Period, the discount from washed coking coal to unwashed coking coal ranged from 16-36%. As part of our mine expansion and to further improve our margins, we are constructing a coal handling and washing plant that will produce high-quality washed coking coals. The ramp-up of our coal handling and washing plant will coincide with the ramp-up of our coal mine production. We expect the first 5.0 Mtpa of our coal handling and washing plant to be operational by early 2011, which will be the first of its kind in Mongolia, with the second and third phases of 5.0 Mtpa each to be operational in the second half of 2011 and by the end of 2012, respectively.

Basis Of Presentation

The Company was incorporated in the Cayman Islands on May 18, 2010 as an exempted company with limited liability under the Cayman Companies Law. Pursuant to the Reorganization, the Company became the holding company of the companies now comprising the Group. Prior to this, our parent company was MCS Holding. It first obtained approximately 45.1% shareholding interest in ER LLC on December 28, 2007. Further, on March 26, 2009, MCS Holding also acquired approximately 75.8% indirect interest in Tengeriin Tsag Group LLC. At that time, Tengeriin Tsag Group LLC held approximately 31.4% shareholding interest in ER LLC. As of March 26, 2009, together with its 33.5% shareholding interest in ER LLC at that point in time (which is held through MCS Mining LLC), MCS Holding's indirect interest in ER LLC was increased to approximately 57.2%. See "History, Reorganization and Corporate Structure". The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

Pursuant to the Reorganization, the Company, through the relevant investment holding companies acquired the entire equity interest in ER LLC from its then shareholders. Upon completion of the Reorganization, the Company became the holding company of ER LLC.

The Reorganization has been accounted for by applying a principle similar to that for a reverse acquisition as set out in IFRS 3, Business combinations, rather than its legal forms throughout the Track Record Period. The issue of shares of the Company and the relevant investment holding in exchange for the entire interest in ER LLC resulted in the Company becoming the sole shareholder of ER LLC. The financial information has been prepared as a continuation of ER LLC and the assets and liabilities of ER LLC are recognized and measured at their historical carrying values prior to the Reorganization. The Financial Information before the acquisition date consists of the consolidated financial information of ER LLC, as the predecessor reporting entity.

FINANCIAL INFORMATION

In this case, being a share exchange transaction, the Company is a shell holding company setting up as a special purpose vehicle for the purpose of becoming the parent company of ER LLC. Accordingly, the directors have adopted a principle similar to that for a reverse acquisition in preparing the Group's Financial Information.

The following table sets out our statement of comprehensive income and other selected financial information for the periods indicated, as derived from the Accountants' Report in Appendix I to this prospectus:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)
	(unaudited)				
Revenue	–	–	66,982,707	119,843	32,253,543
Cost of revenue	–	–	(38,682,328)	(75,764)	(20,713,052)
Gross Profit	–	–	28,300,379	44,079	11,540,491
Other revenue	–	80,989	70,002	15,224	4,330
Other net (expenses)/income . . .	(3,506,536)	(8,575)	(34,813)	179	–
Administrative expenses	(442,629)	(4,043,792)	(10,427,093)	(3,347,448)	(7,067,029)
(Loss)/profit from operations . .	(3,949,165)	(3,971,378)	17,908,475	(3,287,966)	4,477,792
Finance income	6,629	12,856	342,318	59,460	2,808,186
Finance costs	(30,026)	(1,139,261)	(3,860,204)	(1,565,541)	(1,045,452)
Net finance (costs)/income	(23,397)	(1,126,405)	(3,517,886)	(1,506,081)	1,762,734
Share of profits/(losses) of associate	–	29,735	(9,702)	(3,312)	(11,449)
(Loss)/profit before taxation . .	(3,972,562)	(5,068,048)	14,380,887	(4,797,359)	6,229,077
Income tax	942,658	1,488,616	(4,110,723)	1,003,863	(1,217,604)
(Loss)/profit for the year/period	(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Other comprehensive income for the year/period					
Exchange differences on retranslation	(13,995)	(1,450,430)	30,590	434,608	2,435,841
Total comprehensive income for the year/period	(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
(Loss)/profit attributable to the equity shareholders of the Company	(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Total comprehensive income attributable to the equity shareholders of the Company	(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
(Loss)/earnings per share					
– Basic	<u>(0.10 cent)</u>	<u>(0.12 cent)</u>	<u>0.34 cent</u>	<u>(0.13 cent)</u>	<u>0.17 cent</u>

FINANCIAL INFORMATION

	As of December 31,			As of
	2007	2008	2009	April 30,
	(US\$)	(US\$)	(US\$)	2010 (US\$)
Assets				
Non-current assets	1,014,085	27,579,016	83,161,930	111,765,325
Current assets	970,887	8,347,133	30,068,092	44,931,009
Total	<u>1,984,972</u>	<u>35,926,149</u>	<u>113,230,022</u>	<u>156,696,334</u>
Equity and liabilities				
Total equity	(982,616)	14,790,614	43,841,368	51,288,682
Non-current liabilities	–	2,204,217	27,286,982	18,289,752
Current liabilities	2,967,588	18,931,318	42,101,672	87,117,900
Total equity and liabilities	<u>1,984,972</u>	<u>35,926,149</u>	<u>113,230,022</u>	<u>156,696,334</u>

Factors Affecting Results of Operations and Financial Condition

Our business and historical financial condition and results of operations have been, and will continue to be, affected by a number of important factors, including the following:

Production and expansion

Our revenue is a function of the volume of coal we produce and sell and the price of coal sold. Coal production volumes are dependent on mine planning and logistics management to extract coal and transport it from our UHG deposit to our onsite coal stockpile or to TKH. We commenced coal production in April 2009 and for the year ended December 31, 2009, we produced and sold approximately 1.8 million tonnes and 1.4 million tonnes of coking coal, respectively. In the four months ended April 30, 2010, we produced and sold approximately 0.7 million tonnes and 0.6 million tonnes of coking coal, respectively. We plan to increase our coal production to approximately 3.8 million tonnes, 7.0 million tonnes, 10.7 million tonnes and 14.7 million tonnes in the four years ending December 31, 2013, respectively.

Average selling prices

Our contracts have pricing terms that are linked to local Chinese market prices and are adjustable periodically. All our coal is currently sold into the Chinese market. Unlike seaborne coking coal prices, which relatively rigidly follow settlements between Australian producers and Japanese consumer over the fiscal year in Japan, domestic Chinese prices are subject to ongoing negotiation and adjustment according to market dynamics. The far larger size and fragmentation of the Chinese market results in a more fluid pricing system. Factors such as the volume of coking coal produced that is used in the Chinese markets (which is impacted by such factors as the development of new coking coal mines (both in Mongolia and China), the closure of old mines, the discovery of new coking coal deposits and the expansion of current mine operations, constraints on the supply of coking coal due to limited transportation networks and the specific demands of coking coal end-users significantly affect our average selling prices. Pursuant to our customer contracts, average selling prices are based on existing market prices

FINANCIAL INFORMATION

reviewed from time to time subject to a price floor. The contract may be terminated by us or Leighton for cause, or it may be terminated by mutual agreement in writing.

Before 2004, hard coking coal prices were relatively stable, staying within the US\$40-50 per tonne band. Beginning 2005, however, prices began rising rapidly, driven primarily by the strong demand and fast growth of the Chinese economy. This was particularly evident during the Track Record Period, with prices increasing 206.1% to US\$300 per tonne from 2007 to 2008. Due to the global recession, this spike in coal prices was reversed in 2009, decreasing 57.0% to US\$129 per tonne, but recovering in 2010 with the stabilization of the market and the revival of demand in China, increasing 86.0% to US\$240 per tonne.

We sold our first batch of coking coal at a selling price of approximately US\$51 per tonne in April 2009. For the four months ended April 30, 2010, we sold our coking coal at an average selling price of US\$54.77 per tonne. We believe this increase reflects not only improved market prices but also of the proven quality of our coking coals, the consistency at which we have been able to produce our coking coals, our sales strategy and general market pricing trends in the Chinese coking coal market.

Historically, the average selling prices for the coking coal we deliver to TKH includes a US\$18 transportation fee. We have historically priced our coal with and without this fee, depending on whether the customer provides or we provide the transportation of our coking coal from our UHG mine to TKH. For the year ended December 31, 2009 and the four months ended April 30, 2010, approximately 45% and 34% of our coal sales included transportation fees as a component of sales price, respectively. The customers are solely responsible for the transportation from TKH to their respective end markets. They do not disclose the transportation cost details to us, therefore we do not have information on their costs. The remainder did not include transportation fees. In the future, we expect to include transportation costs in substantially all our pricing as our paved road and railway become operational.

Mining costs

We cooperate with Leighton, as our mining contractor and work closely with them in all aspects of our coal mining operations. We entered into a long-term contract with them to undertake overburden removal, coal extraction and mine reclamation activities. We have two components of mining costs: 1) direct costs incurred by us and 2) costs related to our mining contractor. Direct costs incurred by us primarily include fuel costs, power generation costs, labor costs, employee related expenses (onsite accommodations) and drilling and blasting expenses. Costs relating to our mining contractor include plant rate, wages of our mining contractor's expatriate staff and overhead and a contractor fee. Plant rate primarily includes costs related to the depreciation, repair and maintenance of the mining equipment used at our UHG mine and also includes costs associated with major repair provisions, insurance and financing costs. The contractor fee is proportional to the mining contractor's agreed investment in the mining equipment, supplies and infrastructure used at our UHG mine. Mining costs represent and will continue to represent a significant portion of our cost of revenue. For the year ended December 31, 2009, the mining costs are US\$24.5 million. Of these costs, 47%

FINANCIAL INFORMATION

were direct costs incurred by us and 53% were costs related to our mining contractor. While for the four months ended April 30, 2010, our mining costs were US\$15.2 million. Of these costs, 52% were direct costs incurred by us and 48% were costs related to our mining contractor.

Ownership of mining equipment

Pursuant to our agreement with Leighton, we do not own any of the principal mining equipment at our UHG mine. Therefore, we do not directly incur depreciation expenses related to the excavators, loaders, graders, bulldozers, dump trucks and other principal mining equipment. Depreciation expenses associated with the Leighton-sourced equipment are covered by the plant rate under mining costs.

Transportation costs

Transportation costs are costs associated with the transportation of our coking coals from our UHG coal stockpile to TKH trans-shipment stockpile by our own fleet of coal hauling trucks. Costs associated with repair and maintenance and depreciation of our coal hauling trucks are also included in transportation costs. In the four months ended April 30, 2010, transportation costs included fees paid to third-party coal trucking contractors for their provision of coal trucking services from our UHG mine to our TKH coal trans-shipment facility. We intend to continue to use coal trucking contractors in the near future to transport our coking coals to TKH.

Fuel costs

We directly bear the costs related to the use of fuel in our mining operations and for the coal hauling trucks owned by us for coal transport from our UHG mine to TKH. Fuel costs are included in both mining costs and transportation costs. From April 1, 2009 to December 31, 2009, fuel costs represented approximately 37% of transportation costs and approximately 21% of mining costs. Our average fuel costs for the year ended December 31, 2009, and the four months ended April 30, 2010 were US\$0.9 million and US\$1.7 million per month, respectively. The average price for fuel during the year ended December 31, 2009 and the four months ended April 30, 2010 were US\$1.06 and US\$1.00 per liter, respectively. The price of fuel fluctuates and we do not engage in any fuel price hedging contracts. Consequently, there can be no assurance that we would be able to procure fuel at historical prices. In addition, as we intend to significantly expand both our mining production, which necessitates the use of additional fuel consuming equipment, and our coal trucking transportation fleet, we anticipate fuel costs to increase.

Increased headcount

Our headcount has increased significantly over the Track Record Period. As of December 31, 2007, 2008, 2009 and April 30, 2010, we had 6, 45, 700 and 820 employees, respectively. As a result, expenses associated with increased headcount have significantly increased.

FINANCIAL INFORMATION

Critical Accounting Policies

Critical accounting policies are those that require our management to exercise judgment and to make estimates that would yield materially different results if our management applied different assumptions or made different estimates. These accounting policies are set forth in note 30 to our combined financial information included in Appendix I to this prospectus. The preparation of our financial information pursuant to IFRS requires our management to adopt accounting policies and make estimates and assumptions that affect the amount reported in our financial information. These estimates and assumptions are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and assumptions. We have identified the following accounting policies as critical to an understanding of our financial condition and results of operations.

Reserves

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

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

Useful lives of property, plant and equipment

We determine the estimated useful lives of, and related depreciation charges for, our property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and function. It could change significantly as a result of significant technical innovations and our competitors' reactions to industry cycles. We will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of assets

We review the carrying amounts of assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, we prepare a discounted future cashflow analysis to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect our net asset value.

FINANCIAL INFORMATION

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

Obligation for rehabilitation

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

Recognition of deferred tax assets

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

Description of Selected Statement of Comprehensive Income Line Items

Revenue

Revenue is generated from the sale of our coking coal. Revenue from coking coal sales represents the amounts received and receivable for the coking coal sold. Revenue from coking coal sales reflects the selling prices and sales volumes of our coking coal. In April 2009, we commenced the production and sale of coking coal.

Cost of revenue

Our cost of revenue consists primarily of mining costs, processing costs, transportation costs and others. See “– Factors Affecting Results of Operation and Financial Condition – Mining costs”.

Processing costs will primarily include the costs associated with the operations of our coal handling and washing plant.

FINANCIAL INFORMATION

Transportation costs are costs associated with the transportation of our coking coals from our UHG coal stockpile to TKH trans-shipment stockpile by our own fleet of coal hauling trucks. Costs associated with fuel costs, repair and maintenance and depreciation of our coal hauling trucks are also included in transportation costs.

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

	For the year ended December 31,									For the four months ended April 30,					
	2007			2008			2009			2009			2010		
	US\$	%	USD per tonne	US\$	%	USD per tonne	US\$	%	USD per tonne	US\$	%	USD per tonne	US\$	%	USD per tonne
	(unaudited)														
Mining costs . . .	-	-	-	-	-	-	24,500,450	63.3	17.6	45,434	60.0	17.2	15,214,990	73.5	25.9
Transportation costs	-	-	-	-	-	-	7,999,950	20.7	5.8	19,914	26.3	7.5	2,471,390	11.9	4.2
Others	-	-	-	-	-	-	6,181,928	16.0	4.5	10,416	13.7	4.0	3,026,672	14.6	5.1
Total	-	-	-	-	-	-	38,682,328	100.0	27.9	75,764	100.0	28.7	20,713,052	100.0	35.2
Sales volume (tonne) . . .			-			-			1,389,071			2,640			588,302

Note:

(1) *Others include royalties, customs fees, road maintenance expenses (associated with the existing coal trucking road) and others.*

Mining costs include depreciation associated with the Leighton-sourced equipment of US\$3.0 million and US\$1.9 million for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

A royalty at the rate of 5% is payable in respect of the sales value of all products extracted pursuant to a mining license that are sold, shipped for sale, or otherwise used. We paid US\$3.3 million and US\$1.6 million for the year ended December 31, 2009 and four months ended April 30, 2010, respectively, as royalty to the Government of Mongolia.

FINANCIAL INFORMATION

The following table summarizes our mining and processing cash operating cost (exclude road or rail transportation costs or selling, general and administrative costs):

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
ROM Coal (000 tonnes, adb)	1,800	3,782	7,003	10,729	14,722	15,247
Mining & Operations						
Mining	\$16.95	\$20.90	\$24.85	\$ 28.82	\$ 21.32	\$ 21.28
Coal Processing/Handling*	–	\$ 1.13	\$ 3.60	\$ 3.74	\$ 3.00	\$ 3.52
Total (\$/ROM t).	<u>\$16.95</u>	<u>\$22.03</u>	<u>\$28.45</u>	<u>\$ 32.56</u>	<u>\$ 24.32</u>	<u>\$ 24.80</u>

* Includes all processing, handling, water and power supply, and distribution costs.

Gross profit

Gross profit is equal to revenue less cost of revenue.

Other revenue

Prior to April 2009, our mining professionals provided consulting services for the year ended December 31, 2008 and in the first four months of the year ended December 31, 2009. In addition, other revenue also included transportation income for the year ended December 31, 2009 related to transportation services provided to third parties.

Administrative expenses

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

	<u>For the year ended December 31,</u>						<u>For the four months ended April 30,</u>			
	<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2009</u>		<u>2010</u>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Administrative expenses	(unaudited)									
Management fee	–	–	1,510,903	37.3	2,357,208	22.6	349,794	10.4	826,195	11.7
Staff costs	75,132	17.0	378,829	9.4	1,422,668	13.7	370,967	11.1	1,474,319	20.9
Consultancy and professional fees	3,311	0.7	217,803	5.4	2,422,658	23.2	2,069,164	61.8	98,792	1.4
Depreciation and amortization	11,035	2.5	38,633	1.0	505,614	4.8	59,662	1.8	370,327	5.2
Others ⁽¹⁾	353,151	79.8	1,897,624	46.9	3,718,945	35.7	497,861	14.9	4,297,396	60.8
Total	<u>442,629</u>	<u>100.0</u>	<u>4,043,792</u>	<u>100.0</u>	<u>10,427,093</u>	<u>100.0</u>	<u>3,347,448</u>	<u>100.0</u>	<u>7,067,029</u>	<u>100.0</u>

FINANCIAL INFORMATION

Note:

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

Other net expenses

Other net expenses included write off of construction in progress and the net loss on disposal of property, plant and equipment. In the year ended December 31, 2007, we wrote off US\$3.5 million, almost all of which relate to the write off in connection with the transfer of the five licenses pursuant to the Mineral License Transfer Agreement representing the drilling and exploration expenditures that were capitalized relating to these five licence areas.

Net finance (income)/costs

Net finance (income)/costs are the total of finance income primarily derived from interest paid on bank deposits and net foreign exchange gains and finance costs primarily consist of interest paid on borrowings less capitalized interest and net foreign exchange losses. Interest expenses were capitalized at a rate of approximately 0%, 5%, 4% and 13% per annum for the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively. Interest expenses related primarily to our loans from domestic Mongolian banks, shareholder loans and international banks. Foreign exchange gains and losses are related to the fluctuations in exchange rates between MNT, RMB and U.S. dollar denominated payables, receivables and cash at bank and in hand.

Income tax

We are subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which we or our subsidiaries operate.

Results of Operations

We were in a pre-operation stage from the beginning of the Track Record Period to April 2009. Although we incurred expenses prior to commencing mining operations, we did not begin to recognize revenues from coal sales until April 2009. Accordingly, we have limited historical results of operations that may not be indicative of future operating results.

Four months ended April 30, 2010 compared to the four months ended April 30, 2009

Revenue

For the four months ended April 30, 2010, we sold approximately 0.6 million tonnes of coking coal to 5 customers at an average selling price of US\$54.77 per tonne resulting in revenues of US\$32.3 million. For the four months ended April 30, 2010, approximately 34% of our coal sales included transportation fees. The remainder did not include transportation fees. We commenced coal production in April 2009. As a result, for the four months ended April 30, 2009, we sold 2,640 tonnes of coking coal. The revenue for the four months ended April 30, 2009 was US\$119,843.

FINANCIAL INFORMATION

Cost of revenue

Our cost of revenue increased from US\$75,764 for the four months ended April 30, 2009 to US\$20.7 million for the four months ended April 30, 2010. This is primarily due to our sales of 2,640 tonnes of coking coal for the four months ended April 30, 2009 and sales of 0.6 million tonnes of coking coal for the four months ended April 30, 2010.

Gross profit

As a result of the foregoing, gross profit was US\$44,079 for the four months ended April 30, 2009 and US\$11.5 million for the four months ended April 30, 2010. The gross profit margin for the four months ended April 30, 2010 was 35.8%.

Our gross profit margin for the four months ended April 30, 2010 decreased to 35.8% from 42.3% in the year ended December 31, 2009. This was primarily due to a lower level of coal sales in the first quarter due to seasonality, which resulted in having fixed costs spread over a lower volume of coal sold. In addition, as we have been continually increasing our production capacity, we were producing more coking coal on a daily basis. As a result, fixed costs during the four months ended April 30, 2010 were greater than the fixed costs in the year ended December 31, 2009.

Administrative expenses

Administrative expenses increased 111.1% from US\$3.3 million for the four months ended April 30, 2009 to US\$7.1 million for the four months ended April 30, 2010. This increase was primarily due to an increase in management fee due to increase in revenues, consultancy and professional fees, and an increase in headcount from 206 employees in the four months ended April 30, 2009 to 820 employees for the four months ended April 30, 2010.

Net finance (income)/costs

For the four months ended April 30, 2010, we had net finance income of US\$1.8 million primarily as a result of a foreign exchange gain due to appreciation of the MNT. For the four months ended April 30, 2009, we had net finance costs of US\$1.5 million primarily as a result of a foreign exchange loss due to depreciation of the MNT.

Income tax

We incurred income tax expenses of US\$1.2 million for the four months ended April 30, 2010. Deferred tax income of US\$1.0 million was recognized in relation to tax losses for the four months ended April 30, 2009.

FINANCIAL INFORMATION

Profit/(loss) for the period

As a result of the foregoing, we made a profit of US\$5.0 million for the four months ended April 30, 2010 compared to a loss of US\$3.8 million for the four months ended April 30, 2009. For the four months ended April 30, 2010, our net profit margin was 15.5%.

Year ended December 31, 2009 compared to the year ended December 31, 2008

Revenue

For the year ended December 31, 2009, we sold approximately 1.4 million tonnes of coking coal to four major customers at an average selling price of US\$48.3 per tonne resulting in revenues of US\$67.0 million. For the year ended December 31, 2009, approximately 45% of our coal sales included transportation fees. The remainder did not include transportation fees. We generated revenues of US\$0 for the year ended December 31, 2008.

Cost of revenue

We commenced the production and sale of coking coal in April 2009 and incurred cost of revenue of US\$38.7 million for the year ended December 31, 2009.

Gross profit

As a result of the foregoing, gross profit was US\$28.3 million for the year ended December 31, 2009. The gross profit margin for the year ended December 31, 2009 was 42.3%.

Other revenue

Other revenue for the year ended December 31, 2009 consisted of transportation income of US\$55 thousand and consulting fees of US\$15 thousand. Other revenue for the year ended December 31, 2008 consisted of consulting fees of US\$81,000.

Administrative expenses

Administrative expenses increased 160.0% from US\$4.0 million for the year ended December 31, 2008 to US\$10.4 million for the year ended December 31, 2009. This increase was primarily due to an increase in consultancy and professional fees, the commencement of our coal mining operation in April 2009 and an increase in headcount from 45 employees in the year ended December 31, 2008 to 700 employees for the year ended December 31, 2009.

Other net expenses

Other net expenses for the year ended December 31, 2008 and 2009 were primarily due to the disposal of office equipment.

Net finance costs

Net finance costs increased 218.2% from US\$1.1 million for the year ended December 31, 2008 to US\$3.5 million for the year ended December 31, 2009. This increase was primarily due to an increase in foreign exchange loss due to depreciation of the MNT against the U.S. dollar and borrowings.

FINANCIAL INFORMATION

Income tax

As we commenced the production and sale of coking coal in April 2009, we incurred income tax expenses of US\$4.1 million for the year ended December 31, 2009. Deferred tax income of US\$1.5 million was recognized in relation to tax losses for the year ended December 31, 2008.

Profit/(loss) for the year

As a result of the foregoing, we made a profit of US\$10.3 million for the year ended December 31, 2009 compared to a loss of US\$3.6 million for the year ended December 31, 2008. For the year ended December 31, 2009, our net profit margin was 15.3%.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Other revenue

Other revenue for the year ended December 31, 2008 was related to consulting services provided to third parties by our mining personnel. We generated US\$0 in revenues for the year ended December 31, 2007.

Administrative expenses

Administrative expenses increased from US\$0.4 million for the year ended December 31, 2007 to US\$4.0 million for the year ended December 31, 2008. This increase was primarily due to an increase in management fees and staff costs. Management fees increased as we entered into the Management Agreement with MCS Holding on February 1, 2008. Staff costs increased because headcount increased from six employees for the year ended December 31, 2007 to 45 employees for the year ended December 31, 2008.

Other net expenses

Other net expenses were US\$8.6 thousand for the year ended December 31, 2008 primarily due to a net loss on disposal of property, plant and equipment. Other net expenses were US\$3.5 million for the year ended December 31, 2007 primarily due to a write off of construction in progress and a net loss on disposal of property, plant and equipment. In February 2007, the Parliament of Mongolia declared that the six mining licenses we originally held were Mineral Deposits of Strategic Importance under the 2006 Minerals Law. Subsequent to February 2007, the Group entered into various discussions with the Government of Mongolia and considered that the capitalized drilling and exploration expenditures in relation to the six mining licenses would no longer bring future economic benefits to the Group. Accordingly, the Group wrote off the carrying amount of the relevant capitalized drilling and exploration expenditures to profit or loss in 2007.

FINANCIAL INFORMATION

Net finance costs

Net finance costs increased from US\$23 thousand for the year ended December 31, 2007 to US\$1.1 million for the year ended December 31, 2008 primarily due to an increase in foreign exchange loss due to the depreciation of the MNT.

Income tax

As we have not commenced our production and sale of coal in 2007 and 2008, deferred tax income of US\$0.9 million and US\$1.5 million were recognized primarily in relation to tax losses for the years ended December 31, 2007 and 2008 respectively.

Loss for the year

As a result of the foregoing, we incurred a loss of US\$3.6 million for the year ended December 31, 2008 and a loss of US\$3.0 million for the year ended December 31, 2007.

Liquidity and Capital Resources

Historically our cash needs have been related primarily to costs associated with the expert studies conducted in connection with the development of our mine and related infrastructure, the acquisition of motor vehicles and transport equipment, drilling activities, gravel road maintenance and the construction of mine camp and supporting infrastructure. We have secured our cash resources from shareholder financings, bank loans and operating activities. Our policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that we maintain sufficient cash reserves to meet our liquidity requirements in the short and long term. The Directors are of the view that our internally generated cash flows, together with the available banking facilities, are sufficient to meet our financial obligations when they fall due. We will continue to use existing bank facilities. See “Risk Factors – Risks Relating to Our Business and Industry – We intend to use bank borrowings, but we may not be able to comply with the covenants under these borrowings or refinance such borrowings when they mature”.

We plan to fund capital expenditures and related expenses and our working capital needs described in this prospectus with cash from operating activities, net proceeds from the Global Offering and short-term and long-term borrowings.

For more details related to risks associated with our liquidity and capital resources, see “Risk Factors – Risks Relating to Our Business and Industry – We are dependent on future cash flows generated from our business and obtaining additional financing to support our business operations, expand our production capacity and to continue as a going concern”.

FINANCIAL INFORMATION

Working Capital

The following table sets out our current assets and current liabilities as at December 31, 2007, 2008 and 2009, April 30, 2010 and July 31, 2010:

	As of December 31,			As of	As of
	2007	2008	2009	April 30,	July 31,
				2010	2010
	(US\$)				
Current assets					
Inventories	–	15,190	7,661,009	14,109,773	5,996,955
Trade and other receivables	1,806	4,541,146	20,036,053	15,652,034	40,868,511
Cash at bank and in hand	969,081	3,790,797	2,371,030	15,169,202	38,171,372
Total	<u>970,887</u>	<u>8,347,133</u>	<u>30,068,092</u>	<u>44,931,009</u>	<u>85,035,838</u>
Current liabilities					
Short-term borrowings and current portion of long-term borrowings	2,950,000	3,000,000	24,200,000	40,000,000	20,416,700
Trade and other payables	17,588	15,931,318	17,106,673	45,302,287	47,991,588
Current taxation	–	–	794,999	1,815,613	4,961,216
Total	<u>2,967,588</u>	<u>18,931,318</u>	<u>42,101,672</u>	<u>87,117,900</u>	<u>73,369,504</u>
Net current (liabilities)/assets . . .	<u>(1,996,701)</u>	<u>(10,584,185)</u>	<u>(12,033,580)</u>	<u>(42,186,891)</u>	<u>11,666,334</u>

Our net current liability position during the Track Record Period mainly reflected the high levels of our short-term borrowings to meet part of the increased demands for down payments and prepayments for the expenditures on construction in progress and purchase of property, plant and equipment.

As of July 31, 2010, we had net current assets of US\$11.6 million compared to net current liabilities of US\$42.2 million as of April 30, 2010. This was primarily due to an increase in trade and other receivables and cash at bank and in hand and a decrease in short-term borrowings and current portion of long-term borrowings. Our trade and other receivables increased from US\$15.7 million as of April 30, 2010 to US\$40.9 million as of July 31, 2010 primarily due to increased trade receivables from the sale of coal, pre-paid expenses, VAT receivables and prepaid expenses paid to our mining contractor. Cash at bank and in hand increased from US\$15.2 million as of April 30, 2010 to US\$38.2 million as of July 31, 2010 was primarily due to the draw downs on our bank facilities. Short-term borrowings and current portion of long-term borrowings decreased from US\$40.0 million as of April 30, 2010 to US\$20.0 million as of July 31, 2010 primarily as a result of the amendment of our Standard Bank loan facility from a US\$30.0 million short-term loan into a US\$75 million medium-term loan, which reduced the current portion of this loan from US\$30 million to US\$20 million.

FINANCIAL INFORMATION

Our net current liabilities increased 250.6% from US\$12.0 million as of December 31, 2009 to US\$42.2 million as of April 30, 2010. This increase was primarily due to an increase in short-term borrowings and the current portion of long-term borrowings, and an increase in trade and other payables.

Our net current liabilities increased 13.2% from US\$10.6 million as of December 31, 2008 to US\$12.0 million as of December 31, 2009. This increase was primarily due to increased borrowings, increased trade and other payables which was partially offset by an increase in trade and other receivables and inventories. Our increase in borrowings was primarily due to the current portion on the drawdown of a two-year US\$30.0 million loan facility from Standard Bank. The proceeds of this loan were used to finance the expenditures related to our mine infrastructure development projects. Trade and other payables increased primarily for the construction of our mine camp and workshop, fuel expenses and the payment of Leighton's monthly incurred costs carried over to 2010. Inventories significantly increased as we began production of coal in April 2009, and trade and other receivables related primarily to coal sales, loan to a shareholder and VAT receivables.

Our net current liabilities increased from US\$2.0 million as of December 31, 2007 to US\$10.6 million as of December 31, 2008. This increase was primarily due to an increase in trade and other payables of US\$15.8 million which was partially offset by an increase in trade and other receivables of US\$2.8 million and an increase in cash at bank and in hand of US\$2.8 million. The increase in trade and other payables were primarily due to a prepayment for coal sales by one of our customers. The increase in trade and other receivables was primarily due to VAT receivables, security deposits paid to our mining contractor and prepayments.

Taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for at least 125% of our planned working capital needs for the next 12 months or more from the date of this prospectus. See “– Capital Expenditure”.

FINANCIAL INFORMATION

Cash Flow Data

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

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	(US\$)			
Net cash (used in)/from operating activities	(1,408,864)	8,100,092	(4,023,882)	35,635,772
Net cash used in investing activities.	(3,511,913)	(25,973,501)	(62,061,317)	(24,181,922)
Net cash generated from financing activities	5,835,253	20,708,968	62,683,704	3,256,655
Net increase/(decrease) in cash and cash equivalents	914,476	2,835,559	(3,401,495)	14,710,505
Cash and cash equivalents at beginning of the year/period	54,658	969,081	3,790,797	371,030
Effect of foreign exchange rate changes	(53)	(13,843)	(18,272)	87,667
Cash and cash equivalents at end of the year/period	969,081	3,790,797	371,030	15,169,202

Cash Flows from Operating Activities

Net cash (used in)/from operating activities was US\$(1.4) million, US\$8.1 million, US\$(4.0) million and US\$35.6 million in the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively.

For the four months ended April 30, 2010, net cash (used in)/from operating activities was US\$35.6 million primarily as a result of an increase in working capital of US\$28.0 million and profit before taxation of US\$6.2 million. Changes in working capital were due to an increase in trade and other payables of US\$30.3 million and a decrease in trade and other receivables of US\$4.2 million, which was partially offset by an increase in inventories of US\$6.4 million. Normally, according to the respective sales contracts, we demand prepayment in advance from our customers. During the four months ended April 30, 2010, we received prepayments of approximately US\$46.6 million in aggregate from Qinghua, Winsway, FengDa, Tangshan, Huazhen, Wulate Zhongoi and Hengtong and utilized approximately US\$23.7 million, while left a balance of receipt in advance amounting to US\$31.4 million.

For the year ended December 31, 2009, we used net cash in operating activities of US\$4.0 million, primarily due to the effects of changes in working capital by US\$19.2 million and income tax paid of US\$1.3 million, which was partially offset by a profit before taxation of US\$14.4 million representing approximately nine months of the production and sale of coking coal from our UHG deposit mainly adjusted for depreciation and amortization of US\$1.9 million. Changes in working capital mainly included (i) an increase in trade and other receivables of US\$7.0 million, primarily due to increased trade receivables, as we have

FINANCIAL INFORMATION

commenced production and sales of coals in April 2009; (ii) an increase in coking coal inventories of US\$6.9 million, primarily due to the commencement of mining of coals in 2009; (iii) a decrease in trade and other payables of US\$4.6 million, primarily due to the decrease of the prepayment for coal sales by customers. Normally, according to the respective sales contracts, we demand prepayment in advance from our customers. During the year ended December 31, 2009, we received prepayments of US\$31.6 million in aggregate from Qinghua, Winsway, Puxing and Huazhen and utilized US\$37.7 million, while left a balance of receipt in advance amounting to US\$8.5 million.

For the year ended December 31, 2008, we generated net cash from operating activities of US\$8.1 million, primarily due to the effects of changes in working capital, which was partially offset by a loss before taxation of US\$5.1 million. Changes in working capital mainly included (i) an increase in trade and other payables of US\$15.8 million, primarily due to the prepayment for coal sales by one of our customers; (ii) an increase in trade and other receivables of US\$2.8 million, primarily due to the increase of security deposits paid to our mining contractor, VAT receivables and prepayments. Normally, according to the respective sales contracts, we demand prepayment in advance from our customers. During the year ended December 31, 2008, we received prepayment of US\$14.6 million from Qinghua.

For the year ended December 31, 2007, we used net cash in operating activities of US\$1.4 million primarily as a result of a loss before taxation of US\$4.0 million primarily due to a write off of construction in progress of US\$3.5 million, and the effects of changes in working capital. Changes in working capital mainly included a decrease in trade and other payables of US\$1.0 million.

Cash Flows from Investing Activities

Net cash used in investing activities were US\$3.5 million, US\$26.0 million, US\$62.1 million and US\$24.2 million for the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively.

For the four months ended April 30, 2010, net cash used in investing activities was US\$24.2 million primarily as a result of payments for the acquisition of property, plant and equipment and construction in progress, which was partially offset by a repayment of US\$2.3 million due from a related party and the release of a US\$2.0 million time deposit.

For the year ended December 31, 2009, net cash used in investing activities was US\$62.1 million primarily as a result of expenditures on the payments for construction in progress and purchase of property, plant and equipment of US\$58.6 million, time deposits of US\$2.0 million and loan to a shareholder of US\$2.3 million. The principal property, plant and equipment were temporary offices/housing at our mine site, loaders used in our coal stockpile, small and light transport vehicles, diesel generators, weighing station equipment and mining structures.

FINANCIAL INFORMATION

For the year ended December 31, 2008, net cash used in investing activities was US\$26.0 million primarily as a result of expenditures on the payments for construction in progress and purchase of property, plant and equipment of US\$25.9 million. The principal property, plant and equipment purchased were primarily the 107 coal hauling trucks we use for coal transport to TKH.

For the year ended December 31, 2007, net cash used in investing activities was US\$3.5 million primarily as a result of expenditures for drilling and exploration.

Cash Flows from Financing Activities

Net cash generated from financing activities was US\$5.8 million, US\$20.7 million, US\$62.7 million and US\$3.3 million for the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively.

For the four months ended April 30, 2010, net cash generated from financing activities was US\$3.3 million, primarily as a result of proceeds from borrowings of US\$19.1 million, which was partially offset by the repayment of borrowings of US\$13.3 million and interest paid of US\$2.5 million.

For the year ended December 31, 2009, net cash generated from financing activities was US\$62.7 million primarily as a result of proceeds from new borrowings of US\$53.3 million and proceeds from share issuances of US\$18.8 million and proceeds from customers of US\$14.7 million, which was partially offset by the repayment of borrowings of US\$22.1 million and interest paid of US\$1.9 million.

For the year ended December 31, 2008, net cash generated from financing activities was US\$20.7 million primarily as a result of proceeds from share issuances of US\$20.8 million and proceeds from new borrowings of US\$3.6 million, which was partially offset by the repayment of borrowings of US\$3.6 million.

For the year ended December 31, 2007, net cash generated from financing activities was US\$5.8 million primarily as a result of proceeds from share issuances of US\$5.0 million and proceeds from new borrowings of US\$3.0 million, which was partially offset by the repayment of borrowings of US\$2.1 million.

Trade and Other Receivables

Our trade receivables represent receivables from the sales of coal. For the year ended December 31, 2009 and the four months ended April 30, 2010, we had four major customers and eight customers, respectively. Several of these customers pre-paid for their coking coals and the remainder for their coking coals are due on demand. Trade receivables that were past due but not impaired as of December 31, 2009 and April 30, 2010 amounted to US\$8.5 million and US\$1.3 million, respectively. Management believes that no impairment allowance is necessary in respect of receivables that were past due but not impaired as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

FINANCIAL INFORMATION

During the Track Record Period, we had a total of eight customers. These customers were either coal traders or end-use customers. The coal traders typically prepaid for their shipments of coal and no credit terms were granted to the customers during the Track Record Period, although for competitive reasons we have been willing to extend credit terms on a short term basis. While we have no established credit terms on sales because all of its sales contracts are paid in advance, when monthly shipments exceed the initially contracted amount, accounts receivables will arise and be paid in the next month by our customers.

As of December 31, 2009, two of our customers made substantial but not full advance payments for their coal purchases. For the year ended December 31, 2009, these two customers made advance payments of approximately US\$20.8 million, while sales to them amounted to approximately US\$25.5 million. As a result, trade receivables due from these two customers were US\$4.7 million as of December 31, 2009. As of April 30, 2010, the receivables due from these two customers were fully paid. For the trade receivables as at December 31, 2009 and April 30, 2010, our customers have settled all balance by the end of June 2010.

We note that VAT at a rate of 10% is payable in respect of all goods sold, work performed and services provided within Mongolia. VAT is also payable in respect of goods imported into Mongolia and in respect of certain service fee payments made by Mongolian taxpayers to non-resident service providers. In the years ended December 31, 2008 and 2009, we paid VAT to the Government of Mongolia on imported equipment, materials and certain service fee payments in relation to the construction of our mine site.

Our other receivables included VAT receivables. In 2009, the Mongolian Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT. Under the aforementioned amendments to the Value-Added Tax Law, the Government of Mongolia is to determine the types “finished mineral products,” however no such classification is available as of this date. Effective as of July 21, 2009, any VAT paid by the producer of mineral products cannot be claimed back – i.e., the producer is deemed to be the end-user and must bear the burden of VAT paid to produce such products. Finished products that are exported are, however, zero-rated and VAT paid to produce such products may be claimed back. As of December 31, 2008, 2009 and April 30, 2010, our VAT receivables were US\$1.7 million, US\$5.7 million and US\$9.7 million, respectively. The Group is currently applying to the Mongolian tax authority for the settlement of the non mining related VAT receivables outstanding at April 30, 2010. Based on the current available information the Group anticipates full recoverability of amounts due on account by 2010.

Taxation

Our income tax rate for the year ended December 31, 2009 and the four months ended April 30, 2010 was 10% for the first MNT3 billion of taxable income and 25% for amounts in excess thereof. During the Track Record Period, we were not subject to any overseas taxation.

FINANCIAL INFORMATION

Income tax expenses for the year ended December 31, 2009 and the four months ended April 30, 2010 can be reconciled to profit before income tax as follows:

	Year ended December 31, 2009	Four months ended April 30, 2010
	(US\$)	
Profit before income tax	14,380,887	6,229,077
Notional tax on profit before taxation	2,990,330	1,360,876
Tax effect of non-deductible items ⁽¹⁾	1,134,672	399,185
Tax effect of non-taxable items ⁽¹⁾	(83,199)	(735,097)
Tax loss not recognized	68,920	192,640
Income tax expenses	4,110,723	1,217,604

Notes:

(1) *Non-deductible items and non-taxable items refer to mainly the unrealized exchange losses and gains during the Track Record Period.*

Our effective income tax rate during the Track Record Period was 28.6% for the year ended December 31, 2009 and 19.5% for the four months ended April 30, 2010. The decrease in effective income tax rate was primarily due to the tax effect of non-deductible and non-taxable items, which mainly represented the exchange losses and gains during the Track Record Period.

Our Directors confirm that, as of the Latest Practicable Date, we have made all the required tax filings, have paid all outstanding tax liabilities and are not subject to any dispute or potential dispute with the tax authorities in any applicable jurisdiction. We are in an ongoing consultation with the government with regard to the recoverable VAT receivables outstanding as of the Latest Practicable Date.

Related Party Transactions

All amounts due from and to certain shareholders and related parties, which are non-trade in nature as shown in “Appendix I – Accountants’ Report – Note 29,” have been settled on or before April 30, 2010. Except for the loans to and from the related parties and the associated interest income/expenses which would not be recurring, the above related party transactions are recurring.

FINANCIAL INFORMATION

Indebtedness

Borrowings

The table below sets out our borrowings as of the dates indicated and the maturity profile of such borrowings:

	As of December 31,			As of April 30,	As of July 31,
	2007	2008	2009	2010	2010
			(US\$)		
Secured	–	–	31,200,000	38,000,000	130,000,000
Unsecured	2,950,000	3,000,000	3,000,000	2,000,000	–
Total	<u>2,950,000</u>	<u>3,000,000</u>	<u>34,200,000</u>	<u>40,000,000</u>	<u>130,000,000</u>
Maturity Profile:					
Due within one year	2,950,000	3,000,000	24,200,000	40,000,000	20,416,667
More than one year, but within two years	–	–	10,000,000	–	35,000,000
Due after two years	–	–	–	–	74,583,333
Total	<u>2,950,000</u>	<u>3,000,000</u>	<u>34,200,000</u>	<u>40,000,000</u>	<u>130,000,000</u>

The borrowings for the year ended December 31, 2007 were shareholder loans which were fully repaid in January 2008.

Due to our business expansion during the Track Record Period, we have relied on both long term and short term borrowings to fund a portion of our capital requirement and working capital needs.

Most of the loans we incurred for the three years ended December 31, 2009, were for working capital needs and short-term capital expenditures, such as the acquisition of the coal hauling trucks, construction of the airport serving our UHG mine and preliminary infrastructure work for our larger projects. For our larger projects, like the coal handling and washing facility, the water supply facility and the power plant, we have secured long-term borrowings. As we only commenced commercial operations in April 2009, our borrowings before this time were largely for short-term projects in order to begin operating our UHG mine. As we believe this kind of financing plan is typical for greenfield projects, we believe there are no issues relating to our ability to obtain longer-term financing in the future.

Our long term loan and short term borrowings increased from US\$3.0 million as of December 31, 2007 to US\$34.2 million as of December 31, 2009. The increase in our long and short term borrowing was primarily due to the increased funds we used to support our business expansion and capital expenditure.

On July 26, 2008, we borrowed US\$3.0 million from Shagdardulam, a third party, for our working capital needs at an interest rate of 12% per annum. This loan was repaid in December 2009. Ms. Shagdardulam is the wife of Mr. Davaanyam, shareholder of Petrovis LLC. Thus, no

FINANCIAL INFORMATION

pledge was required under the loan granted by Ms. Shagdardulam to the Company and the interest rate charged for the loan was the same as charged by commercial banks of Mongolia. See “Laws and Regulations Relating to the Industry – Mongolian Laws Relating to Borrowing and Lending Activities”.

On February 16, 2009, we borrowed US\$1.0 million from Golomt Bank of Mongolia, at a fixed rate of 12.4%. This loan was guaranteed by one of our shareholders and was fully repaid on February 22, 2010. On July 2, 2009 we borrowed US\$1.2 million from Khan Bank of Mongolia, at a fixed rate of 13.2%. This loan is secured by our current fleet of coal hauling trucks and transport land cruisers.

On May 21, 2009, we borrowed US\$2.0 million from Quincunx (BVI) Ltd, a subsidiary of Kerry, for our working capital needs at a floating rate linked to LIBOR and this loan matures in May 21, 2010. There is no financial or information covenants in the loan agreement with Quincunx (BVI) Ltd, and no assets were pledged for borrowings under the loan agreement with Quincunx (BVI) Ltd. On May 17, 2010, we fully repaid this loan with internal cash flows. See “Laws and Regulations Relating to the Industry – Mongolian Laws Relating to Borrowing and Lending Activities”.

On October 27, 2009, we borrowed US\$30.0 million from Standard Bank, at a floating rate linked to LIBOR. This loan matures on April 26, 2011. This loan is secured by our coal stockpile, an assignment of our customer contract with Puxing. For the year ended December 31, 2009, the effective interest rate of this loan was 9.28%. This loan facility includes financial covenants, information covenants and a cross-default provision linked to any of ER LLC’s indebtedness. We amended this loan on June 18, 2010, and extended the maturity date to 30 months after the effective date of the loan. Under the amendment, the amount which we can borrow is raised to \$75.0 million.

On March 1, 2010, we borrowed US\$3.0 million bridge loan from Golomt Bank of Mongolia, at a fixed rate of 12.0%. This loan is secured by the airport building on the airstrip located near our UHG deposit. The proceeds of this loan were used to finance our development projects.

On March 11, 2010, we borrowed US\$3.0 million from Khan Bank of Mongolia, at a fixed rate of 14.0%. This loan shares security over our current fleet of coal hauling trucks and transportation land cruisers. This loan matures in June 11, 2010. We borrowed this loan to finance our development projects. This loan has been repaid in full on June 8, 2010.

On May 12, 2010, we entered into a US\$180 million term-loan facility arranged by EBRD, one of our Shareholders, at a floating rate linked to LIBOR. This loan was split into two tranches because the first tranche of the loan was a bilateral loan between EBRD and ER LLC and the second tranche was to be a co-financing loan. The terms of these two tranches are not identical. The first tranche of the loan is repayable after a four years in two equal installments in 2015 and 2016, respectively. The second tranche of the loan is repayable after one year in ten equal semi-annual installments starting September 2011. The second tranche of the loan has additional conditions which have been imposed by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (“FMO”) and Deutsche Investitions- und Entwicklungsgesellschaft mbH (“DEG”), together with EBRD, the lenders in the second

FINANCIAL INFORMATION

tranche. This loan is secured by certain of our bank accounts, our mining license, our coal handling and washing plant, the 12 MW power plant, an assignment of our EPCM contract with Sedgman relating to our coal handling and washing plant, contract with Leighton relating to coal mining and offtake agreement with Qinghua, and a pledge of shares in ER LLC. Pursuant to this loan facility, EBRD has been granted rights normally given to lenders in a pre-IPO loan including financial covenants, information covenants and the requirement to obtain EBRD's consent for certain corporate acts (including capital expenditure, incurrence of additional indebtedness, mergers and making investments, etc.). In addition, we are required to obtain consent for capital expenditures in excess of US\$30 million in any financial year. We are also required to obtain the consent of the lenders if we are to incur short-term debt in excess of US\$50 million or indebtedness that is not otherwise permitted by the terms of the loan facility. Pursuant to the loan agreement we are required to comply with certain financial covenant ratios, including limiting our debt service coverage ratio to be not less than 1.5 to 1 after December 31, 2010, maintaining a leverage ratio of less than 3 to 1 after December 31, 2010, maintaining a current ratio of not less than 1.1 to 1 and having a total liabilities to tangible net worth ratio of not more than 2 to 1 after December 31, 2010 for each period of twelve months ending on December 31 (or, if different, on the last day of our Financial Year) and each period of twelve months ending on June 30 (or, if different, on the day falling six months after the last day of our Financial Year). This loan facility also includes a cross-default provision linked to any of ER LLC's indebtedness. If all tranches of this loan were to be drawn, approximately 21.5% of the shares of ER LLC will be pledged to secure this loan facility. See "History, Reorganization and Corporate Structure – Reorganization". We intend to use the proceeds of this loan to fund the construction of our coal handling and washing plant and its supporting infrastructure. As typical of financings of this nature, if not remedied within 30 days of giving notice to EBRD, a breach of any of the restrictive covenants contained in the loan agreement will allow EBRD to declare all or any part of the principal of, and accrued interest on, the Loan to be due and payable on demand. A breach of the restrictive covenants in the EBRD loan facility would trigger the cross-default provisions in all our other existing loans. As of the Latest Practicable Date, we had drawn down US\$180 million of this loan facility.

We intend to repay this loan with our cash generated from our operations. Alternatively, if a suitable opportunity is available, we may choose to refinance this loan with other borrowings.

As of July 31, 2010, we had a total of US\$256.2 million in banking facilities of which US\$130 million had been borrowed. The US\$130 million utilized as of July 31, 2010 comprised of US\$60 million drawn from the EBRD loan facility and US\$70 million from the Standard Bank loan facility. The increase in the drawdown of our loans during the three months ended July 31, 2010 was due to the funding needs relating to our construction projects. From August 1, 2010 to the Latest Practicable Date, we further drew down US\$125 million under these two banking facilities. As of the Latest Practicable Date, we had a total of US\$256.2 million in banking facilities of which all amounts had been utilized. As of the Latest Practicable Date, this amount was comprised of the US\$180 million in borrowings under EBRD loan facility and the US\$75 million in borrowings under Standard Bank loan facility.

We confirm that, except as described herein, there have been no material changes to our indebtedness since July 31, 2010.

Contingent liabilities

As of December 31, 2007, 2008, 2009 and April 30, 2010, we had no significant contingent liabilities. Our Directors confirm that as of the Latest Practicable Date, we had no significant contingent liabilities.

FINANCIAL INFORMATION

Disclaimer

Except as described above, as of July 31, 2010, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Capital Commitments

The following table presents our capital commitments as of the dates indicated.

	As of December 31,			As of	Capital commitment expected			Source of funding
	2007	2008	2009	April 30,	Prior to	2011	2012 and	
	(US\$)			(US\$)	(US\$)			
Authorised but not contracted for								
Power plant	-	-	-	6,119,278	5,723,284	395,994	-	Existing borrowings and operating cash flow
Wash plant	-	108,114	-	138,114,008	85,630,685	52,483,323	-	Proceeds from the Global Offering/existing borrowings and operating cash flow
Water supply	-	-	-	32,097,877	16,097,877	-	16,000,000	Existing borrowings and operating cash flow
Railway	-	31,013	-	1,420,813	1,420,813	-	-	Proceeds from the Global Offering and Operating cash flow
Sub-total	-	139,127	-	177,751,976	108,872,659	52,879,317	16,000,000	
Contracted for								
Property (camp, mine site and workshop)	-	4,343,246	11,222,900	-	-	-	-	N/A
Power plant	-	295,750	32,610,982	27,603,634	27,190,305	413,329	-	Existing borrowings and operating cash flow
Wash plant	-	225,011	16,257,677	22,350,901	22,350,901	-	-	Proceeds from the Global Offering/existing borrowings and operating cash flow
Water supply	-	4,656,117	11,895,903	9,652,491	9,652,491	-	-	Existing borrowings and operating cash flow
Railway	-	61,561	3,826,502	-	-	-	-	Proceeds from the Global Offering and operating cash flow
Others	-	111,687	5,282,580	1,932,695	1,932,696	-	-	Operating cash flow
Sub-total	-	9,693,372	81,096,544	61,539,721	61,126,393	413,329	-	
Total	-	9,832,499	81,096,544	239,291,697	169,999,052	53,292,646	16,000,000	

Note: "N/A" denotes "not applicable"

FINANCIAL INFORMATION

The capital commitments as of December 31, 2008 relate the acquisition of trucks and ancillary mining equipment, costs associated with exploration activities and professional studies, construction costs associated with our camp, airport and workshop, and initial costs associated with our paved road, railway, coal handling and washing plant and power plant. The capital commitments as of December 31, 2009, were related to the same items except that commitments associated with our paved road, railway, coal handling and washing plant and power plant were more significant given that we formally commenced construction of those projects in the year ended December 31, 2009. The capital commitments as of April 30, 2010, were related to the same items as aforementioned.

We commenced commercial operations in April 2009. Prior to this time, many basic facilities needed to be completed in order to commence operations. Also, a number of professional feasibility, pre-feasibility and design studies were conducted in order to develop the mine design and plan. As a result, there have been significant fluctuations of capital commitments and capital expenditures during the Track Record Period.

We expect to meet these capital requirements through a combination of operating cashflows, borrowings and proceeds from the Global Offering.

Capital Expenditure

Our capital expenditure generally comprises expenses related to the development of our mine and supporting infrastructure. The costs of expert studies and services are included in each of the respective capital expenditures of each project. The following table shows our historical capital expenditure indicated:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	(US\$)			
Coal handling and washing plant	–	339,398	13,573,225	2,505,146
Road	–	–	–	1,475,210
Railway	–	943,688	5,542,841	1,745,070
Water supply	–	4,217,199	8,024,203	3,940,739
Power plant	–	155,713	8,137,469	6,163,481
Property (camp, airport and workshop) . . .	–	2,083,186	12,607,233	2,731,632
Trucks and equipment	–	11,355,669	7,893,247	439,475
Others ⁽¹⁾	3,513,416	8,333,162	7,180,540	9,578,998
Total	<u>3,513,416</u>	<u>27,428,015</u>	<u>62,958,758</u>	<u>28,579,751</u>

Note:

(1) *Others include capital expenditures for explorations and studies.*

FINANCIAL INFORMATION

We intend to fund our planned capital expenditure through a combination of the proceeds of the Global Offering, bank loans, and cash flow from operating activities. See “Future Plans and Use of Proceeds”.

