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SHARYN GOL JSC

(Incorporated in Mongolia)

Audited Financial Statements
31 December 2012

SHARYN GOL JSC

FINANCIAL STATEMENTS

CONTENTS

DIRECTORS	:	B. Batmunkh (Chairman) D. Bailiikhuu D. Dayanbilguun Ts. Ganbat J. Batbold James Passin Joseph Naemi Batbaatar Badan Graham Chapman
REGISTERED OFFICE	:	Own Building Sharyngol Sum, Sanjit bag, Darkhan-Uul province, Mongolia
COMPANY SECRETARY	:	Darisuren Jambaajav
PRINCIPAL BANKERS	:	Chinggis Khan Bank LLC Khan Bank LLC Savings Bank LLC Trade and Development Bank LLC Erel Bank
AUDITORS	:	Ernst & Young Mongolia Audit LLC Certified Public Accountants

SHARYN GOL JSC

STATEMENT BY DIRECTOR AND EXECUTIVE

We, B. Batmunkh, being the Director of SHARYN GOL JSC ("the Company"), and James Flores, being the Chief Financial Officer, primarily responsible for the financial management of the Company, do hereby state that, in our opinion, the accompanying financial statements set out on pages 5 to 58 give a true and fair view of the financial position of the Company as at 31 December 2012 and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

B. BATMUNKH
(Director)

ДАРХАН-УУЛ АЙМАГ ШАРЫН ГОЛ ХК
ТӨЛӨӨЛӨН УДИРДАХ ЗӨВЛӨЛ
SHARYN GOL JSC
THE BOARD OF DIRECTORS
ТТА4951 [illegible] 2050374

JAMES FLORES
(Chief Financial Officer)

Ulaanbaatar, Mongolia
Date: 27 MAY 2013

Ernst & Young Mongolia Audit LLC

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of SHARYN GOL JSC

We have audited the financial statements of Sharyn Gol JSC, which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT (CONTD.)

To the Shareholders of SHARYN GOL JSC (contd.)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sharyn Gol JSC as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

This report is made solely to the shareholders of Sharyn Gol JSC, as a body, in connection with the audit requested by shareholders in accordance with Article 94 of the Company Law of Mongolia and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Ernst & Young Mongolia Audit LLC

ERNST AND YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

PETER MARKEY
Executive Director

Ulaanbaatar, Mongolia
Date: 27 MAY 2013

SHARYN GOL JSC

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 MNT'000	2011 MNT'000
Revenue	3	13,776,666	10,543,484
Cost of sales	4	(8,499,123)	(8,207,427)
Gross profit		5,277,543	2,336,057
Other income	5	1,644,849	784,627
Administrative expenses	6	(3,821,712)	(2,040,458)
Other expenses	7	(1,664,596)	(604,672)
Operating income		1,436,084	475,554
Gain on bargain purchase		–	322,103
Share of loss of an associate	13	(117,130)	(119,378)
Finance cost	21	(342,329)	(305,890)
Profit before income tax		976,625	372,389
Income tax expense	8	(207,225)	(244,237)
Profit for the year		769,400	128,152
Change in fair value of property, plant and equipment	20	203,655	1,742,681
Total comprehensive income for the year, net of income tax		973,055	1,870,833
Basis and diluted earnings per ordinary share (MNT per share)	9	77.69	15.23

The accompanying notes form an integral part of the financial statements.

SHARYN GOL JSC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012 MNT'000	2011 MNT'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	21,627,567	20,706,925
Intangible assets	11	8,322	19,468
Deferred exploration and evaluation assets	12	1,316,469	–
Investment in an associate	13	126,697	243,827
Available-for-sale financial investment	14	33,812	–
		23,112,867	20,970,220
Current asset			
Inventories	16	954,440	1,305,875
Trade receivables	17	2,361,469	362,042
Other receivables	18	752,089	734,266
Cash and bank balances	19	15,018,392	17,591,281
		19,086,390	19,993,464
TOTAL ASSETS		42,199,257	40,963,684
EQUITY AND LIABILITIES			
Equity			
Ordinary shares	20	1,023,139	1,023,139
Share premium	20	23,145,158	23,145,158
Treasury stock	20	(6,115)	(6,115)
Capital reserve	20	(685,929)	(692,858)
Revaluation reserve	20	8,804,343	8,600,688
Retained earnings		3,701,616	2,939,145
TOTAL EQUITY		35,982,212	35,009,157
Non-current liabilities			
Provisions	21	3,521,736	3,252,745
Deferred income tax liabilities	8, 15	559,764	658,681
		4,081,500	3,911,426
Current liabilities			
Borrowings	22	–	504,144
Trade payables	23	899,443	259,546
Other payables	24	966,298	976,484
Income tax payable		269,804	302,927
		2,135,545	2,043,101
TOTAL LIABILITIES		6,217,045	5,954,527
TOTAL EQUITY AND LIABILITIES		42,199,257	40,963,684

The accompanying notes form an integral part of the financial statements.

SHARYN GOL JSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Ordinary shares MNT'000 (Note 20)	Share premium MNT'000 (Note 20)	Treasury shares MNT'000 (Note 20)	Capital Reserve MNT'000 (Note 20)	Revaluation reserve MNT'000 (Note 20)	Retained earnings MNT'000	Total MNT'000
At 1 January 2011		**723,139**	–	–	–	**6,858,007**	**2,810,993**	**10,392,139**
Income for the year, net of income tax		–	–	–	–	–	128,152	128,152