For the year ending December 31, 2010, our major planned capital expenditures total US\$279 million, approximately 80% of which will be funded by bank loans and the remainder to be funded by cash flow from operating activities. Our Directors expect that the remaining capital expenditure will be funded by our operating cash flow and our internal cash resources. Our major planned capital expenditure is expected to include:

- Approximately HK\$2,008.9 million (US\$258.8 million) for financing our mine and transportation infrastructure development projects, which currently include approximately US\$125 million (HK\$970.5 million) to finance a portion of our railway project and approximately US\$80 million (HK\$621.1 million) for our coal handling and washing plant. See “Business – Mining Operations – General”;
- Approximately HK\$1,607.2 million (US\$207.0 million) for acquisitions of companies with existing exploration rights and additional mining assets. As of the Latest Practicable Date, we had not identified any acquisition targets; and
- Approximately HK\$401.8 million (US\$51.8 million) to fund working capital and other general corporate purposes.

In connection with our current plans for mine and transportation infrastructure development, we expect our anticipated capital expenditure to the year ending December 31, 2013 to be approximately US\$1.1 billion to US\$1.3 billion, approximately 20% of which would be funded by proceeds from the Global Offering, 50% of which would be funded by borrowings, 30% of which would be funded by our operating cashflows and additional fundraising activities. The foregoing percentages are estimates only and are subject to adjustment to reflect developments in our business and industry.

Market Risks

We are, in the normal course of business, exposed to market risks relating primarily to credit risk, foreign exchange risk, interest rate risk and liquidity risk.

Credit risk

Our credit risk is primarily attributable to our trade and other receivables. Our management monitors the exposures to these credit risks on an ongoing basis.

Given our major customers are reputable and with sound repayment ability, the credit risks of trade receivables are considered low. We closely monitor the amount due from related parties. The receivable amount is expected to be settled in a short period. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

FINANCIAL INFORMATION

We request pre-payment on our coal sales, but in order to maintain our relations with customers and to diversify our customer base, we have in the past extended credit up to US\$5 million. Thus far, we have no exposure to bad debt, and all short term credits have been recovered in full.

Foreign currency exchange risk

During the Track Record Period, 100% of our revenue and approximately 50% of our purchases were denominated in currencies other than MNT, our functional currency. Cash and cash equivalents denominated in foreign currency as of December 31 2007, 2008 and 2009 and April 30, 2010 amounted to US\$0.9 million, US\$3.6 million, US\$2.2 million and US\$13.4 million, respectively. Bank borrowings denominated in foreign currency as of December 31, 2007, 2008 and 2009 and April 30, 2010 were US\$3.0 million, US\$3.0 million, US\$34.2 million and US\$40 million, respectively.

For the year ended December 31, 2009, approximately 77% of our revenues were denominated in US dollars with the remaining denominated in RMB. For the year ended December 31, 2009, approximately 79%, 13% and 88% of our cost of revenue, operating expenditures and capital expenditures were denominated in US dollars, with the remaining denominated in MNT. For the four months ended April 30, 2010, approximately 57% of our revenues were denominated in US dollars with the remaining denominated in RMB. For the four months ended April 30, 2010, approximately 69%, 21% and 67% of our cost of revenue, operating expenditures and capital expenditures were denominated in US dollars, with the remaining denominated in MNT.

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

To the extent that we decide to do so in the future, we cannot assure you that any such hedging activities will protect us from fluctuations in exchange rates. See “Risk Factors – Risks Relating to Our Business and Industry – Foreign currency fluctuations could affect expenses and any future earnings”.

Interest rate risk

Our exposure to interest rate risk relates primarily to our floating rate bank borrowings, which totaled US\$32.0 million as of December 31, 2009. An increase in prevailing interest rates would lead to an increase in interest cost on our short-term borrowings when such debt is rolled over. To date, we have not entered into any type of interest rate agreements or derivatives, to hedge against interest rate fluctuations. To the extent that we do so in the future, we cannot assure you that any future hedging activities will protect us from fluctuations in interest rates.

FINANCIAL INFORMATION

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. In the management of liquidity risk, we maintain a balance between continuity of funding and the flexibility through the use of borrowings. Our management closely monitors our liquidity position and expects to have adequate sources of funding to finance our projects and operations.

Our Directors have carried out a detailed review of our cash flow forecast for the 18 months ending October 31, 2011. Based on such forecast, our Directors have determined that adequate liquidity exists to finance our working capital and capital expenditure requirements during that period. Our Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realized.

Commodity price risk

Our profitability depends on coal prices. Coal prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand. We do not enter into commodity derivative instruments or futures to hedge any potential price fluctuation of coal. Therefore, fluctuations in the prices of coal will have a direct effect on our results of operations.

Summary of Key Financial Ratios During the Track Record Period

Current Ratio

The table below sets forth the our current ratios for the periods indicated:

	As at December 31,			April 30,
	2007	2008	2009	2010
Liquidity ratios				
Current ratio ⁽¹⁾	32.7%	44.1%	71.4%	51.6%

Notes:

(1) *Current ratio is calculated by current assets divided by current liabilities.*

Our current ratio decreased from 71.4% as at December 31, 2009 to 51.6% as at April 30, 2010 primarily as a result of an increase in advance payments from our third-party customers pursuant to our sales contracts from US\$8.5 million as at December 31, 2009 to US\$31.4 million as at April 30, 2010. We have needed to rely on short term debt financing at the beginning stages of our operations which has also contributed to the significant fluctuations in our current ratio.

FINANCIAL INFORMATION

Gearing Ratio

The table below sets forth the gearing ratio of our Company for the periods indicated:

	As at December 31,			April 30,
	2007	2008	2009	2010
Gearing ratio ⁽¹⁾	N/A	8.4%	30.2%	25.5%

Note:

(1) *Gearing ratio is calculated by total debt divided by total assets expressed as a percentage.*

We have needed to rely on short term debt financing at the beginning stages of our operations which has resulted in an increased gearing ratio. However, as our assets are now increasing at a greater rate than our total debt levels, we expect our gearing ratio to decrease in future periods.

Trade Receivables

Our trade receivables represent receivables from the sales of our coking coal. The table below sets forth our average trade receivables turnover days for the periods indicated:

	As at December 31,			April 30,
	2007	2008	2009	2010
Trade receivable turnover (days)	N/A	N/A	46	5

Note:

(1) *Turnover of trade receivables in days equals trade receivables at the end of the period divided by revenue for the relevant period multiplied by 365 for annual periods and 120 for the four month period.*

As we have had limited operations and a limited number of customers, our receivables turnover days varied significantly between the year ended December 31, 2009 and the four months ended April 30, 2010. Given that we are still a start-up and in the midst of establishing relationships with our customers, the turnover ratios are not reflecting normal business turnover conditions.

FINANCIAL INFORMATION

Inventory analysis

The following table shows a summary of our inventory balance as at the respective balance sheet dates below, as well as the average inventory turnover days:

	December 31,			April 30,
	2007	2008	2009	2010
	(USD'000)			
Materials and supplies	0	15	743	812
Coal	0	0	6,918	13,298
Total	0	15	7,661	14,110
Turnover of average inventory (days)	N/A	N/A	38	49

Note:

(1) Turnover of inventory, in days, is the inventory at the end of the period divided by cost of sales multiplied by 365 for annual periods and 120 for the four month period.

We have had limited operations and are in the process of formulating more efficient inventory policies. We had a lower level of coal sales in the four months ended April 30, 2010 due to seasonality. In addition, as we have been continually increasing our production capacity, we are producing more coal on a daily basis. As a result, our average inventory turnover days for the four months ended April 30, 2010 were higher than our average inventory turnover days for the year ended December 31, 2009. As we commenced coal production in April 2009 and have been continually ramping-up our production capacity, we believe that the average inventory turnover days during the Track Record Period are not indicative of our future performance.

Trade payables

Our trade payables represent the purchase of raw materials and services from our suppliers and contractors. The following table sets out the turnover of our average trade payables for the periods indicated:

	Year ended December 31,			Four months ended
	2007	2008	2009	April 30,
	(days)			
Turnover of average trade payables	N/A	N/A	9	23

Note:

(1) Turnover of trade payables in days equals trade payables at the end of the period divided by cost of sales for the relevant period multiplied by 365 for annual periods and 120 for the four month period.

FINANCIAL INFORMATION

During the Track Record Period, credit terms granted by our suppliers and contractors were in a range of no more than 90 days, depending on our relationship with the particular supplier or contractor. Our turnover of average trade payables increased in the Track Record Period primarily due to delay of EBRD loan facility. As of June 30, 2010, we have not experienced any dispute with our suppliers.

Disclosure Required Under the Listing Rules

Except as disclosed in this prospectus, as of the Latest Practicable Date, we confirm that there were no circumstances that will give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

Distributable Reserves

Prior to the incorporation of our Company, we did not have any available distributable reserves. As of April 30, 2010, the Company had not been established.

Profit Forecast For The Year Ending December 31, 2010

The forecast of the combined profit attributable to the equity shareholders of our Company for the year ending December 31, 2010 prepared by the Directors is based on, in the absence of unforeseen circumstances, the combined financial information of our Group for the four months ended April 30, 2010 as set out in the Accountants' Report in Appendix I to this prospectus, the unaudited combined results of the Group for the two months ended June 30, 2010 and a forecast of the combined results of our Group for the remaining six months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in Note 1 of section C of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

On the basis of the above profit forecast and on the assumption that our Company had been listed since January 1, 2010 and a total of 3,597,122,500 Shares were issued on January 1, 2010, the unaudited pro forma forecast earnings per Share will be not less than US\$0.017 (equivalent to approximately HK\$0.130), representing a pro forma price/earnings multiple of approximately 50.0 times and 58.3 times if the Offer Price is HK\$6.48 and HK\$7.56 per Share, respectively.

On a weighted average basis based on the above profit forecast and assuming that (i) our Company had been established and 3,597,122,500 Shares were issued and outstanding as at January 1, 2010, (ii) 597,122,500 Shares to be issued pursuant to the Global Offering, (iii) no exercise of Over-allotment Option and (iv) no options are granted under the Share Option Scheme, the forecast earnings per Share on a weighted average basis will be not less than US\$0.017 (equivalent to approximately HK\$0.130), representing a weighted average price/earnings multiple of approximately 50.0 times and 58.3 times if the Offer Price is HK\$6.48 and HK\$7.56 per Share, respectively.

FINANCIAL INFORMATION

Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set forth here to illustrate the effect of the Global Offering on our net tangible assets as of April 30, 2010 as if it had taken place on April 30, 2010.

The unaudited pro forma statement of adjusted net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as of April 30, 2010 or any future date following the Global Offering. It is prepared based on our combined net assets as of April 30, 2010 as derived from our combined financial information set forth in the “Accountants’ Report” in Appendix I, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountants’ Report as set forth in Appendix I to this prospectus.

	Adjusted combined net tangible assets attributable to the equity shareholders of our Company as of April 30, 2010⁽¹⁾	Add: Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of our Company	Unaudited pro forma adjusted combined net tangible assets per Share⁽³⁾	
	US\$'000	US\$'000	US\$'000	US\$	HK\$
Based on an Offer Price of HK\$6.48 per Offer Share .	51,289	477,239	528,528	0.15	1.14
Based on an Offer Price of HK\$7.56 per Offer Share .	51,289	557,812	609,101	0.17	1.31

Notes:

- (1) *The adjusted combined net tangible assets attributable to the equity shareholders of the Company as at April 30, 2010 have been extracted from the Accountants’ Report as set out in Appendix I to this prospectus.*
- (2) *The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$6.48 and HK\$7.56 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of any Shares which may be issued pursuant to any exercise of Over-allotment Option or the Share Option Scheme.*
- (3) *The unaudited pro forma net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 3,597,122,500 Shares are in issue assuming that the Global Offering has been completed on April 30, 2010. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Share Option Scheme.*

FINANCIAL INFORMATION

- (4) *The Group's property interests as at June 30, 2010 have been valued by American Appraisal China Limited, an independent property valuer, the relevant property valuation report is set out in Appendix IV to this prospectus, "Property Valuation". The revaluation surplus or deficit of these properties was not incorporated in the Group's combined financial information for the four months ended April 30, 2010 and will not be included in the Group's financial information for the year ending December 31, 2010. The above adjustments do not take into account the revaluation surplus attributable to the Group arising from the revaluation of the Group's property interests amounting to approximately US\$7.9 million. If the revaluation surplus was recorded in the Group's financial statements, additional annual depreciation and amortisation of approximately US\$0.2 million would be charged against profit for the year ending December 31, 2010.*
- (5) *No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to April 30, 2010.*
- (6) *The unaudited pro forma adjusted combined net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of US\$1.00=HK\$7.7637. No representation is made that the U.S. dollar amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate, or at any other rate or at all.*

No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position or our prospects since April 30, 2010, being the date of the latest audited combined financial results as set out in the Accountants' Report in Appendix I to this prospectus.

Property Interests

American Appraisal China Ltd., an independent property appraiser, has valued the property interests attributable to us, as of June 30, 2010 at approximately US\$32.875 million. The text of its letter, summary of values and valuation certificates are set out in "Appendix IV – Property Valuation".

Property interests include the land use rights to the parcels of land and the building ownership rights of the completed buildings and structures.

Dividends

We will not declare or pay any dividends other than from profits and reserves lawfully available for distribution, including share premium. Our Shareholders may approve the distribution of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends or may also declare dividends half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of such dividends.

We declared no dividends during the Track Record Period. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our Articles, the Cayman Companies Law, applicable laws and regulations and other relevant factors. Any future declarations of dividends may or may not reflect our Group's historical declarations of dividends and will be at the absolute discretion of our Directors.

FINANCIAL INFORMATION

Any dividends declared will be in Hong Kong dollars with respect to the Shares on a per share basis and our Company will pay such dividends in Hong Kong dollars. Our Directors believe that our dividend policy mentioned above will not have a material adverse effect on our working capital position.

We have not entered into any agreement under which future dividends are waived or agreed to be waived.

Reconciliation of Appraised Property Values with Net Book Values

Disclosure of the reconciliation between the valuation of the interests in properties attributable to the Group and such property interests in the Group's balance sheets as of April 30, 2010 contained in the Accountants' Report of Mongolian Mining Corporation is set forth below.

	<u>USD</u>
Net book value of property interests as of April 30, 2010	20,634,699
Movement from April 30, 2010 to June 30, 2010	
Add: Addition during the period	4,451,558
Less: Depreciation and amortization during the period	(146,553)
Net book value as of June 30, 2010	24,939,705
Valuation surplus	7,935,295
Valuation as of June 30, 2010	32,875,000

Disclaimer

We have not experienced any default or withdrawal or request for early repayment of bank borrowings, cancellation or orders, bankruptcy or default on the part of any customers and/or suppliers.

FUTURE PLANS AND USE OF PROCEEDS

Future Plans And Prospects

See the section entitled “Business – Our Strategies” for a detailed description of our future plans.

Use Of Proceeds

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$4,017.9 million, before exercise of the Over-allotment Option, after deducting the underwriting commissions and estimated expenses payable by us in relation to the Global Offering and assuming an Offer Price of HK\$7.02 per Share, being the mid-point of the stated range of the Offer Price. We intend to use such net proceeds as follows:

- approximately 50% (HK\$2,008.9 million) for financing our mine and transportation infrastructure development projects, which currently include approximately US\$125 million (HK\$970.5 million) to finance a portion of our railway project and approximately US\$80 million (HK\$621.1 million) for our coal handling and washing plant. See “Business – Mining Operations – General”;
- approximately 40% (HK\$1,607.2 million) for acquisitions of companies with existing exploration rights and additional mining assets. As of the Latest Practicable Date, we had not identified any acquisition targets; and
- the remaining net proceeds of approximately 10% (HK\$401.8 million) to fund working capital and other general corporate purposes.

To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. To the extent that proceeds are not used immediately for the purposes stated, they will be invested in short term demand deposits and money market instruments.

In the event that the Offer Price is set at HK\$6.48 (being the low end of the indicative Offer Price range of HK\$6.48 to HK\$7.56 per Share as stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds received by us will be reduced by approximately HK\$312.8 million. In the event that the Offer Price is set at HK\$7.56 (being the high end of the indicative Offer Price range of HK\$6.48 to HK\$7.56 per Share as stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds received by us will be increased by approximately HK\$312.8 million. In the event that the Over-allotment Option is exercised in full and based on an Offer Price of HK\$7.02 (being the mid-point of the indicative Offer Price range of HK\$6.48 to HK\$7.56 per Share as stated in this prospectus), the net proceeds received by us will be increased by approximately HK\$734.8 million.

FUTURE PLANS AND USE OF PROCEEDS

The Selling Shareholders will be selling a portion of their Shares in the Global Offering. The Selling Shareholders will receive net proceeds of approximately HK\$832.8 million, before exercise of the Over-allotment Option, after deducting underwriting commissions and discretionary incentive fees and estimated expenses payable by the Selling Shareholders in connection with the Global Offering and assuming an Offer Price of HK\$7.02 per Share, being the midpoint of the indicative offer price range. We will not receive any of the proceeds from the sale of Shares by the Selling Shareholders in the Global Offering.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters

Citigroup Global Markets Asia Limited
J.P. Morgan Securities (Asia Pacific) Limited
Mizuho Securities Asia Limited
Taifook Securities Company Limited

International Underwriters

Citigroup Global Markets Limited
J.P. Morgan Securities Ltd.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 71,942,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

- either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by our Company or any of MCS Holding,

UNDERWRITING

MCS Group Limited or MCS Mining Group Limited, or (ii) any of the representations, warranties and undertakings given by our Company, MCS Holding, MCS Group Limited or MCS Mining Group Limited in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect or misleading in any respect, or

- any statement contained in this prospectus, the Application Forms or the formal notice or any announcements in the agreed form issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become or been discovered to be untrue, incorrect or misleading in any material respect, or any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms or the formal notice are not, in all material respects, fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
- any of our reporting accountants, our property valuer, technical advisor, industry expert or any of our legal advisors has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- approval in principle from the Stock Exchange granting the listing of, and permission to deal in, the Shares, including any additional Shares sold pursuant to the exercise of Over-allotment Option, the Shares in issue and any Shares which may be issued upon the exercise of options granted pursuant to the Share Option Scheme, is refused or not granted, on or before the listing approval date, or if granted, the approval is subsequently withdrawn, qualified (except for customary conditions imposed by the Hong Kong Stock Exchange in relation to requirements to be satisfied prior to 8:00 a.m. on the Listing Date) or withheld; or
- our Company withdraws any of this prospectus, the Application Forms, the preliminary offering circular or the final offering circular or the Global Offering; or
- there will have developed, occurred, happened or come into effect any change or development involving a prospective change or development, or any event or series of events, matters or circumstances likely to result in or representing a change or development, or prospective change or development, concerning or relating to:
 - (a) any local, national, regional or international financial, political, economic, legal, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and interbank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the

UNDERWRITING

MNT against any foreign currencies) in or affecting Hong Kong, Mongolia, the PRC, the United States, the United Kingdom, Japan, the European Union (or any member thereof), the Cayman Islands or any other jurisdiction relevant to the Group (collectively, the “Relevant Jurisdictions” and each a “Relevant Jurisdiction”); or

- (b) any new law or regulation or any change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (c) (A) any event or series of events in the nature of force majeure (including, without limitation, acts of government, economic sanctions, strikes or lock-outs (whether or not covered by insurance), riots, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease, accident or interruption or delay in transportation), or (B) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other declaration of a national or international state of emergency or calamity or crisis, in the case of either (A) or (B), affecting any Relevant Jurisdiction; or
- (d) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Stock Market, the Tokyo Stock Exchange or the London Stock Exchange or (B) a general moratorium on commercial banking activities in Hong Kong, Mongolia, the PRC, New York or London, declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, in the case of either (A) or (B), in or affecting any Relevant Jurisdiction; or
- (e) any taxation or any exchange control (or the implementation of any exchange control, currency exchange rates or foreign investment regulations) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (f) any litigation or claim being threatened or instigated against any member of our Group or any Director, any executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political or regulatory body of any action against any executive Director in his capacity as such or an announcement by any governmental, political or regulatory body that it intends to take any such action; or
- (g) any contravention by any member of our Group of the Companies Ordinance or any of the Listing Rules; or

UNDERWRITING

- (h) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, MCS Holding, MCS Group Limited or MCS Mining Group Limited, pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable; or
- (i) any breach of any of the obligations of our Company, MCS Holding, MCS Group Limited or MCS Mining Group Limited, under the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable; or
- (j) the issue or requirement to issue by our Company of a supplementary prospectus, Application Form, preliminary or final offering circular pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole opinion of the Joint Global Coordinators, materially adverse to the marketing for or implementation of the Global Offering; or
- (k) any demand by creditors for repayment of indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to the stated maturity or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (l) any of the business, assets, liabilities, conditions, business affairs, prospects, profits, losses or the financial or trading position or performance or management of our Company or any member of our Group; or
- (m) any matter that has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute an omission therefrom;

and which, with respect to any of clauses (a) through (m) above, in the absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is, will be or may be materially adverse to the general affairs, management, business or financial or trading position or prospects of our Company or our Group as a whole; or

UNDERWRITING

- (B) has, will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or make it impracticable, inadvisable or inexpedient for any material part of the Hong Kong Underwriting Agreement, the International Underwriting Agreement, the Hong Kong Public Offering or the International Placing to be performed or implemented as envisaged; or
- (C) makes or may make it impracticable, inadvisable or inexpedient to proceed with or to market the Hong Kong Public Offering and/or the International Placing or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice or the offering circulars; or
- (D) would have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof,

then the Joint Global Coordinators, in their sole and absolute discretion, may, on behalf of the Hong Kong Underwriters, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances which includes the issue of Shares pursuant to the Share Option Scheme.

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date:

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of our

UNDERWRITING

share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or securities or any interest therein); or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer to or agree to enter into, any such transaction described in paragraphs (i), (ii) or (iii) above; whether any such transaction described in clauses (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities, in cash or otherwise.

Similar undertakings are expected to be given by us to the International Underwriters under the International Underwriting Agreement.

The Selling Shareholders intend to enter into the International Underwriting Agreement and undertake in favor of the Joint Global Coordinators and the International Underwriters, that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Selling Shareholders will not, without the prior written consent of the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement up to and including the date falling six months after the Listing Date offer, pledge, charge, sell, lend, mortgage, assign, contract to sell or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, whether now owned or hereinafter acquired, owned directly by them (including holding as a custodian) or with respect to which they have beneficial ownership (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein), or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise.

UNDERWRITING

Each of MCS Holding, MCS Group Limited and MCS Mining Group Limited has undertaken with the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that, except pursuant to (A) the Global Offering, (B) the Over-allotment Option or (C) if applicable, stock borrowing arrangements that may be entered into with the Stabilizing Manager (or its agent) in connection with the Global Offering, each of MCS Holding, MCS Group Limited and MCS Mining Group Limited will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), at any time:

- (1) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of) the Shares, either directly or indirectly, conditionally or unconditionally, or cause us to repurchase any of our share or debt capital or our other securities or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly by each of MCS Holding, MCS Group Limited and MCS Mining Group Limited (including holding as a custodian) or with respect to which each of MCS Holding, MCS Group Limited and MCS Mining Group Limited have beneficial ownership) (collectively the “Lock-up Shares”). The foregoing restriction is expressly agreed to preclude each of MCS Holding, MCS Group Limited and MCS Mining Group Limited from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than each of MCS Holding, MCS Group Limited and MCS Mining Group Limited. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares (except for certain Lock-up Shares pledged in favour of an authorised institution (as defined in the Banking Ordinance) as security for a bona fide commercial loan) or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or
- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (3) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (4) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

UNDERWRITING

The initial lock-up period (the “First Six-month Period”) will commence on the date of this prospectus up to and including the date falling six months after the Listing Date. Additionally, during the period of six months commencing on the date on which the First Six-month Period expires (the “Second Six-month Period”), each of MCS Holding, MCS Group Limited and MCS Mining Group Limited will not enter into any of the foregoing transactions described in paragraphs (i), (ii) or (iii) above or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, each of MCS Holding, MCS Group Limited and MCS Mining Group Limited will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company.

Until the expiry of the Second Six-month Period, in the event that each of MCS Holding, MCS Group Limited and MCS Mining Group Limited enter into any such transactions or agree or contracts to, or publicly announce an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

In accordance with Rule 10.07(1)(a) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Global Offering or the Over-allotment Option, (i) it will not, at any time during the period commencing from the date of this prospectus, and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (ii) it will not, at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be the controlling shareholder (as defined under the Listing Rules) of our Company.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder (as defined under the Listing Rules) from using the shares owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

Each of our Controlling Shareholders has further undertaken to the Stock Exchange that it will, within a period of 12 months from the Listing Date, immediately inform us and the Stock Exchange of:

- (a) any pledges or charges of any Shares or securities of our Company beneficially owned by it/him in favor of any authorized institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) any indication received by him/it, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other share capital will be sold, transferred or disposed of.

UNDERWRITING

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholders or their shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by our Controlling Shareholders or its shareholders.

International Placing

International Underwriting Agreement

In connection with the International Placing, our Company expects to enter into the International Underwriting Agreement with the Selling Shareholders, MCS Holding, MCS Group Limited and MCS Mining Group Limited, the International Underwriters and the Joint Global Coordinators. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares. The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors will be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company will give undertakings similar to as those given pursuant to the Hong Kong Underwriting Agreement as described in “– Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings”.

Under the International Underwriting Agreement, we expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilizing Manager (or its agent), for the accounts of the Joint Global Coordinators, on behalf of the International Underwriters at any time from the Listing Date, up to (and including) the date which is the 30th day after the last date for the lodging of Application Forms under the Hong Kong Public Offering, to require our Company to sell up to an aggregate of 107,914,000 Shares, representing in aggregate approximately 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price.

It is expected that each of MCS Holding, MCS Group Limited and MCS Mining Group Limited will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by them in our Company for a period similar to such undertakings given by it pursuant to the Hong Kong Underwriting Agreement, which is described in “– Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings”.

UNDERWRITING

Underwriting Commission and Expenses

The Hong Kong Underwriters will receive a gross commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by our Company and the Selling Shareholders in relation to the new Shares to be issued in relation to the Global Offering and the Sale Shares to be offered in the Global Offering respectively. Any or all of the Joint Global Coordinators may also receive (as determined in our sole discretion without any obligation) an additional incentive fee of up to 0.5% in the gross aggregate of the sale proceeds of the Global Offering.

The aggregate commissions (exclusive of any discretionary incentive fees), together with listing fees, SFC transaction levy and Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$173.9 million (assuming an Offer Price of HK\$7.02, which is the midpoint of the indicative Offer Price range and that the Over-allotment Option is not exercised) in total and are payable by us. The Selling Shareholders will pay commissions and fees, SFC transaction levy and Stock Exchange trading fee and sellers' stamp duties in respect of the Sale Shares.

Hong Kong Underwriters' interests in our Company

Save as disclosed in this prospectus and other than pursuant to the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

STRUCTURE OF THE GLOBAL OFFERING

The Global Offering

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Citi and JPM are the Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (i) the Hong Kong Public Offering of 71,942,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under the section headed “Structure of the Global Offering – The Hong Kong Public Offering”; and
- (ii) the International Placing of 647,482,500 Shares (subject to adjustment as mentioned below), of which 525,180,500 Shares are to be offered by us and 122,302,000 Shares are to be offered by the Selling Shareholders, in the United States with QIBs in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act, and outside the United States in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the International Placing Shares to QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the International Placing Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Placing Shares. Prospective investors will be required to specify the number of International Placing Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Placing Shares to be offered under the Hong Kong Public Offering and the International Placing, respectively may be subject to reallocation as described in the section headed “Structure of the Global Offering – Pricing and Allocation” below.

Pricing and Allocation

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholders and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around October 5, 2010 and in any event, no later than October 11, 2010.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price will be not more than HK\$7.56 per Share and is expected not to be less than HK\$6.48 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be lower than the indicative Offer Price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters) and with the consent of the Selling Shareholders and our Company consider the number of Offer Shares being offered under the Global Offering that is stated in this prospectus and/or if appropriate, the indicative Offer Price range that is stated in Application Forms may be reduced at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on October 4, 2010 cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

The Hong Kong Offer Shares and the International Placing Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Placing at the discretion of the Joint Global Coordinators.

Allocation of the International Placing Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/ or hold or sell Offer Shares after the listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on October 12, 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.mmc.mn.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of any Options granted under the Share Option Scheme) (subject only to allotment and dispatch of the share certificates in respect thereof and such other normal conditions acceptable to the Company and the Joint Global Coordinators, on behalf of the Underwriters) not later than October 12, 2010 (or such later date as the Company and the Joint Global Coordinators on behalf of the Hong Kong Underwriters may agree) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

If for any reason, the Offer Price is not agreed by October 11, 2010 between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholders and our Company, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on October 12, 2010 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on October 13, 2010, if (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination” in this prospectus has not been exercised.

The Hong Kong Public Offering

Our Company is initially offering 71,942,000 Shares at the Offer Price under the Hong Kong Public Offering, representing approximately 10% of the 719,424,500 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent approximately 2% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Placing Shares will not be allotted International Placing Shares in the International Placing.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price will not be more than HK\$7.56 and is expected to be not less than HK\$6.48. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$7.56 per Share plus brokerage of 1% SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than the maximum Offer Price, we will refund the respective difference (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to apply for Hong Kong Offer Shares” in this prospectus.

For allocation only, the 71,942,000 Shares initially being offered for subscription under the Hong Kong Public Offering will be divided equally into two pools: Pool A comprising 35,971,000 Hong Kong Offer Shares and Pool B comprising 35,971,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 71,942,000 Shares initially comprised in the Hong Kong Public Offering (that is 35,971,000 Hong Kong Offer Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Placing, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 215,827,000, 287,770,000 and 359,712,000 Shares, respectively, representing approximately 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as “Mandatory Reallocation”. In such

STRUCTURE OF THE GLOBAL OFFERING

cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators may, at their discretion, reallocate Shares initially allocated for the International Placing to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered. References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

The International Placing

The number of International Placing Shares to be initially offered for subscription or sale under the International Placing will be 647,482,500 Shares, representing approximately 90% of the Offer Shares under the Global Offering. The Offer Shares initially offered under the International Placing are 647,482,500 Shares of which 525,180,500 Shares are to be issued by us and 122,302,000 Shares are to be offered for sale by the Selling Shareholders. As of the date of this prospectus, MCS Mining Group Limited holds Shares representing approximately 57.2% of our issued share capital. Immediately following completion of the Global Offering, MCS Mining Group Limited will hold approximately 45.3% of the issued share capital of our Company assuming no exercise of the Over-allotment Option.

Pursuant to the International Placing, the International Underwriters will conditionally place the Shares with QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements under the Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Placing is subject to the Hong Kong Public Offering being unconditional.

We are expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators at its sole and absolute discretion on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the exercise of the Over-allotment Option, the Joint Global Coordinators will have to allot and issue up to 107,914,000 additional Shares representing approximately 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

STRUCTURE OF THE GLOBAL OFFERING

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocations in connection with the International Placing, the Stabilizing Manager or any person acting for it may choose to borrow Shares from MCS Mining Group Limited under the stock borrowing agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The stock borrowing agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with MCS Mining Group Limited will only be effected by the Stabilizing Manager for settlement of over-allocations in the International Placing and covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from MCS Mining Group Limited under the stock borrowing agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to MCS Mining Group Limited or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement under the stock borrowing agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to MCS Mining Group Limited by the Stabilizing Manager or its authorized agents in relation to such stock borrowing arrangement.

Over-allocation and Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Citi, as Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications

STRUCTURE OF THE GLOBAL OFFERING

under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 107,914,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization and stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the Securities and Futures Ordinance includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on November 4, 2010, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and

STRUCTURE OF THE GLOBAL OFFERING

- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period. In connection with the Global Offering, the Joint Global Coordinator may over-allocate up to and not more than an aggregate of 107,914,000 Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

Dealing Arrangements

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on October 13, 2010, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on October 13, 2010.

Underwriting Arrangements

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date.

We expect that our Company, MCS Holding, MCS Group Limited, MCS Mining Group Limited and the Selling Shareholders, will, on or about October 5, 2010, enter into the International Underwriting Agreement relating to the International Placing.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Who Can Apply for Hong Kong Offer Shares

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares by means of **White Form eIPO**, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or its respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators, or the designated **White Form eIPO** Service Provider or our respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Channels to Apply for Hong Kong Offer Shares

You may apply for Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website of the **White Form eIPO** Service Provider, referred to herein as the '**White Form eIPO**' service; or
- **electronically instructing** HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** Service or by giving **electronic application instructions** to HKSCC.

Which Application Channel You Should Use

- Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website at www.eipo.com.hk. Use **White Form eIPO** if you want the Hong Kong Offer Shares to be registered in your own name;
- Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.
- Instead of using a **YELLOW** Application Form, you may **electronically instruct** HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on September 28, 2010 until 12:00 noon on October 4, 2010 from:

Any of the following addresses of the Hong Kong Underwriters

Citigroup Global Markets Asia Limited	50th Floor, Citibank Tower Citibank Plaza, 3 Garden Road Central Hong Kong
J.P. Morgan Securities (Asia Pacific) Limited	28th Floor, Chater House 8 Connaught Road Central Hong Kong
Mizuho Securities Asia Limited	12th Floor, Chater House 8 Connaught Road Central Hong Kong
Taifook Securities Company Limited	25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong

or any of the following branches of The Bank of East Asia, Limited, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited and Standard Chartered Bank (Hong Kong) Limited:

The Bank of East Asia, Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Wanchai Branch	Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai
Kowloon.	Kwun Tong Branch	7 Hong Ning Road
New Territories.	Tai Po Branch Tuen Mun Branch Tsuen Wan Branch	62-66 Po Heung Street, Tai Po Market Shop G16, G/F, Eldo Court Shopping Centre 239-243 Sha Tsui Road

HOW TO APPLY FOR HONG KONG OFFER SHARES

The Hongkong and Shanghai Banking Corporation Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Hong Kong Office Pacific Place Branch Cityplaza Branch Causeway Bay Branch	Level 3, 1 Queen's Road Central Shop 401, Pacific Place, 88 Queensway Unit 065, Cityplaza I, Taikoo Shing 1/F, Causeway Bay Plaza 2, 463-483 Lockhart Road
Kowloon.	Mong Kok Branch 238 Nathan Road Branch	L/G & U/G, 673 Nathan Road, Mong Kok Shop No. 1, 1/F, 238 Nathan Road
New Territories.	Maritime Square Branch	Shop 308F, Level 3, Maritime Square, Tsing Yi

Industrial and Commercial Bank of China (Asia) Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Central Branch	1/F., 9 Queen's Road Central
Kowloon.	Tsimshatsui East Branch Shamshuipo Branch Kwun Tong Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui G/F., 290 Lai Chi Kok Road, Shamshuipo Shop 5 & 6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong
New Territories.	Tseung Kwan O Branch Kwai Fong Branch	Shop Nos. 2011-2012, Level 2, Metro City, Plaza II, 8 Yan King Road, Tseung Kwan O C63A-C66, 2/F, Kwai Chung Plaza, Kwai Fong

Standard Chartered Bank (Hong Kong) Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Causeway Bay Branch	G/F, Yee Wah Mansion, 38-40A Yee Wo Street, Causeway Bay
Kowloon.	Cheung Sha Wan Branch San Po Kong Branch	828 Cheung Sha Wan Road, Cheung Sha Wan Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
New Territories.	Shatin Centre Branch Metroplaza Branch Yuen Long Fung Nin Road Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin Shop No. 175-176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung Shop B at G/F and 1/F, Man Cheong Building, 247 Castle Peak Road, Yuen Long

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on September 28, 2010 to 12:00 noon on October 4, 2010 from:

- the depository counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your stockbroker, who may have such Application Forms and this prospectus available.

When to Apply for the Hong Kong Offer Shares

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on October 4, 2010, or, if the Application Lists are not open on that day, by the time and date stated in the section headed “Effect of bad weather conditions on the opening of the Application Lists” below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in the section headed “Where to collect the Application Forms” at the following times:

Tuesday, September 28, 2010 – 9:00 a.m. to 4:30 p.m.
Wednesday, September 29, 2010 – 9:00 a.m. to 4:30 p.m.
Thursday, September 30, 2010 – 9:00 a.m. to 4:30 p.m.
Saturday, October 2, 2010 – 9:00 a.m. to 1:00 p.m.
Monday, October 4, 2010 – 9:00 a.m. to 12:00 noon

Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

Tuesday, September 28, 2010 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, September 29, 2010 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, September 30, 2010 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, October 2, 2010 – 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, October 4, 2010 – 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on September 28, 2010 until 12:00 noon on October 4, 2010 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on October 4, 2010 or if the Application Lists are not open on that day, by the time and date stated in the section headed “Effect of bad weather conditions on the opening of the Application Lists” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

White Form eIPO

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on September 28, 2010 until 11:30 a.m. on October 4, 2010 or such later time as described under the section headed “Effect of bad weather conditions on the opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on October 4, 2010, the last application day, or, if the Application Lists are not open on that day, then by the time and date stated in the section headed “Effect of bad weather conditions on the opening of the Application Lists” below.

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon.

Application Lists

The Application Lists will be opened from 11:45 a.m. to 12:00 noon on October 4, 2010, except as provided in the section headed “Effect of bad weather conditions on the opening of the Application Lists” below. No proceedings will be taken on applications for the Hong Kong Offer Shares until after October 4, 2010 and no allocation of any such Shares will be made later than October 12, 2010.

Effect of bad weather conditions on the opening of the Application Lists

The Application Lists will be opened between 11:45 a.m. and 12:00 noon on October 4, 2010, subject only to weather conditions. The Application Lists will not open in relation to the Hong Kong Public Offering if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on October 4, 2010. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

How to Apply Using a White or Yellow Application Form

Obtain a WHITE or YELLOW Application Form

You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying check(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

Decide how many Hong Kong Offer Shares you want to subscribe. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$7.56 per Hong Kong Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. This means that for one board lot of 500 Shares you will pay HK\$3,818.10. The Application Forms have tables showing the exact amount payable for certain numbers of shares up to 35,971,000 Shares (as indicated on the **WHITE** and **YELLOW** Application Forms). Your application must be for a minimum of 500 Shares. Application for more than 500 Shares must be in one of the number of Shares set out in the table in the respective Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorized attorney, our Company and Citi and JPM, as Joint Global Coordinators for the Hong Kong Public Offering (or their respective agents or nominees), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

Each Application Form must be accompanied by either one check or one banker's cashier order.

If you pay by check, the check must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the check, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- be made payable to “HSBC Nominees (Hong Kong) Limited – MMC Public Offer”;
and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your check does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker’s cashier order the banker’s cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorized by the bank. The name on the back of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to “HSBC Nominees (Hong Kong) Limited – MMC Public Offer”;
and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to above.

Multiple or suspected multiple applications are liable to be rejected. Please refer to the section headed “How many applications you can make” below.

You should note that by signing the Application Form, among other things:

- (i) you confirm that you have only relied on the information and representations in this prospectus in making your application and not on any other information or representation concerning us and you agree that neither we, the Selling Shareholders, the Joint Global Coordinators, the Underwriters nor any of our or their respective directors, officers, employees, agents, advisors or affiliates or any other person or party involved in the Global Offering will have any liability for any such other information or representations;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) you agree that our Company, the Selling Shareholders, the Joint Global Coordinators, the Underwriters, and any of our or their respective directors, officers, employers, agents, advisors or affiliates are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (iii) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares, nor otherwise participate in the International Placing; and
- (iv) you agree to disclose to us, the Selling Shareholders, the Hong Kong Share Registrar, receiving bankers, advisors, agents and the Joint Sponsors, the Joint Global Coordinators, the Hong Kong Underwriters and their respective agents the personal data and any information which they require about you or the person(s) for whose benefit you have made this application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- **If you are applying as an individual CCASS Investor Participant:**
 - you must fill in your name and your Hong Kong identity card number; and
 - you must insert your CCASS Participant I.D. in the appropriate box.
- **If you are applying as a joint individual CCASS Investor Participant:**
 - you must insert all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all the joint CCASS Investor Participants; and
 - you must insert your CCASS Participant I.D. in the appropriate box.
- **If you are applying as a corporate CCASS Investor Participant:**
 - you must insert your company name and your company's Hong Kong business registration number; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company name) in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we, the Selling Shareholders and the Joint Global Coordinators, as our agent, may accept it at their discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We, the Selling Shareholders, and the Joint Global Coordinators, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” an identification number for each beneficial owner.

Personal data

The section of the Application Form headed “Personal data” applies to any personal data held by the Joint Global Coordinators, the Joint Sponsors, our Company, the Selling Shareholders, the Hong Kong Underwriters, the Hong Kong Share Registrar, receiving bankers, advisors, and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

How Many Applications You Can Make

- (a) You may make more than one application for the Hong Kong Offer Shares only if you are a **nominee**, in which case you may make an application as a nominee by:
 - (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and
 - (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:
 - an account number: or
 - another identification number

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Otherwise, multiple applications are not allowed. It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or to the **White Form eIPO** Service Provider through the **White Form eIPO** Service; or
 - (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** Service, and that you are duly authorized to sign the Application Form as that other person's agent.
- (b) **All** of your applications under the Hong Kong Public Offering are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:
- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** Service (www.eipo.com.hk);
 - both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** Service (www.eipo.com.hk);
 - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** Service (www.eipo.com.hk) to apply for more than 35,971,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially being offered for subscription by the public); or
 - apply for or take up any Offer Shares under the International Placing or otherwise participate in the International Placing or indicate an interest for any International Placing Shares.
- (c) All of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the principal business of that

HOW TO APPLY FOR HONG KONG OFFER SHARES

company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

Apply Through White Form eIPO

- (a) If you are an individual and meet the criteria set out in the section headed “How to Apply for Hong Kong Offer Shares – Who Can Apply for Hong Kong Offer Shares” above, you may apply through **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO**, the Hong Kong Offer Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**.

You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.
- (f) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the section headed “How to Apply for Hong Kong Offer Shares – When to Apply for the Hong Kong Offer Shares – White Form eIPO”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on October 4, 2010, or such later time as described under the section headed “When to Apply for the Hong Kong Offer Shares – Effect of bad weather conditions on the opening of the Application Lists” the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**
- (h) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for the Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (i) Warning: The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. **Our company, our directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers and the White Form eIPO Service Provider take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “MONGOLIAN MINING CORPORATION” **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a White Application Form. See “How to Apply for Hong Kong Offer Shares – How Many Applications You Can Make”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through the **White Form eIPO** Service to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at **www.eipo.com.hk**.

How to Apply by Giving Electronic Application Instructions to HKSCC

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2/F., Vicwood Plaza
199 Des Voeux Road
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Minimum subscription amount and permitted numbers

You may give **electronic application instructions** in respect of a minimum of 500 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form.

Application for Hong Kong Offer Shares by HKSCC Nominees on Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does all the things on behalf of each of such persons who:
 - agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Shares under the International Placing;
 - (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
 - understands that the above declaration will be relied upon by our Company, the Directors, the Selling Shareholders and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- authorizes our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations and that person agrees that neither our Company, the Directors, the Selling Shareholders, the Underwriters or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- agrees that our Company, the Joint Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company, the Selling Shareholders and the Hong Kong Share Registrar, receiving bankers, advisors, agents, the Joint Global Coordinators and the Underwriters and their respective agents, the personal data and any information which they require about that person or the person(s) for whose benefit the application is made;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday) in Hong Kong, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any public offer shares to any person before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday) in Hong Kong, except by means of one of the procedures referred to in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares; and
- agrees that such person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Allocation of Hong Kong Offer Shares

For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on October 12, 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) in the manner described in “How to Apply for Hong Kong Offer Shares – Results of Allocations” in this prospectus on October 12, 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on October 12, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on October 12, 2010. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on October 12, 2010. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Warning

Application for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Selling Shareholders, the Joint Global Coordinators, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit **electronic application instructions**, they should either:

- (a) **submit the WHITE or YELLOW Application Form (as appropriate); or**
- (b) **go to HKSCC's Customer Service Centre to complete an application instruction input request form for electronic application instructions before 12:00 noon on October 4, 2010 or such later time as described in the section headed "Effect of bad weather conditions on the opening of the Application Lists" above.**

HOW TO APPLY FOR HONG KONG OFFER SHARES

Results of Allocations

The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC and the **White Form eIPO** Service Provider which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations will be available from the Stock Exchange's website at **www.hkexnews.hk**;
- Results of allocations will also be available from our website at **www.mmc.mn** and our results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on October 12, 2010 to 12:00 midnight on October 18, 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from October 12, 2010 to October 15, 2010;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from October 12, 2010 to October 14, 2010 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for Hong Kong Offer Shares – Where to Collect the Application Forms" above.

Dispatch/Collection of Share Certificates and Refund Monies

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) for applicants on **WHITE** Application Forms or by **White Form eIPO** service, (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below); and/or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (b) for applicants on **WHITE** and **YELLOW** Application Forms, refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including brokerage at the rate of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but without interest.
- (c) for applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, e-Refund payment instructions (if any) will be dispatched to the application payment bank account.
- (d) for applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, refund check(s) will be sent to the address as specified on the White Form eIPO application by ordinary post and at the applicant’s own risk.

Subject as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **WHITE** or **YELLOW** Application Forms and Share certificates for successful applicants under the **WHITE** Application Form or to the **White Form eIPO** Service Provider via the **White Form eIPO** service are expected to be posted on or about October 12, 2010. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of check(s).

(a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund check(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund check(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on October 12, 2010. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund check(s) and Share certificate(s) within the time period specified for collection, they will be dispatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply for less than 1,000,000 Hong Kong Offer Shares or, if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) (where applicable) and your Share certificates (where applicable) in person, your Share certificate(s) (where applicable) and/or refund check(s) (where applicable) will be dispatched to the address on your Application Form on or about October 12, 2010 by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on October 12, 2010, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "How to Apply for Hong Kong Offer Shares – Results of Allocations" in this prospectus on October 12, 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on October 12, 2010 or such other date as will be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on October 12, 2010, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(c) If you apply through White Form eIPO service:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your share certificate(s) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on October 12, 2010, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of e-Refund payment instructions/refund cheque(s)/share certificate(s). If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or, if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your application that you will collect your Share certificates in person, your Share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on October 12, 2010 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be dispatched to the application payment account on October 12, 2010.

If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, refund check(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on October 12, 2010, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in this section headed "Applying through White Form eIPO – Additional Information" of this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Circumstances in Which You Will Not be Allocated Hong Kong Offer Shares

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf or through the **White Form eIPO Service**), and you should read them carefully. You should note the following situations in which Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or giving an **electronic application instruction** to HKSCC or to the **White Form eIPO Service Provider** through the **White Form eIPO Service**, you agree that your application or the application made by HKSCC on your behalf is irrevocable until after the fifth day after the time of the opening of the Application Lists. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your **electronic application instruction** to the **White Form eIPO Service Provider** through the **White Form eIPO Service** or give your **electronic application instruction** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday) in Hong Kong, except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before October 11, 2010 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominee on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the Application Lists.

(c) If you make applications under the Hong Kong Public Offering as well as the International Placing:

You or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Shares in the International Placing. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** Service electronically, you agree not to apply for International Placing Shares under the International Placing. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Placing Shares, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering.

(d) If our Company, the Selling Shareholders, the Joint Global Coordinators, the White Form eIPO Service Provider or their respective agents exercise their discretion:

Our Company, the Selling Shareholders, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) Your application will be rejected or not be accepted if:

- your application is a multiple or a suspected multiple applications;
- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your electronic application instruction through the **White Form eIPO** service is not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive Offer Shares under the International Placing;
- we believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located;
- if you apply for more than 100% of the Shares available for allocation in either Pool A or Pool B Hong Kong Offer Shares; or
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with their respective terms thereof.

Refund of Application Monies

If you do not receive any Hong Kong Offer Shares for any of, but not limited to, the above reasons, our Company will refund your application monies, including brokerage, SFC transaction levy and Stock Exchange trading fee. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage, SFC transaction levy and Stock Exchange trading fee) without interest.

If the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of dispatch of refund monies will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company, the Selling Shareholders and the Joint Global Coordinators checks for applications made on Application Forms for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on October 12, 2010 in accordance with the various arrangements as described above.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Commencement of Dealings in the Shares

- Dealings in the Shares on the Stock Exchange are expected to commence on October 13, 2010.
- The Shares will be traded in board lots of 500 Shares each. The stock code of the Shares is 975.

Shares Will be Eligible For Admission Into CCASS

- If the Stock Exchange grants the listing of, and permission to deal in the Shares and our Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in the prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



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

28 September 2010

The Directors
Mongolian Mining Corporation
Citigroup Global Markets Asia Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Mongolian Mining Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2007, 2008 and 2009 and 30 April 2010, together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 28 September 2010 (the "Prospectus").

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. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.A., Energy Resources Corporation LLC, Energy Resources Road LLC and Gobi Road LLC, as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out below. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in Mongolia.

<u>Name of company</u>	<u>Financial period</u>	<u>Auditors</u>
Energy Resources LLC	Years ended 31 December 2007 and 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Itegl Audit LLC
Energy Resources Rail LLC	Period from 1 July 2008 (date of incorporation) to 31 December 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Itegl Audit LLC
Transgobi LLC	Period from 1 September 2008 (date of incorporation) to 31 December 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Itegl Audit LLC
Energy Resources Mining LLC	Period from 23 December 2008 (date of incorporation) to 31 December 2008	Ernst & Young Mongolia Audit LLC
	Year ended 31 December 2009	Itegl Audit LLC
Tavan Tolgoi Airport LLC	Period from 7 October 2009 (date of incorporation) to 31 December 2009	Itegl Audit LLC
Enrestechology LLC	Period from 25 June 2009 (date of incorporation) to 31 December 2009	Itegl Audit LLC
United Power LLC	Period from 24 June 2009 (date of incorporation) to 31 December 2009	Itegl Audit LLC
Ukhaa Khudag Water Supply LLC (formerly known as United Water LLC)	Period from 24 June 2009 (date of incorporation) to 31 December 2009	Itegl Audit LLC

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of presentation set out in Section A below and the accounting policies set out in Section C below (“Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (“IASB”), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 April 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group’s combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 April 2010.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined statement of comprehensive income, the combined statement of changes in equity and combined cash flow statement for the four months ended 30 April 2009, together with the notes thereon (the “Corresponding Financial Information”), for which the directors are responsible, 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 HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PRESENTATION

Prior to the incorporation of the Company, the business was operated by Energy Resources LLC in Mongolia. Pursuant to the Reorganisation, the Company, through the relevant investment holding companies acquired the entire equity interest in Energy Resources LLC from its then shareholders. Upon completion of the Reorganisation, which was completed on 17 September 2010, the Company became the holding company of Energy Resources LLC. The ultimate shareholders of Energy Resources LLC remain the same immediately before and after the Reorganisation.

At the date of this report, the Company had a direct or indirect interest in the following subsidiaries, which are private companies. The particulars of the subsidiaries are set out below:

Name of company	Place and date of incorporation	Issued and fully paid up capital	Equity attributable to the Company ^{Note (i)}		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong 11 June 2010	HK\$1	100%	–	Investment holding
Mongolian Coal Corporation S.A.	Luxembourg 20 July 2010	Euro31,000	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia 20 August 2010	USD100,000	–	100%	Investment holding
Energy Resources LLC	Mongolia 22 April 2005	USD26,200,370	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia 1 July 2008	MNT10,700,000,000	–	100%	Railway project management
Energy Resources Mining LLC	Mongolia 23 December 2008	USD1,000	–	100%	Mining and technical management
Transgobi LLC	Mongolia 1 September 2008	MNT9,122,641,836	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia 7 October 2009	MNT3,475,379,000	–	100%	Airport operation and management
Enrestechology LLC	Mongolia 25 June 2009	MNT3,466,163,000	–	100%	Coal plant management

Name of company	Place and date of incorporation	Issued and fully paid up capital	Equity attributable to the Company ^{Note (i)}		Principal activities
			Direct	Indirect	
Ukhaa Khudag Water Supply LLC (formerly known as United Water LLC)	Mongolia 24 June 2009	MNT1,000,000	–	100%	Water exploration and supply management
United Power LLC	Mongolia 24 June 2009	MNT3,025,219,000	–	100%	Power supply project management
Gobi Road LLC	Mongolia 24 March 2010	MNT1,000,000	–	100%	Construction of road
Energy Resources Road LLC	Mongolia 21 April 2010	MNT1,000,000	–	100%	Transportation of coal and construction of road
Public Service LLC	Mongolia 19 August 2009	MNT20,000,000	–	100%	Provision of public utility services

Notes:

- (i) *The Group's effective interest in these subsidiaries is 100% as at the respective applicable balance sheet dates of the Relevant Period, where applicable.*
- (ii) *Enrestechology LLC, Ukhaa Khudag Water Supply LLC (formerly known as United Water LLC) and United Power LLC (collectively referred to as the "Entities") were incorporated in June 2009 and were 50% held by Energy Resources Mining LLC and 50% held by Khangad Exploration LLC with an initial capital contribution of MNT1 million each upon their incorporation. The Entities did not commence any operation during the year ended 31 December 2009. In December 2009, the Group repaid Khangad Exploration LLC's share of the initial capital contribution to the Entities of MNT0.5 million each, totalling MNT1.5 million, to Khangad Exploration LLC. As the directors of the Company considered that the Entities were effectively under the Company's control, the Entities have been consolidated into the Group's combined financial information since their respective dates of incorporation.*
- (iii) *The Group acquired a 100% equity interest in Public Service LLC at a consideration of MNT20,000,000 in July 2010.*

Pursuant to the Reorganisation, the issue of shares of the Company and the relevant investment holding, through Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.A. and Energy Resources Corporation LLC, in exchange for the entire interest in Energy Resources LLC resulted in the Company becoming an indirect 100% owner of Energy Resources LLC. The Company and the relevant investment holding companies have not carried on any businesses since their respective dates of incorporation. Accordingly, there were no business combinations of the companies now comprising the Group during the Relevant Period. The Reorganisation has been accounted for by applying a principle similar to that for a reverse acquisition. The Financial Information has been prepared as a continuation of Energy Resources LLC and the assets and liabilities of Energy Resources LLC are recognised and measured at their historical carrying values prior to the Reorganisation. The Financial Information before the acquisition date consists of the consolidated financial information of Energy Resources LLC, as the predecessor reporting entity.

B COMBINED FINANCIAL INFORMATION

1 Combined Statements of Comprehensive Income

	<i>Section C</i> <i>Note</i>	Years ended 31 December			Four months ended 30 April	
		2007	2008	2009	2009	2010
		USD	USD	USD	USD	USD
						(unaudited)
Revenue	2	–	–	66,982,707	119,843	32,253,543
Cost of revenue	3	–	–	(38,682,328)	(75,764)	(20,713,052)
Gross profit		–	–	28,300,379	44,079	11,540,491
Other revenue		–	80,989	70,002	15,224	4,330
Other net (expenses)/income	4	(3,506,536)	(8,575)	(34,813)	179	–
Administrative expenses		(442,629)	(4,043,792)	(10,427,093)	(3,347,448)	(7,067,029)
(Loss)/profit from operations		(3,949,165)	(3,971,378)	17,908,475	(3,287,966)	4,477,792
Finance income	5(a)	6,629	12,856	342,318	59,460	2,808,186
Finance costs	5(a)	(30,026)	(1,139,261)	(3,860,204)	(1,565,541)	(1,045,452)
Net finance (costs)/income	5(a)	(23,397)	(1,126,405)	(3,517,886)	(1,506,081)	1,762,734
Share of profits/(losses) of associate		–	29,735	(9,702)	(3,312)	(11,449)
(Loss)/profit before taxation	5	(3,972,562)	(5,068,048)	14,380,887	(4,797,359)	6,229,077
Income tax	6	942,658	1,488,616	(4,110,723)	1,003,863	(1,217,604)
(Loss)/profit for the year/period		(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Other comprehensive income for the year/period	10					
Exchange differences on re-translation		(13,995)	(1,450,430)	30,590	434,608	2,435,841
Total comprehensive income for the year/period		<u>(3,043,899)</u>	<u>(5,029,862)</u>	<u>10,300,754</u>	<u>(3,358,888)</u>	<u>7,447,314</u>
(Loss)/profit attributable to the equity shareholders of the Company		(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Total comprehensive income attributable to the equity shareholders of the Company		<u>(3,043,899)</u>	<u>(5,029,862)</u>	<u>10,300,754</u>	<u>(3,358,888)</u>	<u>7,447,314</u>
(Loss)/earnings per share	7					
– Basic and diluted		<u>(0.10 cent)</u>	<u>(0.12 cent)</u>	<u>0.34 cent</u>	<u>(0.13 cent)</u>	<u>0.17 cent</u>

The accompanying notes form part of the Financial Information.

2 Combined Balance Sheets

	<i>Section C</i> <i>Note</i>	31 December			30 April
		2007	2008	2009	2010
		USD	USD	USD	USD
Non-current assets					
Property, plant and equipment, net	12	71,128	9,113,827	30,357,991	49,574,318
Construction in progress	13	–	15,128,658	43,985,016	53,629,692
Lease prepayments	14	–	122,393	104,816	109,568
Interest in associate	15	–	27,547	14,521	3,388
Other non-current assets	16	–	946,988	8,371,548	7,868,813
Deferred tax assets	22(b)	942,957	2,239,603	328,038	579,546
		<u>1,014,085</u>	<u>27,579,016</u>	<u>83,161,930</u>	<u>111,765,325</u>
Current assets					
Inventories	17	–	15,190	7,661,009	14,109,773
Trade and other receivables	18	1,806	4,541,146	20,036,053	15,652,034
Cash at bank and in hand	19	969,081	3,790,797	2,371,030	15,169,202
		<u>970,887</u>	<u>8,347,133</u>	<u>30,068,092</u>	<u>44,931,009</u>
Current liabilities					
Short-term borrowings and current portion of long-term borrowings	20	2,950,000	3,000,000	24,200,000	40,000,000
Trade and other payables	21	17,588	15,931,318	17,106,673	45,302,287
Current taxation	22(a)	–	–	794,999	1,815,613
		<u>2,967,588</u>	<u>18,931,318</u>	<u>42,101,672</u>	<u>87,117,900</u>
Net current liabilities		<u>(1,996,701)</u>	<u>(10,584,185)</u>	<u>(12,033,580)</u>	<u>(42,186,891)</u>
Total assets less current liabilities		<u>(982,616)</u>	<u>16,994,831</u>	<u>71,128,350</u>	<u>69,578,434</u>
Non-current liabilities					
Interest-bearing borrowings, less current portion	20	–	–	10,000,000	–
Long-term payables, less current portion	23	–	563,837	15,214,753	15,834,027
Accrued reclamation obligations	24	–	1,640,380	1,704,998	1,905,249
Deferred tax liabilities	22(b)	–	–	367,231	550,476
Total non-current liabilities		<u>–</u>	<u>2,204,217</u>	<u>27,286,982</u>	<u>18,289,752</u>
Net (liabilities)/assets		<u>(982,616)</u>	<u>14,790,614</u>	<u>43,841,368</u>	<u>51,288,682</u>
Capital and reserves					
Share capital	25	–	–	–	–
Reserves	26	(982,616)	14,790,614	43,841,368	51,288,682
Total equity attributable to equity shareholders of the Company		<u>(982,616)</u>	<u>14,790,614</u>	<u>43,841,368</u>	<u>51,288,682</u>

The accompanying notes form part of the Financial Information.

3 Combined Statements of Changes in Equity

					(Accumulated losses)/ retained earnings	Total equity
	Section C	Share capital	Share premium	Other reserve	Exchange reserve	
	Note	USD (Note 25(a))	USD (Note 26(a))	USD (Note 26(b))	USD (Note 26(c))	USD
At 1 January 2007		–	–	8,411	(42,435)	(2,912,458)
Increase in other reserve	26(b)	–	–	5,007,765	–	5,007,765
Total comprehensive income for the year		–	–	–	(13,995)	(3,029,904)
At 31 December 2007		–	–	5,016,176	(56,430)	(5,942,362)
At 1 January 2008		–	–	5,016,176	(56,430)	(5,942,362)
Increase in other reserve	26(b)	–	–	20,803,092	–	20,803,092
Total comprehensive income for the year		–	–	–	(1,450,430)	(3,579,432)
At 31 December 2008		–	–	25,819,268	(1,506,860)	(9,521,794)
At 1 January 2009		–	–	25,819,268	(1,506,860)	(9,521,794)
Increase in other reserve	26(b)	–	–	18,750,000	–	–
Total comprehensive income for the year		–	–	–	30,590	10,270,164
At 31 December 2009		–	–	44,569,268	(1,476,270)	748,370
At 1 January 2010		–	–	44,569,268	(1,476,270)	748,370
Total comprehensive income for the period		–	–	–	2,435,841	5,011,473
At 30 April 2010		–	–	44,569,268	959,571	5,759,843
<i>(unaudited)</i>						
At 1 January 2009		–	–	25,819,268	(1,506,860)	(9,521,794)
Increase in other reserve	26(b)	–	–	18,750,000	–	–
Total comprehensive income for the period		–	–	–	434,608	(3,793,496)
At 30 April 2009		–	–	44,569,268	(1,072,252)	(13,315,290)

The accompanying notes form part of the Financial Information.

4 Combined Cash Flow Statements

<i>Section C</i> <i>Note</i>	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
				(unaudited)	
Cash flows from					
operating activities					
(Loss)/profit before taxation	(3,972,562)	(5,068,048)	14,380,887	(4,797,359)	6,229,077
Adjustments for:					
Depreciation and amortisation	11,035	38,633	1,864,804	472,780	891,046
Share of (profits)/losses of associate	–	(29,735)	9,702	3,312	11,449
Loss/(gain) on disposal of property, plant and equipment	9	8,575	34,813	(179)	–
Write off of construction in progress	3,506,527	–	–	–	–
Finance costs	29,513	98,623	194,487	66,464	860,778
Changes in working capital:					
Increase in inventories	–	(15,190)	(7,645,819)	(2,328,835)	(6,448,764)
Increase in trade and other receivables	(875)	(2,770,267)	(6,996,595)	(305,575)	4,158,237
(Decrease)/increase in trade and other payables	(982,511)	15,837,501	(4,561,137)	(1,955,744)	30,274,808
Cash generated from operations	(1,408,864)	8,100,092	(2,718,858)	(8,845,136)	35,976,631
Income tax paid	–	–	(1,305,024)	–	(340,859)
Net cash (used in)/from operating activities	(1,408,864)	8,100,092	(4,023,882)	(8,845,136)	35,635,772
Investing activities					
Payments for acquisition of property, plant and equipment and construction in progress	(3,513,416)	(25,867,718)	(58,562,528)	(7,417,211)	(28,579,751)
Proceeds from disposal of property, plant and equipment	937	15,529	459,682	25,058	33
Payment for lease prepayments	–	(133,971)	–	–	–
Payments for investments	–	(197)	–	–	–
Amount due from related party	–	–	(2,300,789)	–	2,300,789
Time deposits	–	–	(2,000,000)	–	2,000,000
Interest received	566	12,856	342,318	59,460	97,007
Net cash used in investing activities	(3,511,913)	(25,973,501)	(62,061,317)	(7,332,693)	(24,181,922)

<i>Section C</i> <i>Note</i>	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Financing activities					
Proceeds from issue of shares	5,007,765	20,803,092	18,750,000	18,750,000	–
Proceeds from borrowings	2,970,184	3,611,151	53,330,597	5,500,000	19,099,995
Proceeds from customers	–	–	14,668,390	–	–
Repayment of borrowings	(2,112,670)	(3,561,151)	(22,130,597)	(3,500,000)	(13,299,995)
Interest paid	(30,026)	(144,124)	(1,934,686)	(123,495)	(2,543,345)
Net cash generated from financing activities	<u>5,835,253</u>	<u>20,708,968</u>	<u>62,683,704</u>	<u>20,626,505</u>	<u>3,256,655</u>
Net increase/(decrease) in cash and cash equivalents	914,476	2,835,559	(3,401,495)	4,448,676	14,710,505
Cash and cash equivalents at beginning of the year/period	54,658	969,081	3,790,797	3,790,797	371,030
Effect of foreign exchange rate changes	(53)	(13,843)	(18,272)	(13,078)	87,667
Cash and cash equivalents at end of the year/period	<u>969,081</u>	<u>3,790,797</u>	<u>371,030</u>	<u>8,226,395</u>	<u>15,169,202</u>

The accompanying notes form part of the Financial Information.

C NOTES TO COMBINED FINANCIAL INFORMATION**1 SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective terms includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board (“IASB”). A summary of the significant accounting policies adopted by the Company are set out below.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the Relevant Period. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Period are set out in Note 32.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries (the “Group”).

(c) Basis of measurement

The Financial Information is presented in United States Dollar (“USD”). The Financial Information is prepared on the historical cost basis.

(d) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 December 2007, 2008 and 2009 and 30 April 2010. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the 12 months after the balance sheet date, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(e) Use of estimates and judgements

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

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

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 30.

(f) Subsidiaries

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

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

(g) Associates

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

An investment in an associate is accounted for in the Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(j)(i)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year/period are recognised in profit or loss whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in other comprehensive income in the combined statements of comprehensive income.

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

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

(h) Property, plant and equipment

Property, plant and equipment, which consist of buildings, plant and equipment, motor vehicles, office equipment, mining structures and mining rights are initially stated at cost less accumulated depreciation and impairment losses (see Note 1(j)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

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

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

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

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

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

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

	<u>Depreciable life</u>
– Buildings	10-40 years
– Plant and equipment	10 years
– Motor vehicles.	5-10 years
– Office equipment	3-10 years

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

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

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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

(iii) Lease prepayments

Lease prepayments represent the costs of acquiring the land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 1(j)(ii)). Amortisation is charged to profit or loss on a straight line basis over the period of the land use rights.

(j) Impairment of assets**(i) Impairment of investments in associate and other receivables**

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For investments in associate recognised using the equity method (see Note 1(g)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(j)(ii).
- For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

(ii) Impairment of other assets

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

- property, plant and equipment
- construction in progress

- lease prepayments
- other non-current assets (excluding receivables)

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(k) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

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

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

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

(n) Trade and other payables

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

(o) Cash and cash equivalents

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

(p) Employee benefits

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

(q) Income tax

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

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

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

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

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

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

(s) Obligations for reclamation

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

(t) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(u) Translation of foreign currencies

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

(v) Borrowing costs

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

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

(w) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decision, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(x) Segment reporting

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

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

2 REVENUE

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

During the year ended 31 December 2009, the Group had four customers that individually exceeded 10% of the Group's turnover, being USD15,438,673, USD15,241,672, USD26,092,134 and USD10,208,672 respectively. During the four months ended 30 April 2010, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD13,843,308, USD9,665,788 and USD8,457,397 respectively. During the four months ended 30 April 2009 (unaudited), the Group had one customer that individually exceeded 10% of the Group's turnover, being USD119,843.

3 COST OF REVENUE

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Mining costs	–	–	24,500,450	45,434	15,214,990
Transportation costs	–	–	7,999,950	26,267	2,471,390
Others	–	–	6,181,928	4,063	3,026,672
	–	–	38,682,328	75,764	20,713,052

4 OTHER NET EXPENSES/(INCOME)

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
Net loss/(gain) on disposal of property, plant and equipment	9	8,575	34,813	(179)	–
Write off of construction in progress (<i>Note 13</i>)	3,506,527	–	–	–	–
	<u>3,506,536</u>	<u>8,575</u>	<u>34,813</u>	<u>(179)</u>	<u>–</u>

5 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance (income)/costs:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
				(unaudited)	
Interest income	(566)	(12,856)	(342,318)	(59,460)	(97,007)
Foreign exchange gain, net	(6,063)	–	–	–	(2,711,179)
Finance income	<u>(6,629)</u>	<u>(12,856)</u>	<u>(342,318)</u>	<u>(59,460)</u>	<u>(2,808,186)</u>
Interest on bank and other borrowings	30,026	144,124	1,934,686	123,495	2,543,345
Unwinding interest on – Other long-term payables	–	38,645	70,585	22,581	26,300
– Accrued reclamation obligations	–	58,991	264,605	90,265	108,747
Less: Interest expense capitalised	–	(144,124)	(1,751,343)	(123,495)	(1,632,940)
Net interest expense	<u>30,026</u>	<u>97,636</u>	<u>518,533</u>	<u>112,846</u>	<u>1,045,452</u>
Foreign exchange loss, net	–	1,041,625	3,341,671	1,452,695	–
Finance costs	<u>30,026</u>	<u>1,139,261</u>	<u>3,860,204</u>	<u>1,565,541</u>	<u>1,045,452</u>
Net finance costs/(income)	<u>23,397</u>	<u>1,126,405</u>	<u>3,517,886</u>	<u>1,506,081</u>	<u>(1,762,734)</u>

* *Borrowing costs have been capitalised at a rate of 5%, 4% and 13% per annum for the years ended 31 December 2008 and 2009 and for the four months ended 30 April 2010 respectively.*

(b) Staff costs:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
				(unaudited)	
Salaries, wages, bonuses and benefits	66,609	354,939	2,849,398	349,236	2,360,742
Retirement scheme contributions	8,523	23,890	191,786	23,506	158,896
	<u>75,132</u>	<u>378,829</u>	<u>3,041,184</u>	<u>372,742</u>	<u>2,519,638</u>

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes ("the Schemes") organised by the Government of Mongolia whereby the Group is required to make contributions to the Schemes at a rate of 7%-13.5% 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:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
				(unaudited)	
Depreciation and amortisation	11,035	38,633	1,864,804	472,780	891,046
Operating lease charges:					
minimum lease payments					
– hire of plant and machinery.	–	–	1,135,288	–	366,423
– hire of other assets (including property rentals)	30,068	75,284	307,760	61,330	369,905
	<u>30,068</u>	<u>75,284</u>	<u>1,443,048</u>	<u>61,330</u>	<u>736,328</u>
Auditors' remuneration					
– audit services	4,999	27,846	90,323	–	–
Cost of inventories [#]	–	–	38,682,328	75,764	18,074,053
	<u>–</u>	<u>–</u>	<u>38,682,328</u>	<u>75,764</u>	<u>18,074,053</u>

[#] Cost of inventories includes Nil, Nil, USD3,729,971, USD11,659 and USD2,571,402 for the years ended 31 December 2007, 2008 and 2009 and for the four months ended 30 April 2009 (unaudited) and 2010 respectively, relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses.

6 INCOME TAX

(a) Income tax in the combined statements of comprehensive income represents:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
				(unaudited)	
Current tax					
Provision for the year/period					
– Mongolian Enterprise Income Tax					
<i>(Note 22(a))</i>	–	–	2,100,023	–	1,285,341
Deferred tax					
Origination and reversal of temporary difference <i>(Note 22(b))</i>	(942,658)	(1,488,616)	2,010,700	(1,003,863)	(67,737)
	<u>(942,658)</u>	<u>(1,488,616)</u>	<u>4,110,723</u>	<u>(1,003,863)</u>	<u>1,217,604</u>

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

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
				(unaudited)	
(Loss)/profit before income tax	<u>(3,972,562)</u>	<u>(5,068,048)</u>	<u>14,380,887</u>	<u>(4,797,359)</u>	<u>6,229,077</u>
Notional tax on (loss)/profit before taxation	(993,141)	(1,267,012)	2,990,330	(1,200,440)	1,360,876
Tax effect of non-deductible items <i>(Note (iii))</i>	51,179	292,445	1,134,672	195,202	399,185
Tax effect of non-taxable items <i>(Note (iii))</i>	(696)	(616,529)	(83,199)	(329)	(735,097)
Tax loss not recognised	–	102,480	68,920	1,704	192,640
Actual tax expenses	<u>(942,658)</u>	<u>(1,488,616)</u>	<u>4,110,723</u>	<u>(1,003,863)</u>	<u>1,217,604</u>

Note:

- (i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT 3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010.
- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the Relevant Period.
- (iii) Non-deductible items and non-taxable items mainly represent the unrealised exchange losses and gains during the Relevant Period, respectively.

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to equity shareholders of the Company for each of the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 and the 3,000 million ordinary shares in issue pursuant to the Reorganisation as if these shares were outstanding throughout the entire Relevant Period.

The Company did not have any potential dilutive shares throughout the entire Relevant Period. Accordingly, diluted earnings per share is the same as basic earnings per share.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed is as follows:

	Year ended 31 December 2007			
	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
<i>Executive directors</i>				
Odjargal Jambaljamts (Chairman)	–	–	–	–
Battsengel Gotov	–	–	–	–
<i>Non-executive directors</i>				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo.	–	–	–	–
Enkh-Amgalan Luvsantseren	–	–	–	–
Badamtsetseg Dash-Ulzii.	–	–	–	–
Oyungerel Janchiv.	–	–	–	–
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	–	–	–	–
<i>Independent non-executive directors</i>				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	–	–	–	–
Year ended 31 December 2008				
	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
	<i>Executive directors</i>			
Odjargal Jambaljamts (Chairman)	14,985	–	–	14,985
Battsengel Gotov	21,518	12,962	2,498	36,978
<i>Non-executive directors</i>				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo.	–	–	–	–
Enkh-Amgalan Luvsantseren	–	–	–	–
Badamtsetseg Dash-Ulzii.	–	–	–	–
Oyungerel Janchiv.	9,990	–	–	9,990
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	9,990	–	–	9,990
<i>Independent non-executive directors</i>				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	56,483	12,962	2,498	71,943

Year ended 31 December 2009

	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
<i>Executive directors</i>				
Odjargal Jambaljamts (Chairman)	12,186	–	521	12,707
Battsengel Gotov	65,459	39,976	7,640	113,075
<i>Non-executive directors</i>				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo.	–	–	–	–
Enkh-Amgalan Luvsantseren	51,035	20,844	4,847	76,726
Badamtsetseg Dash-Ulzii.	–	–	–	–
Oyungerel Janchiv.	4,995	–	–	4,995
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	4,995	–	–	4,995
<i>Independent non-executive directors</i>				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	<u>138,670</u>	<u>60,820</u>	<u>13,008</u>	<u>212,498</u>

Four months ended 30 April 2009 (unaudited)

	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
<i>Executive directors</i>				
Odjargal Jambaljamts (Chairman)	555	–	–	555
Battsengel Gotov	18,094	13,154	2,264	33,512
<i>Non-executive directors</i>				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo.	–	–	–	–
Enkh-Amgalan Luvsantseren	10,605	6,897	1,228	18,730
Badamtsetseg Dash-Ulzii.	–	–	–	–
Oyungerel Janchiv.	555	–	–	555
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	555	–	–	555
<i>Independent non-executive directors</i>				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	<u>30,364</u>	<u>20,051</u>	<u>3,492</u>	<u>53,907</u>

Four months ended 30 April 2010

	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	USD	USD	USD	USD
<i>Executive directors</i>				
Odjargal Jambaljamts (Chairman)	46,899	30,434	5,443	82,776
Battsengel Gotov	27,519	31,624	4,286	63,429
<i>Non-executive directors</i>				
Gantumur Lingov	–	–	–	–
Enkhtuvshin Gombo.	–	–	–	–
Enkh-Amgalan Luvsantseren	15,996	27,531	2,950	46,477
Badamtsetseg Dash-Ulzii.	–	–	–	–
Oyungerel Janchiv.	2,220	–	–	2,220
Philip Hubert ter Woort	–	–	–	–
Batsaikhan Purev	2,220	–	–	2,220
<i>Independent non-executive directors</i>				
Ochirbat Punsalmaa	–	–	–	–
Unenbat Jigjid	–	–	–	–
Chan Tze Ching, Ignatius	–	–	–	–
Total	<u>94,854</u>	<u>89,589</u>	<u>12,679</u>	<u>197,122</u>

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period. Philip Hubert ter Woort waived all his emoluments during the Relevant Period.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals for the years ended 31 December 2007, 2008 and 2009 and for the four months ended 30 April 2009 (unaudited) and 2010 are set forth below:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009 (unaudited)	2010
Directors	–	2	2	1	2
Non-directors	5	3	3	4	3
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

The emoluments of the directors are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD (unaudited)	USD
Basic salaries, allowances and benefits in kind	37,868	63,256	189,489	69,725	61,789
Discretionary bonuses	–	22,302	63,439	25,801	99,300
Retirement scheme contributions	5,049	6,200	17,605	6,842	11,190
	<u>42,917</u>	<u>91,758</u>	<u>270,533</u>	<u>102,368</u>	<u>172,279</u>

The emoluments of the individuals with the highest emoluments are within the following band:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
				USD (unaudited)	
Nil to HKD 1,000,000.	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period.

10 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2007, 2008 and 2009 and for the four months ended 30 April 2010.

11 SEGMENT REPORTING

For the years ended 31 December, 2007, 2008 and 2009 and for the four months ended 30 April 2010, the Group had one business segment, the production, marketing and sales of coal in Mongolia. Accordingly, no business and geographical segment information are presented.

12 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings	Plant and equipment	Motor vehicles	Office equipment	Mining structures and mining rights	Total
	USD	USD	USD	USD	USD	USD
<i>Cost:</i>						
At 1 January 2007	–	–	65,529	21,382	–	86,911
Additions	–	–	–	6,889	–	6,889
Disposals	–	–	–	(946)	–	(946)
Exchange adjustments	–	–	(278)	(89)	–	(367)
At 31 December 2007	–	–	65,251	27,236	–	92,487
At 1 January 2008	–	–	65,251	27,236	–	92,487
Additions	357,664	47,302	8,294,018	312,599	887,488	9,899,071
Disposals	(12,094)	–	–	(17,062)	–	(29,156)
Exchange adjustments	(27,719)	(3,794)	(670,302)	(25,802)	(71,187)	(798,804)
At 31 December 2008	317,851	43,508	7,688,967	296,971	816,301	9,163,598
At 1 January 2009	317,851	43,508	7,688,967	296,971	816,301	9,163,598
Additions	1,355,058	1,666,420	2,703,258	1,246,387	1,040,773	8,011,896
Transfer from construction in progress	2,214,682	–	–	–	14,536,946	16,751,628
Disposals	(20,203)	(168,344)	(246,873)	(79,224)	–	(514,644)
Exchange adjustments	(47,382)	(8,983)	(940,403)	(38,968)	(137,630)	(1,173,366)
At 31 December 2009	3,820,006	1,532,601	9,204,949	1,425,166	16,256,390	32,239,112
At 1 January 2010	3,820,006	1,532,601	9,204,949	1,425,166	16,256,390	32,239,112
Additions	261,600	279,290	254,244	748,117	4,083,926	5,627,177
Transfer from construction in progress	11,956,751	–	–	–	328,739	12,285,490
Disposals	–	–	–	(701)	–	(701)
Exchange adjustments	653,392	89,049	481,551	101,071	998,857	2,323,920
At 30 April 2010	16,691,749	1,900,940	9,940,744	2,273,653	21,667,912	52,474,998
<i>Accumulated amortisation and depreciation:</i>						
At 1 January 2007	–	–	8,737	1,627	–	10,364
Charge for the year	–	–	6,523	4,512	–	11,035
Exchange adjustments	–	–	(35)	(5)	–	(40)
At 31 December 2007	–	–	15,225	6,134	–	21,359
At 1 January 2008	–	–	15,225	6,134	–	21,359
Charge for the year	6,444	389	17,337	13,558	–	37,728
Written back on disposals	(245)	–	–	(4,807)	–	(5,052)
Exchange adjustments	(497)	(31)	(2,562)	(1,174)	–	(4,264)
At 31 December 2008	5,702	358	30,000	13,711	–	49,771
At 1 January 2009	5,702	358	30,000	13,711	–	49,771
Charge for the year	109,144	73,530	1,467,277	114,945	97,197	1,862,093
Written back on disposals	(609)	(2,096)	(13,077)	(4,367)	–	(20,149)
Exchange adjustments	(961)	(220)	(7,234)	(1,939)	(240)	(10,594)
At 31 December 2009	113,276	71,572	1,476,966	122,350	96,957	1,881,121
At 1 January 2010	113,276	71,572	1,476,966	122,350	96,957	1,881,121
Charge for the period	134,817	62,900	528,636	122,000	42,092	890,445
Written back on disposals	–	–	–	(668)	–	(668)
Exchange adjustments	10,858	6,025	95,533	10,818	6,548	129,782
At 30 April 2010	258,951	140,497	2,101,135	254,500	145,597	2,900,680
<i>Carrying amount:</i>						
At 31 December 2007	–	–	50,026	21,102	–	71,128
At 31 December 2008	312,149	43,150	7,658,967	283,260	816,301	9,113,827
At 31 December 2009	3,706,730	1,461,029	7,727,983	1,302,816	16,159,433	30,357,991
At 30 April 2010	16,432,798	1,760,443	7,839,609	2,019,153	21,522,315	49,574,318

- (a) All the Group's property, plant and equipment are located in Mongolia.
- (b) As at 31 December 2009 and 30 April 2010, certain of the Group's short-term interest-bearing borrowings were secured by the Group's motor vehicles and buildings with net book value of USD5,026,121 and USD7,304,837 respectively (see Note 20).
- (c) Mining structures and mining rights at 31 December 2007, 2008 and 2009 and 30 April 2010 include deferred stripping costs of Nil, Nil, USD1,040,773 and USD5,328,288, respectively.

13 CONSTRUCTION IN PROGRESS

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
At 1 January	–	–	15,128,658	43,985,016
Additions	3,506,527	16,447,985	47,522,302	19,407,917
Write off (Note 4)	(3,506,527)	–	–	–
Transferred to property, plant and equipment	–	–	(16,751,628)	(12,285,490)
Exchange adjustments	–	(1,319,327)	(1,914,316)	2,522,249
At 31 December/30 April	–	15,128,658	43,985,016	53,629,692

The construction in progress as at 31 December 2007, 2008 and 2009 and 30 April 2010 are mainly related to power plants and mining related machinery and equipment.

In February 2007, the Parliament of Mongolia declared that the six mining licenses originally held by the Group as a “mineral deposit of strategic importance” under the 2006 Minerals Law. Subsequent to February 2007, the Group entered into various discussions with the Government of Mongolia and concluded that the capitalised drilling and exploration expenditures in relation to the six mining licenses would no longer bring future economic benefits to the Group. Accordingly, the Group wrote off US\$3.5 million, the carrying amount of the relevant capitalized drilling and exploration expenditures to profit and loss in 2007.

14 LEASE PREPAYMENTS

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
<i>Cost:</i>				
Balance at the beginning of the year/period	–	–	123,225	108,251
Additions	–	133,971	–	–
Exchange adjustments	–	(10,746)	(14,974)	5,552
Balance at the end of the year/period. . .	–	123,225	108,251	113,803
<i>Accumulated amortisation:</i>				
Balance at the beginning of the year/period	–	–	832	3,435
Charge for the year/period.	–	905	2,711	601
Exchange adjustments	–	(73)	(108)	199
Balance at the end of the year/period. . .	–	832	3,435	4,235
Net book value:	–	122,393	104,816	109,568

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

15 INTEREST IN ASSOCIATE

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Share of net assets.	–	27,547	14,521	3,388

On 15 July 2008, the Group invested in Coal Road LLC (the “Associate”) and had 25% interest in the Associate, an entity incorporated in Mongolia with issued and paid up capital of USD864. The principal activities of the Associate are road construction, maintenance and traffic management.

16 OTHER NON-CURRENT ASSETS

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Prepayments in connection with construction work, equipment purchases and others	–	946,988	8,263,196	7,820,330
Others	–	–	108,352	48,483
	–	946,988	8,371,548	7,868,813

The prepayments in connection with construction work, equipment purchases and others as at 31 December 2008, 2009 and 30 April 2010 are mainly related to power plants and railway project.

17 INVENTORIES

(a) Inventories in the combined balance sheets comprise:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Coal	–	–	6,918,360	13,297,498
Materials and supplies	–	15,190	742,649	812,275
	–	15,190	7,661,009	14,109,773

As at 31 December 2009 and 30 April 2010, the Group’s long-term interest-bearing borrowings were secured by the Group’s coal inventory (see Note 20).

18 TRADE AND OTHER RECEIVABLES

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Trade receivables (Note (a)).	–	–	8,502,157	1,302,391
Other receivables (Note (b)).	1,806	4,541,146	11,533,896	14,349,643
	1,806	4,541,146	20,036,053	15,652,034

As at 31 December 2007, 2008 and 2009 and 30 April 2010, all of the trade and other receivables are expected to be recovered within one year.

(a) Ageing analysis

Included on trade and other receivables are trade receivables, which represent the amount due from the Group's major customers. Trade receivables are due from the date of billing. As at 31 December 2009 and 30 April 2010, all of the trade receivables are past due but not impaired as there has not been any significant change in credit quality of the trade receivables. Further details on the Group's credit policy are set out in Note 27(b).

(b) Other receivables

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Amounts due from related parties				
<i>(Note (i))</i>	–	–	3,038,127	104,599
Security deposit <i>(Note (ii))</i>	–	1,000,000	1,000,000	–
Prepayments	–	1,474,767	958,485	4,216,975
Value-added tax (“VAT”) receivables				
<i>(Note (iii))</i>	–	1,711,762	5,738,084	9,716,085
Payment on behalf of the customers .	–	134,232	489,038	84,476
Others <i>(Note (iv))</i>	1,806	220,385	310,162	227,508
	1,806	4,541,146	11,533,896	14,349,643
	1,806	4,541,146	11,533,896	14,349,643

Notes:

- (i) At 31 December 2009, amounts due from related parties mainly represent loan to MCS Holding LLC amounting to USD2.3 million, at an interest rate of 2% per month and with repayment period of three months and the remaining balances represent other current accounts with related parties (see Note 29(a)).
- (ii) This represents the security deposit paid to the mining contractor.
- (iii) VAT receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Government of Mongolia Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.
- (iv) Others mainly represent mainly advances to staff/receivable from staff.

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

19 CASH AT BANK AND IN HAND

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Cash in hand	6,060	4,211	39,111	23,906
Cash at bank	963,021	3,786,586	2,331,919	15,145,296
Cash at bank and in hand	969,081	3,790,797	2,371,030	15,169,202
Less: time deposits with original maturity over three months	–	–	(2,000,000)	–
Cash and cash equivalents in the combined cash flow statements	969,081	3,790,797	371,030	15,169,202
	969,081	3,790,797	371,030	15,169,202

20 BORROWINGS

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

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Bank loan (secured)	–	–	30,000,000	30,000,000
Less: Current portion of long-term borrowings	–	–	20,000,000	30,000,000
	–	–	10,000,000	–
	<u>–</u>	<u>–</u>	<u>10,000,000</u>	<u>–</u>

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

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Bank loans				
– Secured	–	–	1,200,000	8,000,000
– Unsecured	–	–	1,000,000	–
Other borrowings				
– Related party (Note 29(a))	2,950,000	–	–	–
– Third parties	–	3,000,000	2,000,000	2,000,000
Current portion of long-term borrowings				
– Bank loan	–	–	20,000,000	30,000,000
	2,950,000	3,000,000	24,200,000	40,000,000
	<u>2,950,000</u>	<u>3,000,000</u>	<u>24,200,000</u>	<u>40,000,000</u>

At 31 December 2009 and 30 April 2010, the Group's long-term interest-bearing borrowings bear interest of 6 months London Interbank Offered Rate +8%~9% and were secured by the Group's coal inventory (see Note 17).

At 31 December 2009 and 30 April 2010, certain of the Group's short-term interest-bearing borrowings were secured by certain of the Group's property, plant and equipment (see Note 12).

At 31 December 2009 and 30 April 2010, the short-term bank loans bear interest rate of 12.4%~13.2% and 12%~14% per annum, respectively.

The other borrowings as at 31 December 2007 bear interest rate of 18% per annum. The other borrowings as at 31 December 2008 bear interest rate of 12% per annum. The other borrowings as at 31 December 2009 and 30 April 2010 bear interest of 6 months London Interbank Offered Rate +1%.

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

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Within 1 year or on demand	–	–	20,000,000	30,000,000
After 1 year but within 2 years	–	–	10,000,000	–
	–	–	30,000,000	30,000,000
	<u>–</u>	<u>–</u>	<u>30,000,000</u>	<u>30,000,000</u>

21 TRADE AND OTHER PAYABLES

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Trade payables (<i>Note (i)</i>)	–	41,349	1,622,798	6,311,381
Receipt in advance (<i>Note (ii)</i>)	–	14,615,269	8,537,178	31,397,126
Amounts due to related parties (<i>Note (iii)</i>)	7,450	1,100,512	2,052,326	2,245,409
Payables for purchase of equipment	–	–	4,162,332	3,145,420
Current portion of payables for acquisition of mining rights	–	–	–	225,000
Others (<i>Note (iv)</i>)	10,138	174,188	732,039	1,977,951
	<u>17,588</u>	<u>15,931,318</u>	<u>17,106,673</u>	<u>45,302,287</u>

Notes:

- (i) As at 31 December 2008 and 2009 and 30 April 2010, all trade payables are due and payable on presentation or within one month.
- (ii) Receipts in advance represent advances from third party customers, in relation to the terms set out in sales agreements.
- (iii) Amounts due to related parties represent management service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 29(a)).
- (iv) Others represent accrued expenses, payables for staff related costs, royalty fees 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.

22 INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Tax payable in the combined balance sheets represents:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
At the beginning of the year/period	–	–	–	794,999
Provision for the year/period (<i>Note 6(a)</i>)	–	–	2,100,023	1,285,341
Income tax paid	–	–	(1,305,024)	(340,859)
Exchange adjustments	–	–	–	76,132
At the end of the year/period	<u>–</u>	<u>–</u>	<u>794,999</u>	<u>1,815,613</u>

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

	Tax losses	Unrealised profits on intra-group transactions	Depreciation and amortisation	Total
	USD	USD	USD	USD
Deferred tax arising from:				
At 1 January 2007	–	–	–	–
Credited/(charged) to profit or loss (Note 6(a))	942,658	–	–	942,658
Exchange adjustments	299	–	–	299
At 31 December 2007	<u>942,957</u>	<u>–</u>	<u>–</u>	<u>942,957</u>
At 1 January 2008	942,957	–	–	942,957
Credited/(charged) to profit or loss (Note 6(a))	1,488,209	–	407	1,488,616
Exchange adjustments	(191,938)	–	(32)	(191,970)
At 31 December 2008	<u>2,239,228</u>	<u>–</u>	<u>375</u>	<u>2,239,603</u>
At 1 January 2009	2,239,228	–	375	2,239,603
Credited/(charged) to profit or loss (Note 6(a))	(1,971,611)	177,947	(217,036)	(2,010,700)
Exchange adjustments	(267,617)	(439)	(40)	(268,096)
At 31 December 2009	<u>–</u>	<u>177,508</u>	<u>(216,701)</u>	<u>(39,193)</u>
At 1 January 2010	–	177,508	(216,701)	(39,193)
Credit/(charged) to profit or loss (Note 6(a))	–	171,792	(104,055)	67,737
Exchange adjustments	–	15,534	(15,008)	526
At 30 April 2010	<u>–</u>	<u>364,834</u>	<u>(335,764)</u>	<u>29,070</u>
		31 December		30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Net deferred tax assets recognised on the balance sheet	942,957	2,239,603	328,038	579,546
Net deferred tax liability recognised on the balance sheet	–	–	(367,231)	(550,476)
	<u>942,957</u>	<u>2,239,603</u>	<u>(39,193)</u>	<u>29,070</u>

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD377,040, USD605,026 and USD1,435,464 as at 31 December 2008 and 2009 and 30 April 2010 respectively as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in two years after the tax losses generated under current tax legislation.

23 LONG-TERM PAYABLES

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Receipt in advance from a customer (Note i)	–	–	14,658,194	15,399,356
Payable for mining right (Note ii)	–	563,837	556,559	434,671
	–	563,837	15,214,753	15,834,027

Notes:

- (i) Receipt in advance represented an advance payment made by an independent third party customer in relation to a long term sales contract with this customer within a ten-year period starting from 2009. The balance represented non-current portion of advance payment made by this customer.
- (ii) In September 2008, the Group entered into an agreement with respective Government agency of Mongolia to reimburse it in relation to the exploration expenditures incurred by the Government of Mongolia at the UHG deposit prior to the registration of the UHG mining license. Pursuant to the agreement, the payable for mining right will be settled annually within a five-year period starting from 2009.

24 ACCRUED RECLAMATION OBLIGATIONS

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. At the balance sheet dates, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2009 and 30 April 2010 are adequate and appropriate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
At the beginning of the year/period	–	–	1,640,380	1,704,998
Additions	–	1,581,390	–	–
Accretion expense	–	58,991	264,605	108,747
Exchange adjustments	–	(1)	(199,987)	91,504
At the end of the year/period	–	1,640,380	1,704,998	1,905,249

25 SHARE CAPITAL

(a) Share capital

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 shares of USD0.01 each.

For the purpose of the report, the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries, was included in other reserve during the Relevant Period (Note 26(b)).

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

26 RESERVES

(a) Share premium

The application of the share premium is governed by the Companies Law. Under the Companies Law, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(b) Other reserve

Other reserve as at the respective balance sheet dates included the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of investments in subsidiaries (Note 25(a)).

Increases in other reserve during the Relevant Period represent the subscription of share capital by the then shareholders of Energy Resources LLC (2007: 4,446 ordinary shares; 2008: 12,430,729 ordinary shares; 2009: 655,010 ordinary shares; four months ended 30 April 2009: 655,010 ordinary shares; four months ended 30 April 2010: Nil).

(c) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the companies now comprising the Group. The reserve is dealt with in accordance with the accounting policy set out in Note 1(u).

(d) Distributable reserves

The Company was incorporated on 18 May 2010 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to the equity shareholders at 31 December 2007, 2008 and 2009 and 30 April 2010.

27 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

- (i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and
- (ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

Given the Group's major customers are reputable and with sound repayment ability, the credit risks of trade receivables are considered low. The Group closely monitors the amount due from related parties. The receivable amount is expected to be settled in a short period. At 31 December 2007, 2008 and 2009 and 30 April 2010, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 18.

(c) Foreign currency exchange risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. The currencies giving rise to this risk are primarily USD and RMB.

(i) Sensitivity analysis

An 5% strengthening/weakening of MNT against USD as at the respective balance sheet dates would (decrease)/increase profit after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Profit for the year/period				
5% increase in MNT	102,823	697,026	1,746,941	1,038,794
5% decrease in MNT	(102,823)	(697,026)	(1,746,941)	(1,038,794)

(d) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings and long-term borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

At 31 December 2007, 2008 and 2009 and 30 April 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately Nil, Nil, USD240,000 and USD80,000 respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax that would arise assuming that the change in interest rates had occurred at the combined balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(e) Liquidity risk

The Group's net current liabilities amounted to USD1,996,701, USD10,584,185, USD12,033,580 and USD42,186,891 as at 31 December 2007, 2008 and 2009 and 30 April 2010 respectively. The Group recorded a net cash (outflow)/inflow from operating activities of USD1,408,864 (outflow), USD8,100,092, USD4,023,882 (outflow) and USD35,635,772 for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 respectively. For the same periods, the Group had a net cash outflow to investing activities of USD3,511,913, USD25,973,501, USD62,061,317 and USD24,181,922 respectively. The Group also recorded a net cash inflow from financing activities of USD5,835,253, USD20,708,968, USD62,683,704 and USD3,256,655 respectively. The Group had an increase/(decrease) in cash and cash equivalents of USD914,476, USD2,835,559, USD3,401,495 (decrease) and USD14,710,505 respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and on its ability to obtain external financing, to meet its committed future capital expenditures.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the 12 months after the balance sheet date. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2007					
	Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
USD	USD	USD	USD	USD	USD	
Borrowings (Note 20).	3,038,725	–	–	–	3,038,725	2,950,000
Trade and other payables (Note 21) .	12,588	5,000	–	–	17,588	17,588
	<u>3,051,313</u>	<u>5,000</u>	<u>–</u>	<u>–</u>	<u>3,056,313</u>	<u>2,967,588</u>
	2008					
	Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
USD	USD	USD	USD	USD	USD	
Borrowings (Note 20).	3,206,000	–	–	–	3,206,000	3,000,000
Trade and other payables (Note 21) .	15,926,573	4,745	–	–	15,931,318	15,931,318
Long-term payables (Note 23)	225,000	225,000	450,000	–	900,000	563,837
	<u>19,357,573</u>	<u>229,745</u>	<u>450,000</u>	<u>–</u>	<u>20,037,318</u>	<u>19,495,155</u>
	2009					
	Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
USD	USD	USD	USD	USD	USD	
Borrowings (Note 20).	26,167,703	10,309,229	–	–	36,476,932	34,200,000
Trade and other payables (Note 21) .	17,071,358	35,315	–	–	17,106,673	17,106,673
Long-term payables (Note 23)	450,000	225,000	225,000	14,648,194	15,548,194	15,214,753
	<u>43,689,061</u>	<u>10,569,544</u>	<u>225,000</u>	<u>14,648,194</u>	<u>69,131,799</u>	<u>66,521,426</u>

	30 April 2010					
	Contractual undiscounted cash outflow					
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	After 5 years	Total contractual undiscounted cash flow	Balance sheet carrying amount
	USD	USD	USD	USD	USD	USD
Borrowings (Note 20).	42,664,284	–	–	–	42,664,284	40,000,000
Trade and other payables (Note 21) .	45,302,287	–	–	–	45,302,287	45,302,287
Long-term payables (Note 23)	–	225,000	15,098,879	–	15,323,879	15,834,027
	<u>87,966,571</u>	<u>225,000</u>	<u>15,098,879</u>	<u>–</u>	<u>103,290,450</u>	<u>101,136,314</u>

(f) Fair values

The Group has no financial instruments measured at fair value during the Relevant Period.

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.

The aggregate fair values of other financial liabilities carried on the combined balance sheets are not materially different from their fair values as at 31 December 2007, 2008 and 2009 and 30 April 2010.

The fair values of borrowings have been determined by discounting the relevant cash flows using current interest rates for similar instruments at the respective balance sheet dates.

28 COMMITMENTS**(a) Capital commitments**

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

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Contracted for	–	9,693,372	81,096,544	61,539,721
Authorised but not contracted for	–	139,127	–	177,751,976
	<u>–</u>	<u>9,832,499</u>	<u>81,096,544</u>	<u>239,291,697</u>

(b) Operating lease commitments

(i) At respective balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Within 1 year.	30,560	94,005	890,161	1,080,218
After 1 year but within 5 years.	–	10,862	1,061,431	971,967
	<u>30,560</u>	<u>104,867</u>	<u>1,951,592</u>	<u>2,052,185</u>

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

(c) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 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 legislation, the directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonable at present and which could be material.

29 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 Relevant Period. During the Relevant Period, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
MCS Holding ("MCS").	Shareholder
Energy Resources Investment LLC ("ERI")	Shareholder
Officenet LLC ("Officenet").	Subsidiary of MCS
MCS Property LLC ("MCS Property")	Subsidiary of MCS
MCS Electronics LLC ("MCS Electronics")	Subsidiary of MCS
Anun LLC ("Anun")	Subsidiary of MCS

Particulars of significant transactions between the Group and the above related parties during the Relevant Period are as follows:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
				(unaudited)	
Interest income (<i>Note (i)</i>)	–	–	72,522	–	40,372
Interest expenses (<i>Note (ii)</i>)	29,989	24,812	157,762	41,000	–
Ancillary services (<i>Note (iii)</i>)	3,130	1,790,932	5,284,905	713,130	2,348,067
Purchase of goods (<i>Note (iv)</i>)	–	129,962	829,630	55,617	13,559
Lease of property, plant and equipment (<i>Note (v)</i>)	5,880	24,444	1,446,472	347	68,793
Loans provided to/(repayment from) related parties (<i>Note (vi)</i>)	–	–	2,306,480	–	(2,306,480)
Loans received from/(repayment to) related parties (<i>Note (vii)</i>)	2,950,000	(2,950,000)	–	–	–
Purchase of equipment and construction work (<i>Note (viii)</i>)	1,954,762	2,737,196	11,672,642	44,505	2,142,264

- (i) Interest income represents interest earned from loan to MCS. The applicable interest rate is 2% per month.
- (ii) Interest expense represents interest incurred in respect of borrowings from MCS and ERI. The applicable interest rates are ranging from 18% to 24% per annum.
- (iii) Ancillary services represent expenditures for support services such as consultancy, cleaning and canteen expense paid to Officenet, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, were applicable.

- (iv) Purchase of goods represents concrete purchased from MCS Property, MCS and its affiliates. The goods are purchased at comparable or prevailing market prices, where applicable.
- (v) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from MCS Electronics, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.
- (vi) The Group provides loans to MCS and MCS Electronics (Note 18(b)).
- (vii) The Group obtains loans from MCS and ERI (Note 20).
- (viii) Purchase of equipment and construction work represents expenditure related to equipment and construction service provided by MCS Electronics, Anun, MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.

Loans provided to and from related parties are fully recovered and repaid before 30 April 2010.

Except for the loans provided to and from the related parties and its corresponding interest income and expenses which were terminated before 30 April 2010, the above related party transactions are recurring after the listing of the Company on the Stock Exchange.

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

Amounts due from/to related parties

	31 December			30 April
	2007	2008	2009	2010
	USD	USD	USD	USD
Other receivables (Note 18(b)(i))	–	–	3,038,127	104,599
Total amounts due from related parties . . .	–	–	3,038,127	104,599
Borrowings (Note 20(b))	2,950,000	–	–	–
Other accruals and payables (Note 21(iii)) . .	7,450	1,100,512	2,052,326	2,245,409
Total amounts due to related parties	2,957,450	1,100,512	2,052,326	2,245,409

(b) Key management personnel remuneration

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

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 8, and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Years ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	USD	USD	USD	USD	USD
Salaries and other emoluments	47,686	278,426	786,013	197,213	412,952
Discretionary bonus	–	35,263	223,008	73,382	398,309
Retirement scheme contributions	6,358	16,795	69,860	19,206	57,017
	54,044	330,484	1,078,881	289,801	868,278

30 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Reserves

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

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

(b) Useful lives of property, plant and equipment

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

(c) Impairment of assets

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

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

(d) Obligation for reclamation

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

(e) Recognition of deferred tax assets

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

31 ULTIMATE CONTROLLING PARTY

As at 30 April 2010, the directors consider the ultimate controlling party of the Group to be MCS Holding LLC, which was incorporated in Mongolia. This entity does not produce financial statements available for public use.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON 1 JANUARY 2010

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information.

	Effective for accounting periods beginning on or after
Amendments to IAS 32, "Financial instruments: Presentation – Classification of rights issues"	1 February 2010
IFRIC 19, "Extinguishing financial liabilities with equity instruments"	1 July 2010
IAS 24 (revised), "Related party disclosures"	1 January 2011
Amendments to IFRIC 14, IAS 19 – "The limit on a defined benefit assets, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement".	1 January 2011
IFRS 9, "Financial instruments"	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 April 2010:

1 Reorganisation

On 17 September 2010, the Group completed the Reorganisation so as to rationalise the Group's structure in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Corporate reorganisation" in Appendix VII to the Prospectus and Section A above. As a result of the Reorganisation, the Company became the holding company of the Group.

2 Valuation of properties

For the purpose of the listing of the Company's shares on the Main Board of the Stock Exchange, the properties of the Group were valued at 30 June 2010 by American Appraisal China Limited. In accordance with the accounting policy of the Group, the valuation difference was not taken up in its financial statements.

3 Share option scheme

Pursuant to the shareholders' resolutions passed on 17 September 2010, the Company has conditionally adopted the Share Option Scheme. The summary of terms of the Share Option Scheme is set out in the section headed "Share Option Scheme" in Appendix VII to the Prospectus.

E BALANCE SHEET OF THE COMPANY

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 divided into 5,000,000 shares of a nominal value of USD0.01 each. The Company has not carried out any business other than investment holding since the date of its incorporation.

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 30 April 2010.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide prospective investors with further information on (i) how the proposed listing might have affected the financial position of the Group after completion of the Global Offering; (ii) how the proposed listing might have affected the unaudited pro forma forecast earnings per Share for the year ending December 31, 2010.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of the Group during the Track Record Period or any future date or period.

The information set forth in this appendix does not form part of the Accountants' Report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is prepared based on the combined net assets of the Group as at April 30, 2010, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Adjusted combined net tangible assets attributable to the equity shareholders of the Company as at April 30, 2010 ⁽¹⁾	Add: Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the Company	Unaudited pro forma adjusted combined net tangible assets per Share ⁽³⁾	
	US\$ 000	US\$ 000	US\$ 000	US\$	HK\$
Based on an Offer Price of HK\$6.48 per Offer Share . . .	51,289	477,239	528,528	0.15	1.14
Based on an Offer Price of HK\$7.56 per Offer Share . . .	51,289	557,812	609,101	0.17	1.31

Notes:

- (1) *The adjusted combined net tangible assets attributable to the equity shareholders of the Company as at April 30, 2010 represented the combined net assets attributable to the equity shareholders of the Company which were extracted from the Accountants' Report as set out in Appendix I to this prospectus.*
- (2) *The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$6.48 and HK\$7.56 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of any Shares which may be issued pursuant to any exercise of Over-allotment Option or the Share Option Scheme.*
- (3) *The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 3,597,122,500 Shares are in issue assuming that the Global Offering has been completed on April 30, 2010. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Share Option Scheme.*
- (4) *The Group's property interests as at June 30, 2010 have been valued by American Appraisal China Limited, an independent property valuer, the relevant property valuation report is set out in Appendix IV to this prospectus, "Property Valuation". The revaluation surplus or deficit of these properties was not incorporated in the Group's combined financial information for the four months ended April 30, 2010 and will not be included in the Group's financial information for the year ending December 31, 2010. The above adjustments do not take into account the revaluation surplus attributable to the Group arising from the revaluation of the Group's property interests amounting to approximately US\$7.9 million. If the revaluation surplus was recorded in the Group's financial statements, additional annual depreciation and amortisation of approximately US\$0.2 million would be charged against profit for the year ending December 31, 2010.*
- (5) *No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to April 30, 2010.*
- (6) *The unaudited pro forma adjusted combined net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of US\$1.00=HK\$7.7637. No representation is made that the U.S. dollar amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate.*

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share of the Group for the year ending December 31, 2010 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2010. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Group for the year ending December 31, 2010 or any future period following the completion of the Global Offering.

Forecast combined profit attributable to the equity shareholders of the Company for the year ending December 31, 2010 ⁽¹⁾⁽²⁾not less than US\$60 million (equivalent to approximately HK\$466 million)
Unaudited pro forma forecast earnings per Share ⁽³⁾US\$0.017 (equivalent to approximately HK\$0.132)

Notes:

- (1) *The bases and assumptions on which the above profit forecast for the year ending December 31, 2010 have been prepared are summarized in Appendix III to this prospectus.*
- (2) *The forecast combined profit attributable to the equity shareholders of the Company for the year ending December 31, 2010 prepared by the Directors is based on, in the absence of unforeseen circumstances, the combined financial information of the Group for the four months ended April 30, 2010 as set out in the Accountants' Report in Appendix I to this prospectus, the unaudited combined results of the Group for the two months ended June 30, 2010 and a forecast of the combined results of the Group for the remaining six months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 1 of section C of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.*
- (3) *The calculation of the forecast earnings per Share on a pro forma basis is based on the forecast combined profit attributable to the equity shareholders of the Company for the year ending December 31, 2010 assuming the Global Offering had been completed on January 1, 2010 and a total of 3,597,122,500 Shares were in issue during the entire year. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Share Option Scheme.*
- (4) *For the purpose of this unaudited pro forma forecast earnings per Share, the translation of U.S. dollars into Hong Kong dollars was made at an exchange rate of US\$1.00=HK\$7.7637.*

C. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in connection with the unaudited financial information of the Group.



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

28 September 2010

The Directors
Mongolian Mining Corporation

Dear Sirs

We report on the unaudited pro forma financial information (the “Pro Forma Financial Information”) of Mongolian Mining Corporation (the “Company”) and its subsidiaries (the “Group”) set out on pages II-1 to II-3 in Appendix II to the prospectus dated 28 September 2010 (the “Prospectus”), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the share offer might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in Parts (A) and (B) on pages II-1 to II-3 in Appendix II to the Prospectus.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 April 2010 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2010 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described under “Use of Proceeds” set out in the Prospectus.

OPINION

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

The forecast of the combined profit attributable to the equity shareholders of the Company for the year ending December 31, 2010 is set out in the subsection headed “Profit Forecast for the Year Ending December 31, 2010” under the section headed “Financial Information” in this prospectus.

(A) BASES AND ASSUMPTIONS

The forecast of the combined profit attributable to the equity shareholders of the Company for the year ending December 31, 2010 prepared by the directors is based on the audited combined results of the Group for the four months ended April 30, 2010, the unaudited combined results of the Group for the two months ended June 30, 2010 and a forecast of the combined results of the Group for the remaining six months ending December 31, 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarized in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus, and has been prepared on the following principal bases and assumptions:

- There will be no material changes in the existing political, legal, fiscal, market or economic conditions in the jurisdiction in which our Group currently operates or which are otherwise material to our business;
- There will be no changes in legislation, regulations or rules in the jurisdiction in which our Group operates or with which our Group has arrangements or agreements, which may materially adversely affect our Group’s business or operations;
- There will be no material changes in inflation rates, interest rates or foreign exchange rates from those currently prevailing in the context of our Group’s operations;
- We will not be materially and adversely affected by any of the risk factors set out in the section headed “Risk Factors” in this prospectus; and
- There will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies in the jurisdiction in which our Group operates.

(B) LETTER FROM OUR REPORTING ACCOUNTANTS ON THE PROFIT FORECAST

The following is the text of the letter received by the directors from our reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus in connection with the profit forecast for the year ending December 31, 2010.



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

28 September 2010

The Directors
Mongolian Mining Corporation
Citigroup Global Markets Asia Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the combined profit attributable to equity shareholders of Mongolian Mining Corporation ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ending 31 December 2010 ("the Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed "Financial Information" in the prospectus of the Company dated 28 September 2010 ("the Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the audited combined results of the Group for the four months ended 30 April 2010, the unaudited combined results of the Group for the two months ended 30 June 2010 and a forecast of the combined results of the Group for the remaining six months ending 31 December 2010.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants' Report dated 28 September 2010, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

(C) LETTER FROM OUR JOINT SPONSORS

The following is the text of a letter, prepared for inclusion in this prospectus, received by the Directors from Citigroup Global Markets Asia Limited and J.P. Morgan Securities (Asia Pacific) Limited, the Joint Sponsors, in connection with the forecast of the combined profit attributable to the equity shareholders of the Company for the year ending December 31, 2010.

**J.P.Morgan**

The Directors
Mongolian Mining Corporation

September 28, 2010

Dear Sirs,

We refer to the forecast combined profit attributable to the equity shareholders of Mongolian Mining Corporation (the "Company", together with its subsidiaries, the "Group") for the year ending December 31, 2010 (the "Profit Forecast") as set out in the prospectus issued by the Company dated September 28, 2010 (the "Prospectus").

The Profit Forecast, for which the directors of the Company (the "Directors") are solely responsible, has been prepared by the Directors based on the audited combined results of the Group for the four months ended April 30, 2010, unaudited combined results of the Group prepared by its management for the two months ended June 30, 2010, and a forecast of the combined results of the Group for the remaining six months ending December 31, 2010.

We have discussed with you the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated September 28, 2010 addressed to yourselves and ourselves from KPMG, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Citigroup Global Markets Asia Limited

Edward Lam
Managing Director

For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited

David Lau
Executive Director

The following is the text of a letter, summary of values and valuation certificates, prepared for inclusion in this prospectus, received from American Appraisal China Limited, an independent valuer, in connection with their valuations as at June 30, 2010, of the property interests of the Group.

American Appraisal China Limited
1506 / Dah Sing Financial Centre
108 Gloucester Road / Wanchai / Hong Kong
美國評值有限公司
香港灣仔告士打道108號大新金融中心1506室
Tel +852 2511 5200 / Fax +852 2511 9626



September 28, 2010
The Board of Directors
Mongolian Mining Corporation

Dear Sirs,

In accordance with your instructions we have valued the property interests of Mongolian Mining Corporation (hereinafter referred to as “the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) in Mongolia. We confirm that we have conducted investigation for the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such property interests as of June 30, 2010 (“the date of valuation”).

This letter that forms part of our valuation report clarifies our assumptions made, title investigation of the properties and the limiting conditions.

PROPERTY APPRAISED

According to the instructions of the Company, our valuation includes real estate properties, comprising land, buildings, and land improvements, belonging to and/or leased by the Group.

The properties are located in Mongolia. They are mostly industrial facilities purpose built and used for mining and transportation of coal. Brief descriptions of the properties are provided in the valuation certificates in *Exhibit B*. The property values are summarized in *Exhibit A* hereto.

Our valuations were limited to the scope described above.

BASIS OF VALUATION

Our valuation is our opinion of the market value of the property which is defined by International Valuation Standards (IVS¹) and the HKIS Valuation Standards on Properties (HKIS²) as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtained in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value³. The value of a property is also estimated without regard to costs of sales and purchase, and without offset for any associated taxes.

VALUATION METHODOLOGY

The properties are mainly purpose-built industrial facilities located in remote area. They are operated according to their highest and best use with limited if any alternative use. Upon consideration of all relevant facts it was concluded that the properties subject to valuations are specialized properties.

The market approach may not be used to value specialized property due to the fact that active market for it does not exist. As required by IVS, depreciated replacement cost approach is used where there is insufficient market data to arrive at market value by means of market-based evidence³.

Depreciated replacement cost is defined by IVS⁴ as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.”

IVS requires that for a private sector entity with specialized assets, the Valuer reports the result at market value subject to a test of adequate profitability or justified service potential, a test which is the responsibility of the entity⁵. The profitability test has been carried out based on the information provided by the Group.

For a private sector entity with specialized assets, a valuation assessed by depreciated replacement cost must be subject to a test of profitability in relation to the whole of the assets held by the entity or the cash-generating unit.

1 IVS: 8th Edition, 2007. *Concepts Fundamental to Generally Accepted Valuation Principles*, para. 5.2

2 The HKIS Valuation Standards on Properties, 1st Edition 2005

3 IVS: IVG Note #8, para. 4.1

4 IVS: 8th Edition, 2007. 3.0 Definitions. Par. 3.1

5 IVS: IVG Note #8, para. 5.12.1 and IVS: IVG Note #8 Appendix A.4

In testing profitability the impact that current economical conditions may potentially have on the Company's operations, financial performance, expectations of financial performance or financial conditions is considered. Such impact was assessed with the use of financial models which make use projections of operating activities and financial performance of the Company provided by the Management. Profitability test indicated no economic obsolescence for the Group.

We have attributed no commercial value to leased and rented land plots, as these land plots are restricted from transfer to third parties without the approval from local authorities, and substantial profit rent is lacking.

ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the property interests on the market in their existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation. Unless stated as otherwise, our opinion of value is established on the premise of continued use. It is assumed that the buyer and seller would be contemplating retention of the property at its present location as part of the current operations.

The profitability test for the specialized assets relied on the models and projections prepared by the Group as well as financial reporting in accordance with IFRS.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have valued property interest on the assumption that it is developed in accordance with the development proposals or building plans given to us. We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the site are held by the owners or permitted to be occupied by the owner.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation certificates. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificates.

Other special assumptions and qualifications for each property, if any, have been stated in the footnotes of the valuation certificate for the respective property.

TITLE INVESTIGATION

We have been provided with extracts of documents in relation to the title of the property interests for the appraised entities. However, we have not scrutinized the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the Company and the opinion provided by Mongolian legal advisor, ELC-Economic & Legal Consultancy LLC (hereafter referred to as “ELC” and the “Mongolian legal opinion”).

All legal documents disclosed in this letter and valuation certificates are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificates.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, construction cost, site and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificates are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services for the properties, nor have we undertaken archaeological, ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred.

COMPLIANCE

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, International Valuation Standards (8th Edition 2007) published by International Valuation Standards Committee and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

REMARKS

Unless otherwise stated, all monetary amounts stated in this report are in United States Dollar (USD). The exchange rate adopted in our valuations as of June 30, 2010 being 1 USD = 1,368.65 MNT.

We enclose herewith the summary of values and the valuation certificates.

Yours Faithfully,
For and on behalf of

American Appraisal China Limited

Eric M. H. Poon
MRICS, MHKIS
Assistant Vice President

Alexander N. Lopatnikov
MRICS, RSA
Managing Director

Note: Mr. Eric Poon, who is a Chartered Valuation Surveyor, has over 10 years experience in valuation of properties in Hong Kong, the PRC and overseas including Mongolia.

Mr. Alexander Lopatnikov, who is a Chartered Valuation Surveyor, has over 9 years experience in valuation of properties in Mongolia and over 10 years experience in valuation of properties in Russia and overseas.

Our valuation of the property interests in Mongolia is supported by American Appraisal (AAR), Inc.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Group in Mongolia

<u>No.</u>	<u>Property</u>	Capital value in existing state as at June 30, 2010
		<i>(USD)</i>
1.	Land, various buildings and structures located in Nomgon bag of Khanbogd soum/ Tsogttsetsii soum/Dalanzadgad soum/ 6 kilometers from the center of the soum behind the Tsagaan Ovoo mountain on the territory of Tsogttsetsii soum, Umnugobi province, Mongolia, held by ER LLC and its subsidiaries	32,807,000
2.	An apartment located at Sukhbaatar District, 7th Housing Committee, 11th Microdistrict, Apartment #7, Door No. 196, Ulaanbaatar, Mongolia, held by ER LLC	68,000
	Sub-total:	32,875,000

Group II – Property interests rented and occupied by the Group in Mongolia

3.	Office premises on the 8th & 14th-16th Floors of Central Tower, 2 Sukhbaatar Square, SBD-8 Ulaanbaatar, Mongolia, held by MCS Holding LLC	No commercial value
4.	Office premises, located at 3 Khoroo, MCS Anun Centre, Khan-Uul District, Ulaanbaatar, Mongolia, held by United Power LLC	No commercial value
	Sub-total:	No commercial value
	Grand-Total:	32,875,000

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in Mongolia

No.	Property	Description	Particulars of occupancy	Capital value in existing state as at June 30, 2010 (USD)																																																																					
1.	Land, various buildings and structures located in Nomgon bag of Khanbogd soum/ Tsogttsetsii soum/ Dalanzadgad soum/ 6 kilometers from the center of the soum behind the Tsagaan Ovoo mountain on the territory of Tsogttsetsii soum, Umnugobi province, Mongolia, held by ER LLC and its subsidiaries	<p>The property comprises 11 parcels of land with a total site area of approximately 13,399.5 hectares, together with industrial buildings, structures and auxiliary facilities with a total gross floor area (GFA) of approximately 15,162.13 sq.m. The buildings were mainly completed between 2008 and 2010 (the “Completed Buildings”).</p> <p>The property also comprises buildings and structures under construction. As at the date of valuation, there were 2 buildings, with a total gross floor area of approximately 14,229.46 sq.m. and a 10kV electrical transmission line under construction (the “CIP Buildings”). As advised by the Company, a total construction cost of Tugrug 67,397,011,953 has been incurred as at the date of valuation. They are scheduled to be completed within 2010.</p> <p>The property floor areas are summarized as follows:</p> <table style="margin-left: 40px;"> <tr> <td colspan="2">Completed Buildings:</td> <td style="text-align: right;">GFA</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(sq.m.)</td> </tr> <tr> <td>2-storey main camp building</td> <td></td> <td style="text-align: right;">9,040.00</td> </tr> <tr> <td>1-storey garage</td> <td></td> <td style="text-align: right;">836.20</td> </tr> <tr> <td>1-storey boiler house</td> <td></td> <td style="text-align: right;">588.00</td> </tr> <tr> <td>1-storey sewage treatment plant</td> <td></td> <td style="text-align: right;">180.20</td> </tr> <tr> <td>1-storey generator house</td> <td></td> <td style="text-align: right;">78.00</td> </tr> <tr> <td>1-storey Workshop for Heavy Truck</td> <td></td> <td style="text-align: right;">2,577.60</td> </tr> <tr> <td>2-storey airport terminal building</td> <td></td> <td style="text-align: right;">324.00</td> </tr> <tr> <td>Mine Temporary Office</td> <td></td> <td style="text-align: right;">733.80</td> </tr> <tr> <td>1-storey Workshop for Coal Track</td> <td></td> <td style="text-align: right;">804.33</td> </tr> <tr> <td>Total:</td> <td></td> <td style="text-align: right;">15,162.13</td> </tr> </table> <table style="margin-left: 40px;"> <tr> <td colspan="2">Completed Structures:</td> <td style="text-align: right;">Bounded Area</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(sq.m.)</td> </tr> <tr> <td>Customs Bonded Yard</td> <td></td> <td style="text-align: right;">99,975.00</td> </tr> <tr> <td>Air strip</td> <td></td> <td style="text-align: right;">81,029.76</td> </tr> <tr> <td>Total:</td> <td></td> <td style="text-align: right;">181,004.76</td> </tr> </table> <table style="margin-left: 40px;"> <tr> <td colspan="2">CIP Works:</td> <td style="text-align: right;">GFA</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(sq.m.)</td> </tr> <tr> <td>5-storey coal handling preparation plant (wash plant)</td> <td></td> <td style="text-align: right;">8,580.00</td> </tr> <tr> <td>4-storey Power Plant – 12MW</td> <td></td> <td style="text-align: right;">5,649.46</td> </tr> <tr> <td>10kV Electrical Transmission Line</td> <td></td> <td style="text-align: right;">–</td> </tr> <tr> <td>Total:</td> <td></td> <td style="text-align: right;">14,229.46</td> </tr> </table>	Completed Buildings:		GFA			(sq.m.)	2-storey main camp building		9,040.00	1-storey garage		836.20	1-storey boiler house		588.00	1-storey sewage treatment plant		180.20	1-storey generator house		78.00	1-storey Workshop for Heavy Truck		2,577.60	2-storey airport terminal building		324.00	Mine Temporary Office		733.80	1-storey Workshop for Coal Track		804.33	Total:		15,162.13	Completed Structures:		Bounded Area			(sq.m.)	Customs Bonded Yard		99,975.00	Air strip		81,029.76	Total:		181,004.76	CIP Works:		GFA			(sq.m.)	5-storey coal handling preparation plant (wash plant)		8,580.00	4-storey Power Plant – 12MW		5,649.46	10kV Electrical Transmission Line		–	Total:		14,229.46	The property was occupied by the Group as office, workshop, warehouse and other auxiliary facilities.	32,807,000
Completed Buildings:		GFA																																																																							
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Notes:

1. Pursuant to 11 Certificates of Title of Land Possession by Business Entity and Organizations Nos. #0203104, #0203103, #0203102, #0173666, #0203101, #0173540, #0173536, #0173591, #0173625, #0203112 and #0173628, 11 land parcels with a total site area of approximately 13,399.5 hectares were leased from the municipality with lease terms range from 10 to 60 years at an earliest expiry date on March 2020 at a total annual rent of MNT 190,203,445.

The salient details of the land parcels are as follows:

Land Parcels No.	Land Use	Site Area (hectares)	Land Use Term (years)	Certificate No. of title of business entity to land tenure
1.	Mining facilities	811.20	60	#0203104
2.	Mining site	834.70	60	#0203103
3.	Mining site reserve	1,510.60	60	#0203102
4.	Customs control area for loading and unloading exported coal	10.00	15	#0173666
5.	Site construction	600.00	10	#0203101
6.	Miners camp	10.00	60	#0173540
7.	Airport	115.00	40	#0173536
8.	Railway	6,740.00	60	#0173591
9.	Building a water supply pipeline and a water reservoir	134.00	60	#0173625
10.	Power line for water supply facilities	184.00	40	#0203112
11.	Construction and maintenance of hard paved road from Ukhaa Khudag mine to inland border port of Gashuun Sukhait	2,450.00	10	#0173628
Total:		13,399.50		

2. We have attributed no commercial value to the above leased land parcels with a total site area of approximately 13,399.5 hectares as the land possession rights of these land parcels can only be transferred and mortgaged upon the approval by the local authorities who issued the Land Possession Certificate.
3. According to 7 Certificates of State Registration of Immovable Property Ownership Rights Nos. #94576, #94579, #94575, #94577, #94580, #94578 and #876145, 7 buildings, including sewage treatment plant, boiler house, main camp building, garage, generator house, workshop for heavy truck, and airport terminal building, with total gross floor area of about 13,624.0 sq.m. and a land improvement (air strip) with bounded area of 81,029.76 sq.m. ("Completed Buildings" and "Completed Structures") are held by the Group.
4. Pursuant to two Certificates of State Registration of Immovable Property Ownership Rights Nos. #94230 and #94231, the buildings of a coal handling preparation plant and a power plant buildings ("CIP Buildings") with a total gross floor area of approximately 14,229.46 sq.m. are held by the Group.
5. We have attributed no commercial value to 1 temporary mine office building with a gross floor area of approximately 733.8 sq.m. and to a 1-storey workshop and coal track with a gross floor area of approximately 804.3 sq.m. under (the "Completed Buildings") due to insufficient title proof to these buildings and auxiliary facilities. We are of the opinion that the depreciated replacement cost of these buildings and auxiliary facilities as at the valuation date would be USD1,077,000 assuming all relevant title certificates have been obtained and registered by the Group and the Group has legal rights to occupy, lease, mortgage and transfer these buildings.
6. We were informed that the Group also operates 300 container huts. According to Mongolian legislation they are not registered as real estate properties and therefore were excluded from valuation.

7. *The Mongolian legal opinion states, inter alia, that:*
- a. *The Group leases 11 land plots with a site area of 13,399.5 hectares.*
 - b. *7 Completed Buildings including sewage treatment plant, boiler house, main camp building, garage, generator house, workshop for heavy truck, and airport terminal building with a gross floor area of 13,624.0 sq.m. an airstrip and customs bonded yard as mentioned in Note No. 3 and 2 CIP Buildings with a total gross floor area of 14,229.46 sq.m. as mentioned in Note No. 4 are legally vested in the ER LLC. All buildings and structures erected on the land parcels can be freely transferred to any third parties separately with the land parcels in the open market.*
 - c. *No Certificate of State registration of Immovable Property Ownership Rights issued for 1 Completed mine temporary office Building with a total floor area of 733.8 sq.m. and to 1 Completed 1-storey workshop and coal track with a gross floor area of 804.3 sq.m. as mentioned in Note No. 5.*
 - d. *The property is not subject to any type of encumbrances as at the date of the opinion, e.g. bank mortgage, etc.*
 - e. *All titles related to the property are clear and in good condition. No disputes found on the property. The current use of the property is legally valid and complies with all relevant laws and regulations of Mongolia.*
 - f. *We are of opinion that ER LLC has the right to occupy and use all the land parcels and buildings and structures. The land possession rights of the property can be transferred and mortgaged upon the approval by the local authorities who issued the Land Possession Certificates. All buildings and/or structures erected on the land parcels can be freely transferred to any third parties separately with the land parcels in the open market.*
 - g. *The property is genuine, while the land parcels are used in full conformity with local related laws and regulations obtaining all necessary licences and permits to conduct activities specified in the Certificate of Title of Land Possession by Business Entity and Organization issued by Head of the Land Division, Umnugobi province, Mongolia.*
 - h. *The construction of mining site process is being conducted in full conformity with the Law on Minerals, Law on Environment Protection of Mongolia and its compliance is controlled by Minerals Authority of Mongolia, State Specialized Inspection Agency and the Ministry of Trade and Industry. Based on monitoring results by these state organizations, United Power LLC, an ER LLC Resources LLC – Branch Company obtained a permit to commence earth works for construction of foundation of the power plant building from Professional Monitoring Agency of Mongolia on November 2, 2009. Moreover, on December 22, 2009, the Energy Regulatory Authority issued the license to construct the 12 MW Power Plant to the United Power LLC by the Regulators Council Resolution #59;*
 - i. *Buildings and structures are erected on Land Parcels Nos. 1, 4, 6 and 7. The Company has the legal right to freely transfer these buildings and structures separately with the land parcels according to the Article 5.1 of the Agreement on Land Lease to Individuals and Legal Entities made on March 10, 2010 as follows “5.1. Article 110.1 of the Civil Code of Mongolia will be applied if the property ownership rights of an immoveable property built on the land leased to the Lessee are transferred to other parties”.*
 - j. *ER LLC holds Mining License #11952A. The Mining License #11952A was issued to ER LLC on January 23, 2007 by the Mineral Resource, Petroleum Authority of Mongolia for a duration of 30 years. On May 28, 2008 the coordinates of the mining area have been changed and the total area increased from 1010 hectares to 2962 hectares which was recorded on the same day in the Mining License #11952A.*

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Capital value in existing state as at June 30, 2010 (USD)
2.	An Apartment located at Sukhbaatar District, 7th Housing Committee, 11th Microdistrict, Apartment #7, Door No. 196, Ulaanbaatar, Mongolia held by ER LLC	The property comprises an apartment with a gross floor area of approximately 40 sq.m. located at Ulaanbaatar. It was completed in about 1980s.	The property is occupied by the Group as an apartment.	68,000

Notes:

1. Pursuant to the Certificate of State Registration of Immovable Property Ownership Rights No. #000061463 dated September 16, 2008, the property with a gross floor area of 40 sq.m. is owned by ER LLC.
2. The Mongolian legal opinion states, inter alia, that:
 - a. The current use of the property is legally valid and complies with all relevant laws and regulations of Mongolia.
 - b. ER LLC has mortgaged the apartment for one of its employees, and the apartment is still held as a pledge for a long-term mortgage, therefore, the ownership certificate is issued to ER LLC. Upon the completion of the payment, the owner certificate will be transferred to its owner.
 - c. All titles related to the property are clear.
 - d. No disputes found involved with the concerned property stated above.
 - e. Legal validity of the property is in good condition.

VALUATION CERTIFICATE

Group II – Property interests rented and occupied by the Group in Mongolia

No.	Property	Description	Particulars of occupancy	Capital value in existing state as at June 30, 2010 (USD)
3.	Office premises on the 8th & 14th-16th Floors of Central Tower, 2 Sukhbaatar Square, SBD-8 Ulaanbaatar, Mongolia, held by MCS Holding LLC	<p>The property comprises office facility of a multi-story office building completed in 2009.</p> <p>The property has a total lettable area of approximately 6,861 sq.m.</p> <p>The property was leased by the Group for a term of 3 years commencing on May 7, 2009.</p>	The property is occupied by the Group as its headquarter office.	No commercial value

Notes:

1. Pursuant to a lease agreement entered into between Shangri-La Ulaanbaatar LLC (the “lessor”) and MCS Holding LLC (the “lessee”), the office facility with a total lettable area of approximately 6,861 sq.m. was rented by the lessee for a term of 3 years commencing from May 7, 2009 to May 6, 2012 at a current monthly rent of USD 30.50 per sq.m. of lettable area for office purpose.
2. The Mongolian legal opinion states, inter alia, that:
 - a. The ER LLC has 6 shareholders and the MCS Holding LLC is one of them. The lease agreement as mentioned in note 1, was entered between Shangrilla Ulaanbaatar LLC (the “Lessor”) and MCS Holding LLC (the “Lessee”) on May 6, 2009. Therefore, ER LLC possesses the legal and valid agreement to use and occupy the subject property. There are no any legal reasons to reject the validity of the lease agreement. However, no sub-tenancy agreement was made between ER LLC and MCS Holding LLC. Based on the arrangement mentioned in the Annex of the lease agreement made between Shangrilla Ulaanbaatar LLC and MCS Holding LLC on May 7, 2009, ER LLC is allocated an area of 1,034.67 sq.m. for lease.
 - b. The tenancy agreement as mentioned in note 1 is valid and enforceable in compliance with the laws and regulations of Mongolia.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Capital value in existing state as at June 30, 2010 (USD)
4.	Office premises located at 3 Khoroo, MCS Anun Centre, Khan-Uul District, Ulaanbaatar, Mongolia, held by United Power LLC	<p>The property comprises office facility completed in about 2000s*.</p> <p>The property has a floor area of approximately 86.58 sq.m.</p> <p>The property was leased by the Group for a term of 11 months commencing on February 15, 2010 with an option to extend for 1 more year. MNT1,588,743 per month exclusive of VAT. This rent includes MNT68 for 1kbt electricity, MNT18,241 for 1gkal heating, MNT640 for 1m³ pure water, MNT330 for polluted water, MNT470,000 for 1 security person. The Lessee shall be responsible for electricity costs to be used for the equipment and tools of the Lessee. Payment for electricity shall be based on the meter and tariff approved by Government authority.</p>	The property is occupied by the Group as office.	No commercial value

Notes:

1. *Pursuant to a lease contract and an amendment to the lease contract entered into between MCS Property LLC (the "Lessor") and United Power LLC (the "Lessee") dated April 2, 2010 and May 3, 2010 respectively, the office facility with a floor area of 86.58 sq.m. was rented by the Tenant for a term of 11 months commencing from February 15, 2010 to December 31, 2010. MNT1,588,743 per month exclusive of VAT, this rent includes MNT68 for 1kbt electricity, MNT18,241 for 1gkal heating, MNT640 for 1m³ pure water, MNT330 for polluted water, MNT470,000 for 1 security person. The Lessee shall be responsible for electricity costs to be used for the equipment and tools of the Lessee. Payment for electricity shall be based on the meter and tariff approved by Government authority.*
2. *The Mongolian legal opinion states, inter alia, that:*
 - a. *The rental agreement is legally valid and enforceable.*
 - b. *The current use of the property is legally valid and complies with all relevant laws and regulations of Mongolia.*

UHG COAL PROJECT

SOUTH GOBI, MONGOLIA

INDEPENDENT TECHNICAL REPORT

Submitted to:

MONGOLIAN MINING CORPORATION (MMC)

Published Date: September 28, 2010

Norwest Corporation

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Author:

ALISTER D. HORN

NORWEST
CORPORATION



September 28, 2010

File No.4755

To: The Directors
Mongolian Mining Corporation
Central Tower (15th Floor)
2 Sukhbaatar Square, SBD-8
Ulaanbaatar 210620a
Mongolia

Citigroup Global Markets Asia Limited
50th Floor,
Citibank Plaza, 3 Garden Road,
Central, Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road
Central, Hong Kong

Subject: Cover Letter to UHG Independent Technical Report Stating Resources and Reserves

Dear Sirs:

This report summarizes the Norwest Corporation's (Norwest) findings of an updated feasibility level study to determine coal resources and reserves at the Ukhuaa Khudag (UHG) Mine, located within the Tavan Tolgoi coal formation in the South Gobi province of Mongolia. Norwest understands that this report will be used as the basis of the efforts of Mongolian Mining Corporation (MMC) to place an Initial Public Offering (IPO) with the Hong Kong Exchange (HKEx).

The Independent Technical Report (ITR) "*UHG Coal Project, South Gobi, Mongolia, Independent Technical Report*", currently dated September 28, 2010, is a summary of updated feasibility level study performed on the project. In conducting this work, Norwest has relied upon information gathered through various exploration programs, some of which Norwest was directly involved with. Norwest has also relied upon its prior experience and knowledge of the Project through its work with MMC on compiling a bankable-feasibility level study report in 2009. In addition, Norwest has relied, in part, on work performed by other parties contracted to MMC to work on the UHG Project. In addition, Norwest Competent Persons have both made personal, current, inspections of the project site and have gathered relevant data. Finally, MMC has provided data used in the estimate of resources and reserves. Norwest has not been hindered in any way on gathering the data and information required for its satisfactory completion of this ITR.

Resource and reserve estimates included in this ITR were prepared in accordance with standards set forth by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).

Yours sincerely,

NORWEST CORPORATION

A handwritten signature in black ink, appearing to read "Alister Horn", written over a horizontal line.

Alister Horn
Project Manager

Enclosures: None

TABLE OF CONTENTS

1. INTRODUCTION AND EXECUTIVE SUMMARY	V-11
1.1 SUMMARY OF UHG PROJECT	V-11
1.2 SUMMARY OF GEOLOGY, RESOURCES AND RESERVES	V-12
1.2.1 Geologic Setting	V-12
1.2.2 Coal Resources	V-13
1.2.3 Coal Reserves	V-14
1.2.4 Potential for Defining Additional Mineral Resources and Reserves	V-15
1.3 SUMMARY OF COAL QUALITY	V-16
1.4 PRODUCTION SCHEDULE SUMMARY	V-16
1.5 SUMMARY OF COAL HANDLING AND PREPARATION PLANT FACILITIES	V-17
1.6 TRANSPORTATION	V-17
1.7 PROJECT OPERATING AND CAPITAL COSTS	V-18
1.8 EFFECTIVE DATE OF REPORT	V-19
2. QUALIFICATIONS OF NORWEST	V-19
3. DISCLAIMER	V-20
3.1 DISCLAIMING STATEMENT	V-20
4. PROPERTY DESCRIPTION	V-20
4.1 DESCRIPTION AND LOCATION	V-20
4.2 UHG PROJECT DESCRIPTION	V-21
4.3 ACCESS & INFRASTRUCTURE	V-22
4.3.1 General Access	V-22
4.3.2 Airstrip	V-22
4.3.3 Ger Camp	V-22
4.3.4 Mine Camp	V-23
4.3.5 Water Distribution	V-23
4.3.6 Power Supply & Distribution	V-23
4.4 CLIMATE & PHYSIOGRAPHY	V-24
4.4.1 Climate	V-24
4.4.2 Topography	V-24
4.5 HISTORY	V-25
4.5.1 Regional History	V-25
4.5.2 Project Involvement: Leighton Asia, Ltd.	V-25
4.5.3 Project Involvement: Norwest	V-25
4.6 PROJECT CONSULTANTS	V-26

5. GEOLOGY AND DATABASE	V-27
5.1 GEOLOGY OF THE UHG DEPOSIT	V-27
5.1.1 Geologic Setting	V-27
5.1.2 UHG Geologic Structure	V-30
5.1.3 Coal Seam Stratigraphy	V-30
5.2 GEOLOGICAL DATABASE	V-36
5.2.1 Exploration History	V-36
5.2.2 Sampling, Sample Preparation, and Quality Analysis	V-36
5.2.3 Geologic Modeling and Methodology	V-37
5.3 ADDITIONAL ASH MODELING	V-37
6. RESOURCE AND RESERVE ESTIMATES	V-38
6.1 RESOURCES AND RESERVE CLASSIFICATION SYSTEM	V-38
6.1.1 General Procedure and Parameters for Resource Estimation	V-38
6.2 COAL RESOURCES STATEMENT	V-38
6.3 PRODUCT QUALITY	V-40
6.3.1 Saleable Products	V-40
6.3.2 Fluid and Plastic Properties of UHG Coking Coal	V-43
6.3.3 Blending for Product Quality	V-50
6.4 ESTIMATE OF RESERVES	V-52
6.4.1 Procedure and Parameters for Reserve Estimation	V-52
6.4.2 Reserves Statement	V-53
7. POTENTIAL FOR DEFINING ADDITIONAL MINERAL RESOURCES AND RESERVES	V-53
7.1 TWO YEAR DRILLING PLAN	V-53
7.2 POTENTIAL FOR ADDITIONAL MINERAL RESOURCES	V-54
7.2.1 Seam Group 0A/0B	V-54
7.2.2 Seam 5 and 10	V-54
7.2.3 Underground Mining Resource	V-54
8. MINE OPERATIONS	V-55
8.1 OVERVIEW	V-55
8.1.1 Background	V-55
8.1.2 Proposed Life-of-Mine Operations	V-56
8.2 CURRENT MINING OPERATIONS	V-56
8.3 PRODUCTION SCHEDULE	V-58
8.3.1 Project Ramp-Up	V-58
8.3.2 'Steady-State' Production	V-60
8.4 MINING CONTRACT	V-60
8.5 MINE EQUIPMENT	V-61
8.5.1 Coal Mining Fleets	V-61
8.5.2 Waste Mining Fleets	V-61
8.5.3 Support Fleets	V-61

8.6	PERSONNEL	V-62
8.6.1	Training	V-63
8.7	MINE INFRASTRUCTURE	V-63
8.7.1	Second Phase	V-64
8.8	WATER SUPPLY	V-65
8.9	GEOTECHNICAL ASSESSMENT	V-65
8.9.1	Approach	V-66
8.9.2	Pit Design Guidelines	V-66
8.10	SURFACE WATER MANAGEMENT	V-67
8.10.1	Drainage Design	V-68
8.10.2	Depressurization Design	V-68
8.10.3	In-Pit Stormwater Management	V-68
8.10.4	Integrated Mine Water Management	V-69
9.	COAL HANDLING AND PREPARATION PLANT	V-69
9.1	INTRODUCTION	V-69
9.1.1	CHPP Feasibility Study	V-69
9.1.2	CHPP Basis of Design	V-69
9.1.3	Contractor Qualifications	V-70
9.2	PROCESS SELECTION	V-70
9.2.1	Saleable Products	V-70
9.3	CHPP PHASED DEVELOPMENT	V-71
9.4	POTENTIAL INCREASED CAPACITY	V-71
9.5	STAFFING AND CONTRACT OPERATIONS MANAGEMENT	V-72
9.6	PROJECT IMPLEMENTATION	V-73
9.7	TAILINGS STORAGE FACILITY	V-78
9.7.1	Introduction	V-78
9.7.2	Design Criteria	V-78
9.7.3	Storage Requirement	V-78
9.7.4	Water Balance	V-79
9.7.5	Foundation Conditions	V-79
9.7.6	Slurry Transportation	V-79
9.7.7	Celled Operation	V-79
9.7.8	Environmental Issues	V-79
10.	TRANSPORTATION	V-80
10.1	ROADWAY TRANSPORTATION	V-80
10.2	RAILWAY TRANSPORTATION	V-81
10.3	RAILWAY INFRASTRUCTURE AND EQUIPMENT	V-81
10.4	ROLLING STOCK	V-82
10.4.1	Introduction	V-82
10.4.2	Diesel Locomotives	V-82
10.4.3	Wagons	V-82
10.4.4	Number of Wagons	V-82

11. OPERATING COSTS	V-83
11.1 INTRODUCTION	V-83
11.2 PROPOSED OPERATING COSTS: MINING	V-85
11.2.1 Introduction	V-85
11.2.2 Direct Operating Cost Estimate	V-85
11.2.3 Overhead and Additional Costs	V-87
11.3 PROPOSED OPERATING COSTS: CHPP	V-88
11.4 PROPOSED OPERATING COSTS: TRANSPORTATION	V-90
11.4.1 Road Transportation	V-90
11.4.2 Railway Transportation	V-90
11.5 PROPOSED OPERATING COSTS: WATER SUPPLY	V-90
11.6 PROPOSED OPERATING COSTS: POWER GENERATION	V-91
11.6.1 Power Generation (3x6MW)	V-91
11.6.2 Personnel Requirements	V-91
12. CAPITAL EXPENDITURE	V-92
12.1 INTRODUCTION	V-92
12.2 PROPOSED CAPITAL COSTS: MINING	V-92
12.2.1 Introduction	V-92
12.3 PROPOSED CAPITAL COSTS: CHPP	V-93
12.4 PROPOSED CAPITAL COSTS: WATER SUPPLY AND ON-SITE DISTRIBUTION	V-94
12.4.1 Exploration Costs	V-94
12.4.2 Water Supply Infrastructure	V-94
12.5 PROPOSED CAPITAL COSTS: POWER GENERATION	V-94
12.5.1 Power Generation (3x6MW)	V-94
12.6 PROPOSED CAPITAL COSTS: RAIL	V-95
13. ENVIRONMENTAL MANAGEMENT	V-95
13.1 ENVIRONMENTAL POLICY: GENERAL	V-95
13.2 AIR QUALITY	V-96
13.3 FLORA AND FAUNA	V-96
13.3.1 Flora	V-96
13.3.2 Fauna	V-97
13.4 WATER RESOURCES	V-97
13.5 WATER QUALITY	V-97
14. OCCUPATIONAL HEALTH & SAFETY	V-98
14.1 MINE SAFETY	V-98
14.2 CHPP	V-98
14.3 WORK CAMP HEALTH AND SAFETY	V-98
14.4 CONTRACTORS HEALTH AND SAFETY	V-99

15. RISK ANALYSIS	V-99
15.1 MINING RISK	V-99
15.1.1 Project Predevelopment	V-99
15.1.2 Overburden Production	V-99
15.1.3 Coal Mining	V-100
15.1.4 Overburden Dumps	V-100
15.1.5 Rejects Disposal	V-100
15.1.6 Maintenance	V-101
15.1.7 Equipment	V-101
15.1.8 Personnel	V-101
15.2 ENVIRONMENTAL AND SOCIAL RISK	V-102
15.2.1 Analysis of Impacts: Air Quality	V-102
15.2.2 Analysis of Impacts: Fauna/Habitats	V-103

LIST OF TABLES

1.1 Projected ‘Ramp-Up’ Schedules	V-12
1.2 Total In Place Resources – 300m Depth Limit, Minimum Apparent Seam Thickness of 0.6m	V-13
1.3 UHG in-place Coking versus Thermal Resource (May 31, 2010)	V-14
1.4 Summary of Coal Reserve Estimate (May 31, 2010)	V-15
1.5 UHG in-place Resource Coal Quality	V-16
1.6 Material Movement Schedule	V-17
1.7 Cash Operating Cost Summary (US\$000)	V-18
1.8 Capital Cost to Reach Full Production (US\$000)	V-19
4.1 Consultant Companies and Responsibilities	V-26
6.1 Total in Place Resources by Assurance Category (as of May 31, 2010)	V-38
6.2 Indicative Coal Product Qualities by Seam	V-41
6.3 Indicative Coke Strengths of UHG Coal	V-48
6.4 Summary of Coal Reserve Estimate (May 31, 2010)	V-53
7.1 Resource Limiting Criteria	V-54
7.2 Underground Mineable Resources with Coking and Thermal Product Potential (in-place)	V-55
8.1 Material Movement Schedule	V-59
8.2 Workforce and Contractors Employment Summary	V-63
8.3 Administrative Employment Summary	V-63
8.4 UHG Endwall Pit Slope Design Guidelines	V-67
8.5 UHG Highwall Pit Slope Design Guidelines	V-67
9.1 CPP Labour Staffing Requirements	V-72

9.2 Amount of Material to be Stored in the TSF	V-78
10.1 Estimated Numbers of Wagons Required	V-83
11.1 Mining and Processing Cash Operating Cost Summary (Cash Basis)	V-83
11.2 Total Cash Operating Cost Summary (Cash Basis) (\$000)	V-84
11.3 Total Cash Operating Cost Summary (Cash per ROM tonne basis)(\$/ROM t) . .	V-84
11.4 UHG CHPP Life Cycle Cash Operating Cost Summary	V-88
11.5 Road Transportation Operating Cost Summary	V-90
11.6 Water Supply Cash Operating Cost Summary	V-90
11.7 Power Generation Cash Operating Cost Summary	V-91
12.1 Project Capital Cost to Reach Full Production (\$000)	V-92
12.2 Direct Cost Capital Breakdown for Four Phases (\$000)	V-93
12.3 Phased Capital Cost Expenditure Cashflow Summary (\$000)	V-94
12.4 Water Supply and Distribution Capital Cost Expenditure Summary (\$000)	V-94
12.5 Power Generation and Supply Capital Cost Expenditure Summary (\$000)	V-95
12.6 Railway Capital Cost Expenditure Summary	V-95

LIST OF PHOTOS

4.1 Plane on Airstrip with Fire Engine in Support	V-22
4.2 Mine Camp (Interior)	V-23
4.3 Power Plant Construction	V-24
8.1 Surface Mining Operation at UHG	V-58
9.1 CPP Construction	V-73
10.1 UHG Coal Transportation Trucks	V-81

LIST OF FIGURES

4.1 General Location Map	V-21
5.1 UHG Location Plan	V-28
5.2 Tavan Tolgoi and Ukhaa Khudag Regional Structural Features	V-29
5.3 Perspective View of Main Coal Seam Packages Looking towards the North-East (as is)	V-30
5.4 Cross-Sections C-C' and D-D'	V-32
5.5 Cross-Sections G-G' and H-H'	V-33
5.6 Generalized Stratigraphic Column	V-34
6.1 Ukhaa Khudag Resource Areas	V-39
6.2 Comparison of Key UHG Coking Coal Properties with World and Australian Ranges	V-42
6.3 Japanese MOF Graph	V-44
6.4 Correlation between Sapozhnikov Y Parameter and Gieseler Fluidity	V-45
6.5 Seams 0c, 3A, 4A, and 4C Dilatation	V-46
6.6 Seams 8 and 9 Dilatation	V-46
6.7 International Comparisons of Plastic Properties, by Rank	V-47
6.8 Shapiro-Gray Graph	V-49
6.9 Comparative Plastic Ranges of UHG Coal	V-50
6.10 Vitrinoid Distributions for Hard Coking Coal	V-50
6.11 Vitrinoid Distribution for Semi-Hard Coking Coal	V-51
8.1 Site Layout	V-57
8.2 Raw Product and Wash Plant Feed by Coal Type	V-60
8.3 Coal Product Tonnes by Coal Type	V-60
9.1 CHPP 5Mtpa Phase Materials Handling Flowsheet	V-74
9.2 CHPP 10Mtpa Phase Materials Handling Flowsheet	V-75
9.3 CHPP Rail Integration Phase Materials Handling Flowsheet	V-76
9.4 CHPP 15Mtpa Phase Materials Handling Flowsheet	V-77

1. INTRODUCTION AND EXECUTIVE SUMMARY

1.1 Summary of UHG Project

At the outset of the Ukhaa Khudag (UHG) project, ER LLC (ER) made a strategic decision to establish a project that would both meet ‘world class’ technical standards and establish new standards of performance for Mongolian coal mines. Energy Resources is a wholly-owned subsidiary of the Mongolian Mining Corporation (MMC).

The coal mine is currently in operation using the contract mining company, Leighton Asia Ltd (Leighton), which is one of the largest mining contractors in the world and has a reputation for operating ‘world class’ mines in terms of safety, productivity and other technical parameters. Leighton was awarded a “relationship style” mining contract with the following key provisions:

- Contract termination after four years at ER’s discretion
- Contract to re-set with significant capital expenditure from Leighton
- Equipment buyback mechanism.

The conventional truck/shovel mining method based on large capacity proven equipment will be used. State of art mine planning will also be used and the mine will be operated to the appropriate environmental standards of the World Bank and other international institutions.

As with the mine, the coal handling and preparation plant (CHPP) as designed by Sedgman, will meet ‘world class’ standards and is expected to be the one of the most advanced in Asia as well as one of the largest coking coal processing plants in the world, with the highest process recovery efficiencies in the industry.

Mining of run-of-mine (ROM) coking coal commenced in April 2009 and a total of 1.8 million tonnes (Mt) of coal was mined in 2009. This is equivalent to an annualized mining rate of 2.4Mt. A total of 3.8 million tonnes per annum (Mtpa) of ROM coking coal is scheduled to be mined in 2010.

The planned project capacity ramp-up, shown in Table 1.1, will result in a 15Mtpa ROM coal mining rate by the start of 2013.

Table 1.1 Projected ‘Ramp-Up’ Schedules

	2010	2011	2012	2013	2014
ROM Coal Production (Mtpa).	3.8	7.0	10.7	14.7	15.2
Washplant Schedule		5Mtpa (Jan 1), 10Mtpa (Sept 1)	Capacity (10Mtpa)	Rail Integration & 15Mtpa, (Jan 1)	Full Capacity (15Mtpa)
Sales Product	Unwashed ROM Coking	Washed Product	Washed Product	Washed Product	Washed Product
Transport	Road	Road	Road	Rail	Rail

Coal is currently transported to the Chinese border by truck on an unpaved road. To enhance efficiency and capacity, a paved road is currently under construction which is expected to be substantially completed by the start of 2011. This paved road will support UHG’s product volumes up to the target plateau capacity of 15Mtpa ROM production. Further, ER is planning to begin the construction of a 236 kilometer (km) railway link from UHG to Gashuun Sukhait in 2011, which will be operational by the beginning of 2013. At that point, ER’s coal products will be transported via rail to Gashuun Sukhait, then transferred to the Chinese rail network and moved by Chinese locomotives to their ultimate destinations.

To ensure a reliable source of electric power, electric power will be generated via an on-site power plant with capacity of 3x6MW units. Construction is underway, with the third and final coal-fired unit to be completed by mid-2011. Additional power will be from the Mandalgovi – Tavan Tolgoi – Oyu Tolgoi transmission line, construction of which will begin shortly and is scheduled to be completed in May 2012.

Site infrastructure principally consists of a dedicated airstrip and terminal, and mine-site accommodations for project personnel. A permanent mine camp building has been constructed to accommodate mine project personnel. A ‘ger’ camp originally built to accommodate the mine project personnel now accommodates road transport and other construction personnel.

1.2 Summary of Geology, Resources and Reserves

1.2.1 Geologic Setting

The UHG coalfield is one of six separate subfields of the greater Tavan Tolgoi deposit, which include the Tsankhi, UHG, Southwest, Bortee, Eastern and Bortolgoi coalfields.

Seventeen named coal seams (Seams 0 through 16) have been identified in the Tavan Tolgoi coalfield, of which Seams 0 through 12 have been identified at UHG. These seam groups contain numerous splits, or sub-seams, which amount to 35 distinct and individually modeled coal horizons within the property.

Numerous exploration programs have been conducted, primarily during the 1970's and 1980's by Russian-Mongolian scientific teams and lately by ER. Exploration techniques employed by the early investigations employed core hole drilling and extensive trenching to delineate coal seam crop lines and fault boundaries. Recent investigations conducted by ER have utilized rotary (open hole) and both slim gauge and large diameter core drilling to further delineate and characterize the UHG resource.

The UHG coal seams have been extensively sampled from the slim and large diameter drillhole cores during previous Russian and more recent drilling campaigns. The 124-hole ER program in 2008, conducted by Norwest, provided thorough coal quality analysis of coal cores including five bulk sample sites using large diameter cores (6"/150mm) to gather information for detailed studies of coal washability and metallurgical/thermal properties for detailed wash plant design. ER has also conducted more recent infill in-pit sampling and 50m by 50m drilling within the near-term development area.

A detailed geological model for the license area was prepared by Norwest which forms the basis for current resource estimates. The model has been created using state-of-the-art computer software and modeling techniques to most accurately represent the coal resource at UHG.

1.2.2 Coal Resources

The UHG in-place surface-mineable coal resources as of May 31, 2010, have been estimated according to JORC¹ standards by Norwest as indicated in Table 1.2. It is noted that coal mined to date includes coal that was originally identified as weathered, but has since been determined to be saleable.

**Table 1.2 Total in Place Resources – 300m Depth Limit,
Minimum Apparent Seam Thickness of 0.6m**

Category	Resource			
	Volume (m ³) '000	Thickness (m)	In Place Tonnes (Mt*)	Density (ad) (g/cm ³)
Measured	135,430	5.36	206.0	1.52
Indicated.	135,718	5.51	205.3	1.51
Inferred	7,692	7.36	11.7	1.52
Total	278,840	5.49	423.0	1.52

* Mt = Million metric tonnes (air dried – ad).

Table 1.3 shows the ratio of coking versus thermal resource currently defined for UHG. The in-place coal quality results obtained during the 2008 Norwest campaign showed strong indications that additional seams would have promising metallurgical properties given some degree of beneficiation.

¹ Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia

Table 1.3 UHG in-place Coking versus Thermal Resource (May 31, 2010)

Category	Coking Coal (Mt)	Thermal Coal ² (Mt)	Total (Mt)
Measured	85.8	120.2	206.0
Indicated.	153.4	51.9	205.3
Inferred		11.7	11.7
Total	239.2	183.8	423.0

It is noted that there is some indication that some of the coal seams, specifically the 0A/0B group coal, may be blended with hard coking coal without significantly degrading overall coking qualities. This could potentially increase resources of coking coal, and is discussed further in this report.

Underground Resource

Norwest has identified a coal resource at UHG lying between 300m and 800m in depth that is categorized as an “underground” deposit type, meaning that the probable extraction method would be through underground mining techniques. These resources are considered for future rather than immediate exploitation and were not considered in the scope of 2009 Bankable Feasibility Study (BFS) or in this report.

The total in-place resources below 300m are 157.9Mt³, categorized as 88.6Mt Indicated and 69.3Mt Inferred resources. Combined surface and underground mineable resources is 580.9Mt of in-place resources, comprised of 206.0Mt, 293.9Mt and 81.0Mt of Measured, Indicated and Inferred resources, respectively.

Whilst the coal resources below 300m represent a significant addition to the overall UHG resources it must be noted that a reserve estimate has not been made.

1.2.3 Coal Reserves

As with coal resources, Norwest estimation of coal reserves at UHG are defined by the recent BFS and described in the feasibility study report Ukhaa Khudag Project Bankable Feasibility Study, November 13, 2009. To the best of our understanding this estimate of reserves is compliant with the JORC code. It is estimated that total reserves are comprised of 150Mt of coking coal, and a 136Mt of thermal coal.

² Includes potential coking coal fractions. See Section 7, Potential for Defining Additional Mineral Resources and Reserves

³ Air dried tonnes

A summary of the reserve estimate is reported in Table 1.4.

Table 1.4 Summary of Coal Reserve Estimate (May 31, 2010)

	Total Reserves*		Marketable Reserves**	
	Proven	Probable	Proven	Probable
Mtonnes (ad)	191	95	122	61
Total***	286		182	

* Excludes 0.4Mt from mine plan within Inferred resource category

** Includes primary washed product and secondary thermal product, or 'middlings'

*** Rounded

1.2.4 Potential for Defining Additional Mineral Resources and Reserves

Two Year Drilling Plan

A drilling program is planned by ER over the course of the next two years covering the complete mine area with a 500m by 500m drill pattern. The objective of the program is to confirm that the Russian drill hole data reflects a higher ash content than is actually encountered during mining (to-date, the ash content in the actual coal mined is lower than that assumed by the geological model). Specifically, mining of Seams 3 and 4 ROM coking coal has indicated that the Russian drillhole data reflects a higher ash. This results in as-mined ash levels being consistently lower than indicated by the geological model. This suggests a higher overall coking coal yield after washing than is currently determined using the geological model, as based on current available data. A higher overall coking yield determined as a result of this drilling program would result in additional quantities of higher-value coking coal (see Section 7, Potential for Defining Additional Mineral Resources and Reserves). The drilling plan will also penetrate to a depth of 600m, thus bringing potentially underground mineable resources into a higher level of confidence.

Potential for Additional Coking Coal Resources

The 0A/0B seam group has some indication that it may be possible to blend these with the other hard coking coal prior to washing. If this were successful without significantly degrading the key coking properties of the HCC product, the overall value of this seam group would likely increase.

As with Seams 0A and 0B, areas of Seams 5 and 10 showing positive coking characteristics will be submitted to a similar LD bulk sampling and testing program. A thorough understanding of the sizing, washability and coking properties of these seams may lead to their classification as some level of metallurgical reserve.

1.3 Summary of Coal Quality

Extensive exploration and coal quality assessment indicates that UHG coal compares very favourably with international and Australian quality ranges, with relatively high Crucible Swelling Number (CSN) and Coke Strength after Reaction (CSR) values, matched with relatively low sulphur content.

Based on the typical quality specifications provided it is believed that the UHG coking coal products would be attractive to the market. North Asian markets represent the best opportunity for any UHG metallurgical coal placed into the seaborne market. The thermal coal product is also a high quality product which should receive acceptance in seaborne markets.

Coking coal is produced as the primary product after coal processing, as well as providing a quantity of thermal coal from the remaining secondary product. Thermal coal is also available from seams with poorer metallurgical qualities, and is to be washed to provide a marketable product.

Table 1.5 UHG in-place Resource Coal Quality

Category	Moisture % (ad)	Ash % (dry)	Sulphur % (dry)	Volatile Matter % (dry)	kCal/kg (dry)
Measured	0.54	25.52	0.64	23.39	6,150
Indicated.	0.60	24.93	0.69	27.72	6,100
Inferred	0.56	25.45	0.65	26.00	6,050
Total	0.57	25.24	0.66	25.55	6,125

Overall, average in-place coal quality demonstrates a mature, high-rank coal with low moisture, low to moderate sulphur and volatile content, moderate ash content and relatively high heating value. Average CSN values reflect the large quantity of metallurgical grade coal available within the resource. Overall rank of the UHG coal is estimated to be medium volatile bituminous when weighted on in-place resource tonnes (air dried).

Overall, the resource base contains 580.9Mt (through May 31, 2010) of ROM surface and underground mineable coal.

1.4 Production Schedule Summary

Currently the UHG mine is in the process of a five-year ‘ramp-up’ to meet a steady-state production of 15Mtpa. The coal production targets and waste stripping requirements are for the first five years are summarized in Table 1.6.

This report will focus on the initial five year ramp-up period.

Seams 3 and 4 are currently being mined, with all waste stored in out-of-pit waste dumps.

Table 1.6 Material Movement Schedule

Total Material Movement Quantities								
Period	Thermal	Coking	Total		Volume Waste (Mbcm)	Destination		S/R (bcm/t ROM)
	Seams 0A, 0B & 0D (Mt ROM)	Seams 0C, 3 & 4 (Mt ROM)	Coking Seams 8 & 9 (Mt ROM)	Mined (Mtpa ROM)		Inpit (Mlcm)	Expit (Mlcm)	
2010	–	3.8	–	3.8	20.9	–	26.1	5.5
2011.	–	7.0	–	7.0	28.8	–	36.0	4.1
2012	0.8	9.9	–	10.7	58.8	–	73.5	5.5
2013	5.0	9.7	–	14.7	59.0	–	73.7	4.0
2014	5.5	9.7		15.2	63.2	3.9	75.1	4.2
Totals.	11.3	40.2	NA	51.4	230.7	3.9	284.4	4.5

1.5 Summary of Coal Handling and Preparation Plant Facilities

The coal handling and preparation plant (CHPP) is an integral part of the UHG project and will enable the operation to produce high-value saleable coking and thermal coal products. The high efficiency CHPP is now under construction.

The CHPP is being developed in four construction phases to match the expansion of the mine. These include the initial 5Mtpa phase followed by the addition of second coal preparation plant module (CPP) to expand mine operations to 10Mtpa (estimated to be commissioned by September, 2011). The latter also includes the expansion of the ROM coal handling plant (CHP). When the rail line is completed, a rail integration phase will be implemented (estimated by the end of 2012). This will include the product coal handling and train load out elements of the CHP. Finally, a third CPP module will be constructed to allow mine operations to achieve ultimate 15Mtpa ROM capacity (also estimated to be completed by the end of 2012).

1.6 Transportation

Currently, coal is transported from UHG (and another smaller producer in the area) to the Chinese border via an unpaved transportation corridor, constructed in 2008. Construction on a new paved road between UHG and Gashuun Sukhait is to be fully completed by September, 2011, and substantially completed by the start of 2011 with sections to be used as and when they are ready. This will accommodate the increased production from UHG prior to completion of a railway link by the start of 2013.

A feasibility-level study and report on the proposed haulroad has been prepared by Leighton, with assistance from Snowy Mountains Engineering Corporation (SMEC) and others (see *Feasibility Study Report (Draft), M1006 – UHG Coal Haul Road Project: Ukhaa Khudag to Gashuun Sukhait*, May, 2010). Two haul road designs have been proposed. The ‘base case’ plan features a road pavement design to standards typical of the Mongolian Highway Standards. This design will likely require extensive maintenance in order to withstand the anticipated traffic volume. An alternate design is also proposed that features a more robust pavement surface, assuming that axle loads are reduced to 16t through the use of double trailer ‘road train’ vehicles. The ‘base case’ design was assumed for the purposes of this report, subject to enhanced capital estimates.

A railway is the next development stage of the transportation infrastructure, and is essential to further reduction in transportation costs Energy Resources Rail LLC (ERR), a wholly-owned subsidiary of MMC, will construct a single-track railway with a length of 236km to the border with China replacing the current trucking operation. Construction of the rail is currently estimated to be completed by the beginning of 2013.

1.7 Project Operating and Capital Costs

Since publication of the BFS, various operating and capital cost estimates have been revised based on updated planning work to account for the more aggressive schedule. Revised operating cost estimates are summarized in Table 1.7 (does not include road or rail transportation cost or SG&A costs). All cash operating costs are reported in US\$, exclusive of VAT, on a 2010 constant-dollar, un-inflated and are un-escalated. ROM tonnes are reported on an air-dried basis (adb).

Table 1.7 Cash Operating Cost Summary (US\$000)

	2010	2011	2012	2013	2014
ROM Coal (000 tonnes, adb) . .	3,782	7,003	10,729	14,722	15,247
Mining & Operations					
Mining	\$20.90	\$24.85	\$ 28.82	\$ 21.32	\$ 21.28
Coal Processing/Handling*	\$ 1.13	\$ 3.60	\$ 3.74	\$ 3.00	\$ 3.52
Total (\$/ROM t).	\$22.03	\$28.45	\$ 32.56	\$ 24.32	\$ 24.80

* Includes all processing, handing, water and power supply and distribution costs.

The estimated capital costs for the five year period, 2010 through 2014, are summarized in Table 1.8. These capital estimates exclude the railway which will be a separate profit center. All costs reported here are inclusive of VAT and Mongolian duties, but exclusive of inflation, contingencies, etc. Costs are reported in US\$, on a 2010 constant-dollar, un-inflated and un-escalated basis.

Table 1.8 Capital Cost to Reach Full Production (US\$000)

	2010	2011	2012	2013	2014
Mining	\$ 3,975	\$ 8,579	\$ 3,760	\$ 0	\$ 0
CHPP	\$101,688	\$105,024	\$110,278	\$ 0	\$ 0
Tailings Dam	\$ 10,785	\$ 0	\$ 2,522	\$ 3,079	\$ 0
3 x 6MW Power Plant	\$ 26,729	\$ 4,474	\$ 0	\$ 0	\$ 0
Power Distribution	\$ 6,400	\$ 0	\$ 0	\$ 0	\$ 0
Water Supply/Distribution.	\$ 23,120	\$ 4,136	\$ 19,451	\$ 1,040	\$ 0
Coal Haulage & Transport*	\$ 33,140	\$ 27,845	\$ 0	\$ 0	\$ 0
Site Infrastructure	\$ 6,910	\$ 7,387	\$ 8,926	\$ 9,328	\$ 8,926
Other	\$ 4,523	\$ 5,302	\$ 4,951	\$17,551	\$ 6,211
Total CAPEX	\$217,271	\$162,748	\$149,888	\$30,997	\$15,136

* Includes ER's 50% share of coal haulroad costs, plus \$10M for 100 coal haul trucks in 2011.

In general, geological conditions such as the favorable coking characteristics of much of the UHG coal (in particular, Seam 3A) and the low strip-ratio arising from the thick seams of coal and gentle dip of much of the deposit, contribute to UHG's low cost structure. Other contributing factors include the relatively low degree of in-seam parting and dilution, as well as the friable nature of the coal reducing blasting costs).

1.8 Effective Date of Report

The effective date for the date included in this report is May 31, 2010.

2. QUALIFICATIONS OF NORWEST

Norwest Corporation is a world-recognized international consultant to the mining and energy resources industries. Norwest has over 270 employees and associates based out of offices through Canada and the US, as well as representatives throughout the world.

Norwest's broad range of service professionals often come from extensive careers in industry with a wide variety of expertise in mine planning, resources/reserves reporting, evaluation, due diligence reviews, management, resource optimization, coal processing and handling, hydrology, geotechnical review, environmental management, mine safety, and other related fields.

Norwest has over 30 years of experience in performing mining studies and resource/reserve estimates. With over 10 years of direct experience on the Tavan Tolgoi deposit, its role in preparing the 2009 BFS study of UHG on behalf of ER, as well as its experience with numerous Mongolian clients and mining projects (including a study of the Baganuur mine, SouthGobi Energy Resources' Ovoot Tolgoi mine, and various other projects) Norwest considers itself well qualified to prepare this ITR.

3. DISCLAIMER

3.1 Disclaiming Statement

Norwest has conducted an independent technical review of the UHG coal mining project and related production assets. Site visits were made by Norwest professional involved with preparation of a recent Bankable Feasibility Study, as well as this report. Certain aspects of the study were prepared by parties other than Norwest, and their work independently reviewed by Norwest for inclusion in the BFS and this ITR. Norwest has exercised all due care in reviewing the supplied information and believes that the basic assumptions are factual and correct, and the interpretations reasonable. The accuracy of the conclusions in this report largely relies on the accuracy of the supplied data. Norwest does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from investment or other financial decisions or actions.

4. PROPERTY DESCRIPTION

4.1 Description and Location

Mongolia is a landlocked country in East-Central Asia, encompassed by Russia and China. Ulaanbaatar (UB), the capital and largest city, is home to about 38% of the population.

At 1,564,116 square kilometres and a population of approximately three million people, Mongolia is one of the most sparsely populated countries in the world. It is also the world's second-largest landlocked country after Kazakhstan. Much of Mongolia is covered by steppes, with mountains to the north and west and the Gobi Desert to the south. This results in little arable land, and thus approximately thirty percent of the country's population is nomadic, or semi-nomadic.

Mongolia is divided into 21 provinces (singular, aimag), which are in turn divided into smaller districts. The UHG coal deposit is located in the Omnogovi aimag, located in the south of the country in the Gobi Desert (see Figure 4.1). Omnogovi is Mongolia's largest aimag with a population of 48,000 (2005). The small town of Tsogttsetsii, located approximately 7km from the project site, serves as the soum, or district center, as well as an administrative and logistical hub for the UHG project. The project site itself is located approximately 540km from Ulaanbaatar and 200km from the Chinese border, referred to as Gashuunsukhait and Ganjimadao, on the Mongolian and Chinese sides of the border, respectively.

4.2 UHG Project Description

ER was awarded the UHG lease within the Tavan Tolgoi coalfield located in Ömnögovii Aimag, south-central Mongolia. ER has established an operating coal mine on the UHG lease and intends to expand production through the construction of additional facilities.

Figure 4.1 General Location Map



The project proposes that mining operations expand to produce 15Mtpa at steady-state, through surface mining using truck/shovel applications. By start of 2011, all coal will be washed at site to produce two coal products; hard coking coal (HCC), and a high quality thermal coal. By 2013 a railway link will be completed, reducing the cost to bring UHG coal to the Target Market Area (TMR) identified in China. The secondary product from washing will be used as fuel supply for a mine-mouth 18MW power plant. A supply of process water, essential to the project, has been secured from two nearby locations, and will be pumped via a pipeline to the project site.

4.3 Access & Infrastructure

Currently installed infrastructure at UHG is as follows:

4.3.1 General Access

The Dalanzadgad Airport has one paved runway and is served by regular domestic flights from and to UB by several commercial flyers. The South Gobi has relatively poor road infrastructure which means that it can take 10 hours or more to drive from UB to Dalanzadgad. Once in Dalanzadgad, it takes approximately two hours to make the 90km journey to the project site.

4.3.2 Airstrip

For efficient and safe staff rotations, as well as emergency evacuation, an airstrip has been constructed just north of Tsogttsetsii soum (see Photo 4.1).

Photo 4.1 Plane on Airstrip with Fire Engine in Support



4.3.3 Ger Camp

A temporary camp of approximately 170 ‘gers’ (semi-rigid structures) has already been established at the project site, approximately 1km from the Tsogttsetsii soum, to accommodate about 650 people. The facilities include permanent shower/washing/toilet facility as well as large gers for offices, cooking and eating.

4.3.4 Mine Camp

A self-contained mine camp, located adjacent to the existing ger camp, has been completed. This new facility, to accommodate a total of about 650 persons, and includes 150 rooms, canteen, and a recreation area (see Photo 4.2). The mine camp will serve employees of the entire project (the mine, washing plant, power plants, etc.) with the exception of ERR, which will maintain a separate camp for the railway workers.

Photo 4.2 Mine Camp (Interior)



ER provides bus transportation for employees from camp and Tsogttsetsii soum to the job site.

4.3.5 Water Distribution

The internal water distribution around the mine site will be supplied from Maiga Mountain reservoir, immediately to the east of the mine site. Maiga Mountain reservoir itself will contain the bulk of the water supply to be used for potable water, fire water flows and industrial flows. Potable water treatment will be at the reservoir.

4.3.6 Power Supply & Distribution

Power is to be generated via an on-site power plant with capacity of 3x6MW units. Construction is underway (see Photo 4.3) with the first unit expected to be completed by October, 2010, the second by January, 2011, and the third and final unit completed mid-2011. Additional power will be from the Mandalgovi – Tavan Tolgoi – Oyu Tolgoi transmission line, construction of which will begin shortly by a consortium of Korean, Chinese and Mongolian companies. A contract has been negotiated and signed by the Mongolian Ministry of Mineral Resources and Energy, and is scheduled to be completed in May, 2012.

Power from the generating facilities will be distributed to the via 10kV switchyard to the main sub-station. From this point the power will be distributed at 35kV via an overhead powerline distribution network to the various mine facilities which are based on 24 hours per day, 7 days per week, 365 days per year.

Photo 4.3 Power Plant Construction



4.4 Climate & Physiography

4.4.1 Climate

Mongolia has an extreme continental climate with long, cold winters and short summers, during which most of its annual precipitation falls. Precipitation is highest in the north and lowest in the south, which receives 10 to 20cm annually. The Gobi desert, in which the project is located, has some regions which receive no precipitation at all in most years. Average temperatures in Dalanzadgad range from mild (approximately 15°C) in the summer to extremely cold (-21°C) in the winter. Early spring can bring dust/snow squalls that can greatly impair vision and safe mining operations. This has been accounted for in mine planning. In general, the extreme climatic swings at the minesite do not prohibit safe and efficient mining operations.

4.4.2 Topography

Topography within the Project region features gently rolling desert plains with minor relief (several small hills are located in the surrounding regions). The terrain underlain by coal bearing formations has relief of approximately 45m, from a low of 1,500m in the eastern portion of the project area to a high of 1,545m in the west.

4.5 History

4.5.1 Regional History

The Tavan Tolgoi district has undergone an extensive amount of exploration and related coal testing and reporting. The first systematic exploration of the area commenced in the 1950's with a thorough exploration and quality testing program relying on boreholes, coreholes, trenching and other bulk sampling. This exploration continued through the 1970's.

Several feasibility studies were conducted covering the various coalfields of the Tavan Tolgoi district by private as well as government concerns; Tsankhi and UHG coalfields were identified as primary targets for potential mine development. A 1977 feasibility study prepared by the USSR Ministry of Coal Industry, entitled *Feasibility Study for Detailed Exploration of Tavan Tolgoi Coking Coal Deposit with Emphasis towards Possible Coke-Chemical Production*, recommended continued exploration of the area. In response to this recommendation, the Mongolian Ministry of Geology and Mining Industry initiated a reconnaissance exploration program in 1978 covering an area of 100km² adjacent to areas previously explored, a program that lasted through 1981.

In 1990 a major feasibility study was completed by the Giproskhakt Institute entitled, *Feasibility Study of the Mining of the Tavan Tolgoi Coking Coal in the Mongolian Peoples Republic*. In 1998, two confirmation drilling and testing projects were conducted, one by Norwest as part of a preliminary feasibility study for the Mongolia Ministry of Infrastructure Development and the other by BHP as part of their commitment to the Mineral Resource Authority of Mongolia. Norwest drilled five coreholes, whereas BHP drilled six coreholes. Coal from these coreholes was subjected to various coal quality and coking tests. In early 1999 the results from these two projects were reported in separate feasibility studies.

ER conducted a 10 hole exploration project on their former exploration license at Tsankhi during the fall of 2007. Subsequently, Norwest produced a geologic model for the entirety of Tavan Tolgoi coalfield along with resource estimations for the various coalfields, provided to ER on January 23, 2008.

4.5.2 Project Involvement: Leighton Asia, Ltd.

Leighton commenced their relationship with ER in 2008 and was engaged to complete a number of mine planning and cost estimate studies ranging from broad scoping studies to detailed mine planning and cost estimation. Leighton LLC (a subsidiary of Leighton Asia Limited) was awarded a mining contract to excavate and manage the initial box cut for the project. Earthworks began in September, 2008. In February, 2009 Leighton were awarded a 6 year contract to undertake all mining activities at the UHG Project; an arrangement that continues as of publication of this ITR. Leighton was then engaged to complete the mine plan and cost estimate that formed the basis for the BFS.

4.5.3 Project Involvement: Norwest

As described previously, Norwest's involvement in the assessment and development of the greater Tavan Tolgoi coalfield dates to 1998 when it was awarded a World Bank-funded contract to prepare a Preliminary Feasibility Study of the deposit.

This project was followed by an assignment in 2005 for a confidential client to drill 5 holes in the Tsankhi area of Tavan Tolgoi and prepare a report on the findings.

In early 2007, after previous experience in the Tavan Tolgoi region for several clients, Norwest commenced working with ER on projects include preparation of geologic models and resource estimates, assessment of various regions with the deposit, assistance on bid development for coal resources and assistance with securing a bid for coal processing and handling.

More recently, Norwest was involved with the preparation of the UHG BFS report. Norwest's specific responsibilities on the Bankable Feasibility Study (BFS) included reviewing the work of the various other consultants involved, and preparing the BFS document.

4.6 Project Consultants

Table 4.1 summarizes various consultants that were involved in preparation of the BFS, upon which this ITR is based, as well as currently involved with the Project.

Table 4.1 Consultant Companies and Responsibilities

Company	Responsibility
Norwest Corporation (USA)	Resource estimation and Financial Valuation, geologic modeling, geotechnical study
Leighton Asia Limited (Hong Kong) and Leighton LLC	Life-of-Mine mining plan and associated cost estimates, mine operators
Sedgman Consulting (China) and Sedgman Ltd.	Coal Handling & Preparation Plant design and associated cost estimates, contractors
Aquaterra Engineering LLC (Australia)	Water Supply design and associated cost estimates Water Management
DBI GmbH (Germany)	Railway Design and associated cost estimates
Parsons Brinckerhoff Pte Ltd. (China)	Power Plant design
Wood Mackenzie (China)	Coal Marketing studies
Sustainability Consulting (Australia)	Environmental studies
Golder Associates (Australia)	Scoping design of tailings storage facility
Environmental Resources Management (USA)	Socio-Economic studies
SGS Technical Services	Coal analysis and testing
Stewart Laboratories	Coal analysis and testing (post-BFS)
Leighton Asia Limited (Hong Kong) and Snowy Mountains Engineering Corporation (SMEC)	Paved Road Feasibility Study

Norwest has performed comprehensive reviews of the reports prepared by the consultants listed in Table 4.1. The reviews covered all aspects including technical issues and estimated costs. Where necessary, comments and suggestions for improvements were submitted, which, for the most part, were incorporated into the respective reports.

5. GEOLOGY AND DATABASE

5.1 Geology of the UHG Deposit

5.1.1 Geologic Setting

The UHG coalfield is located in south-central Mongolia and covers an area of approximately 10km² within the Ulaan Nuur Valley of the Gobi Desert. The coalfield is situated within the Omnogovi Aimag (South Gobi province) about 90km east of Dalanzadgad, the provincial capital, and some 540km south of Ulaanbaatar, the national capital.

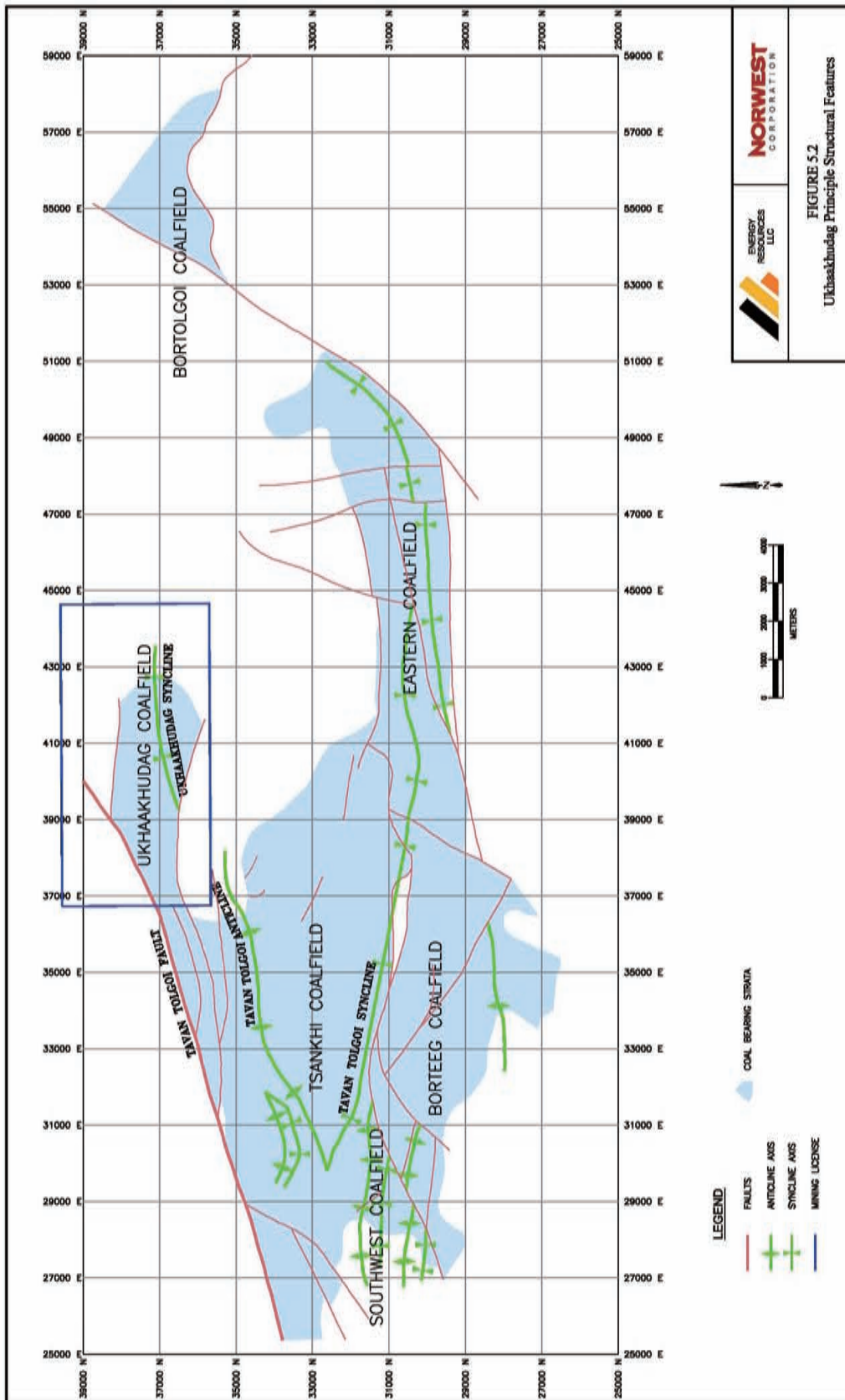
The UHG coalfield is part of greater Tavan Tolgoi coalfield. The Tavan Tolgoi coalfield is separated into six separate subfields, namely Tsankhi, Southwest, Borteeg, Ukhaa Khudag, Eastern and Bortolgoi, as shown in Figure 5.1. The coalfields are separated by either seam crop limits or fault block boundaries. The divisions between these six subfields are not well defined, and indeed have migrated somewhat in the Russian reports from the 1970's on. Generally the UHG coalfield represents the north-eastern extension of the greater Tavan Tolgoi deposit and is encompassed by the Energy Resource's mining license.

Figure 5.2 illustrates the location of interpreted regional scale fault block boundaries, fold axes and extent of coal seam development based on historical records. Coal in the basin is faulted and folded from a moderate to intense degree by post-depositional tectonic events. The fault locations defining the northern and southern limits of the UHG coalfield are primarily derived from historic interpretations of the Russian-Mongolian geological teams, validated through recent drilling, field mapping and interpretation of aerial imagery.

Seventeen named coal seams (Seams 0 through 16) have been identified in the Tavan Tolgoi coalfield, of which Seams 0 through 12 have been identified at UHG. All UHG coal seams occur within the Upper Permian age Tavan Tolgoi Group. These seam groups contain numerous splits, or sub-seams, which amount to 35 distinct and individually modeled coal horizons within the property.

The coal seams at Tavan Tolgoi represent one of the few remaining largely unexploited sources of high-value coking coal in the world. Bulk sampling and drillhole sampling programs by Russian-Mongolian teams and later by other international exploration and mining companies have accumulated sufficient data to recognize the value of the Tavan Tolgoi coalfield as a world class resource for coking coal. Of the 17 coal seams, four seams are known to have favourable coking properties. The remaining seams either do not have coking potential or have not been sufficiently tested to ascertain their coking potential. It is possible, based on the indication of preliminary analytical results, that one or more of these seams may be exploitable as a metallurgical product.

Figure 5.2 Tavan Tolgoi and Ukhaa Khudag Regional Structural Features

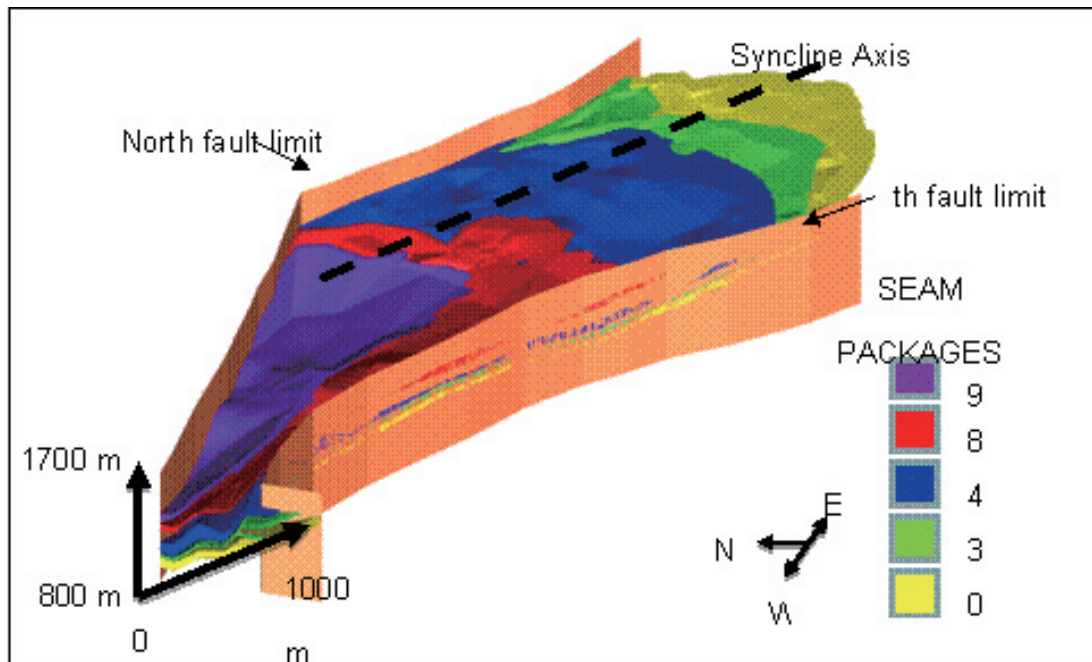


All or most coal seams have market potential. The UHG coalfield is estimated by Norwest to contribute 5% to 10% of the total coal resources at Tavan Tolgoi.

5.1.2 UHG Geologic Structure

The UHG coalfield is a fault-bounded synclinal coal basin developed within an east-west trending graben structure. The syncline axis plunges towards the west resulting in coal seams dipping predominantly to the west and cropping near-surface along the eastern margins of their occurrence. The major structures controlling coal seam distribution and morphology at UHG are illustrated in the perspective view of the main seam packages in Figures 5.3. The deposit structure can also be seen in cross-section in Figures 5.4 and 5.5.

**Figure 5.3 Perspective View of Main Coal Seam Packages
Looking towards the North-East (as is)**



5.1.3 Coal Seam Stratigraphy

The non-coal rocks of the Tavan Tolgoi Group consist of mudstones, siltstones, sandstones, conglomeratic sandstones and conglomerates. The overburden and interburdens are generally competent, ranging from moderately hard to hard, depending on lithology.

Figure 5.6 shows a generalized stratigraphic column and coal seam geometry within the UHG coalfield. The primary seams considered for mining are Seams 0, 3, 4, 8 and 9. Of these, Seams 3 and 4 are best developed, thickest and most continuous and contain a substantial portion of the coking coal resource within the license. These two seams, particularly Seam 3, are targeted for production early in mine development. Seams 8 and 9 contribute to the majority of the currently defined coking coal resource in the western half of the property, and do not appear in mine plans for the period 2010-2014. The remaining seams contribute in varying degrees to the metallurgical resource and are suitable for thermal power generation as well.

Seam 0 Group

The coal seams of the 0 Seam package are noted for their lower overall coal quality and variability in seam thickness and within-seam partings. The 0A, 0B and 0C Seams are the main seams of interest with the 0C Seam having the most potential to be included as a possible metallurgical product. Both Seams 0C and 0B are relatively thick and show favourable raw CSN⁴ values in the eastern half of the property where they are within surface mineable depth.

Despite some variation in coal quality, thickness and partings for the 0 Seam package, there remains some opportunity for selective mining of the 0 Seams either as thermal coal product and potential blend coking coal product given that there appears to be some reasonable coking properties in the 0 Seam package, particularly in Seam 0C. Seam 0B has shown some marginal coking properties and Seam 0A is found to occur with frequent in-seam rock partings and to be an inherently “high-ash” seam that would experience significantly lower yields in wash plant analysis.

Seam 3 Group

The 3 Seam package is comprised of essentially three seam splits, the 3A, 3B, and 3C. The most prominent by far of these seam splits is the 3A Seam, which likely represents the three splits coalesced into one main seam body. The 3A Seam thickness remains reasonably consistent throughout the property.

Seam 3A makes up over 10% of the total UHG coal resource and is one of the target coal seams showing favourable metallurgical properties. It is for the most part devoid of in-seam partings, particularly in the southeast, and has a relatively low in-place ash content. Metallurgical tests of raw samples show good swelling properties and bulk sample testing also shows that it has good coking characteristics. Raw volatile percentages are likely to be in the ranges of about 22 to 24 percent for most areas of the deposit.

⁴ Crucible Swelling Number (also known as FSI, or Free Swelling Index) is a general indicator of coking potential, demonstrating a coal’s ability to swell when heated to a specific temperature.

Figure 5.4 Cross-sections C-C' and D-D'

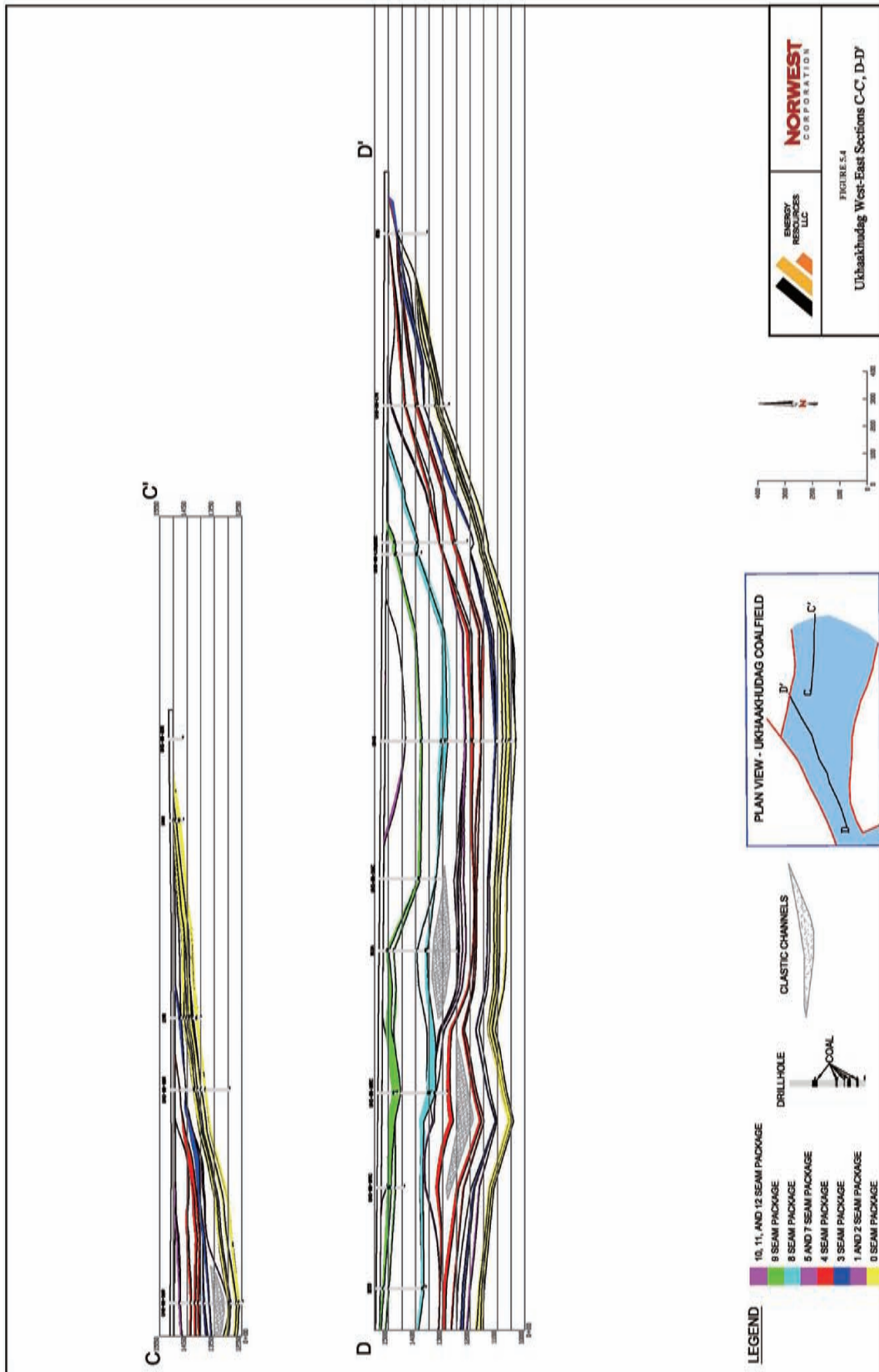


Figure 5.5 Cross-sections G-G' and H-H'

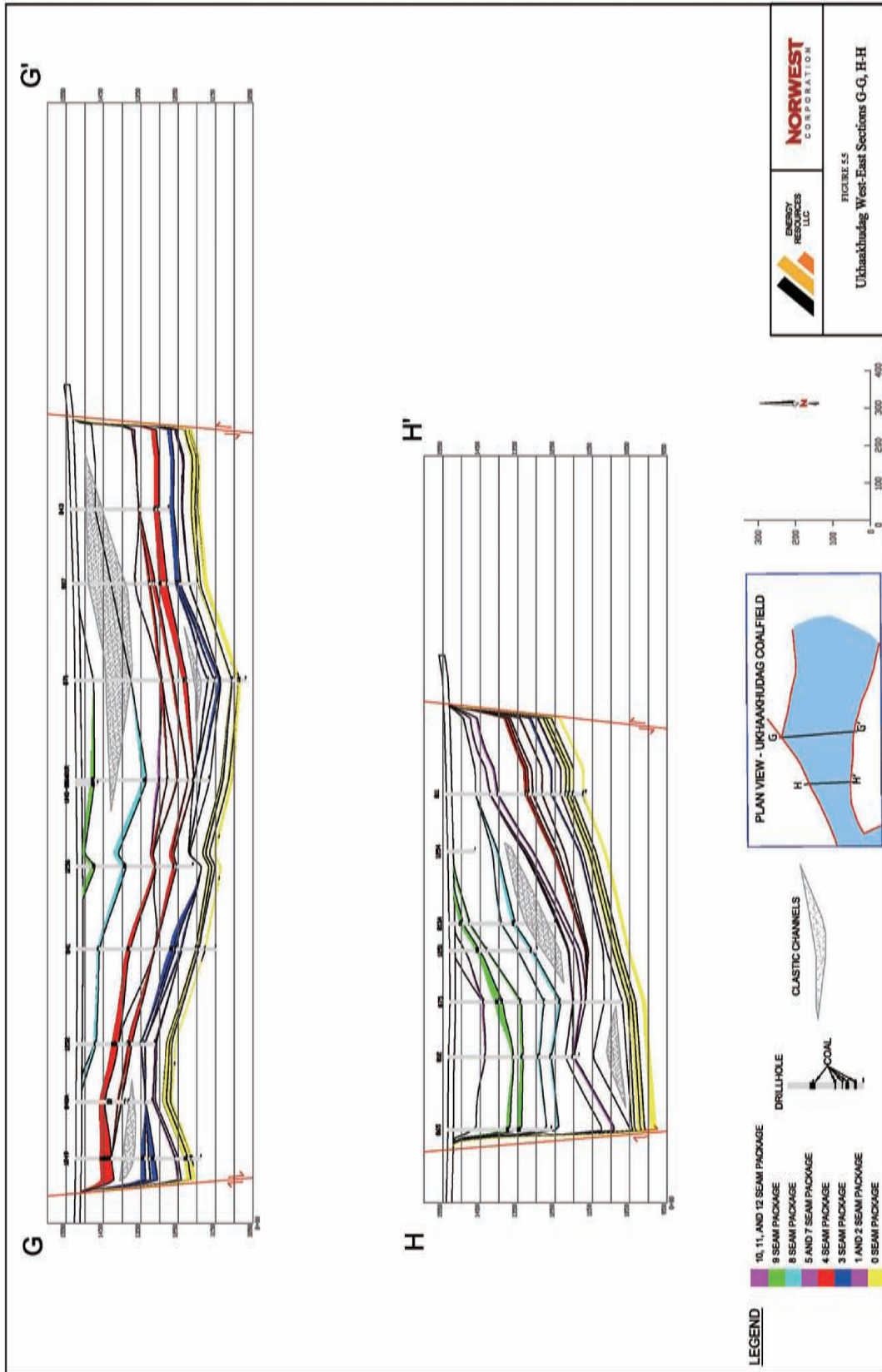
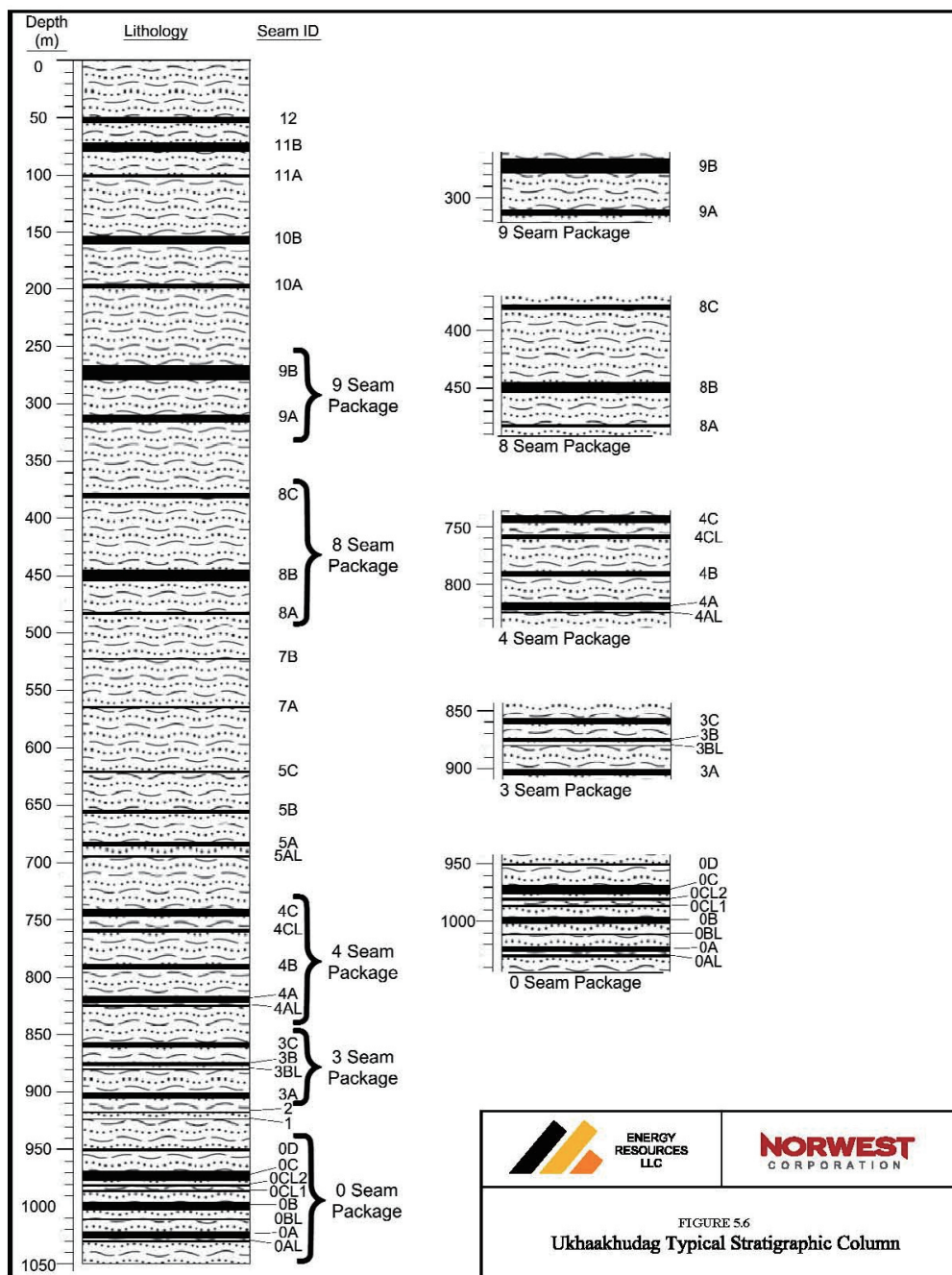


Figure 5.6 Generalized Stratigraphic Column



Seam 4 Group

The 4A and 4C Seams contribute significantly to the UHG metallurgical coal resource, estimated at 9.7% and 10.3% respectively. Metallurgical testing of raw samples, as well as early bulk sample test results, show that Seams 4A and 4C are likely to produce a high quality metallurgical product. Distribution of raw CSN values show both seams, particularly 4C, to average high values over much of the mine area.

In-place ash content is generally quite good for the 4A and 4C Seams. Occasional high ash zones are typically associated with localized zones of in-seam partings that in some instances may be removable. Sulphur content remains low for the 4A and 4C Seams with some isolated high sulphur (>1%) likely to be beneficiated by coal processing and blending to a suitable product.

Seam 8 Group

The 8 Seam package is dominated by the 8B Seam split which represents 7.4% of the total UHG resources. The 8 Seam raw volatiles appear to be higher than the average expected volatile matter content of less than 30% (dry basis) for UHG coal seams. This appears to be a trend observed in Seams 8 and those occurring stratigraphically higher. Seam 8 is not encountered in the five year 2010-2014 period.

Seam 9 Group

The 9 Seam package is split into the 9A and 9B Seams. The 9A Seam has a relatively consistent seam thickness whilst the 9B Seam thickness appears to increase towards the west. Overall volatile content appears to be higher than expectations of less than 30% volatiles (dry basis). Raw sulphur is expected to be less than 1% for most areas of the 9 Seam package, and will be further reduced significantly after coal washing. Seam 9 is not encountered in the five year 2010-2014 period.

Remaining Seams

The remaining allegedly and historically non-coking coal seams (1, 2, 5, 7, 10, 11, and 12) have a contribution of almost 9% to the overall resources at UHG. Seams 1 and 2 are predominantly thin and non-mineable across the property. Seams 5 and 7 occur in localized pods, with the Seam 5 group (5B and 5C) showing some degree of coking potential from raw slim-core analyzes. Seams 10 through 12, due to their relatively high position in the stratigraphic sequence, occur with limited extent predominantly in the northwest portion of the property. Seam 10B shows some coking potential while there is insufficient data to characterize Seams 11 and 12. These seams may be classified as metallurgical coal of some type with further development drilling, and hence may represent some upside for additional coking coal reserves.

5.2 Geological Database

5.2.1 Exploration History

Much of the exploration and development history of the Tavan Tolgoi area has been discussed in a preceding section. Prior to 2008, the UHG coalfield had largely been explored by the Russian-Mongolian teams of the 1980's as part of the larger effort to understand the Tavan Tolgoi deposit. ER conducted an infill drilling and bulk sampling program at UHG in 2008, which was planned and managed by Norwest. The 2008 program sufficiently increased the prior drill hole density and validated the historic Russian data to an extent sufficient for categorizing the UHG mine area as a measured plus indicated resource according to the JORC Code and thereby permitting advanced level mine planning and economic evaluations to be conducted at current international standards. The location of drill holes used in the geologic model and resource estimation is shown in Figure 5.1.

5.2.2 Sampling, Sample Preparation, and Quality Analysis

The entire set of Russian holes used in the UHG database were core holes. However, holes with excessive core loss (<70% recovery) were not used in the geologic modeling.

The 2008 drilling campaign was supervised by Norwest and was done to currently acceptable international standards and best practices. The core holes from the 2008 program had good core recovery, over 93% in coal, and were logged and sampled by a Mongolian field team trained and supervised by Norwest personnel. Proper QA/QC practices were stressed throughout the program.

Analytical work was performed by SGS Laboratories Inc. in Tianjin, China. The Tianjin laboratory currently holds ISO-17025 certification, accredited by the CNAS (China National Accreditation Service for Conformity Assessment). The laboratory is certified to ASTM and ISO standards.

As with other coal work, no special security arrangements were made for the shipping and storage of samples. Additional security methods are not commonly employed, as coal is a relatively low-value bulk commodity.

Cores obtained by the Energy Resources infill development drilling campaign are reported to have been handled following procedures similar to that described above. Analytical work is being performed at Stewart Mongolia, LLC, located in Ulaanbaatar and accredited by the MNSA (Mongolia Accreditation System) in compliance with ISO international standards.

5.2.3 Geologic Modeling and Methodology

Geologic Database

The geological database used to compile the geological model incorporates topographic survey data, previous geological mapping and technical reports, field reconnaissance mapping, and drillhole data. Drillhole data was used from both Russian campaigns and the 2008 drilling program. A total of 111 Russian holes were used in the final model, the majority being core holes. The 2008 program included a total of 124 holes, comprised of 17 slim gauge core holes (PQ/HQ), 99 slim rotary holes (100mm), 5 large diameter core/bulk sample locations and 3 pump test well locations. A grand total of 232 holes were used in the creation of the current geologic model with an average drilled depth of approximately 200m. All drilling was vertically oriented.

Modeling Methodology

Following review and validation of the geological database, a gridded seam modeling approach was selected to complete a digital geological model for UHG. Software utilized in the creation of the UHG model includes the Carlson[®] suite of mining software (formerly known as SurvCADD) and MineSight3D[®]. Both software packages are used internationally in the mining and resource evaluation industry. Most of the modeling was completed using Carlson software whilst MineSight3D was used primarily as a 3D visualization aid for seam correlation purposes.

5.3 Additional Ash Modeling

Recent comparisons between coal quality results of the 50m by 50m infill drilling program and the BFS model have shown a consistently lower ash content than originally modeled. These results would seemingly validate the observations that ROM coal quality has been consistently lower in ash than the BFS model predictions, recorded since mining commenced in 2009. The differences in ash content appear to be between 3% and 4% on average across both the 2010 and 2011 mine plan areas.

The most likely explanation for this discrepancy would be a result of the lower core recoveries experienced in the Russian drilling programs and the resulting influence on cumulative seam quality. It is believed that the Russian coring program likely had difficulty in recovering the brittle, friable vitrinite components of a seam in totality, thereby losing some quantity of the low ash fraction of the seam. Even though Russian holes with excessive loss (>30%) were not used in the BFS model, there is still the possibility that loss of some higher quality components of a seam might skew parameters such as ash content in a negative fashion.

The ramifications of this phenomenon are that ROM quality may be better (lower ash) than predicted from the BFS model, and assumed in this study. A decrease in ash content has a positive effect on wash plant yields, which could result in an increase in coking product tonnes, in addition to other parameters affected by ash such as calorific value and CSN.

6. RESOURCE AND RESERVE ESTIMATES

6.1 Resources and Reserve Classification System

Coal resources have been estimated from the UHG geological model and tabulated into Measured, Indicated and Inferred confidence classes in accordance with the guidelines stipulated in the 2004 JORC Code. The resource and reserve numbers are reported using the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code) as a guideline. The code is viewed by Norwest as the most appropriate guideline for the reporting of the UHG coal resources given the wide use of the code in Asia and Australasia.

6.1.1 General Procedure and Parameters for Resource Estimation

The resources are reported from the Norwest gridded seam geologic model previously described. The resources tonnes have been limited following set of criteria, namely:

- Assumed to be surface mineable
- Minimum seam height of 0.6m
- Exclusion of in-seam partings greater than 0.5m thick
- Depth from surface cut-off of 300m
- Surface weathering limit of 15m from surface.

6.2 Coal Resources Statement

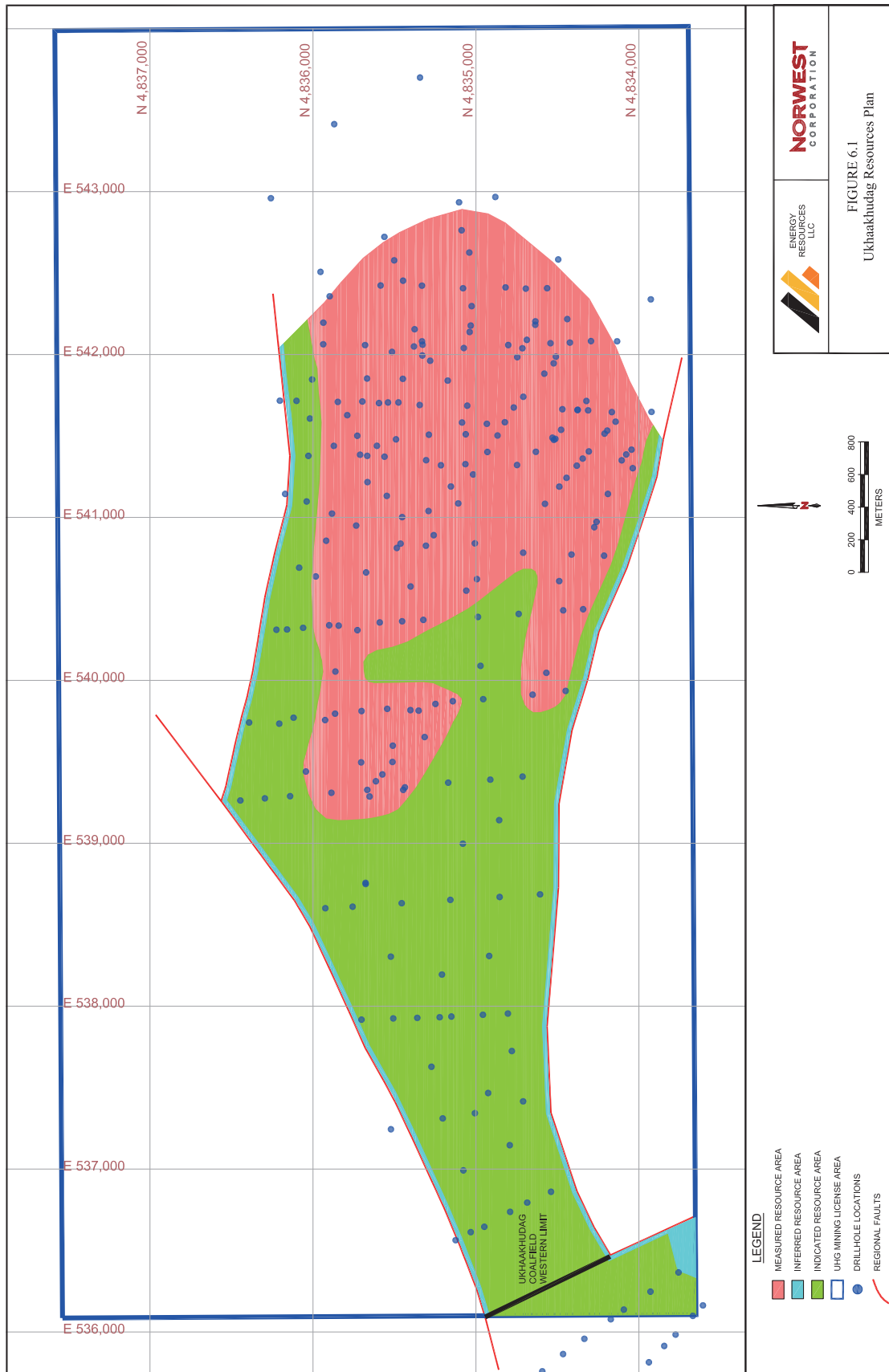
In-place coal resource estimates and associated average raw coal quality derived from the final model are listed in Table 6.1. Figure 6.1 illustrates the distribution on the Measured, Indicated and Inferred resource areas based on distribution of valid points of observation (i.e. drillholes) as described in the JORC code.

Table 6.1 Total in Place Resources by Assurance Category (as of May 31, 2010)

Category	Resource Volume (m ³) '000	Average Thickness (m)	In Place Tonnes (Mt ¹)	Density (g/cm ³) (ad)	Moisture % (ad)	Ash % (dry)	Sulphur % (dry)	kCal/kg (dry)	Volatile Matter % (dry)
Measured	135,430	5.36	206.0	1.52	0.55	25.61	0.64	6,145	23.37
Indicated.	135,718	5.51	205.3	1.51	0.60	24.93	0.69	6,103	27.72
Inferred	7,692	7.36	11.7	1.52	0.56	25.45	0.65	6,057	26.00
Total	278,840	5.49	423.0	1.52	0.57	25.28	0.66	6,122	25.55

Notes: 1. Mt = Million metric tonnes (air dried – ad)

Figure 6.1 Ukhaa Khudag Resource Areas



6.3 Product Quality

It has been long known that the Tavan Tolgoi coalfield is a resource potentially rich in premium coking coal. This is the primary attraction to this coalfield. Most seams in the UHG exhibit sought after premium coking attributes that are very amenable to coke making. Seam 0 coal, which has previously been categorised as thermal coal, has potential as a blended coking coal product. There now appears to be some reasonable coking properties in the 0 Seam package, particularly in Seam 0C, whilst Seam 0B has shown some marginal coking properties.

6.3.1 Saleable Products

Based on the data to date, it is anticipated that the following products will be produced from UHG in the five period 2010 through 2014.

- Hard coking coal (HCC).
- Thermal product will be produced from the seams that are unsuitable for the production of coking coal, and from the secondary DMC (dense media cyclone circuit) secondary thermal product (+1.2 mm size fraction). The coal washing process is discussed in Section 5 of this report. Thermal ash (Secondary Product) is assumed to be a minimum of 20% ash (average 11-12% ash), although higher ashes would be considered for local domestic production with commensurate increases in yield.

In general, prices for coking coal prices are driven by on the coking characteristics of the coal. Thermal coal prices are dependent on the heat value and ranking (determined in part by the volatile matter (VM) content) of the coal, with penalties levied for unusually high sulphur content. Due to the wide variation in selling price for different coal types, maximum return for the overall project can only be achieved if the quantity of the higher value product types is maximized subject to meeting the required product specification for all consignments. The main product types that have been determined to date include the following.

Coking Coals

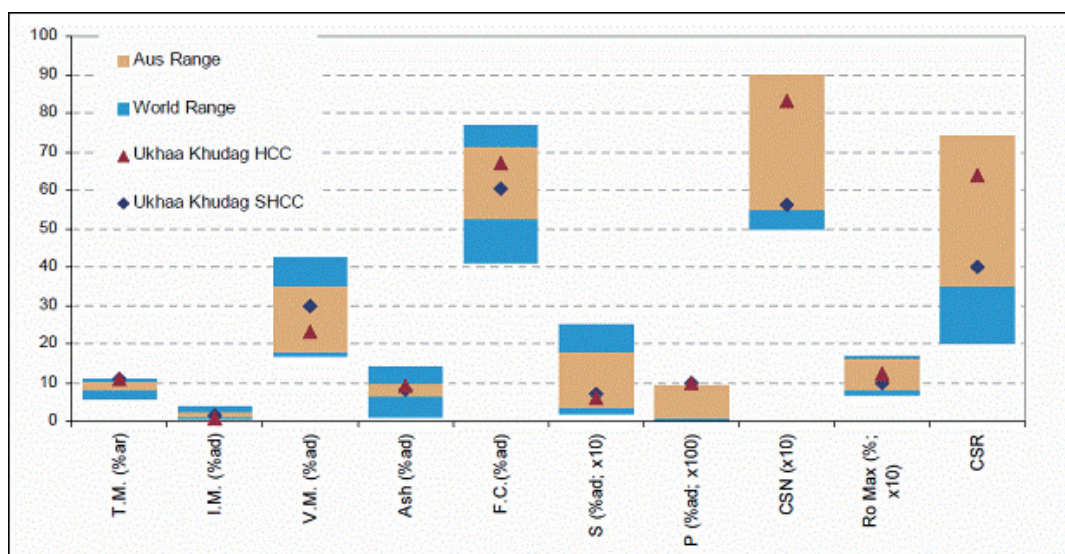
Coking coal are commonly split into two groups, hard coking coal (HCC) and weak or semi-hard coking coal (SHCC) based on value in coke making. HCC is essential for the production of a strong coke. This coal generally has the ability to make a strong (or hard) coke when coked on its own. Semi-hard coking coal (SHCC) is higher ash versions of HCC, which still has good coke making properties. The term semi-hard is more of a commercial classification rather than one which reflects the strength of the resultant coke. The hard (strong) coking coal at UHG is medium volatile coal with mean maximum vitrinite reflectance values in the range of 1.23% to 1.29%. Semi-hard coking coal (SHCC) (alternatively known in Western markets as “soft coking coal”) on the other hand does not produce as strong a coke when coked alone. It tends to be coal with weak coking properties and is commonly added to the coke oven blend to reduce the overall cost of the coal. There is a limit to the proportion of soft and semi-hard coking coal which can be added. Soft coking coal (or SHCC) typically attracts a premium in the market over semi-hard coking coal because of its high fluidity. The softer coking coal at UHG is high volatile coal with mean maximum vitrinite reflectance values in the range of 1.01% to 1.09%. Table 6.2 summarizes the product coking properties of all coking seams, considerable variation in terms of yield and ash, phosphorus, sulphur and coking properties exists between the individual seams.

Table 6.2 Indicative Coal Product Qualities by Seam

Seam	0C	3A	4A	4C	8	9
1.40 Float Ash	12.1	9.4	9.0	7.9	8.2	7.2
1.40 Float Yield	41.0	65.8	66.9	71.7	67.9	66.3
1.45 Float Ash	13.6	10.5	9.8	8.5	9.1	7.7
1.45 Float Yield	54.9	78.7	75.5	78.3	75.5	69.6
Volatiles (ad)	21.3	22.4	22.9	23.9	29.6	31.2
Volatiles (daf)	24.2	24.9	25.4	26.4	32.8	34.1
Inherent Moisture	0.9	0.7	0.8	0.7	1.1	1.6
Phosphorus (ad)	0.075	0.117	0.089	0.134	0.102	0.126
Total Sulphur (ad)	0.4	0.6	0.4	0.7	0.8	0.4
CSN	8½	8½	8	8	6	5
Fluidity ddpmm	26	168	435	564	364	1560
Sapozhnikov Y mm	12	13.5	13.5	15	16	15.5
Sapozhnikov X mm	14	18.5	21.0	20.5	27	30.5
G Index	80	85	87	88	92	90
Reactives Vitrinite %	64.1	63.9	55.8	58.2	65.5	60.7
Reflectance %	1.29	1.25	1.23	1.28	1.01	1.09
CSR measured	69.5	64.8	69.4	66.3	39.5	40.4
CRI measured	21.3	28.4	24.1	25.3	40.0	40.0

In Figure 6.2, the key hard and semi-hard coking coal properties of the UHG coal are compared with the world and Australian quality ranges. In the key CSN (crucible swelling) and CSR (coke strength after reaction) parameters, UHG premium HCC rank near the top of the categories. Conversely, UHG is at the low end of sulphur content. With the exception of phosphorus content, the UHG coal mostly falls in the acceptable-to-premium quality parameter ranges.

Figure 6.2 Comparison of Key UHG Coking Coal Properties with World and Australian Ranges⁵



Thermal Coal

The lowest 0A and 0B seams are too low yielding, too high in ash, and contain relatively poor coking properties in the coarsest fractions to produce a hard coking coal, despite being of the appropriate rank. Hence these shall be washed at higher cutpoints to produce a higher yielding, higher ash thermal product⁶. This will be medium volatile rank with an expected specific heat is expected to be approximately 6800kcal/kg (as received). The ash content will be in the 11% to 12% (ad) range. Seams 0C, 3A and 4A will produce a secondary thermal product derived from rewashing the coarse rejects (+1.4mm). This will be medium volatile rank with an expected specific heat is expected to be approximately 6,400 to 6,700kcal/kg (as received). The ash content will be in the 18% to 20% (ad) range. Seams 8 and 9 will similarly produce a secondary thermal product, but in the high volatile range, and are not encountered in the five year 2010-2014 period. The expected specific heat is expected to be approximately 5900kcal/kg (as received). The ash content will be in the range of 21% (ad).

⁵ Barlow Jonker Pty Ltd. *Ukhaa Khudag Coal Market Report*. Sydney, Australia, August 2008. Figure 57, Page 102.

⁶ At the time of this writing, further carbonization testing is planned to be performed to determine if Seams 0A and 0B can be blended with the other HCCs to produce an acceptable coking coal.

6.3.2 Fluid and Plastic Properties of UHG Coking Coal

There are several important tests that are used to characterize key coking properties of the candidate coal seams.

In order to successfully produce coke, a given coal must be able to coalesce or melt, giving off volatile gases and vapours. Then it must pass into a fluid stage and finally solidify. This progression of is the plastic range as recorded by change temperature. Two important test are routinely performed help understand the true coking capacity of any given coal and how it fits with other coking coal.

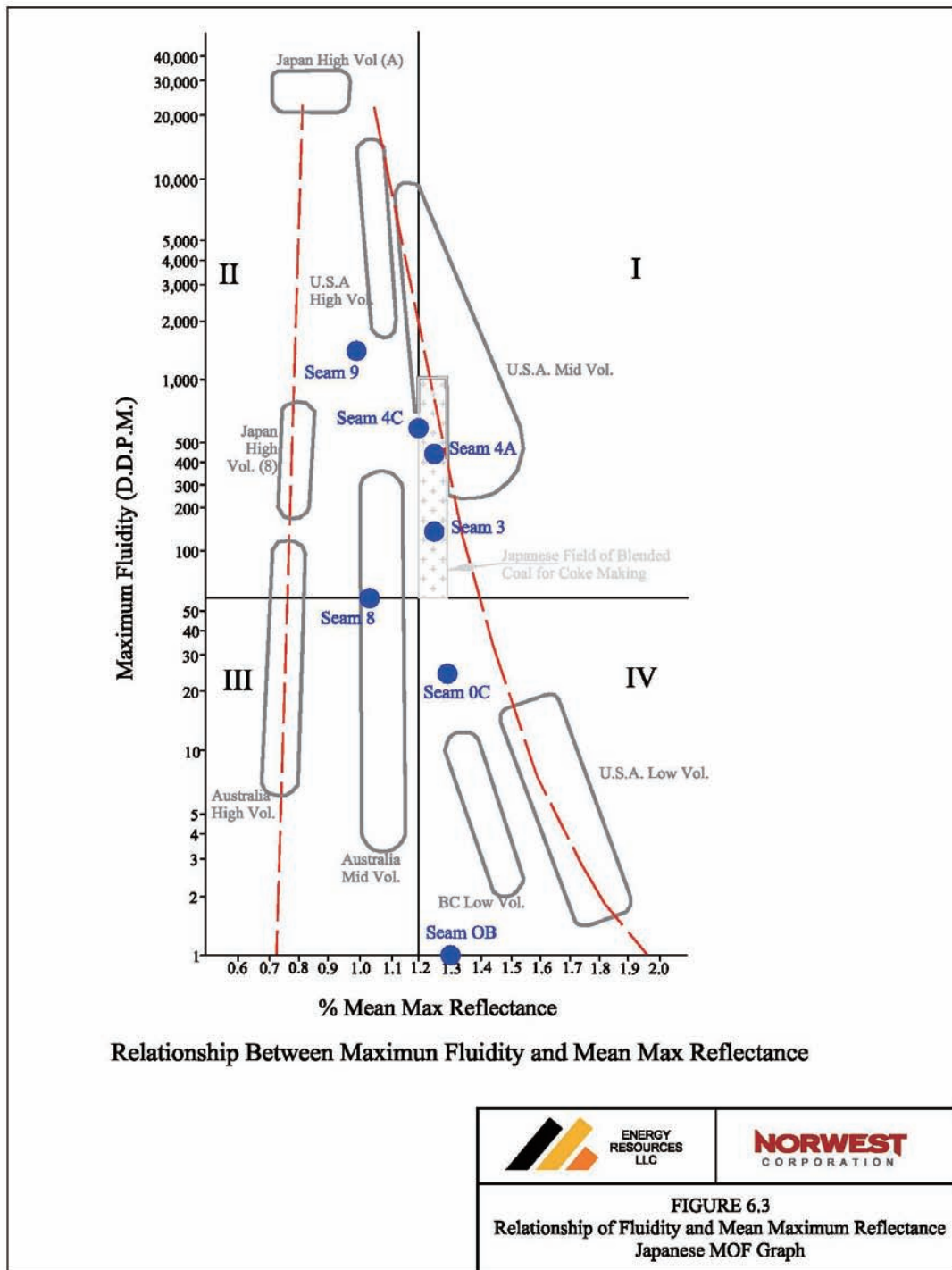
Fluid Properties

The principal test for fluidity is the Gieseler test. Its results are reported in dial-divisions-per-minute (ddpm). The fluidity results are routinely plotted against vitrinite reflectance on the Japanese MOF graph. This graph is very useful in determining how to blend a particular coal with other coal to make a proper coke product.

As can be seen in Figure 6.3 (MOF graph) all of the UHG coal is well positioned, i.e., in close proximity to the field for an ideal coke. It is interesting to note that Seam 0C, which exhibits many premium coking attributes very similar to Seams 3A, 4A and 4C, has a slightly lower fluidity. In the case of Seam 0C, the fluidity is probably slightly depressed due to its higher intrinsic ash content. Nonetheless, it fits very well other HCC of UHG.

Another outcome of the Gieseler fluidity testing is the recording of the temperature range as the heated coal passes from initial melting, fluidization and then to re-solidification. Figure 6.4 in the blending discussion below show the ranges of each UHG coal. Alternatively in the Chinese market, a test called Sapozhnikov is often performed. The Sapozhnikov test will generally have a good correlation with Gieseler. Figure 6.4 depicts this correlation for the UHG seams.

Figure 6.3 Japanese MOF Graph





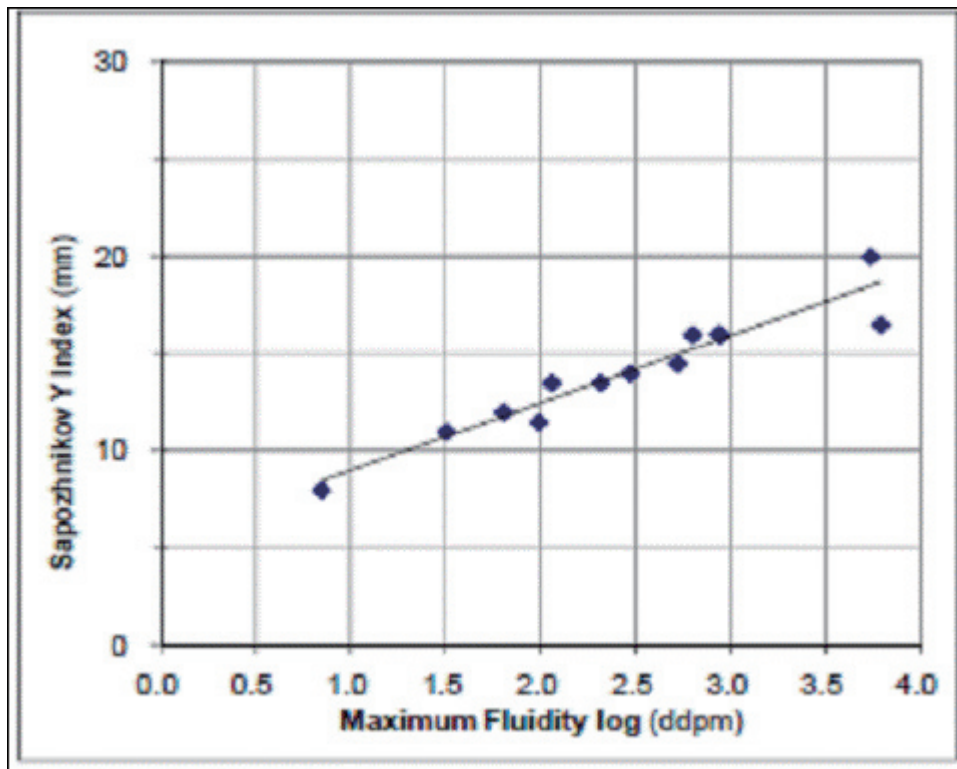
 <p>ENERGY RESOURCES LLC</p>	 <p>NORWEST CORPORATION</p>
<p align="center">FIGURE 6.3 Relationship of Fluidity and Mean Maximum Reflectance Japanese MOF Graph</p>	

Figure 6.4 Correlation between Sapozhnikov Y Parameter and Gieseler Fluidity



Plastic Properties

Another important test for indicative coking potential of a coal is the measure of its swelling or plastic properties. The dilatation test measures the amount of contraction or shrinkage when the coal begins to melt. As temperature rises and time continues through the plastic phase of heating, the melted coal will often expand (dilatation). Note that the temperature range in the dilatation test is very similar to fluidity phase measured in the Gieseler test. Figures 6.5 and 6.6 indicate dilatation results for a variety of UHG coal. Figure 6.7 plots the UHG dilatation results against VM as well as many well known coking coal products worldwide.

Figure 6.5 Seams 0c, 3A, 4A, and 4C Dilatation

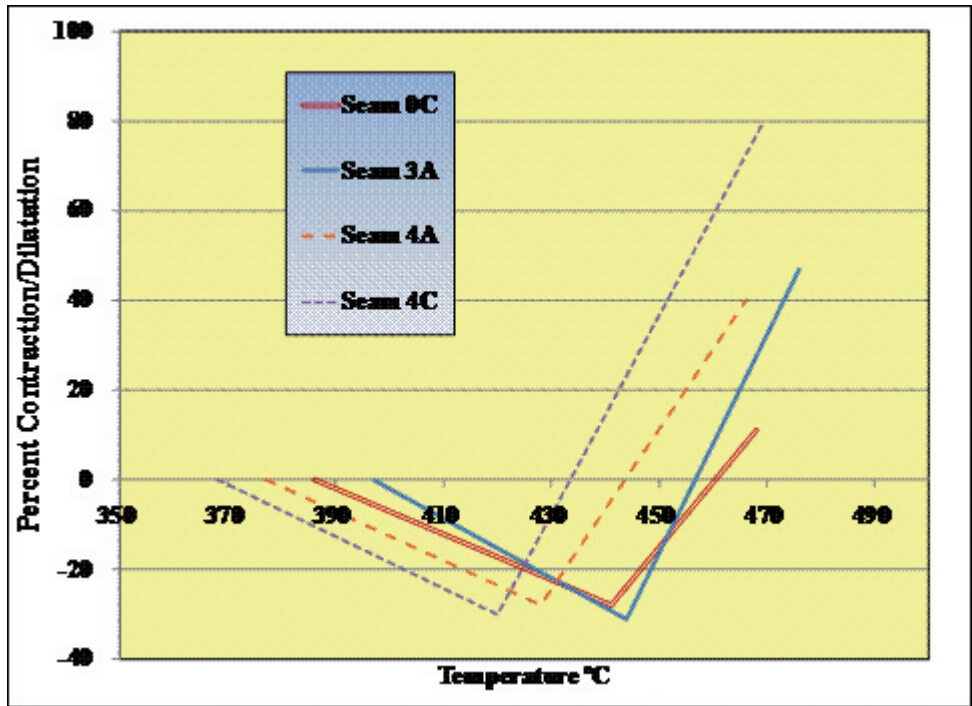


Figure 6.6 Seams 8 and 9 Dilatation

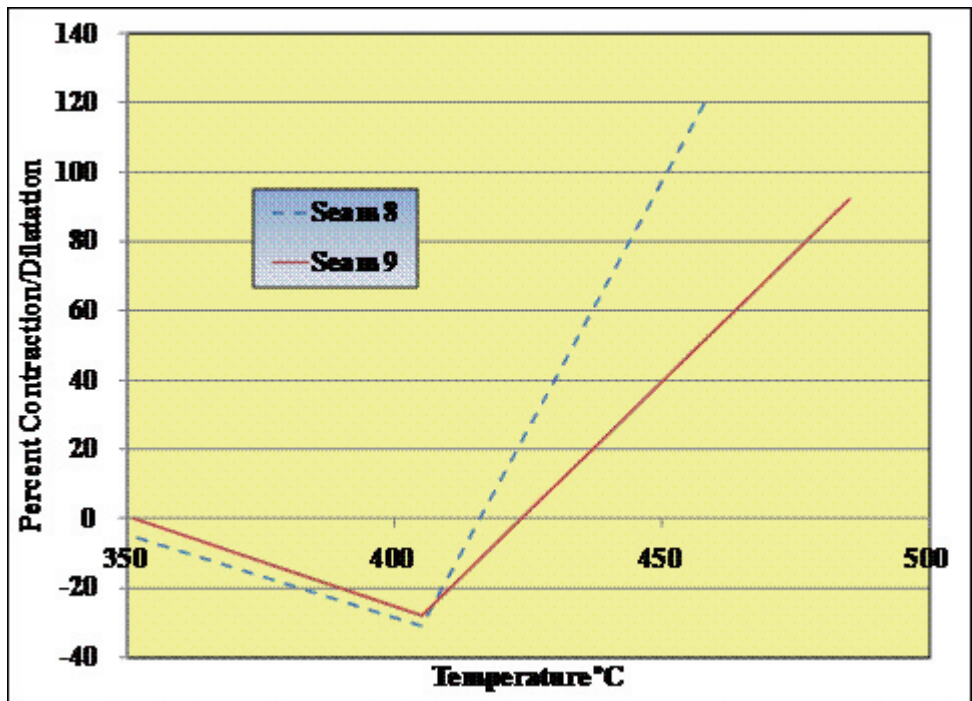
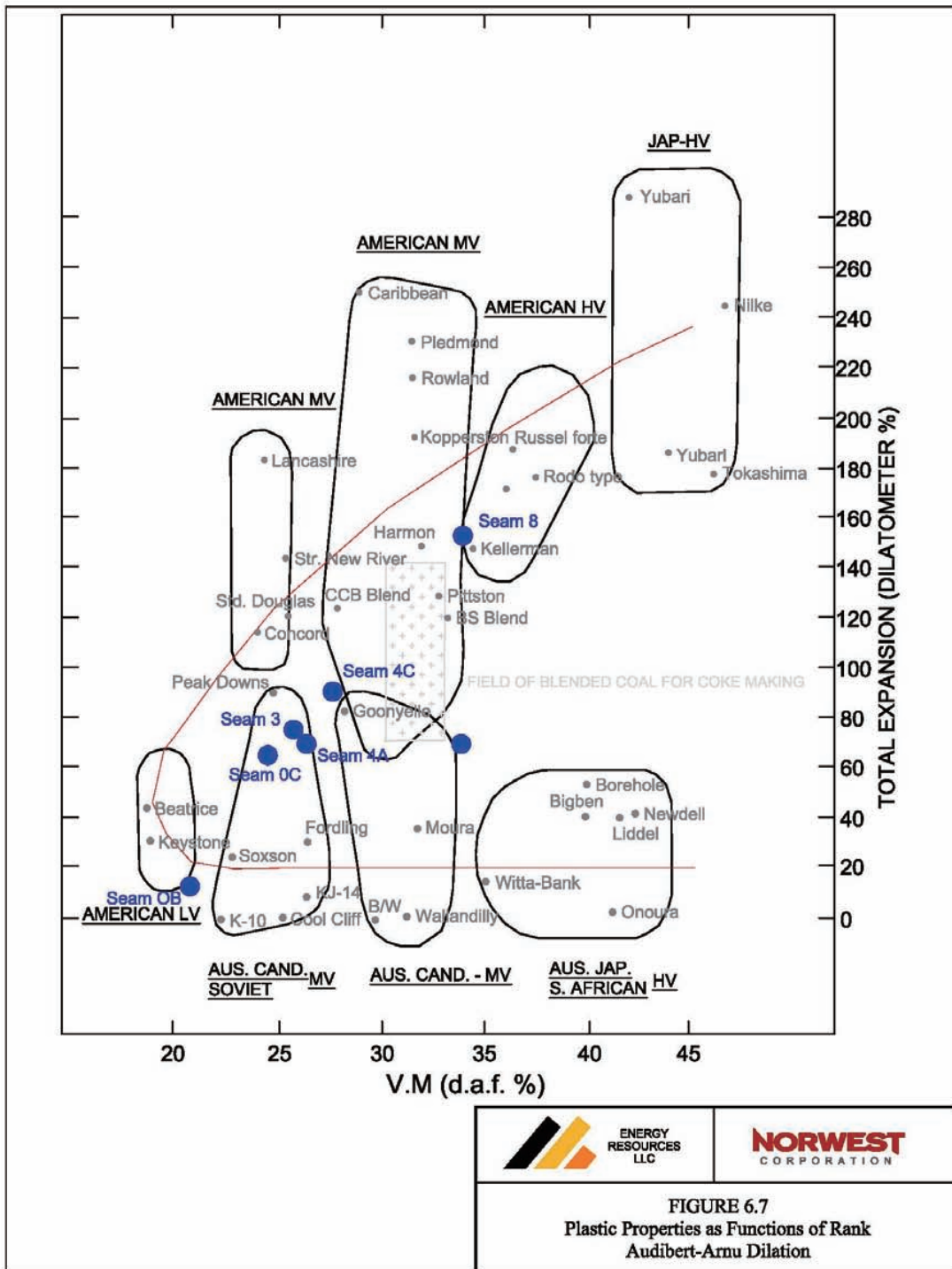


Figure 6.7 International Comparisons of Plastic Properties, by Rank



Coke Strength

In addition to physical testing of coal to determine its coking potential leading candidate coal such as UHG is subjected to small scale oven testing to produce an actual coke sample. After the coke is formed, strength tests on the coke are performed. The importance of strength relates to when coke lumps descend in the blast furnace. They are subjected to reaction with counter-current CO₂ and to abrasion as they rub together and against the walls of the furnace. These concurrent processes physically weaken and chemically react with the coke lumps, producing an excess of fines that can decrease burden permeability and result in increased coke rates and lost hot metal production. Perhaps the key indicator whether the UHG coal is premium hard or semi-hard coking coal is the strength of the derived coke. Several tests related to coke strength were performed to test the physical properties of the coke.

For the UHG coal, ER/Norwest directed SGS to prepare 75 kg clean coking coal samples to be tested in small scale coke ovens. Key coke strength results of those tests are reported in Table 6.3. As can be seen, the CSR results for Seams 0C, 3A, 4A and 4C are remarkably high. Of special note is the Seam 0C, which will likely be classified as a semi-hard coking coal due to higher intrinsic ash, nonetheless produces a very strong coke. As expected, semi-hard Seams 8 and 9 produced lower coke strength and stability values, but are not encountered in the five year 2010-2014 period.

Table 6.3 Indicative Coke Strengths of UHG Coal

Seam	Coke Reactivity Index	Coke Strength after Reaction	Stability Factor	Hardness Factor
0C	21.3	69.5	64.2	67.5
3A	28.4	64.8	67.5	68.8
4A	24.1	69.4	68.2	70.9
4C	25.3	66.3	67.6	71.2
8	40.0	39.5	51.4	64.2
9	40.0	40.4	51.9	63.6

Another means for predicting coke strength is the Shapiro-Gray graph. This is very useful since it uses petrographic data of the coal itself instead of actual oven tests. Figure 6.8 indicates that all of the key UHG coal falls into the metallurgical coal group necessary for blast furnace operations. This graph is also useful for predetermining coal blends for coke making. Note that the stability predictions in the Shapiro-Gray graph closely correlate with the actual coke stability values in Table 6.3.

Figure 6.8 Shapiro-Gray Graph

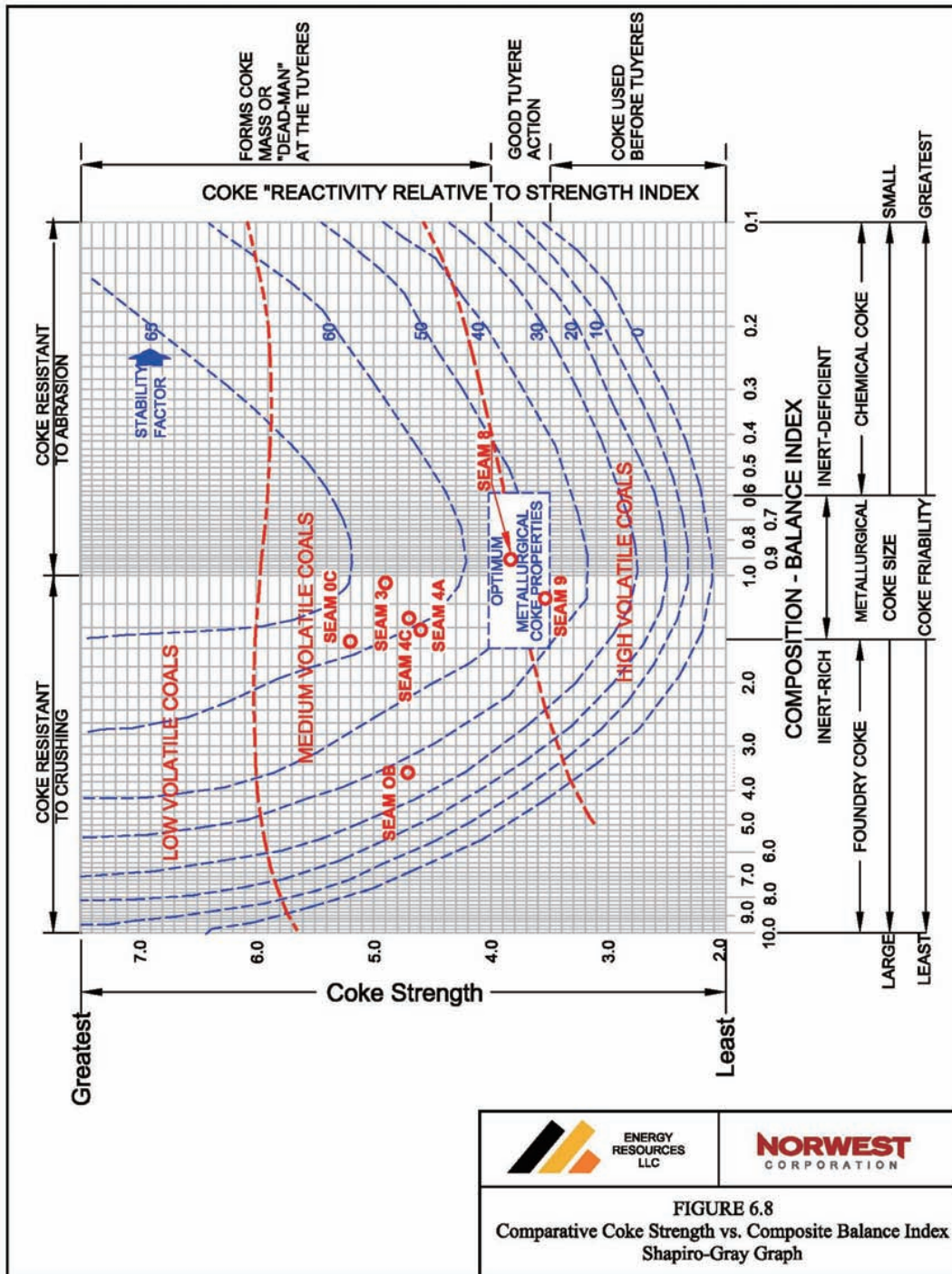
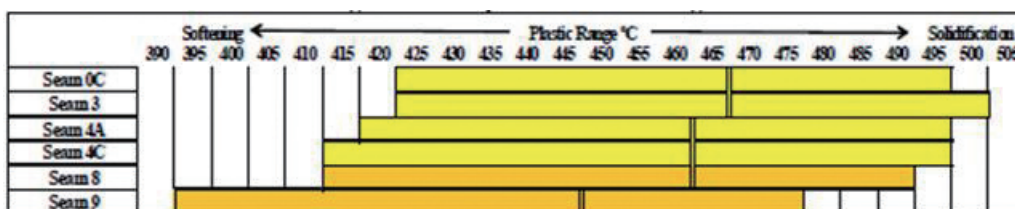


FIGURE 6.8
Comparative Coke Strength vs. Composite Balance Index
Shapiro-Gray Graph

6.3.3 Blending for Product Quality

UHG will produce coal from a total of approximately 8 distinct seams/plies with a wide range of coal quality. The quality can be expected to also vary within the same seam on a regional nature to some degree, but a comprehensive suite of coal quality cores analyzed to standard procedures will be necessary to determine this pattern accurately. This will be determined from the two year slim core exploration program on the UHG deposit to be commenced this year. Figure 6.9 depicts the softening through re-solidification temperature range determined by the Gieseler fluidity test.

Figure 6.9 Comparative Plastic Ranges of UHG Coal



Figures 6.10 and 6.11 show the petrographic groupings of vitrinoid types for hard coking and semi-hard coking coal. Note the close statistical matching of vitrinite maceral-types within each coking coal product type.

Figure 6.10 Vitrinoid Distributions for Hard Coking Coal

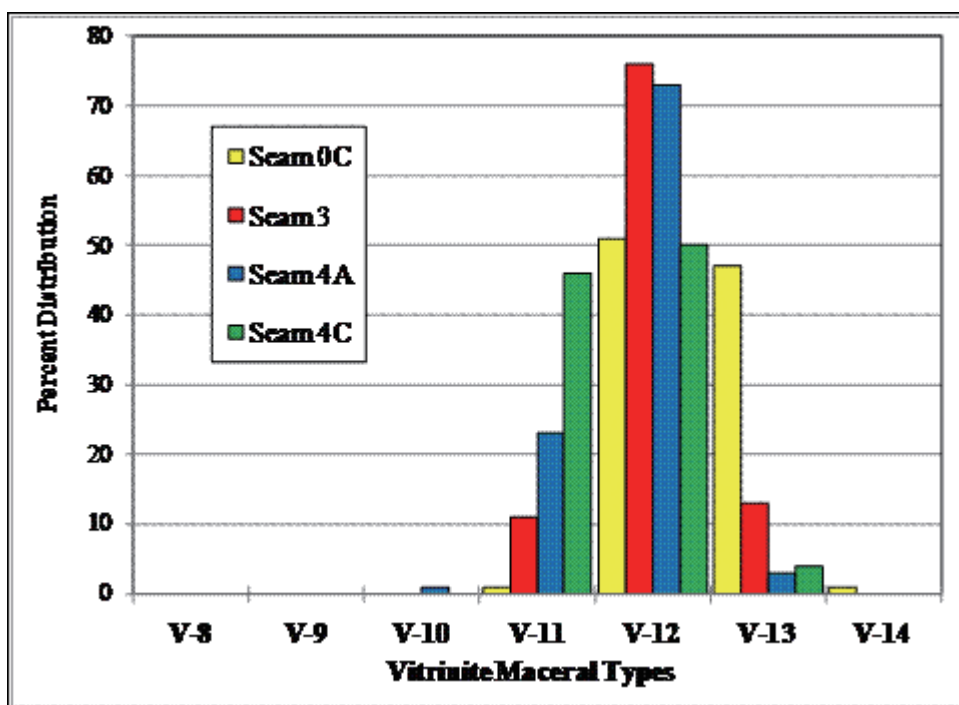
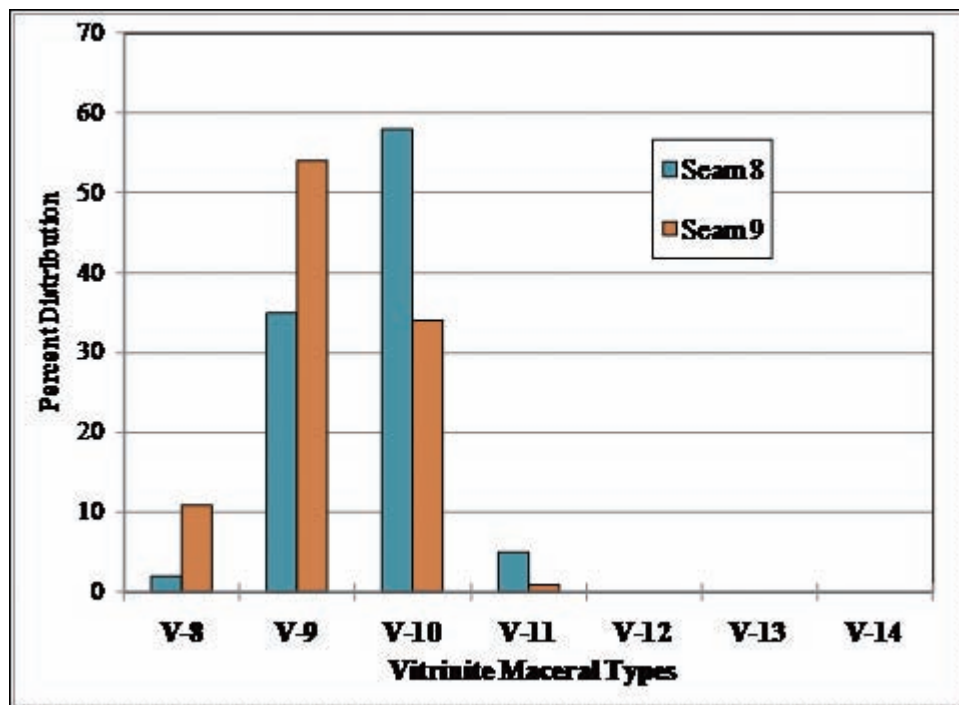


Figure 6.11 Vitrinoid Distribution for Semi-Hard Coking Coal



Hard Coking Coal

Four seam groups are suitable for producing premium hard coking coal: Seams 0C, 3, 4A and 4C. Phosphorus in particular is relatively high overall, and increases for the upper coking coal seams, so coal will be sourced from a combination of seams to meet the average product specification for each shipment. This will be achieved on the stockpiles based on a building up blended stockpiles of perhaps 30,000 tonnes each, scheduled from the appropriate combination of different mining faces. Seam 0C in particular will need to be blended in as a regular component of the blend due to its high intrinsic ash level and as it becomes a major component of the resource after the initial development years. Seam 0C, if marketed as a standalone, would technically be classified as a “semi-hard” coking coal due to its higher ash content.

Thermal Coal

The lowest 0A and 0B seams are too low yielding, too high in ash, and contain relatively poor coking properties in the coarsest fractions to produce a hard coking coal, despite being of the appropriate rank. Hence it is recommended that they be washed at higher cutpoints to produce a higher yielding, higher ash thermal coal product. As discussed in this report, Norwest has recommended that the potential for Seams 0A and 0B to be blended with coking coal (in order to increase the amount of saleable coking coal) be investigated further.

6.4 Estimate of Reserves

Norwest estimation of coal reserves at UHG are defined by the recent BFS and described in the feasibility study report *Ukhaa Khudag Project Bankable Feasibility Study*, November 13, 2009. To the best of our understanding this estimate of reserves is compliant with *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves* (the JORC code).

6.4.1 Procedure and Parameters for Reserve Estimation

A geologic “block” model of the resource base was generated, and portions of the base assigned to Measured, Indicated and (negligible) Inferred resource categories. The BFS then demonstrated the economic viability of portions of that resource base as reserves. Those portions of reserves contained within the Measured and Indicated resources were then classified as Proven and Probable reserves, respectively. In addition, an estimate was made of the quantity of clean, saleable that may be produced from the Proven and Probable coal reserves.

Specifically, the following were considered in Norwest’s reserve estimate:

- Geologic model and resource estimate
- Geotechnical considerations
- Hydrological considerations
- Mine planning, including pit and scheduling optimization
- Coal handling, processing, and preparation
- Rail transport
- Water supply
- Mine infrastructure
- Health, safety and environmental considerations
- Socio-Economic considerations
- Assessment of permits, approvals, legal opinion and business position
- Market study
- Financial valuation of the Project.

6.4.2 Reserves Statement

A summary of the reserve estimate is reported in Table 6.4 (see Appendix A for complete reserve estimate).

Table 6.4 Summary of Coal Reserve Estimate (May 31, 2010)

	Total Reserves*		Marketable Reserves**	
	Proven	Probable	Proven	Probable
Mtonnes	191	95	122	61
Total***	286		182	

* Excludes 0.4Mt from mine plan within Inferred resource category

** Includes primary washed product and secondary product

*** Rounded

7. POTENTIAL FOR DEFINING ADDITIONAL MINERAL RESOURCES AND RESERVES

7.1 Two Year Drilling Plan

A drilling program is planned by ER over the course of the next two years that would effectively increase the drilling density across the entire UHG property to a 500m by 500m spacing. The objective of the program is to tighten the control and accuracy of the UHG geologic model for detailed mine planning purposes and to confirm indications that the Russian drill hole data (and by extension, the current model used as the basis of this report) reflects a higher ash content than is actually encountered during mining. Additionally, seams other than the four traditional coking seams (Seams 3, 4, 8, and 9) will be investigated for potential inclusion as a metallurgical grade resource.

Drilling to date has shown that Seams 5 and 10 have the potential, where occurring with a low to moderate ash content, to be classified as a coking coal. A property-wide program as proposed would identify those areas using slim gauge core samples, and provide target areas for more thorough investigations of their metallurgical properties.

The program would also serve to tighten the drill hole spacing in the far west portion of the property where the uppermost seams occur. Past drilling campaigns have only one or two core samples of Seams 11 and 12 and little is currently known of the coking potential for these seams. While not of great areal extent they could still contribute to the overall coking coal resource at UHG.

7.2 Potential for Additional Mineral Resources

The UHG reserve contains several coal seams that may present upside resource value relative to the reporting in the Bankable Feasibility Study. Seams that Norwest believes merit further examination include the 0A/0B group, Seam 5 and Seam 10.

7.2.1 Seam Group 0A/0B

The 0A/0B seam group has some indication that it may be possible to blend these with the other hard coking coal prior to washing. If this were to work without significantly degrading the key coking properties of the HCC product, then the overall value of this seam group would like increase.

For this reason, Norwest has recommended that Seam 0B be sampled again from large diameter (LD) cores. Preferably, several locations are drilled to better understand the character of 0B (and 0A) and if there is any variability to this major resource. Norwest understands that ER is planning to undertake these recommendations in the summer of 2010.

7.2.2 Seam 5 and 10

Seams 5 and 10 will likely be better defined after the two year drilling program has thoroughly sampled them with slim gauge coring. As with Seams 0A and 0B, areas showing positive coking characteristics should be submitted to a similar LD bulk sampling and testing program. A thorough understanding of the sizing, washability and coking properties of these seams may lead to their classification as some level of metallurgical reserve.

7.2.3 Underground Mining Resource

Norwest has identified a coal resource at UHG lying below 300m in depth that is categorized as an “underground” deposit type, meaning that the probable extraction method would be through underground mining techniques. Norwest has used JORC criteria to estimate coal resources occurring between 300m and 800m according to the criteria shown in Table 7.1. These resources are considered for future rather than immediate exploitation and were not considered in the scope of the BFS.

Table 7.1 Resource Limiting Criteria

Minimum depth from surface	300m
Maximum depth from surface ⁷	800m
Minimum apparent seam thickness	1.5m
Maximum mineable parting thickness	0.5m
Main seams below 300m surface	8B, 4C, 4B, 4A, 3C, 3B, 3A, 0C, 0B, 0A

⁷ Maximum seam depth for the deposit is 712m from surface for Seam 0A

The total in-place resources below 300m (i.e., underground mineable resources) are summarized in Table 7.2, with an estimated break-out of relative quantities of coal suitable for coking and thermal products, as indicated from bulk sample testing. Whilst the coal resources below 300m represent a significant addition to the overall UHG resources it must be noted that a reserve estimate has not been made.

Table 7.2 Underground Mineable Resources with Coking and Thermal Product Potential (in-place)

Seam	Indicated		Inferred		Total	
	Coking Tonnes (Mt ¹)	Thermal Tonnes (Mt ¹)	Coking Tonnes (Mt ¹)	Thermal Tonnes (Mt ¹)	Coking Tonnes (Mt ¹)	Thermal Tonnes (Mt ¹)
8B	5.6	–	0.4	–	6.0	–
4C	10.2	–	7.3	–	17.5	–
4B	4.3	–	12.2	–	16.5	–
4A	3.9	–	1.7	–	5.6	–
3C	0.9	–	0.0	–	0.9	–
3B	0.4	–	1.7	–	2.1	–
3A	6.0	–	5.4	–	11.4	–
0C	19.4	–	13.5	–	32.9	–
0B	–	16.0	–	14.5	–	30.5
0A	–	21.9	–	12.6	–	34.5
Total	50.7	37.9	42.2	27.1	92.9	65.0

Notes: 1. Mt = Million metric tonnes (air dried-ad)

An additional objective of the Two Year Drilling Plan (500m x 500m) is to target coal occurrences below 300m in depth and further delineate potentially mineable underground resources. Current plans call for these holes to penetrate up to 600m below ground surface and subject retrieved coal samples to a comprehensive analytical suite including washability a metallurgical characterization. This will serve to increase the level of geologic assurance for JORC compliant reporting of potential underground resources as well as increase the limiting lower depth of current estimates. Underground resources were restricted to 600m below surface as existing drilling does not support seam continuity or quality beyond this depth. Practical underground mining does occur at greater depths and the quantity of underground resource would likely increase with greater geologic assurance and with conservative extrapolation beyond the 600m depth limit.

8. MINE OPERATIONS

8.1 Overview

8.1.1 Background

Currently, the mining operations at UHG are managed by Leighton under a relationship style contract with ER. Leighton were also contracted during the recent BFS to complete a LOM mine plan and associated mining cost estimate for the UHG Coal Project.

As part of the BFS, Norwest reviewed the work performed by Leighton with the purpose of determining the integrity of the technical work and cost estimation. Following review, Leighton's work was used the basis of the BFS.

8.1.2 Proposed Life-of-Mine Operations

Coal will be mined using hydraulic excavators and rear dump trucks. Initially, lower-ash coking coal will be mined and transported by truck directly to the Chinese border for sale to customers in China. Coal will be washed to produce a coking coal product, as and when the coal washing plant comes on-line.

A coal washing plant is currently being constructed in three 5Mtpa stages of ROM coal to reach a total capacity of 15Mtpa at the beginning of 2013. Waste material will be stripped using large hydraulic excavators and shovels and will be transported to ex-pit and/or in-pit waste dumps.

Figure 8.1 generally illustrates site plan.

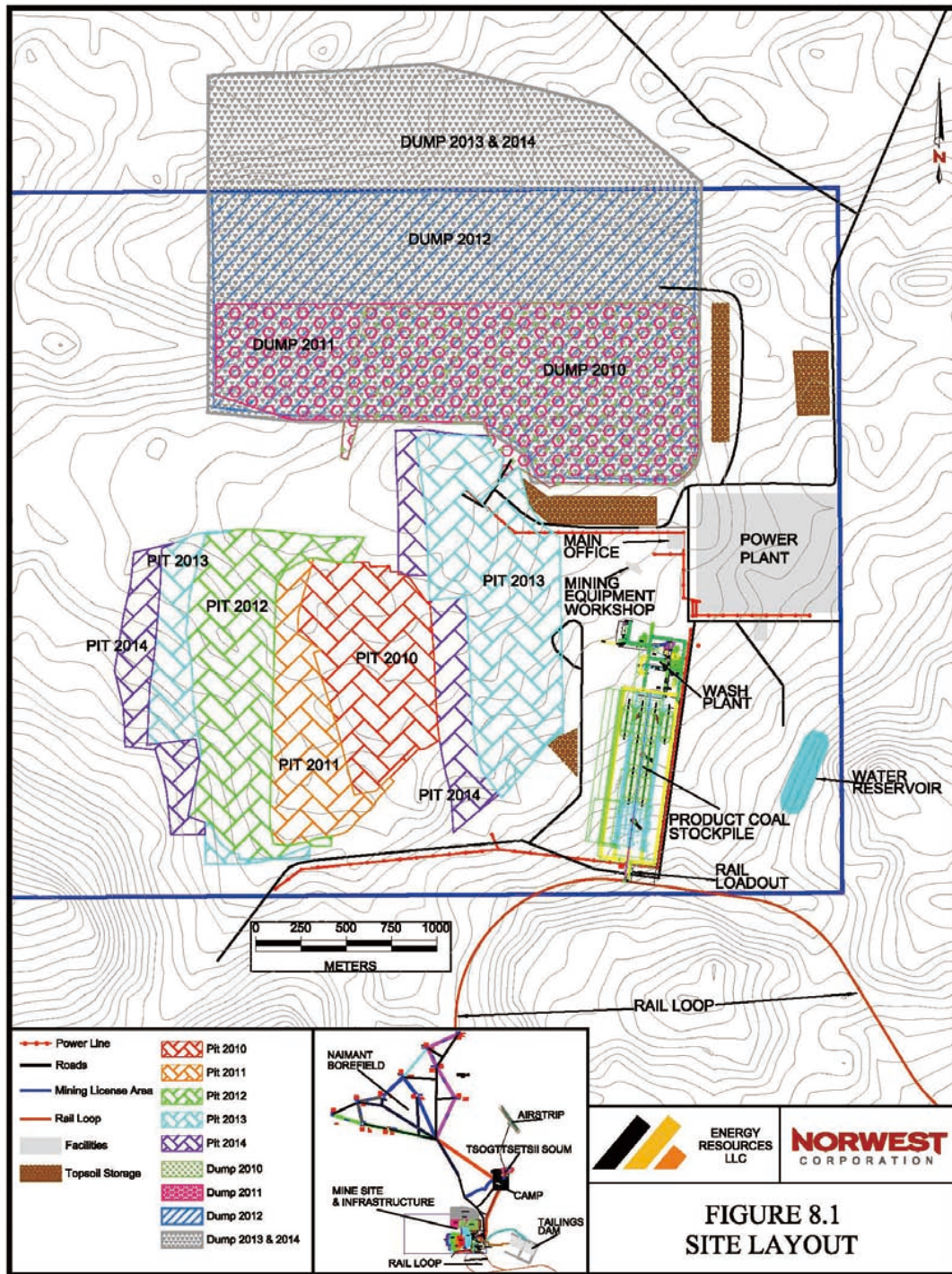
8.2 Current Mining Operations

From March, 2009 through May, 2010, Leighton have removed 12.6Mbcm of waste material, and have produced 3.0Mt of ROM coal. Waste is currently being hauled and dumped in out-of-pit waste dumps.

Waste is stripped with a variety of hydraulic shovels and mining equipment, with appropriate support equipment, including:

- Liebherr R996 hydraulic shovel (34m³) (one unit)
- Liebherr R984 hydraulic shovel (7.7m³) (one unit)
- Liebherr R9250 hydraulic shovel (15m³) (two units)
- Cat 785C mining trucks (150 tonne capacity) (nine units)
- Cat 793 mining trucks (240 tonne capacity) (four units)
- Cat D10 tractor dozer (three units)
- Cat 16G motor grader (one unit).

Figure 8.1 Site Layout



A low-ash coking coal that does not require washing (3 and 4 seams) is selectively mined and blended through ROM stockpiles. There is currently no coal handling, processing or beneficiation of the ROM coal. Coal is currently loaded into transport trucks for third-party delivery to markets across the Chinese border.

Photo 8.1 shows recent mining operations at UHG.

Photo 8.1 Surface Mining Operation at UHG



8.3 Production Schedule

Mine planning has been executed in order to achieve the production schedule required by ER. Several optimization scenarios were run, using the ‘Whittle’ software package, to fully understand the impact of unwashed and washed product coal on pit shells. The final optimization model was broken into two parts; unwashed and washed product coal and adjusted to achieve a LOM schedule.

8.3.1 Project Ramp-Up

Mine planning was performed in order to generate an optimized mine plan for the ‘ramp-up’ period to achieve a ‘steady-state’ production of 15Mtpa. This is considered to be a sensitive and critical period of the Project. The ability to achieve higher production levels will depend in many factors including availability of equipment and labour. The ‘ramp-up’ schedule required by ER in order to make sales targets is as follows:

- 2010 – 3.8 Mt ROM coal
- 2011 – 7.0 Mt ROM coal
- 2012 – 10.7 Mt ROM coal
- 2013 – 14.7 Mt ROM coal
- 2014 – 15.2 Mt ROM coal

The ramp-up schedule initially targets low-ash coking coal that is beneficiated by the customers at their own facilities in China (after 2011, all coal is to be beneficiated in ER's CHPP). This allows time for:

- Construction of the CHPP. The modular design of the CHPP allows a gradual phasing-in of CHPP capacity until a steady-state production of 15Mtpa at the start of 2013. The 5Mtpa phase of the CHPP will be operational by the beginning of 2011, and the 10Mtpa phase by September 1, 2011.
- Training of mine equipment operators. ER now has a \$1M equipment simulator on site which is being used to train equipment operators in the correct and safe methods of operating equipment.
- Developing the mine infrastructure.
- Pre-marketing acceptance of the UHG coking coal products by end users (the ROM coal is being washed at washplants in Inner Mongolia and the product coking coal is then being used to produce coke for a number of steel mills).

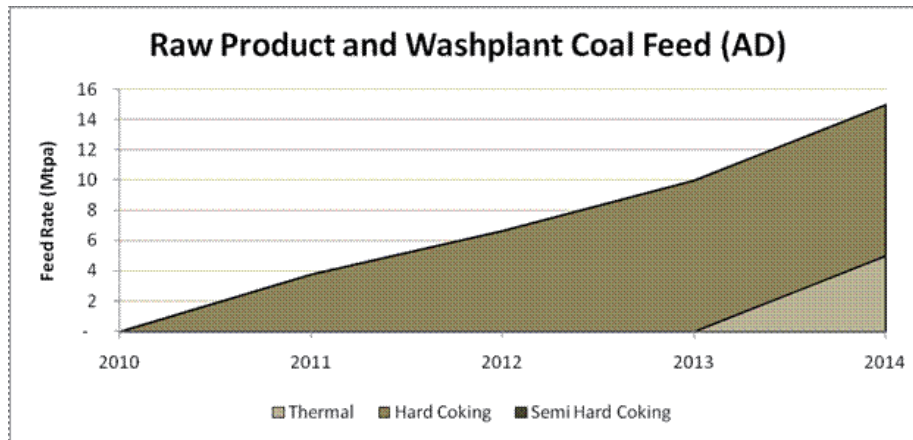
Table 8.1 summarizes the coal production schedule and stripping requirements for the LOM.

Table 8.1 Material Movement Schedule

Total Material Movement Quantities								
Period	Thermal	Coking		Total Mined (Mtpa ROM)	Volume Waste (Mbcm)	Destination		S/R (bcm/t ROM)
	Seams 0A, 0B & 0D (Mt ROM)	Seams 0C, 3 & 4 (Mt ROM)	Coking Seams 8 & 9 (Mt ROM)			Inpit (Mlcm)	Expit (Mlcm)	
2010	–	3.8	–	3.8	20.9	–	26.1	5.5
2011.	–	7.0	–	7.0	28.8	–	36.0	4.1
2012	0.8	9.9	–	10.7	58.8	–	73.5	5.5
2013	5.0	9.7	–	14.7	59.0	–	73.7	4.0
2014	5.5	9.7	–	15.2	63.2	3.9	75.1	4.2
Totals.	11.3	40.2	NA	51.4	230.7	3.9	284.4	4.5

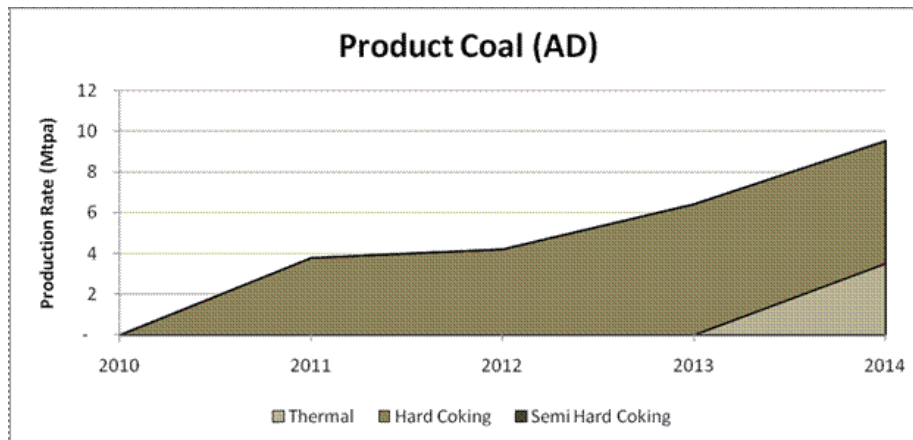
The make-up of wash plant feed, by product type, is shown on Figure 8.2.

Figure 8.2 Raw Product and Wash Plant Feed by Coal Type



The quantity of coal produced, by product type, either through direct sales (through 2010) or after coal washing (post-2010) is shown on Figure 8.3.

Figure 8.3 Coal Product Tonnes by Coal Type



8.3.2 'Steady-State' Production

The Project reaches a 'steady-state' production rate of 15Mtpa in 2013 and maintains that level throughout the LOM.

8.4 Mining Contract

Leighton is currently under contract with ER to perform contract mining services at the UHG mine. The contract term is for 70 months, and will continue through the 'ramp-up' period until UHG reaches a steady state production of 15Mtpa. In fact, the contract is renewed, or 're-set' every time Leighton is obliged to make a major capital investment in mining equipment, and so the contract is likely to be renewed several times over the current five year 'ramp-up' period, and Leighton will almost certainly continue to perform contract mining services.

8.5 Mine Equipment

A brief review of the most appropriate combination of loaders was conducted for this study including the following:

- Electric rope shovels
- Front end loaders (FEL)
- Hydraulic shovels (with either electric or diesel power)
- Diesel over hydraulic excavators (backhoes).

Draglines were not considered due to the dipping multiple seams that will be encountered in this operation. In addition, draglines are not widely used in Mongolia⁸ or in neighboring China. Rope shovels were deemed to be unsuitable due to their high capital costs and relative lack of mobility. The following combination of hydraulic shovels and hydraulic excavators was selected.

8.5.1 Coal Mining Fleets

- 100t class diesel-powered hydraulic excavators with 6.7m³ buckets loading 150t capacity rear dump trucks with standard body configuration (90m³ capacity).
- 250t class diesel-powered hydraulic excavators with 19m³ buckets loading 150t capacity rear dump trucks with oversized coal body configuration (115m³ capacity).

8.5.2 Waste Mining Fleets

- 250t class diesel-powered hydraulic excavators with 15m³ buckets loading 150t capacity mechanical drive rear dump trucks with standard body configuration (90m³ capacity).
- 600t class diesel-powered hydraulic shovels with 34m³ buckets loading 240t capacity mechanical drive rear dump trucks with standard body configuration.

8.5.3 Support Fleets

In addition to the primary earthmoving equipment, there is also support equipment including:

- 425kW-class tractor dozers (Cat D10)

⁸ Draglines are used at the Baganuur mine.

- 152-229mm rotary drill (Driltech D45KS)
- 600kW-class front end loader (Cat 992)
- 350kW-class front end loader (Cat 988)
- 235kW-class rubber-tired dozer (Cat 824)
- Water trucks (Cat 785 and 773 chassis)
- Motor graders (Cat 16G and 14G)
- 50 tonne-class rejects trucks (Cat 773)
- Other ancillary equipment including light plants, service trucks, compressors, light excavators, cranes, etc.

Productivity was calculated for each fleet, taking into account factors such as downtime, reasonable annual equipment operating hours, meter hours, truck haul profiles, etc.

By applying equipment productivities to the volumes of material to be handled, fleet sizes were estimated.

8.6 Personnel

By applying total equipment hours required to hours available per year, by employee, the total number of operators may be estimated. Support staff was then estimated based on reasonable estimates of what would be appropriate for a project such as UHG.

Tables 8.2 and 8.3 summarize the projected total mining-related employment during the life of the mine for the operating/support workforce and administrative staff, respectively.

Operating, maintenance and general labour have been estimated and include allowances for training; absenteeism and paid non-operating time to ensure maximize equipment utilization. Training requirements during start-up and completion of the production build-up will be higher than the balance of the mine life. Training allowances start at 5% of total operating labour and decrease to 3% once full peak production levels are achieved.

Table 8.2 Workforce and Contractors Employment Summary

Year	ROM				Total
	Production, Mt	Geology & Lab.	Maintenance	Operations	
2010	3.8	44	52	193	289
2011	7.0	65	110	367	542
2012	10.7	72	135	492	699
2013	14.7	75	147	528	750
2014	15.2	77	152	536	765

Table 8.3 Administrative Employment Summary

Years	Administrative	Expatriates	Total
2010	19	9	28
2011	41	9	50
2012	55	9	64
2013	61	9	70
2014	63	9	72

8.6.1 Training

Suitable and sufficient training will be critical to the long term success and safety of the UHG operation. To that end a training program is in development and is currently being implemented. A training manager will oversee all aspects of the training program to ensure that it meets both ER's needs as well as statutory obligations.

One example of the commitment of ER and Leighton to ensure adequate training of personnel is the computer simulator currently in-use at the mine site. The facility is contained within an enclosed 15m storage container, and has been designed to exactly simulate working equipment in a variety of conditions. It does this through visualization via a monitor, and hydraulically controlled physical feedback, similar to an aircraft simulator.

8.7 Mine Infrastructure

Development mine infrastructure specific for direct support of the mining operations will be provided in two phases as summarized below.

The current infrastructure and facilities for the UHG project include:

- A permanent 'mine camp' including accommodation, recreation, dining and administrative facilities
- Permanent maintenance work shop (see below)
- Transportable office facilities

- Some ger-style training and meeting rooms
- An outdoor storage area for larger items
- A coal assay laboratory
- A ger camp to accommodate additional site personnel.

The current infrastructure has been expanded to include a new workshop complex with an approximate area of 2,300m² which is now completed and operational. The expanded workshop includes adequate provision for the following major functions:

- Truck maintenance/repair of the Caterpillar 785/793 trucks
- Light vehicle maintenance/repair
- Welding
- Equipment washing
- Training
- Warehousing
- Office facilities for the maintenance personnel.

Other key facilities⁹ include the following:

- Explosives storage area, managed by explosive suppliers.
- Fuel storage, managed by the leading Mongolian fuel suppliers.
- Miscellaneous facilities such as field lunch rooms, ablution facilities, a medical facility, security facilities and fencing.

8.7.1 Second Phase

The workshop complex currently under construction will be expanded in about 2 years to accommodate the larger fleets of mining equipment which will be purchased to meet the higher production rates and stripping ratios.

⁹ The Office Complex is described under the chapter "Site Infrastructure"

8.8 Water Supply

Several regional and site specific hydrogeological investigations were completed to develop a comprehensive water supply plan for the operation.

The primary water supply is designed to provide the make-up project water requirement, less dust suppression which is estimated to be reliably produced from pit dewatering. A final pit dewatering assessment is ongoing through 2010. It is anticipated that advance dewatering and in-pit sumps will contribute to the overall supply, although the quantities available from dewatering cannot be confirmed at this stage due to ongoing exploration works.

The primary groundwater resource target is the Naimant Depression, approximately 20 km from the mine. The Naimant Depression was investigated using standard geological, geophysical, and hydrogeological techniques, with results demonstrating that the supply and quality will meet project needs up to 117 L/s. A license has been granted for the start-up supply of 51 L/s and additional permissions required for 117 L/s supply are currently being processed with formal approval expected in July 2010.

The start-up water supply design (51 L/s) consists of a network of five existing groundwater wells equipped with standard submersible pumps supplying a transfer station through polyethylene pipelines, which in turn is pumped to a constructed storage pond above the mine containing about 6.5 days water supply. The transfer station consists of a collector tank and booster pump thereby reducing the maximum operating pressure so that lower pressure rated polyethylene pipe can be used for water delivery. Initially, the system will be powered by a diesel generator with conversion to line supply later in the project.

To account for the increased production targets, a 'start-up' borefield (capable of delivering 51 L/s) is to be commissioned in late 2010, with a ramp-up to full production from 12 test production bores (117 L/s) by late 2011. It is expected that additional water will be required, and to that end the nearby Naimdain Khundii basin is currently being explored (approx 40km north of UHG). A preliminary 2009 study established that 100-150 L/s may be available from Naimdain Khundii, which would provide ample excess water supply capacity for expanded UHG operations. Exploration works across Naimdain Khundii are ongoing through 2010 to confirm supply potential and secure formal abstraction rights. A preliminary concept engineering design has been completed for conveyance of water supply from Naimdain Khundii to UHG.

8.9 Geotechnical Assessment

Norwest prepared a slope stability assessment and pit slope design guidelines for the UHG coal mine. The document presents slope stability assessment results and design guidelines for the ultimate pit walls and provides recommendations for operations, maintenance and surveillance. The findings of that Geotechnical assessment, as well as of a follow-up memorandum also prepared by Norwest can, are summarized here.

8.9.1 Approach

Norwest made site inspections and researched all available data including:

- Geologic model and interpretations
- Proposed pit shell models
- Geotechnical core logs
- Digital photos of core
- Laboratory test results
- Results of 2008 groundwater assessment
- Groundwater studies for other projects within the region.

This information was used to perform limit equilibrium stability analysis using specialized software. This is the basis for determining slope design parameters.

8.9.2 Pit Design Guidelines

The geotechnical report presents preliminary pit slope design guidelines for the footwalls, endwalls and highwalls of the UHG Pits in the initial years of the Project.

Footwall Slopes

Design guidelines specific to footwall slopes include the following:

- Footwall slopes are developed parallel to bedding to minimize waste extraction and prevent undercutting potentially unstable strata.
- The footwalls follow competent strata for the maximum height allowable before benching occurs. The maximum height is dependent on rock mass strength and structure. Where bedding angles do not exceed 20°, footwalls are developed fully unbenched.
- Blast designs are carried out to maintain setback distance from footwall to limit damage and maintain a continuous bedding plane. Buffer blasting or trim blasting is carried out along trim rows to limit blast damage to the rock mass.

Footwall slopes require that some natural drainage (to a depth of 5m below the footwall) occurs to achieve acceptable FOS. While shallow dipping footwall slopes (less than 15°) should not require extensive dewatering, steeper footwalls will likely require additional dewatering to drawdown groundwater to depths of 10m below the footwall.

Endwall Slopes

Depending upon bedding angles, endwalls will be developed as both benched and unbenched slopes. Where endwall bedding does not exceed 20°, design guidelines presented for footwall slopes should be used. The design guidelines presented below are provided for areas where endwall bedding exceeds 20°. Pit slope guidelines meet typical open pit performance criteria and recognize constraints imposed by the mining method and equipment size.

Table 8.4 summarizes the design guidelines which apply to pit endwalls.

Table 8.4 UHG Endwall Pit Slope Design Guidelines

Parameter	Value
Bench Height (m)	50
Bench Width (m)*	50
Bench Face Angle (degrees)**	30
Overall Slope Angle (degrees)	23

* *Bench width based upon distance to mine out the nearest underlying coal seam*

** *Bench face follows bedding angle*

Highwall Slopes

Table 8.5 summarizes the design guidelines which apply to pit highwalls.

Table 8.5 UHG Highwall Pit Slope Design Guidelines

Parameter	Value
Bench Height (m)	20
Bench Width (m)	11
Bench Face Angle (degrees)	60-65
Bench Face Angle Weathered Rock	45
Overall Slope Angle (degrees)	45

8.10 Surface Water Management

A current interim water management plan, based upon previous work by Aquaterra, presents conceptual designs for surface water management and mine dewatering/depressurization, including preliminary cost estimates.

8.10.1 Drainage Design

Drainage design to manage surface water is developed in two stages.

Stage 1

The Stage 1 drainage plan covers the first seven years of the mine plan and includes an 8.3m diversion drain along the east side of the facilities area and overburden dump. A perimeter drain system to divert and collect surface water drainage, using natural grades where possible, is planned to encompass the 7-year mine block.

Surface water drainage from disturbed areas will be collected and routed through a sediment pond to be located north-east and down-gradient of the out of pit overburden dump.

The main sediment pond with a surface area of 9,600m² is planned for the location north-west of the overburden dump at the outlet of the culvert.

Stage 2

The Stage 2 drainage on the eastern and north-eastern portions of the mine and the facilities area remains the same as in Stage 1. As segments of the Stage 1 diversion drain are mined out in Stage 2 being replaced by a new diversion segment located between the mine and the overburden dump and a flood retention structure located at the topographic low point along the western edge of the Stage 2 mine pit.

Other components of the Stage 2 drainage plan include extensions of existing drains, and construction of a new perimeter drain to divert surface drainage from the mine pit and into the flood retention structure located along the western edge of the Stage 2 mine pit.

8.10.2 Depressurization Design

The depressurization system was designed to maintain appropriate hydrostatic pressures to ensure mine wall and pit floor stability needed for safe and efficient mining, and maximize water recovery for water supply and to minimize pit inflows. Additional detailed design work is required as mining progresses.

8.10.3 In-Pit Stormwater Management

Initially, stormwater will be diverted from the pit through the use of temporary diversions. Stormwater infiltrating the pit will be collected in sumps and pumped to out-of-pit sediment storage ponds.

8.10.4 Integrated Mine Water Management

Surface water runoff is an unreliable source of water supply in the South Gobi. However, in-pit water will be used to supplement the main water supply for the washplant, as well as for dust suppression. In-pit sumps function as settling ponds and will be fitted with a standpipe and pump for filling water tankers.

The water pumped from the depressurization bores, and stored at a reservoir adjacent to the mine, provides a more dependable supply that can supplement the supply from Naimant Depression wellfield for use at the coal wash plant, the power plant, and the mine facilities, including potable use. This main water supply from the Naimant wellfield will be developed as the project ramps up, and additional units of the coal wash plant come online.

9. COAL HANDLING AND PREPARATION PLANT

9.1 Introduction

UHG's coal handling and preparation plant (CHPP) is an integral part of the UHG business unit of ER. The capital cost for this facility is significant, with remaining costs approximately US\$220 million (ex-VAT and contingencies). Without the CHPP, high-value saleable coking and thermal coal products would not be possible. The CHPP will ultimately support the handling and processing of 15Mtpa ROM.

9.1.1 CHPP Feasibility Study

A detailed feasibility study was conducted by Sedgman Consulting (Beijing) Co. Ltd. in 2009 and parallels the detailed design and engineering activities of the parent company, Sedgman Limited of Brisbane, Australia.

The Sedgman CHPP feasibility study documented the coal quality analyses, the selection of the processes, and the agreed plant design criteria to which the detailed design is being developed. The study also included a preliminary construction schedule with associated challenges and the basis upon which the capital and operating costs are calculated.

9.1.2 CHPP Basis of Design

Norwest developed, on behalf of ER, original technical specifications for the CHPP as well as solicitation of Request for Proposal (RFP) documents. The RFP required, at a minimum, the following basis of design:

- CHPP – comprising the CPP, coal handling systems and related infrastructure.
- Ultimate production scale of 15Mtpa of ROM to be constructed in 5Mtpa increments to allow for orderly expansion.

- Primary products to be a variety of premium HCC and SHCC for export with 8% to 10% ash as well as potential thermal coal for either export or domestic use and secondary product thermal coal.
- Be developed in four phases of construction to match the expansion of the mine to coincide with the arrival of the railroad and match market demand, as required, to preserve cash flow.
- Be of robust, high availability construction for minimum 6,000 hours per annum operation, i.e., coal-on processing (availabilities of 7,000+ hours per annum are reported for similar CHPP systems in Australia).
- Process design required accounting for the high value of the intended coal product(s); hence, the design must maximize coking coal recovery.

Significant weighting was placed on the last two bulleted items.

9.1.3 Contractor Qualifications

The CHPP feasibility study contractor, Sedgman Consulting (Beijing) Co Ltd, is a subsidiary company of Sedgman Limited, the EPCM contractor on the UHG project. Sedgman has a significant history in the successful development, design, construction, operation and maintenance of CHPPs and associated infrastructure.

9.2 Process Selection

Perhaps the most important element of the CHPP is the Coal Preparation Plant (CPP), i.e., the actual coal washing process that is required to upgrade the raw mined coal into a saleable product. Trade-off studies identified that a two-stage dense media cyclone (DMC)-spirals-flotation circuit would maximize the recovery of the hard coking using proven, robust, commercially available coal processing equipment.

Process simulations for each seam further indicated a significant amount of secondary product can also be recovered. While these do not have suitable coking properties, the secondary products from UHG have very good thermal properties for power generation.

9.2.1 Saleable Products

Based on the data to date, it is anticipated that the following products may be produced during the five year period 2010 through 2014. Coal quality and yield are indicative only at this stage, and actual values will depend on further testing and marketing studies.

- Hard coking coal, according to the specific seam being mined.

- Thermal product will be produced from the seams that are unsuitable for the production of coking coal, and from the secondary product DMC product.

9.3 CHPP Phased Development

By any standards the proposed UHG plant will be one of the world's largest coking coal facilities. The planned expansion of the UHG CHPP facility involves four distinct phases.

- Initial 5Mtpa Phase – Coal Handling & Preparation Plant
- 10Mtpa Phase – 2nd CPP module and expansion of Rejects Handling and ROM CHP
- Rail Integration Phase – Product coal handling and train load out facilities of CHP (15Mtpa capacity)
- 15Mtpa Phase – 3rd CPP module allowing full mine expansion to 15Mtpa (ad).

It is suggested that the reader refer to the attached series of material handling flowsheets for the follow phase descriptions (Figures 9.1 through 9.4.).

9.4 Potential Increased Capacity

As noted above, the original design criteria required a minimum annual operating run time of 6,000 hours. This was purposely conservative factoring challenges of operating a large industrial facility in the remote and sparsely populated Gobi. However, Norwest believes the current CHPP design is readily and mechanically capable of achieving 6,500 run hours per annum provided and the operating contract for the CHPP will be based on the operator achieving a minimum of 6,500 operating hours per year.

9.5 Staffing and Contract Operations Management

The labour staffing estimates for the operation of the UHG CHPP are based on 12 hour shifts with a three panel roster. The work pattern per roster consists of seven (7) days, seven (7) nights and seven (7) days off. Table 9.1 details the proposed management and administration staff for the four phases.

Table 9.1 CPP Labour Staffing Requirements

Position	5Mtpa Phase	10Mtpa Phase	Rail Integration Phase	15Mtpa Phase
Management/Admin . . .	13	13	13	13
Operators	24 (8 per shift)	30 (10 per shift)	42 (14 per shift)	54 (18 per shift)
Lab Technicians	6 (2 per shift)	6 (2 per shift)	6 (2 per shift)	6 (2 per shift)
Artisans	21 (7 per shift)	27 (9 per shift)	33 (11 per shift)	42 (14 per shift)
Total Day Shift	30	34	40	47
Total Night Shift	17	21	27	34
Total Personnel	64	76	94	115

ER has a contract with Sedgman to provide operation readiness training and to provide contract operations management for the CHPP.

The operations readiness includes training of key workers in Australia (currently underway) prior to commissioning as well as setting up systems for:

- Logistics supply chains and spares requirements
- Management plans (HSE, Operations, Laboratory)
- Maintenance systems, procedures, and inspection requirements
- Implementation of training packages
- Implementation of recruitment strategy.

9.6 Project Implementation

The main challenges for the UHG CHPP design and construction are focused around the site remoteness, climatic conditions and the availability of a skilled construction workforce. A number of strategies have been proposed to mitigate these risks, namely:

- Use of Chinese design contractors experienced in cold weather design for the coal handling section of the plant.
- Use of experienced Chinese construction contractors to supplement the Mongolian work force.
- The first phase is now under construction. Most of the civil earthmoving tasks as well as concrete foundations for the CPP were completed late 2009. During June 2010, structural elements of the CHP (first phase) were completed (see Photo 9.1). As can be seen, structural steel erection has commenced.

Photo 9.1 CPP Construction



Figure 9.2 CHPP 10Mtpa Phase Materials Handling Flowsheet

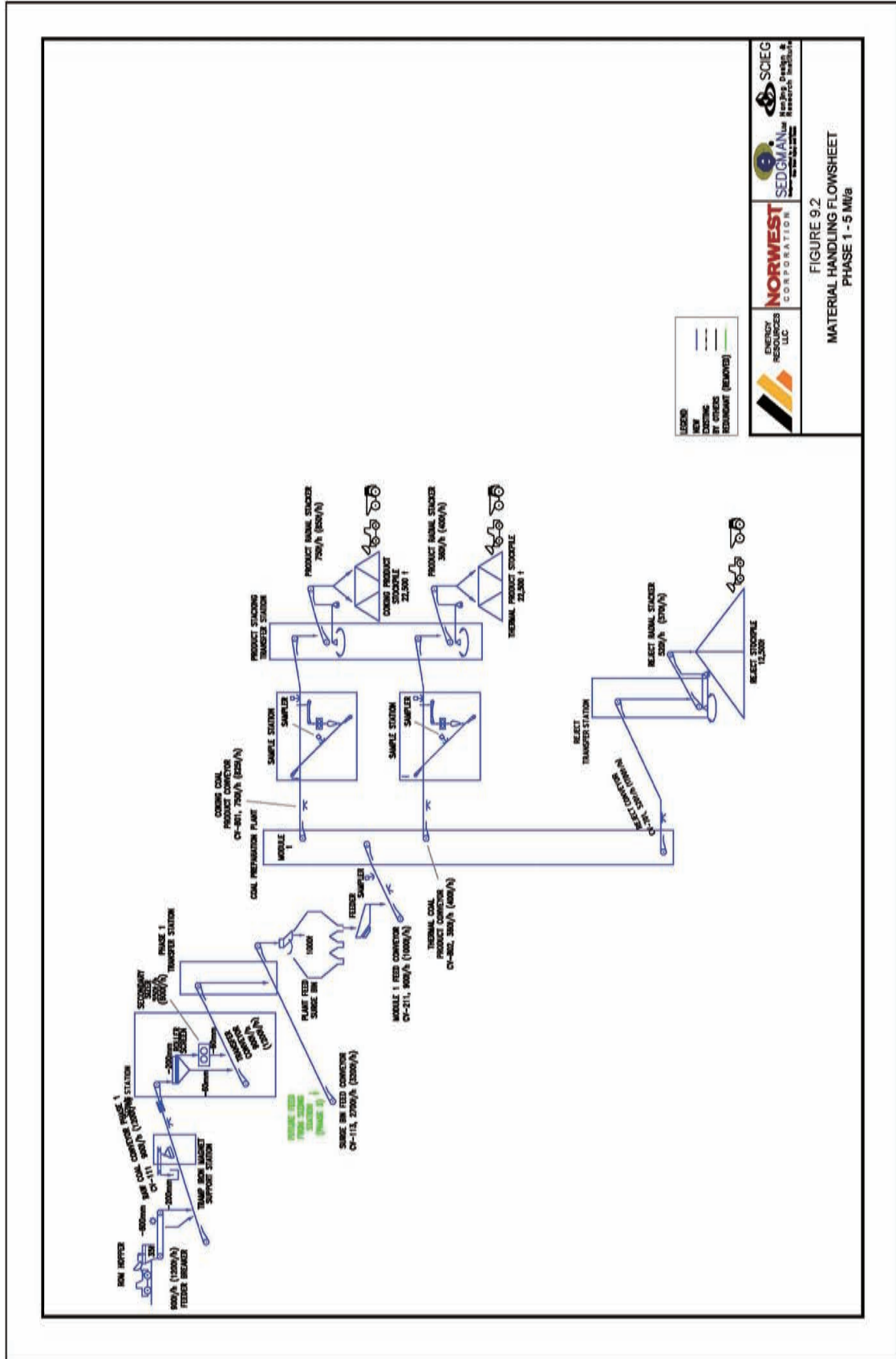
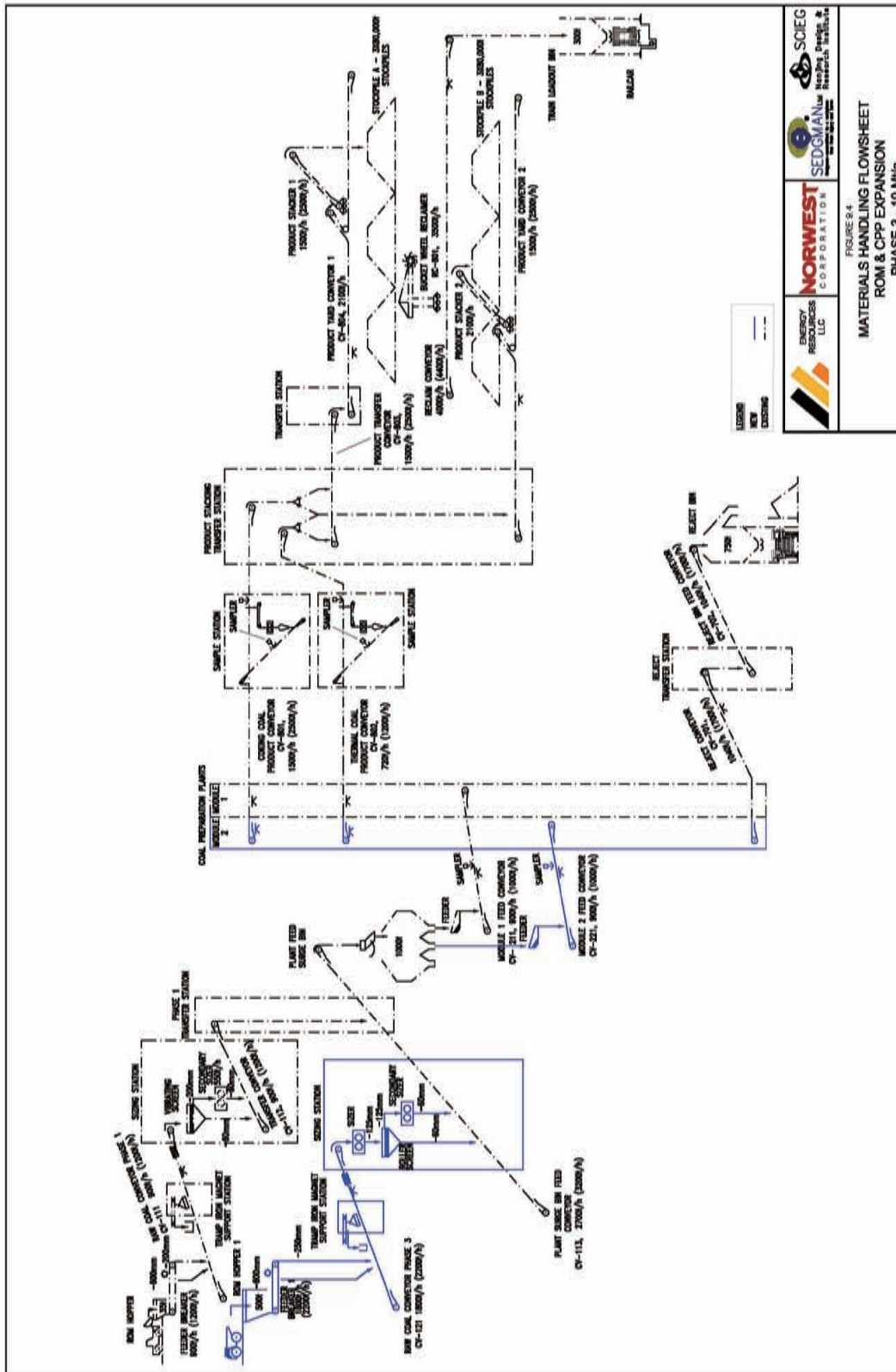


Figure 9.4 CHPP 15Mtpa Phase Materials Handling Flowsheet



9.7 Tailings Storage Facility

9.7.1 Introduction

ER appointed Golder Associates to prepare a study for a facility to store tailings and coarse rejects from the coal washing plant (a tailings storage facility (TSF)).

Golder developed a scoping design to accomplish the following:

- Provide sufficient storage capacity for the LOM tailings output.
- Be simple to operate.
- Maximize water return.
- Capable of operating under the extreme weather conditions at the site.

Information provided by Sedgman stated that the coal yield would be about 72%, and about 25% of the reject would be tailings. The tailings would be pumped to the TSF in the form of a slurry with a solids content of around 30% while the coarse rejects would be trucked by the mining contractor. The amount of material to be stored in the TSF is indicated in Table 9.5.

Table 9.2 Amount of Material to be Stored in the TSF

Tailings tonnes	27,033,588
Coarse Reject tonnes	73,189,642
Total Reject Tonnes	100,223,230

ER have identified a site for a valley dam TSF about 3km to the east of the CHPP. The engineering design for the TSF is currently being prepared by Golder.

9.7.2 Design Criteria

The UHG site is extremely cold for 6 months of the year and quite warm for the balance of the year. Expected yearly rainfall is about 58mm; therefore runoff is not a major concern. Evaporation from the decant pond during summer and possibly in winter is expected to be as high as 2,588mm. Ice will form on the decant pond for much of the winter.

9.7.3 Storage Requirement

While no settling tests have been performed to-date on the tailings, the required total storage capacity was estimated to be about 49Mm³.

9.7.4 Water Balance

The amount of water available for re-use from the tailings as it first settles, as supernatant, is estimated to be about 38% of the incoming slurry water volume¹⁰. After considering evaporation during all climatic seasons, it is estimated the net potential water return would be 36.5%.

9.7.5 Foundation Conditions

A geotechnical assessment has been undertaken for the proposed TSF site by Soil Trade LLC and is being used by Golder to develop the scoping TSF design.

9.7.6 Slurry Transportation

The slurry will be pumped to the TSF for decantation. For operational and maintenance reasons it is preferable that the slurry pipeline be located on the surface. Based on experience with tailings pipelines in the cold north of Canada it was decided to locate the pipeline on the surface.

9.7.7 Celled Operation

The TSF footprint is to be divided into two sections, with each section further divided into a series of cells. Smaller cells are to be operated during the winter and a large cell to be operated during the summer. The cells are developed using waste rock to build the internal dividing walls, while there is an engineered outer containment wall which will also use mainly waste rock.

9.7.8 Environmental Issues

- **Acid Rock Drainage (ARD)** – If the tailings contain sufficient reactive pyrite to generate ARD conditions, the tailings deposition operation will need to address ways of minimizing ARD generation.
- **Seepage** – Generally seepage from coal tailings TSFs are not a significant environmental issue.
- **Dust** – The site is very windy and dust storms are frequent through the year. As a result the TSF may generate some fugitive dust during these conditions.
- **Closure** – Sand/dust storms are persistent through this region, with about 20 days of dust storms at the site per year. Golder suggests that the best closure option would be to place a layer of rejects covered with waste rock over the surface of the TSF at closure.

¹⁰ No allowance for water harvesting from rainfall has been allowed.

10. TRANSPORTATION

10.1 Roadway Transportation

The UHG coal mine has already commenced production at a rate of about 2.5Mtpa of (unwashed) coal which is being transported by truck to the Chinese border at Gashuun Sukhait (see Photo 10.1). Transportation is currently along an unpaved road, first constructed in 2008. While ROM coal from UHG will increase to 3.8Mt this year, the majority of coal sold in 2011 will be washed coal. Transportation of coal by truck will continue until the railway is commissioned. Commissioning of the railway is expected to occur in 2013.

The current road has deteriorated since production began at UHG, and is not expected to be adequate for the upcoming increases in production. Hence, a new paved road is already under construction and will be completed by September, 2011. It is expected to be substantially complete by the start of 2011, and sections will be used as and when they are ready. It will have sufficient capacity for transporting volumes from UHG's target plateau capacity of 15.0Mtpa of ROM production, and will serve the operation needs until a rail link is established (proposed beginning of 2013). The paved road will also transport third party volumes for a commercial tariff. Once the rail link is established, the road will be released to the government for public use. A feasibility-level study and report on the proposed haulroad has been prepared by Leighton, with assistance from Snowy Mountains Engineering Corporation (SMEC) and others (see *Feasibility Study Report (Draft), M1006 – UHG Coal Haul Road Project: Ukhaa Khudag to Gashuun Sukhait*, May, 2010).

Two haul road designs have been proposed. The 'base case' plan features a road pavement design to standards typical of the Mongolian Highway Standards. This design will likely require extensive maintenance in order to withstand the anticipated traffic volume. An alternate design is also proposed that features a more robust pavement surface, assuming that axle loads are reduced to 17-18t through the use of double trailer 'road train' vehicles. The alternate design features a relatively high up-front capital costs for construction, but lower maintenance costs over the life of the road. The 'base case' design was assumed for the purposes of this report, subject to enhanced capital. Other advantages to the use of a permanent haul road include a reduction in the amount of fugitive dust produced, as well as obviating the need for trucks to create destructive "alternative" tracks in order to avoid damaged, and unproductive, road surfaces.

Photo 10.1 UHG Coal Transportation Trucks

10.2 Railway Transportation

The new mine and associated facilities will allow the UHG mine to progressively expand the mine production rate in increments of 5Mtpa to 15Mtpa. ERR will construct a railway about 236km in length and with a capacity of 30.0Mtpa to transport coal and other mineral commodities into China via Gashuun Sukhait. From Gashuun Sukhait the trains will move on Chinese railway infrastructure either to their ultimate destinations within China or to Chinese seaports for export to third countries.

An alignment based upon engineering and environmental considerations was developed to serve the Tavan Tolgoi coalfield as well the Ivanhoe Mines/Rio Tinto Oyu Tolgoi copper mine, also located in the region. In addition to UHG, several other companies are interested in using the new railway to haul coal and other commodities to market centers. According to ERR, the projected traffic over the UHG railway to Gashuun Sukhait is estimated at approximately 25Mtpa by 2016.

UHG mine development is supported by infrastructure development projects such as paved road and railway construction.

10.3 Railway Infrastructure and Equipment

UHG, at its design capacity of about 9Mtpa (air dried basis) of coal sales, will load about 4.5 trains per day while other mines will increase loading to approximately 12 trains daily. The only interface of UHG-Gashuun Sukhait with other railways will be with the national railway of China at the border crossing of Gashuun Sukhait. ERR will be responsible for all tracks and facilities on Mongolian territory.

Railway infrastructure will include:

- Maintenance Facilities and Operations Control Center
- Terminal Stations
- Border Station at Gashuun Sukhait
- Ganqimaodu Border Terminal
- Intermediate Stations.

10.4 Rolling Stock

10.4.1 Introduction

The amount of rolling stock, i.e. the number of wagons and locomotives is defined by the transport volume, the locations and distances to the delivery points, the speed achieved by loaded and empty trains, the turnaround time and the headway.

10.4.2 Diesel Locomotives

Based upon elevation changes and load, the most powerful locomotives have been chosen and double heading is required. The locomotive taken into consideration for the running time calculations is the type ES44ACi diesel locomotive by General Electric, with a maximum power rating of 3,356kW.

10.4.3 Wagons

Based upon availability and capacity, the current design calls for aluminum-sided wagons that can carry a net load of 73.4 tonnes (10,000 gross tonnes/train) while meeting Chinese standards.

10.4.4 Number of Wagons

The number of wagons is based on the transport volume, the net load of the trains, the number of trains to be operated, the required headways and the turnaround times to the individual destinations.

The duration of the border crossing procedures has a major impact on the turnaround times. The estimated number of wagons required to transport 28Mtpa is listed below in Table 10.1.

Table 10.1 Estimated Numbers of Wagons Required

Loading Station		Number of Wagons Required				
		2012	2013	2014	2015	2016
UHG (million net tonnes)		5.85	8.66	8.73	8.42	8.18
UHG to Batou	ERR-owned	89	212	212	212	212
UHG to Ganqimaodao	Leased	246	280	286	266	258
Reserves		54	54	54	54	54
Total number of wagons		389	546	552	532	524

11. OPERATING COSTS

11.1 Introduction

Cash operating cost estimates were made by the various contributors for the different aspects of the Project. These are summarized in Table 11.1 (does not include road or rail transportation cost or SG&A costs).

Table 11.1 Mining and Processing Cash Operating Cost Summary (Cash Basis)

	2010	2011	2012	2013	2014
ROM Coal (000 tonnes, adb) . .	3,782	7,003	10,729	14,722	15,247
Mining & Operations					
Mining	\$20.90	\$24.85	\$ 28.82	\$ 21.32	\$ 21.28
Coal Processing/Handling*	\$ 1.13	\$ 3.60	\$ 3.74	\$ 3.00	\$ 3.52
Total (\$/ROM t).	\$22.03	\$28.45	\$ 32.56	\$ 24.32	\$ 24.80

* Includes all processing, handling, water and power supply, and distribution costs.

Table 11.2 Total Cash Operating Cost Summary (Cash Basis) (\$000)

	2010	2011	2012	2013	2014
Workforce employment	16,040	25,569	28,704	29,916	30,042
Equipment and consumables	38,986	96,707	191,654	201,864	223,452
Fuel, electricity, water and other services	18,202	43,986	81,202	82,269	85,158
On- and off-site administration	16,070	36,288	40,659	42,060	42,106
Environmental protection and monitoring	1,500	2,000	2,000	2,000	2,000
Transportation of workforce	2,470	1,030	1,030	1,150	1,150
Product marketing and transport	67,718	105,910	137,754	130,470	128,334
Non-income taxes, royalties and other governmental charges	23,355	47,303	76,046	97,844	95,886
Others [^]	14,265	31,396	44,797	39,533	34,851
Total	198,605	390,190	603,847	627,107	642,980

[^] Others include contractor fees

For illustrative purpose, the following table summarizes all of our estimated cash operating costs per ROM tonne:

Table 11.3 Total Cash Operating Cost Summary (Cash per ROM tonne basis)(\$/ROM t)

	2010	2011	2012	2013	2014
Workforce employment	4.24	3.65	2.68	2.03	1.97
Equipment and consumables	10.31	13.81	17.86	13.71	14.66
Fuel, electricity, water and other services	4.81	6.28	7.57	5.59	5.59
On and off-site administration	4.25	5.18	3.79	2.86	2.76
Environmental protection and monitoring	0.40	0.29	0.19	0.14	0.13
Transportation of workforce	0.65	0.15	0.10	0.08	0.08
Product marketing and transport	17.90	15.12	12.84	8.86	8.42
Non-income taxes, royalties and other governmental charge	6.17	6.75	7.09	6.65	6.29
Others [^]	3.77	4.48	4.18	2.69	2.29
Total	52.51	55.72	56.28	42.60	42.17

[^] Others include contractor fees

It is noted that there is a significant increase in unit cash operating costs over 2011 and 2012. This is due to several factors including a relatively high depreciation and related contractor charges over that period due to the large up-front purchase of mining equipment.

It is noted that since publication of the BFS, various cash operating and capital cost estimates have been revised. In the case of mining costs, estimates have been revised to reflect the expected continued use of Leighton as a contract-miner through the first six years of the

Project. CHPP costs have been revised to reflect a re-design of the coal handling facilities, as well to account for actual costs incurred during the 5Mtpa phase of the CHPP construction schedule. Cost estimates for water supply, and rail and road transportation, are based on revised design work and assumptions about implementation.

All cash operating costs are reported in US\$, exclusive of VAT, on a 2010 constant-dollar, un-inflated and un-escalated basis. Therefore, cash operating costs reported here do not include depreciation.

11.2 Proposed Operating Costs: Mining

11.2.1 Introduction

As part of their mine planning efforts, Leighton prepared capital and operating cost estimates. As previously described, the BFS assumed that the mine would be operated by ER, and not by the contractor, Leighton, from Year 2 onwards. However, it is currently expected that Leighton will continue to operate the mine through the first six years of the LOM, and costs have been adjusted accordingly to reflect this cost structure.

In reporting a “contract miner” cost structure instead of an “owner operator” scenario (as used in the BFS), the following were taken into account:

- Updated and revised mine plan.
- Capital depreciation and financing charges were added.
- Operating costs adjusted to reflect no Maintenance and Repair Contract (MARC).
- Equipment operating lives adjusted to reflect no maintenance under typical MARC approach, as opposed to “contractor miner” approach, affecting capital purchase and replacement schedule.

Capital and operating costs were determined through a combination of quoted costs or adjusted cost estimates (e.g., factored historical costs) for major and minor equipment, respectively.

11.2.2 Direct Operating Cost Estimate

Leighton uses an in-house software and database system referred to as CATS (Computer Aided Tendering System). CATS was used to estimate costs by major activities, including:

- Drill and Blasting
- Stripping, loading and hauling waste
- Mining, loading and hauling coal

- Ancillary and support operations
- Coal ROM re-handle and wash plant rejects haulage.

Direct operating costs include costs directly related to mining activities and include all labor, materials and equipment costs for drilling and blasting, waste loading and hauling, coal mining and hauling, rejects handling and all support and ancillary operations. Power costs for the project have been accounted for separately.

Workforce Labor

Labor costs have been estimated based on current or projected wages and salaries paid at the UHG operation for all expatriate and national (i.e. Mongolian) personnel. In addition, there have been allowances for offsite and overhead labor costs.

Wages and salaries have been adjusted to take into account additional burdens, i.e., they are reported on an “on-costed” basis. (i.e. including all fringe benefits and other allowances.) Factors taken into account in order to derive “on-costed” wages.

Materials Costs

The cost of materials includes the cost of all supplies and sundry items that are not directly related to equipment costs. Materials costs therefore do include incidental diesel, explosives, ground engaging tools (GET; for example, buckets), drilling products and accessories, dewatering equipment, IT and offices supplies, safety supplies, tool allowances and other miscellaneous items. However, materials costs do not include costs such as labor, or fuel and major parts for mining equipment.

Through many years of experience, Leighton has built up a network of relationships with material and supplies providers within Australia and Asia. Major materials costs based on formal quotations from those suppliers include:

- Explosives
- GET
- Drilling and blasting supplies
- Other materials (dewatering pipes, safety supplies, etc).

Costs for minor items were based on Leighton’s prior experience.

Equipment Costs

Equipment costs captured in this study have been based on estimated rates including diesel usage rate, tire/track wear and consumption and other miscellaneous items. Also captured are costs of running maintenance and workshop facilities, as well as maintaining a spare parts inventory.

As the majority of mining equipment proposed runs on diesel, fuel represents a significant portion of equipment costs. A unit price of US\$0.90/l (excluding VAT) has been assumed, based on current market conditions.

11.2.3 Overhead and Additional Costs

All costs not directly related to production and mining activities have been captured under “Overhead” costs. Although these may be thought of as costs that are incurred regardless of mining production, in fact it is reasonable to assume that these costs will be generally affected by the magnitude of the operations. For this reason, Leighton has estimated these costs according to a phased approach to mine development.

Recruitment, Travel and Allowances

An employee turn-over rate of 25% per annum has been assumed for the purposes of estimating recruitment costs.

Travel expenses for personnel have been made assuming regular international travel for expatriates, and rotational transport for national staff (80% assumed to return to Ulaanbaatar once/rotation, remaining transported to Dalanzadgad).

Support and General Equipment

Costs for support and ancillary equipment has been estimated under these O&A costs. The following general equipment has been included:

- Light, medium and heavy vehicles for transportation of material and people around the mine site.
- Various handlers and cranes.
- Heavy tools (compressors, welders, generators, etc.).
- Other miscellaneous items (mobile light plants, water stand-pipe, etc.).

Site and Office Services

Costs were estimated for items such as maintenance and replacement of computers and associated hardware, computer software, telecommunications and two-way radio communications, office supplies and other general site service and consumables costs.

Safety and Training

Costs were also estimated for supplies and consumables related to safety and training, as well as annual costs and direct expenses.

Fees and Insurance

Based on prior experience, indirect costs have been estimated for insurance, permitting, legal services and community welfare and inventory holding costs.

Additional Costs

Additional costs include the costs of accommodation and messing, as well as a profit component. The margin is calculated based in part on ROI and net book value of mining equipment purchased and used in the operation, as well as on Leighton's performance in meeting certain Key Performance Indicators (KPIs).

11.3 Proposed Operating Costs: CHPP

The CHPP life cycle operating costs are summarized below.

Table 11.4 UHG CHPP Life Cycle Cash Operating Cost Summary

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
ROM Tonnes (000t, adb)	3,782	7,003	10,729	14,722	15,247
Cash Cost (\$/ROM t)	NA	\$ 2.28	\$ 2.09	\$ 2.11	\$ 2.03

The scope of the operating cost estimated is based on the following interface points:

- Underside of grizzly on the ROM coal bins
- Discharge of product coal from train load out bin
- Discharge into the tailings dam up to 3km away
- Discharge of reject coal from reject bin
- Raw water delivery into clarified water tank
- Water pumps.

The life cycle cost estimate includes all costs associated with:

- Operating labour including all allowances and relief labour
- Maintenance costs including labour
- Safety audits and consumables
- Auxiliary mobile equipment maintenance and diesel usage

- Sampling and analysis, including labour
- Operator training
- Process consumables
- Support services (FIFO Ulaanbaatar)
- Product stockpile management
- Power costs are captured outside of CHPP cost estimates.

The cost estimate excludes all costs associated with:

- Maintenance capital and strategic spares
- VAT
- Power
- Boiler Operating Costs
- ROM stockpile management
- Product haulage
- Rejects haulage
- Site water management
- Set-up costs including workshop and laboratory fit out
- Depreciation and mobile equipment ownership costs
- Local, State and Federal Government charges
- Overheads such as insurance
- Water charges
- Tailings dam construction and extension
- Reclamation and rehabilitation costs
- Accommodation for personnel

- Transport of personnel
- Taxes, royalties, license fees and escalation.

11.4 Proposed Operating Costs: Transportation

11.4.1 Road Transportation

As described previously, prior to completion of the railway by the start of 2013, coal will be transported along a paved, permanent haul road to the Chinese border. The majority of the coal will be hauled by contractor. The remaining coal will be hauled by ER's transportation company, Trans Gobi LLC (Trans Gobi). Estimated costs are as follows.

Table 11.5 Road Transportation Operating Cost Summary

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
ROM Tonnes (000t, adb)	3,782	7,003	10,729	14,722	15,247
ER Transportation (\$/ROM t)	\$ 2.85	\$ 3.09	\$ 2.87	\$ 0.00	\$ 0.00
Contractor Transportation (\$/ROM t)	\$13.49	\$ 9.84	\$ 7.88	\$ 0.00	\$ 0.00

Operating costs for Trans Gobi include fuel, maintenance, labour and various overhead expenses. Costs for the contractor are based on a quoted charge of \$18/t, then adjusted for haul distance.

11.4.2 Railway Transportation

Based on previous feasibility-study work, direct cash as well as overhead costs for rail transportation are captured under a tariff rate, which is assumed to be levied against ER for every tonne of coal transported by rail. Rail transportation is assumed to begin at the start of 2013, under the current design using a Standard Gauge as its basis.

11.5 Proposed Operating Costs: Water Supply

Water supply operating costs will include maintenance (including labor), energy, and replacement costs. Ongoing operations and maintenance costs have been estimated using a number of sources, and are summarized in Table 11.6.

Table 11.6 Water Supply Cash Operating Cost Summary

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
ROM Tonnes (000t, adb)	3,782	7,003	10,729	14,722	15,247
Cash Cost (\$/ROM t)	\$ 0.13	\$ 0.29	\$ 0.19	\$ 0.21	\$ 0.21

The power supply will initially be provided by diesel generator, provided and maintained by ER. The power station proposed at the mine site, or power from a transmission line to be completed in mid-2012, may reduce energy costs, but has not been considered.

11.6 Proposed Operating Costs: Power Generation

11.6.1 Power Generation (3 x 6MW)

The estimated annual operating costs under for the smaller 3 x 6MW unit plant are summarized in Table 11.7.

Table 11.7 Power Generation Cash Operating Cost Summary

	2010	2011	2012*	2013	2014*
ROM Tonnes (000t, adb)	3,782	7,003	10,729	14,722	15,247
Cash Cost (\$/ROM tonne)	\$ 0.29	\$ 0.47	\$ 0.60	\$ 0.22	\$ 0.85

* Includes maintenance costs, \$3.2M in 2012 and \$9.7M in 2014, inclusive of VAT

Excess power will be purchased from a third party (see above for discussion on construction of a transmission line to the South Gobi region, operation mid-2012). It is understood that power would be made available for approximately \$0.10/kWh (115 MNT/kWh). Excess power is not included in Table 11.6.

11.6.2 Personnel Requirements

The total required number of people to operate the 3 x 6MW during the five year period 2010-2014 is 134 people.

12. CAPITAL EXPENDITURE

12.1 Introduction

The estimated capital costs for the mining project (five year period, 2010 through 2014) are summarized in Table 12.1. These capital estimates exclude the railway which will be a separate profit center (see Table 12.6).

Table 12.1 Project Capital Cost to Reach Full Production (\$000)

	2010	2011	2012	2013	2014
Mining	\$ 3,975	\$ 8,579	\$ 3,760	\$ 0	\$ 0
CHPP	\$101,688	\$105,024	\$110,278	\$ 0	\$ 0
Tailings Dam	\$ 10,785	\$ 0	\$ 2,522	\$ 3,079	\$ 0
3 x 6MW Power Plant	\$ 26,729	\$ 4,474	\$ 0	\$ 0	\$ 0
Power Distribution	\$ 6,400	\$ 0	\$ 0	\$ 0	\$ 0
Water Supply/Distribution	\$ 23,120	\$ 4,136	\$ 19,451	\$ 1,040	\$ 0
Coal Haulage & Transportation*	\$ 33,140	\$ 27,845	\$ 0	\$ 0	\$ 0
Site Infrastructure	\$ 6,910	\$ 7,387	\$ 8,926	\$ 9,328	\$ 8,926
Other	\$ 4,523	\$ 5,302	\$ 4,951	\$17,551	\$ 6,211
Total CAPEX	\$217,271	\$162,748	\$149,888	\$30,997	\$15,136

* Includes ER's 50% share of coal haulroad costs, plus \$10M for 100 coal haul trucks in 2011

Unless otherwise specified, all costs reported here are inclusive of VAT and Mongolian duties, import duties, but exclusive of inflation, contingencies, etc. Costs are reported in US\$, on a 2010 constant-dollar basis and are un-inflated and un-escalated.

12.2 Proposed Capital Costs: Mining

12.2.1 Introduction

As previously described, the BFS estimated costs under the assumption that Leighton would operate UHG, under a "contract miner" basis, for the first year of mining only; in fact, it is expected that Leighton would operate the mine through the first six years of project "ramp-up".

As before, capital costs were determined through a combination of quoted costs or adjusted cost estimates (e.g., factored historical costs) for major and minor equipment, respectively.

Capital cost estimates for major equipment were provided through Leighton's extensive vendor network, and compared with recent quotations for similar operations in the region. The Leighton group is one of the world's largest purchasers of mining equipment, and is able to realize significant savings in equipment purchase costs. Capital cost estimates are submitted on

a “turn-key” basis and include factors such as sea/land freight, insurances, port charges, erection and commissioning. Equipment costs are primarily based on 1st quarter 2010 pricing with exchange rates of 1620MNT:US\$ and 1.4US\$:EUR applied.

12.3 Proposed Capital Costs: CHPP

The estimating procedures were based on applying supply and construction rates to an estimated quantity take-offs, i.e., bills of materials. The UHG capital cost estimate has been established against the following basis of estimate:

- Quantity take-offs were developed from a combination of preliminary designs and recent “as built” information from the Sedgman project database.
- Productivity rates, equipment prices, labor and material rates were drawn from supplier budget prices and the Sedgman cost database for current projects.
- Design, project management and project preliminaries are estimated based on previous experience.

As described previously, the CHPP will be bought online in a phased approach. Table 12.2 is a direct cost capital breakdown for the phases.

Table 12.2 Direct Cost Capital Breakdown for Four Phases¹² (\$000)

	5Mtpa	10Mtpa	Rail Int.	15Mtpa
Raw Coal Handling	\$ 0	\$ 9,602	\$ 0	\$ 3,682
CPP.	\$ 0	\$23,858	\$ 0	\$23,127
CPP Services	\$ 0	\$ 707	\$ 0	\$ 599
Reject Handling	\$ 0	\$ 3,711	\$ 0	\$ 71
Product Handling	\$ 0	\$ 4,082	\$38,009	\$ 8,300
Train Loadout	\$ 0	\$ 0	\$ 1,522	\$ 0
General	\$ 0	\$13,577	\$ 1,477	\$ 562
Earthworks	\$ 0	\$ 131	\$ 5,044	\$ 825
Allowances	\$ 0	\$19,749	\$31,555	\$26,035
Duties	\$ 2,208	\$ 1,615	\$ 1,115	\$ 1,230
TOTAL	\$78,325	\$77,033	\$78,723	\$64,430

Based on the proposed project implementation plan, the projected capital expenditure cashflow for the five year period is summarized in the Table 12.3.

¹² Exclusive of VAT, duties and contingencies

Table 12.3 Phased Capital Cost Expenditure Cashflow Summary (\$000)

	2010	2011	2012	2013	2014
5Mtpa Exp Phase	\$ 73,094	\$ 1,692	\$ 0	\$0	\$0
10Mtpa Exp Phase.	\$ 28,593	\$ 56,143	\$ 0	\$0	\$0
Rail Int Phase	\$ 0	\$ 24,745	\$ 61,850	\$0	\$0
15Mtpa Exp Phase.	\$ 0	\$ 22,444	\$ 48,428	\$0	\$0
TOTAL	\$101,688	\$105,024	\$110,278	\$0	\$0

12.4 Proposed Capital Costs: Water Supply and On-Site Distribution

The total estimated capital costs to secure the water supply infrastructure (and perform all necessary exploration) are summarized in Table 12.4. This accounts for revisions to the design made since publication of the BFS, to account for additional water requirements arising from a more aggressive ramp-up schedule. Also included are exploration costs to develop the Naimdai depression, an additional source of water that will be required.

Table 12.4 Water Supply and Distribution Capital Cost Expenditure Summary (\$000)

	2010	2011	2012	2013	2014
Capital Cost (\$)	\$23,120	\$4,136	\$19,451	\$1,040	\$0

12.4.1 Exploration Costs

The necessary future exploration costs are to account for such items as land surveying, geophysical surveying, drilling, logging and installation and analysis of exploration wells.

12.4.2 Water Supply Infrastructure

The capital costs for the water supply infrastructure (off-site water supply as well as site distribution) includes pumps, HDPE and steel pipeline, construction, power supply, a site distribution system and EPCM services.

12.5 Proposed Capital Costs: Power Generation

12.5.1 Power Generation (3 x 6MW)

The estimated capital costs are based on updated costs, as summarized in Table 12.5.

Table 12.5 Power Generation and Supply Capital Cost Expenditure Summary (\$000)

	2010	2011	2012	2013	2014
12 MW Power Plant.	\$23,746	\$ 0	\$0	\$0	\$0
Additional 6 MW turbine	\$ 2,983	\$4,474	\$0	\$0	\$0
TOTAL	\$26,729	\$4,474	\$0	\$0	\$0

In addition, \$6.4M is required in 2010 for installation of an on-site distribution line and sub-station.

12.6 Proposed Capital Costs: Rail

Capital expenditures on the railroad are scheduled to begin in 2011, in order to ensure that rail service may begin at the start of 2013. These capital costs are not included in mine project capital cost schedule. Railroad capital costs are inclusive of VAT, without contingencies, are in 2010 constant US dollars.

Table 12.6 Railway Capital Cost Expenditure Summary

	2010	2011	2012	2013	2014
ERR Capex (\$M)	\$0	\$380	\$288	\$21	\$8

13. ENVIRONMENTAL MANAGEMENT

There are several potential impacts from the project that must be addressed by ER, however, at this time all identified impacts are manageable with established practices used in these types of projects.

An Environmental and Social Action Plan (ESAP) has been developed by ER to mitigate the negative aspects of the project and enhance potential benefits of the project. Although not finalized, several mitigation measures of major environmental impacts discussed in this report are provided below.

13.1 Environmental Policy: General

ER is fully committed to careful environmental management in order to address some of their stated, core values, including a commitment to perform environmentally and socially, responsible mining operations. Such a management plan covers efficient use of resources, reducing the environmental footprint of the operations, controlling greenhouse gas emissions, recycling and reducing waste and accounting for all environmental aspects of mine closure,

ER have commissioned or performed over 30 individual studies since 2008, to ensure regulatory compliance and adherence to their stated core environmental values.

Legislative platforms include all applicable Mongolian regulations, as well as guiding policies from World Bank/International Finance Corporation (WB/IFC, respectively), Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD).

ER's core documents include:

- Environmental and Social Impact Assessment (ESIA) for UHG Phase I and II
- Environmental Impact Assessment (EIA)
- Monitoring program documents (baseline data collection)
- UHG Social Impact Assessment
- Integrated Environmental Management Plan (IEMP (ESMP))
- Integrated Environmental Monitoring Program (IEMP)
- Environmental and Social Action Plan (ESAP)
- Mine Closure & Rehabilitation Plan (MCRP)
- Detailed Water Management Plan (DWMP)
- Public Consultation and Disclosure Plan (PCDP)
- Resettlement Action Plan (RAP)
- ESIA/ESAP/IEMP Performance Reports

13.2 Air Quality

A Dust Management Plan (DMP) has been proposed. This takes into account the fact that the Project is located in a desert environment with ambient (pre-Project) dust levels that often exceed Mongolian standards. The prime objective of the DMP is to reduce dust emissions from the Project to the extent practicable, in an effort to prevent Project activities from causing ambient dust levels to exceed Mongolian standards.

13.3 Flora and Fauna

A Flora and Fauna Management Plan (FFMP) has been developed for the project to protect the natural environment and ecosystems.

13.3.1 Flora

The Project may impact protected plants therefore protection measures need to be considered. For example, the use of rare species and the seeds of rare species in rehabilitation will be considered during reclamation.

13.3.2 Fauna

Eight protected species of mammals, six protected bird species, and two protected reptile species have a reasonable potential to be present within the Project area, and efforts will be made to ensure their protection in accordance with Mongolian regulations,

13.4 Water Resources

Effective water management is an essential part of ensuring the operational integrity of the Project and of limiting negative environmental impacts associated with the Project during construction and ongoing operation. A Water Resources Management Plan has been developed for the project. The objectives of this Water Management Plan are to:

- Interface with the Erosion and Sediment Control Management Plan.
- Interface with the FFMP.
- Limit Project impacts in nearby areas resulting from groundwater abstraction, particularly on any surrounding sensitive groundwater dependent ecosystems (e.g. springs) and on herder livelihoods.
- Limit impacts of the railway on water resources.
- Minimize the potential for Project impacts on alteration of natural surface water flow patterns/hydrology, including loss of catchment flows due to interception.
- Minimize the potential for Project activities to result in pollution of surface water and groundwater sources.
- Provide sufficient water for dust suppression, process water and other uses.

13.5 Water Quality

A comprehensive Waste Management Plan (WMP) has been developed for the project to reduce impacts to water quality. Key objectives of this WMP are to:

- Limit the volume of wastes generated and provide for reusing, recycling, or disposing of wastes that cannot be avoided in a manner that reduces negative impacts to human health and the environment.
- Provide for monitoring and assessment of the waste management process.

The CHPP fine and coarse reject material may be a source of contamination, especially if it is acid-forming material. Fly ash and bottom ash are capable of introducing trace materials into surface and groundwater if not managed properly. Therefore, an ARD Management Plan

shall be developed to prevent pollution resulting from acid generation from coal mine products including wastes from processing facilities. Facilities will be established to manage mine waste such so as to control acid generation drainage during mine operations and post closure. The acid forming potential of all mine and processing wastes during operations will be quantified to verify management measures are being appropriately applied.

14. OCCUPATIONAL HEALTH & SAFETY

ER is committed to goal of zero accidents for all employees and contractors working on site as well visitors who enter, or are near to, the mine site and operations. To achieve this goal, ER has implemented an Occupational Health & Safety (OH&S) policy that sets out standard approaches to risk minimization and operating procedures for reporting of all incidents, including near misses. Visitors to the UHG mine site are briefed on OH&S procedures and receive induction training that includes risk identification. Policies are in place to facilitate subcontractor's compliance with the overall mine OH&S plan. All Contractors are required to meet ER's OH&S standards and policies and to report all incidents and near misses.

14.1 Mine Safety

Leighton is currently operating in coordination with ER to ensure that UHG activities are controlled in such a way as to provide a safe and healthy working environment whilst satisfying Mongolian legislative requirements, industry best practice and client's expectation.

A training program is in development and currently being implemented that will ensure all employees may conduct their work in a safe manner. In addition, it is a requirement of Mongolian Labour and OH&S law that all employees are to take safety and hygiene training annually. As part of the Safety Management System implementation, all staff, employees and visitors are subjected to a drug/alcohol testing program.

14.2 CHPP

This project has necessarily required a formal process risk identification and management in the CHPP design. This study included reviews during the design phase and secondly recommendations from our operations experience on design improvements.

14.3 Work Camp Health and Safety

Workers safety during construction and while living in work camps will be managed consistent with Mongolian laws. Contractors' health and safety programs will be required to meet these standards. Similar requirements will be met by ERR as they pertain to work camps associated with Railway construction.

14.4 Contractors Health and Safety

The *Contractors Base EHS Requirement Manual* shall be provided to all Contractors performing work for UHG Project. Its prime purpose is to provide basic information relating to the HSE standards and the safety behaviours expected from the Contractor while performing work at the ER project. It also references project policies, procedures and other information relevant to a contracting relationship with ER. The UHG Project management, at all levels, is dedicated to assuring that its employees and contractors are provided a safe and healthy place to work on each of its projects.

15. RISK ANALYSIS

15.1 Mining Risk

In the previous BFS study, Norwest evaluated each aspect of the mining operation and assigned a Risk Severity level to each ranging from no impact to extreme. No aspects of the mining operations were found to necessitate an extreme rating. With the mine now in operation, Norwest has updated the risk analysis with a description of the mitigating measure ER and Leighton have implemented in order to address project risk.

15.1.1 Project Predevelopment

Primary project predevelopment risk consisted of start-up delays to the project arising from delays due to securing equipment, government approvals and construction of infrastructure.

Since the initial risk analysis, the risk of start-up delay has been mitigated through effective project management and building and maintaining of relationships with contractors and vendors. In addition, ER has been responsive to the requirements of the government with respect to permitting, etc.

15.1.2 Overburden Production

Risks were initially identified that were related to the nature of the overlying waste. Specifically, these risks arose from issues such as varying physical and geotechnical properties of waste, equipment availability and groundwater issues. The risks included lower-than-expected equipment productivities, increased operating costs, incorrect equipment selection, slope stability issues, etc.

These risks are currently being mitigated in several ways. There is currently a highly detailed precise drilling program underway that consists of drilling holes on an approximate 50m by 50m pattern in the area of short and medium-term interest. This is being supplemented with a larger-scale 500m by 500m drilling program. The primary purpose of these drilling programs is to better delineate coal quality and structure; however, they will also provide useful information concerning the nature of the overlying waste. In addition, Leighton is performing detailed scheduling and mine planning in order to optimize the use of equipment according to waste material type.

15.1.3 Coal Mining

Previously identified risks relate to the variability of coal seams and problems related to marketing of coal products. This could lead to decreased or inconsistent production level, increased mining costs, increased coal dilution, etc.

As above, an aggressive drilling program (currently underway) is doing much to mitigate the risks associated with coal mining through improved understanding the of the coal deposit, quality and structure. In addition, Leighton is performing detailed mine planning and scheduling.

15.1.4 Overburden Dumps

The primary risks identified for the overburden dumps included slope failure, and Acid Rock Drainage (ARD) as well as erosion control and other environmental effects.

The risks of slope failure are being mitigated through site inspections of the dumps. Further geotechnical analysis of the waste material will be implemented in response to any slope stability problems, if/when they occur. Although the potential waste characterization testing indicates that ARD is unlikely. Although the effects of ARD at a mining operation can be serious, with the relatively low amount of rainfall in the South Gobi it is highly unlikely that ARD would be a problem at UHG. Environmental concerns due to sediment laden runoff from the overburden dumps is being addressed though the use of drainage control structures such as diversion ditches, channels and sediment storage ponds. Such structures are adequately designed to convey water without themselves being eroded, and will be maintained and cleared of accumulated sediments and other debris.

15.1.5 Rejects Disposal

There is a risk that coarse reject material, which is to be disposed of in the overburden dumps, may be subject to rapid oxidation and spontaneous combustion. This could lead to air quality and safety issues, or lead to instabilities in dumps if coarse reject materials were to be mixed with other waste.

Spontaneous combustion of coal is a common issue at coal mines, with which Leighton are familiar and experienced. Spontaneous combustion of coarse rejects is somewhat rarer and is not expected. Spontaneous combustion is easily managed by restricting exposure to air and surface moisture. Should spontaneous combustion be observed, then Leighton will mitigate the effects by exercising proven control methods such as encapsulating the rejects material in the overburden waste dumps, or inundating it with water and removing it from contact with other material that may be susceptible to spontaneous combustion.

15.1.6 Maintenance

Risks associated with maintenance include decreased availability and the skill level of maintenance personnel. While decreased equipment availability has a serious detrimental effect on equipment productivity, and therefore operating costs, it is noted that Leighton are a world-class contractor and are considered highly competent in maintaining and operating equipment. It is therefore considered highly unlikely that ineffective maintenance will be a serious issue at UHG.

Leighton have implemented a detailed and proven maintenance program on all their equipment that take into account such issues as scheduled downtimes, spares availability management, and an effective training and mentoring program in order to build and maintain the high skill level that is required. Likewise, the CHPP will be operated by Sedgman, who are also a world class contractor and considered highly competent in design, construction, operation and maintaining of CHPP and related infrastructure.

15.1.7 Equipment

Risks related to equipment include decrease or delayed production due to delays in receiving equipment, spares parts or consumable supplies. This is mitigated by ER and its contractors through effective long range planning that allows for early negotiations and ordering of the required materials. This either ensures that equipment, parts and supplies are either on hand when needed, or that there is enough time for alternate plans to be made should orders fail.

It is noted that Leighton are among the world's biggest customers of Caterpillar and Leibherr, and therefore gain a purchasing advantage over their competitors, which translate to better costs as well as shorter lead times and other concessions. This will be to ER's advantage. In addition, Sedgman are undertaking a 'readiness study' which will analyze and the requirement for holding spare parts and will streamline the compete supply chain to ensure the highest level of parts and supplies availability.

15.1.8 Personnel

The primary risks with personnel are a decrease in production, or increase in operating costs, related shortages in personnel or decreased labour productivity. This may arise from a failure to attract quality employees, a lack of appropriate training, or high employee absenteeism or turnover.

Measures taken to mitigate this include a competitive remuneration and benefits package, with the majority of mine operators travelling from UB on a "fly-in, fly-out" basis. Whenever possible, ER also hires workers from nearby Tsogttsetsii soum, and also plans to construct employee housing at Tsogttsetsii that will house mine workers and their families. In the long term, ER will develop the local labour pool by maintaining excellent relations with the nearby communities, and assisting with the education, health and infrastructure needs of the local

population. Currently, mine workers are housed in the man camp, which includes facilities for messing and recreation and ER allots workers vacation and leave, in order to spend time with their families. ER operates a “dry camp”, with a strict no-alcohol or drugs policy that is rigorously enforced, as well as a comprehensive employee health and safety program. Experience has shown that such policies lead to reduced absenteeism and turnover, as well as increased employee morale and productivity.

In addition, ER has set-up an intensive training program for its employees. Leighton operate a “virtual” training facility that reproduces the experience of operating heavy equipment. This allows safe exposure the fundamentals of equipment operation. ER also recognizes that training of the local workforce is an important component of its long term plans for the region, and plans on establishing a technical training college that will equip the local labour pool with the tools they need to compete for the highly-skilled job requirements of the Project.

15.2 Environmental and Social Risk

In the previous BFS a standard qualitative matrix was used to assess potential impacts of the project. Risk ratings for various aspects of the project were assigned based upon likelihood of occurrence and potential consequences. The majority of environmental and social impact risks identified at that time were rated “Low” or “Medium” risk. No risk was identified as being “Extreme”. At the time that the qualitative matrix was generated it was noted that all identified impacts were manageable with practises typically employed in other mining projects of the nature of UHG.

The only “environmental features” that were ranked as a “high” risk, were Air Quality, and Fauna/Habitats.

15.2.1 Analysis of Impacts: Air Quality

Project emissions that may affect air quality fall into several broad categories:

- Dust emissions from open areas of disturbance such as roads, stockpiles, waste dumps, etc.
- Particulate and gaseous emissions from spontaneous combustion of coal stockpiles.
- Point source emissions from coal fired power plants or stationary diesel generator-sets.
- Non-stationary emissions from mine equipment and vehicles.

Particulate Emissions

The South Gobi region, with its arid conditions and strong winds, is subject to naturally occurring dust storms that periodically exceed air quality standards for dust and particulate emissions. Such occurrences are likely to increase in the project site because of the increased area of disturbance from the mine and related infrastructure. Other potential sources of particulate emissions include coal dust (generated wherever coal is subject to mechanical handling) as well as fly and bottom ash from the power plant. Dust and particulate emissions can have an adverse affect on the safety of mine workers and local residents, as well as on vegetation.

The affects of particulate emissions is mitigated in several ways. One effective method, very common in the mining industry, is through the use of application of surface water to particulate-generating areas of disturbance. Water may be applied through a variety of different methods, including the use of “water trucks”. Surfactant chemicals may also be used to enhance the effectiveness of water spraying.

Particulate emissions from the pit and the CHPP infrastructure will be mitigated through the use of water sprayers, covered conveyors, dust suppression at transfer points and appropriate dump height control and design. Coal ash will be stored in overhead bins at the plant, then hauled in dedicated trucks for disposal in the pit, with fugitive dust controlled with the use of covers or water suppression. Disposal of ash in the pit will be managed and carefully scheduled so that open working area is kept to a minimum. Once a burial area, or “cell” is completed, it will be covered with a layer of waste to prevent further emission.

Gaseous Emissions

Gaseous emissions of concern include CO₂, NO_x, SO₂ CO and volatile organic compounds (VOC). Given the low-level of pre-existing industrialization in the region, baseline concentration of gaseous emissions are low, and does not routinely exceed ambient air quality standards. In addition, control technology on equipment is widely available and ER has pledged to implement all measure required in order to meet or exceed standards. For these reasons, gaseous emissions are not considered to pose the level of risk that particulate emissions do. Regular testing and monitoring will be performed to ensure that compliance is met and that there are no adverse safety issues in the workplace.

15.2.2 Analysis of Impacts: Fauna/Habitats

Across the UHG mine site area there were three species of mammal listed as being under a protected status within the Mongolian Red Book. In addition, there is one species of bird listed as protected in Appendix II of the Convention on International Trade in Endangered Species (CITES).

Several steps will be taken in order mitigate or minimize the impacts of the mine site on local fauna. The original ecosystem and fauna will be considered before disturbance of any area, and again when considering reclamation. Disturbed areas will be reclaimed progressively to ensure continuation of habitats and protection of fauna. Both baseline monitoring and regular on-going monitoring of fauna will be performed in order to understand the impacts of the mining operations. Finally, fencing will be installed around holes and trenches in order to protect livestock and wild animals.

**APPENDIX VI SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on May 18, 2010 under the Cayman Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on September 17, 2010. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

**APPENDIX VI SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

Subject to applicable law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be

interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An

executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

**APPENDIX VI SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Cayman Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the

facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;

- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

**APPENDIX VI SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Cayman Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

**APPENDIX VI SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under the Cayman Companies Law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to the laws of Cayman Islands. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

**APPENDIX VI SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from May 25, 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court or voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Companies Law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of the Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on May 18, 2010. The registered office of our Company as at the date of this prospectus is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. We have established a principal place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong and have been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on August 18, 2010. Ms. Ng Sin Yee, Clare has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and its constitutional documents, which comprise the Memorandum and the Articles of Association. A summary of certain relevant provisions of its constitution and relevant aspects of Cayman Companies Law is set out in Appendix VI to this prospectus.

2. Changes in share capital of our Company

At the date of incorporation of our Company, the authorized share capital of our Company was US\$50,000 divided into 5,000,000 Shares.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- (a) On May 18, 2010, one Share was allotted and issued at nil paid to Codan Trust Company (Cayman) Limited.
- (b) On May 18, 2010, Codan Trust Company (Cayman) Limited transferred its one nil paid Share to MCS Mining Group Limited.
- (c) On August 23, 2010, the authorized share capital of our Company was increased from US\$50,000 to US\$60,000,000, divided into 6,000,000,000 Shares.
- (d) On September 14, 2010, the one Share held by MCS Mining Group Limited was credited as fully paid pursuant to the Reorganization.

Assuming that the Global Offering becomes unconditional and the Offer Shares are issued but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, the issued share capital of our Company will be US\$35,971,225 divided into 3,597,122,500 Shares fully paid or credited as fully paid, with 2,402,877,500 Shares remaining unissued.

On the basis that the Over-allotment Option is exercised in full, 107,914,000 Shares will have been allotted and issued fully paid or credited as fully paid and 2,294,963,500 Shares will remain unissued.

Save as disclosed herein and as mentioned in the following paragraphs respectively headed “Shareholders’ Resolutions” and “Corporate reorganization,” there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Shareholders’ Resolutions

Pursuant to the Shareholders’ Resolutions:

- (a) we approved and adopted the Memorandum and the Articles of Association;
- (b) conditional on the same conditions as stated in the section headed “Structure of the Global Offering – Conditions of the Hong Kong Public Offering” in this prospectus:
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to approve the allotment and issue of the Offer Shares pursuant to the Global Offering and of such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
 - (ii) the rules of the Share Option Scheme were approved and adopted and our Board was authorized at its discretion to implement the same, grant options to subscribe for Shares thereunder up to the limit referred to in the Share Option Scheme, and to allot, issue and deal with Shares pursuant to the exercise of any options granted thereunder and do all such acts and things as our Board may consider necessary, desirable or expedient to give effect to the Share Option Scheme;
 - (iii) a general unconditional mandate was given to our Directors authorizing them to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued, whether during the continuance of such mandate or thereafter (otherwise than pursuant to a rights issue, any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution or pursuant to the exercise of any options to be granted under the Share Option Scheme or pursuant to the Global Offering or pursuant to a specific authority granted by our Shareholders in general meeting, on behalf of our Company), provided that the aggregate nominal value of our Shares allotted or agreed conditionally or unconditionally to be allotted shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:
 - (aa) the conclusion of our next annual general meeting;

- (bb) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held;
or
 - (cc) the passing of an ordinary resolution by our Shareholders in a general meeting revoking, varying or renewing such mandate.
- (iv) a general unconditional mandate was given to our Directors authorizing them to exercise all the powers for and on behalf of our Company to repurchase our Shares on the Stock Exchange or on any other approved stock exchange(s) on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:
- (aa) the conclusion of our next annual general meeting;
 - (bb) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held;
or
 - (cc) the passing of an ordinary resolution by our Shareholders in a general meeting revoking, varying or renewing such mandate; and
- (v) subject to the passing of resolutions set out in paragraph (iii) and (iv) above, the unconditional general mandate mentioned in paragraph (iii) above was extended to include the aggregate nominal value of Shares repurchased by us pursuant to the mandate to repurchase Shares referred to in paragraph (iv) above provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:
- (aa) the conclusion of our next annual general meeting;
 - (bb) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held;
or
 - (cc) the passing of an ordinary resolution by our Shareholders in a general meeting revoking, varying or renewing such mandate.

4. Corporate reorganization

In preparation for the listing of our Shares on the Stock Exchange, the companies comprising our Group underwent a reorganization which involved the following:

- (a) On May 18, 2010, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorized share capital of US\$50,000 divided into 5,000,000 Shares. Codan Trust Company (Cayman) Limited was the initial subscriber for one Share. On the same day, the initial subscriber transferred its Share to MCS Mining Group Limited.
- (b) On June 11, 2010, Mongolian Coal Corporation Limited was incorporated in Hong Kong with an authorized share capital of HK\$10,000 divided into 10,000 shares of a par value of HK\$1.00 each. One share of a par value of HK\$1.00 was issued to the Company on June 11, 2010 and the Company became the sole legal and beneficial owner of Mongolian Coal Corporation Limited on June 11, 2010.
- (c) On July 20, 2010, Mongolian Coal Corporation S.A. was incorporated in Luxembourg with an authorized share capital of €31,000 divided into 3,100 shares of a par value of €10 each. 3,100 shares of a par value of €10 each were issued to Mongolian Coal Corporation Limited on July 20, 2010 and Mongolian Coal Corporation Limited became the sole legal and beneficial owner of Mongolian Coal Corporation S.A. on July 20, 2010.
- (d) On August 20, 2010, Energy Resources Corporation LLC was incorporated in Mongolia with a total capital of US\$100,000 divided into 100,000 shares with a par value of US\$1 each. Mongolian Coal Corporation S.A. became the sole legal and beneficial owner of Energy Resources Corporation LLC on August 20, 2010.
- (e) On September 14, 2010, MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding, Tengeriin Tsag Group LLC, Energy Resources Corporation LLC and our Company entered into a share swap agreement, pursuant to which each of MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding and Tengeriin Tsag Group LLC transferred its respective shares in ER LLC to Energy Resources Corporation LLC, in consideration of which our Company allotted and issued, credited as fully paid, 1,715,999,999, 423,000,000, 183,000,000, 150,000,000, 300,000,000 and 228,000,000 Shares to MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively. Upon completion of the said allotment and issue and prior to completion of the Global Offering, our Company was owned as to approximately 57.2%, 14.1%, 6.1%, 5.0%, 10.0% and 7.6% by MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively.

5. Changes in share or registered capital of subsidiaries

The present subsidiaries of our Company are referred to in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus.

The following alterations in the share capital of each of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

- (a) On January 25, 2008, the par value of each share in ER LLC was re-evaluated from MNT1,000 to US\$1.75 each, thereby increasing the statutory capital from MNT14,446,000 to US\$25,280.50.
- (b) On January 29, 2008, the statutory capital of ER LLC was increased from US\$25,280.50 to US\$7,175,350.00.
- (c) On May 22, 2008, the par value of each share in ER LLC was re-evaluated from US\$1.75 to US\$2 each and new shares were issued to its then existing shareholders. The statutory capital of ER LLC was increased from US\$7,175,350.00 to US\$14,890,350.00.
- (d) On July 1, 2008, Energy Resources Rail LLC was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.
- (e) On September 1, 2008, Transgobi LLC was incorporated in Mongolia and registered with the registration office of the city of Ulaanbaatar with a statutory capital of MNT1,000,000 divided into 1,000 shares MNT1,000 each.
- (f) On December 1, 2008, the statutory capital of ER LLC was increased from US\$14,890,350.00 to US\$24,890,350.00.
- (g) On December 23, 2008, Energy Resources Mining LLC was incorporated in Mongolia with a statutory capital of US\$1,000 divided into 1,000 shares of US\$1 each.
- (h) On February 18, 2009, the statutory capital of Energy Resources Rail LLC was increased from MNT1,000,000 to MNT2,000,000,000.
- (i) On February 24, 2009, the statutory capital of Transgobi LLC was increased from MNT1,000,000 to MNT9,122,641,836.36.
- (j) On March 26, 2009, the statutory capital of ER LLC was increased from US\$24,890,350.00 to US\$26,200,370.00.
- (k) On June 24, 2009, Ukhaa Khudag Water Supply LLC (formerly known as United Water LLC) was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.

- (l) On June 24, 2009, United Power LLC was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.
- (m) On June 25, 2009, Enrestechtechnology LLC was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.
- (n) On June 30, 2009, Transgobi LLC was re-registered with the aimag-level registration authority in Umnugobi, with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.
- (o) On August 19, 2009, Public Service LLC was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares with a par value of MNT1,000 each.
- (p) On September 3, 2009, the increase in share capital of Transgobi LLC on February 24, 2009 was re-registered with the aimag-level registration authority in Umnugobi.
- (q) On October 7, 2009, Tavan Tolgoi Airport LLC was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.
- (r) On January 15, 2010, the statutory capital of Public Service LLC was increased from MNT1,000,000 to MNT20,000,000.
- (s) On February 23, 2010, the statutory capital of Energy Resources Rail LLC was increased from MNT2,000,000,000 to MNT10,700,000,000.
- (t) On March 24, 2010, Gobi Road LLC was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.
- (u) On March 31, 2010, the statutory capital of Tavan Tolgi Airport LLC was increased from MNT1,000,000 to MNT3,475,379,000.
- (v) On April 21, 2010, Energy Resources Road LLC was incorporated in Mongolia with a statutory capital of MNT1,000,000 divided into 1,000 shares of MNT1,000 each.
- (w) On May 3, 2010, the statutory capital of Enrestechtechnology LLC was increased from MNT1,000,000 to MNT3,466,163,000.
- (x) On May 3, 2010, the statutory capital of United Power LLC was increased from MNT1,000,000 to MNT3,025,219,000.

Save as disclosed in this prospectus and except as referred to in the paragraph headed “Corporate reorganization” above, there has been no alteration in the share capital of any subsidiary of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our Shares

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their shares on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(a) Shareholders' approval

All proposed repurchases of shares on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Pursuant to the Shareholders' Resolutions, a general unconditional mandate ("repurchase mandate") was granted to our Directors authorizing them to exercise all the powers for and on behalf of our Company to repurchase our Shares on the Stock Exchange, or on any other approved stock exchange(s) on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), such mandate to expire at the conclusion of our next annual general meeting, or the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking, varying or renewing such mandate, whichever is the earliest.

Under the Listing Rules, the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or our earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with our Memorandum and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. We shall not repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the repurchase mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing position.

(d) Directors' undertaking

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, the applicable laws of the Cayman Islands, our Memorandum and the Articles of Association.

(e) Disclosure of interests

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates has any present intention, if the repurchase mandate is exercised, to sell any Shares to our Company or our subsidiaries.

No connected person of our Company has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

(f) Takeovers Code consequences

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. Our Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchase under the repurchase mandate.

(g) Share capital

Exercise in full of the repurchase mandate, on the basis of 3,597,122,500 Shares in issue immediately after completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, could accordingly result in up to 359,712,250 Shares being repurchased by us during the course of the period prior to the date on which such repurchase mandate expires or terminates as mentioned in the section headed "Further Information about Our Company and Our Subsidiaries – 3. Shareholders' Resolutions" in this appendix.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**7. Summary of material contracts**




The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) a subscription agreement dated February 24, 2009 entered into by ER LLC and EBRD, pursuant to which EBRD agreed to subscribe for shares in ER LLC, which amounted to 5.0% of the then enlarged issued share capital of ER LLC at a consideration of US\$18,750,000;
- (b) a shareholders agreement dated February 24, 2009 entered into among ER LLC, MCS Holding, MCS Mining LLC, Tengeriin Tsag Group LLC, Petrovis LLC, Shunkhlai Group LLC, Shunkhlai Mining LLC and EBRD, which regulated certain matters with respect to ER LLC (the “Shareholders Agreement”);
- (c) a share sale and purchase agreement dated November 19, 2009 entered into by Energy Resources Mining LLC and Khangad Exploration LLC, pursuant to which Energy Resources Mining LLC acquired from Khangad Exploration LLC all of its interests in Enrestechology LLC at a consideration of MNT500,000;
- (d) a share sale and purchase agreement dated November 19, 2009 entered into by Energy Resources Mining LLC and Khangad Exploration LLC, pursuant to which Energy Resources Mining LLC acquired from Khangad Exploration LLC all of its interests in United Water LLC at a consideration of MNT500,000;
- (e) a share sale and purchase agreement dated November 19, 2009 entered into by Energy Resources Mining LLC and Khangad Exploration LLC, pursuant to which Energy Resources Mining LLC acquired from Khangad Exploration LLC all of its interests in United Power LLC at a consideration of MNT500,000;
- (f) a share sale and purchase agreement dated July 1, 2010 entered into by ER LLC and Khot Service LLC pursuant to which ER LLC acquired from Khot Service LLC all of its interests in Public Service LLC at a consideration of MNT20,000,000;
- (g) a share swap agreement dated September 14, 2010 entered into by MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding, Tengeriin Tsag Group LLC, Energy Resources Corporation LLC and our Company, pursuant to which each of MCS Mining LLC, Petrovis LLC, Shunkhlai Mining LLC, EBRD, MCS Holding and Tengeriin Tsag Group LLC transferred its respective shares in ER LLC to Energy Resources Corporation LLC, in consideration of which our Company allotted and issued, credited as fully paid, 1,715,999,999, 423,000,000, 183,000,000, 150,000,000, 300,000,000, 228,000,000 Shares to MCS Mining Group Limited, Petrovis Resources Inc., Shunkhlai Mining, EBRD, Kerry Mining (UHG) Limited and Ancora Investments No. 2 Limited, respectively;


- (h) a termination agreement dated September 16, 2010 entered into by ER LLC, MCS Holding, MCS Mining LLC, Tengeriin Tsag Group LLC, Petrovis LLC, Shunkhlai Group LLC, Shunkhlai Mining LLC and EBRD, pursuant to which the Shareholders Agreement was terminated;
- (i) a deed of indemnity dated September 20, 2010 entered into by MCS Mining Group Limited and MCS Group Limited with and in favour of our Company, pursuant to which each of MCS Mining Group Limited and MCS Group Limited has agreed to indemnify our Company against certain estate duty and tax liabilities;
- (j) a deed of non-competition dated September 20, 2010 entered into by the Controlling Shareholders with and in favor of our Company (for itself and on behalf of its subsidiaries). For details, see “Relationship with Controlling Shareholders – Non-competition Undertaking”; and
- (k) the Hong Kong Underwriting Agreement.

8. Trademark

As of the Latest Practicable Date, our Group had applied for the registration of the following trademarks, the registration of which has not yet been granted.

Trademark	Applicant	Place of Application	Class	Application Date	Application Number
	ER LLC	Hong Kong	35, 36, 37, 39, 40, 41, 42 and 45	May 7, 2010	301607364
	ER LLC	Hong Kong	35, 36, 37, 39, 40, 41, 42 and 45	May 7, 2010	301607373
	ER LLC	Hong Kong	40, 41, 42 and 45	May 7, 2010	301607382

As of the Latest Practicable Date, our Group was the legal and beneficial owner of the following trademarks:

Trademark	Registrant	Place of registration	Class	Expiry Date	Registration Number
	ER LLC	Mongolia	40 and 41	July 17, 2019	7827
	ER LLC	Mongolia	41 and 42	July 17, 2019	7828
	ER LLC	Mongolia	35, 36, 37 and 41	July 17, 2019	7829
	ER LLC	Mongolia	35, 36, 37 and 42	July 17, 2019	7830
	ER LLC	Mongolia	35, 36, 37 and 42	July 17, 2019	7831
	ER LLC	Mongolia	35, 36, 37 and 42	July 17, 2019	7832

(a) *Domain name*

As of the Latest Practicable Date, our Group had registered the following domain names:

Domain name	Registration Date	Expiration Date
www.energyresources.mn.	June 25, 2004	June 30, 2011
www.mmc.mn	July 28, 2010	July 28, 2011

(b) *Mining rights*

For details of our mining rights, see “Business – Our Location and License”.

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

9. Disclosure of interests

(a) Interests and short positions of our Directors and chief executive in the Shares, underlying Shares and debentures of our Company or its associated corporation

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), our Directors and chief executive will have the following interests and/or short positions in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us 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) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to us and the Stock Exchange once our Shares are listed:

Name	Name of the entity	Number of Shares held after the Global Offering	Nature of interest	Approximate percentage of shareholding after the Global Offering
Odjargal Jambaljamts (<i>Note 1</i>)	Our Company	1,629,669,000	Interest in controlled corporation	45.3
Oyungerel Janchiv (<i>Note 2</i>)	Our Company	423,000,000	Interest in controlled corporation	11.8
Batsaikhan Purev (<i>Note 3</i>)	Our Company	183,000,000	Interest in controlled corporation	5.1

Notes:

- Mr. Odjargal Jambaljamts is interested in approximately 46.9% in MCS Holding which in turn holds the entire interest in MCS Group Limited. MCS Group Limited holds the entire interest in MCS Mining Group Limited which in turn is interested in approximately 45.3% in our Company. Mr. Odjargal Jambaljamts is therefore deemed to be interested in approximately 45.3% in our Company held by MCS Mining Group Limited under the provisions of the SFO.*

2. *Dr. Oyungerel Janchiv is interested in approximately 33.4% in Petrovis LLC which in turn holds the entire interest in Petrovis Resources Inc. Petrovis Resources Inc. holds 11.8% interest in our Company. Dr. Oyungerel Janchiv is therefore deemed to be interested in approximately 11.8% in our Company held by Petrovis Resources Inc. under the provisions of the SFO.*
3. *Mr. Batsaikhan Purev is interested in approximately 50% in Shunkhlai Group LLC which in turn holds the entire interest in Shunkhlai Mining LLC. Shunkhlai Mining LLC holds the entire interest in Shunkhlai Mining which in turn is interested in approximately 5.1% in our Company. Mr. Batsaikhan Purev is therefore deemed to be interested in approximately 5.1% in our Company held by Shunkhlai Mining under the provisions of the SFO.*

(b) Interests and short positions of the Substantial Shareholders in the Shares and underlying Shares

Save as disclosed in the section headed “Substantial Shareholders and Selling Shareholders” in this prospectus, our Directors and chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares and underlying Shares of our Company which, once our Shares are listed, would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company.

(c) Particulars of Directors’ service agreements and letters of appointment

Each of our executive Directors has entered into a service agreement with us for an initial fixed period of three years commencing from the Listing Date.

Each of our non-executive Directors and independent non-executive Directors has been appointed for an initial fixed term ranging from one to two years commencing from the Listing Date.

(d) Directors’ remuneration

During the year ended 31 December 2009, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Group was about US\$212,498.

Under the arrangements currently in force, we estimate the aggregate remuneration payable and benefits in kind granted to the Directors for the year ending December 31, 2010 is approximately US\$0.4 million.

Save as disclosed in this prospectus, no Director or the five highest paid individuals has been paid in cash or shares or otherwise by any person either to induce him/her to become, or to qualify him/her as a Director, or otherwise for services rendered by him/her in connection with the promotion or formation of our Company.

(e) *Disclaimers*

Save as disclosed in this prospectus:

- (i) so far as our Directors are aware, none of our Directors or chief executive has any interest and/or short position in the shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to us and the Stock Exchange once our Shares are listed;
- (ii) none of our Directors and the experts referred to under the heading “Consents of experts” in this appendix has any direct or indirect interest in the promotion of our Company or any of our subsidiaries, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (iii) none of our Directors and the experts referred to under the heading “Consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;
- (iv) none of our Directors has any existing or proposed service contracts with our Company or any of our subsidiaries, excluding contracts which are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation);
- (v) none of the experts referred to under the heading “Consents of experts” in this appendix has any shareholding in our Company or any of our subsidiaries or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries; and
- (vi) none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company’s five largest customers and five largest suppliers save as contemplated under the Underwriting Agreements.

10. Agency fees or commission received

The Underwriters will receive a commission as mentioned in the section headed “Underwriting – Underwriting Commission and Expenses” in this prospectus.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

11. Related party transactions

Saved as disclosed in the Accountants’ Report set out in Appendix I to this prospectus and other parts of this prospectus, we have not engaged in any dealings with our Directors and their associates within the two years immediately preceding the date of this prospectus.

12. Share Option Scheme*Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the Shareholders’ Resolutions:

(a) Purpose

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to our Company.

(b) Who may join

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares at a price calculated in accordance with subparagraph (f) below:

- (i) any employee or proposed employee (whether full-time or part-time and including any executive Director), consultants or advisers of or to our Company, any of our subsidiaries or any entity (“Invested Entity”) in which our Company holds an equity interest;
- (ii) any non-executive Directors (including independent non-executive Directors) of our Company, any of our subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to our Company or any of our subsidiaries or any Invested Entity;
- (iv) any customer of our Company or any Invested Entity;

- (v) any person or entity that provides research, development or other technological support to our Company or any Invested Entity; and
- (vi) any Shareholders or any shareholder of any of our subsidiaries or any Invested Entity or any holder of any securities issued by our Company or any of our subsidiaries or any Invested Entity,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by us for the subscription of Shares or other securities of our Company to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

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

In order for a person to satisfy our Directors that he/she is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as our Directors may request for the purpose of assessing his/her eligibility (or continuing eligibility).

(c) *Maximum number of Shares*

- (i) The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 30% of our issued share capital from time to time. No options may be granted under any schemes of our Company (or the subsidiary of our Company) if such grant will result in the maximum number being exceeded.
- (ii) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme to be granted under the Share Option Scheme and any other share option schemes of our Company) must not in aggregate exceed 359,712,250 Shares, being 10% of the total number of Shares in issue at the time dealings in our Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option) ("General Mandate Limit").
- (iii) Subject to (i) above and without prejudice to (iv) below, we may seek approval of our Shareholders in general meeting to refresh the General Mandate Limit. However, the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other

share option schemes of our Company under the limit as “refreshed” must not exceed 10% of the Shares in issue as of the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme and other share option schemes of our Company or exercised options) will not be counted for the purpose of calculating the limit as “refreshed.” We will send a circular to our Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

- (iv) Subject to (i) above and without prejudice to (iii) above, we may seek separate approval of our Shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by us before such approval is sought. We will issue a circular to our Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

(d) *Maximum entitlement of each participant and connected persons*

- (i) Unless approved by our Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (“Individual Limit”).
- (ii) Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of our Shareholders in general meeting with such participant and his/her associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders’ approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.
- (iii) In addition to the Shareholders’ approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or substantial Shareholder or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

- (iv) Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) under the Share Option Scheme or any other share option schemes of our Company to such person in the 12-month period up to and including the date of such grant:
- (a) representing in aggregate more than 0.1% of the Shares in issue; and
 - (b) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by our Shareholders. We must send a circular to our Shareholders. All of our connected persons must abstain from voting in favor at such general meeting. Any connected person may vote against the relevant resolution at the general meeting provided that his/her intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

(e) Minimum period of holding an option and performance target

Our Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) Subscription price for Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the nominal value of our Shares, (ii) the average closing price of our Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the option and (iii) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day). A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option.

(g) Rights are personal to grantee

An option granted under the Share Option Scheme shall not be transferable or assignable and is personal to the grantee.

(h) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof.

(i) Rights on ceasing employment or death

If the grantee of an option, who is an employee of our Company or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Company or Invested Entity for any reason other than death, ill-health or retirement in accordance with his/her contract of employment or certain other grounds, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine, in which case the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which date shall be the last actual working day with our Company or the relevant Invested Entity whether salary is paid in lieu of notice or not. Failing such exercise, the option will lapse.

If the grantee of an option, who is an employee of our Company or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Company or Invested Entity by reason of death, ill-health or retirement in accordance with his/her contract of employment, before exercise of option in full, the grantee or, if appropriate his/her lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of twelve months following the date of cessation of employment (or such longer period as our Directors may determine), failing which it will lapse.

(j) Rights on dismissal

If the grantee of an option leaves the service of our Company or Invested Entity by the reason of serious misconduct or on certain other grounds on which an employer would be entitled to lawfully terminate his/her employment, his/her option (to the extent not already exercised) will thereupon lapse forthwith and will not in any event be exercisable on or after the date of cessation of employment.

(k) *Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, we shall use all reasonable endeavors to procure that such offer is extended to all the grantees (or his/her personal representative(s)) on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional or such scheme or arrangement is formally proposed to our Shareholders, a grantee (or his/her personal representative(s)) shall, notwithstanding any other terms on which his/her options were granted, be entitled to exercise his/her option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to us in accordance with the provisions of the Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

(l) *Rights on winding-up*

In the event of an effective resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee of an option (or his/her personal representative(s)) may, subject to the provisions of all applicable laws, by notice in writing to us elect to exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice within two business days prior to the proposed general meeting of our Company considering such winding up, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his/her options, to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding-up of our Company.

(m) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of our Memorandum and the Articles of Association for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with reference to a record date falling before the date of exercise of the option. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee of such option has been duly entered on our register of members or the holder thereof.

(n) Period of the Share Option Scheme

Unless terminated by us by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional.

(o) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of our Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in the relevant provisions of the Listing Rules shall not be altered to the advantage of the grantees or prospective grantees without the prior sanction of any resolution of our Company in general meeting. The amended terms of the Share Option Scheme or the options must still comply with the applicable requirements under the Listing Rules. Any change to the authority of our Directors or scheme administrators (if applicable) in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

(p) Effect of alterations to capital

In the event of any alteration in our capital structure whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of our share capital or otherwise howsoever, we shall instruct our auditors for the time being or an independent financial adviser to our Company to certify in writing that such adjustments satisfy the requirement that they give a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled. Adjustment will be made to the number of Shares being the subject matter of the Share Option Scheme or the option so far as unexercised and/or the subscription price and/or the maximum number of Shares referred to in the sub-paragraph headed “Maximum number of Shares” above provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase the proportion of the issued share capital of our Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him/her immediately prior to such adjustment; (iv) the issue of Shares or securities of our Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and (v) for the avoidance of doubt, any adjustments shall be made in compliance with the Listing Rules and the “Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rules 23.03(13) and the note immediately after the rule” set out in the letter from the Stock Exchange to all listed issuers dated September 5, 2005 or other relevant guidance as the Stock Exchange may from time to time issue. In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(q) Cancellation of options

Our Directors may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as our Directors may in their absolute discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where we cancel any options granted and offer to grant or grant new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme if there are available unissued options (excluding the canceled options) within each of the limits as referred of in the subparagraph headed “Maximum number of Shares” above.

(r) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (i) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares on the Main Board, which Shares may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme; (ii) upon the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators) and such obligation not being terminated in accordance with the terms of the Underwriting Agreements; and (iii) the commencement of dealings in the Shares on the Stock Exchange.

(s) Termination of the Share Option Scheme

We may by resolution in general meeting terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme. Details of the options granted, including options exercised or outstanding, under the Share Option Scheme and (if applicable) options that become void or non-exercisable as a result of the termination must be disclosed in the circular to our Shareholders seeking approval of the first new scheme (if any) to be established after such termination.

(t) Status of the Listing Rules

The Share Option Scheme shall comply with the Listing Rules as amended from time to time. In the event that there are differences between the terms of the Share Option Scheme and the Listing Rules, the Listing Rules shall prevail.

(u) *Present status of the Share Option Scheme*

As of the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme, as described above.

OTHER INFORMATION

13. Indemnities

Estate duty and tax indemnity

Each of MCS Group Limited and MCS Mining Group Limited has entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of our present subsidiaries) whereby each of MCS Group Limited and MCS Mining Group Limited has given indemnities in connection with, among other things, any liability for estate duty under the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, or legislation similar thereto in Hong Kong or any part of the world which might be incurred by any member of our Company on or before the Listing Date, and other taxation (including all fines, penalties, costs, charges, expenses and interest relating to taxation) which may be made against our Company or any of our subsidiaries in respect of any income, profits or gains earned, accrued or received on or before the Listing Date, save:

- (a) to the extent that specific provision or reserve has been made for such taxation in the Accountants' Report of our Group as set out in Appendix I to this prospectus;
- (b) to the extent that the liability for such taxation would not have arisen but for any voluntary act of our Company or any of our subsidiaries which our Company or the relevant subsidiary, as applicable, ought reasonably to have known would give rise to such taxation but excluding any act carried out other than pursuant to a legally binding obligation entered into or incurred on or before the Listing Date, pursuant to an obligation imposed by any law, regulation or requirement having the force of law, which has taken place with the written approval of MCS Group Limited and MCS Mining Group Limited or pursuant to the Global Offering or any document executed pursuant to the Global Offering, or which has occurred in the ordinary course of business; or
- (c) the taxation arises or is incurred as a result of any retrospective passing of any legislation, retrospective change in practice or retrospective increase in tax rates coming into force after the Listing Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands.

14. Litigation

Except as disclosed in this prospectus, as of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

15. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus, including any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

Each of the Joint Sponsors has declared pursuant to Rule 3A.08 of the Listing Rules that it is independent pursuant to Rule 3A.07 of the Listing Rules.

16. Registration procedures

Subject to the provisions of the Cayman Companies Law, our principal register of members will be maintained in the Cayman Islands by Butterfield Fulcrum Group (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited.

17. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our establishment were approximately US\$18,000 and were paid by us.

18. Promoter

Our Company has no promoter.

19. Qualifications of experts

The following are the qualifications of the experts which have given their opinion or advice which are contained in, or referred to in, this prospectus:

Expert	Qualification
Citigroup Global Markets Asia Limited	a licensed corporation to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 7 (providing automated trading services) regulated activities (as set out in Schedule 5 of the SFO)
J.P. Morgan Securities (Asia Pacific) Limited	a registered institution to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 7 (providing automated trading services) regulated activities (as set out in Schedule 5 of the SFO)
KPMG	Certified public accountants
American Appraisal China Limited	Professional valuer
Conyers Dill & Pearman	Legal advisors on Cayman Islands law to our Company
Economic & Legal Consultancy LLC	Legal advisors on Mongolian law to our Company
Norwest Corporation	Independent technical advisor
Wood Mackenzie (Australia) Pty Ltd	Independent industry expert

20. Consents of experts

Each of Citigroup Global Markets Asia Limited, J.P. Morgan Securities (Asia Pacific) Limited, KPMG, American Appraisal China Limited, Conyers Dill & Pearman, Economic & Legal Consultancy LLC, Norwest Corporation and Wood Mackenzie (Australia) Pty Ltd has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports, letters, valuation certificate, opinions or summaries of opinions (as the case may be) and the references to its name included herein in the form and context in which they are respectively included.

21. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all person concerned bound by all of the provisions (other than penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

22. Particulars of the Selling Shareholders

Particulars of the Selling Shareholders are set out as follows:

Name of Selling Shareholder	Description	Registered Office	Number of Sale Shares Offered in the Global Offering
MCS Mining Group Limited	A limited liability company incorporated in the British Virgin Islands	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	86,331,000
European Bank for Reconstruction and Development . . .	An international financial institution formed by an international treaty	One Exchange Square, London EC2A 2JN, United Kingdom	35,971,000

23. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

24. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years immediately preceding the date of this prospectus, neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;

- (iv) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (v) our Directors confirm that since April 30, 2010 (being the date on which the latest audited combined financial statements of our Group was made up), there has been no material adverse change in our financial or trading position or prospects;
 - (vi) our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus; and
 - (vii) our Company has no outstanding convertible debt securities or debentures.
- (b) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (c) All necessary arrangements have been made enabling our Shares to be admitted into CCASS for clearing and settlement.

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “20. Consents of experts” in Appendix VII to this prospectus, a statement of the name, address and description of the Selling Shareholders referred to in the paragraph headed “22. Particulars of the Selling Shareholders” in Appendix VII to this prospectus and copies of the material contracts referred to in the paragraph headed “7. Summary of our material contracts” in Appendix VII to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Mallesons Stephen Jaques at 13/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- the Memorandum and the Articles of Association;
- the Accountants’ Report prepared by KPMG the text of which is set out in Appendix I to this prospectus;
- the audited combined financial statements of our Company for the three years ended December 31, 2009 and the four months ended April 30, 2010;
- the letters prepared by KPMG relating to the unaudited pro forma financial information and profit forecast of the Group, the text of which are set out in Appendix II and Appendix III to this prospectus, respectively;
- the letter prepared by the Joint Sponsors relating to the profit forecast of the Group, the text of which is set out in Appendix III to this prospectus;
- the full valuation report relating to the property interests of our Company prepared by American Appraisal China Limited, the text of which is set out in Appendix IV to this prospectus;
- the report prepared by Norwest Corporation, the text of which is set out in Appendix V to this prospectus;
- the Mongolian legal opinion issued by Economic & Legal Consultancy LLC, our Company’s Mongolian legal advisor;
- the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands companies law referred to in Appendix VI to this prospectus;

**APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- copies of material contracts referred to in the paragraph headed “7. Summary of material contracts” in Appendix VII to this prospectus;
- the service agreements and letters of appointment referred to in the subparagraph headed “9(c). Particulars of Directors’ service agreements and letters of appointment” in Appendix VII to this prospectus;
- the written consents referred to in the paragraph headed “20. Consents of experts” in Appendix VII to this prospectus;
- the Cayman Companies Law;
- the rules of the Share Option Scheme; and
- the statement of particulars of the Selling Shareholders including their names, addresses and description.



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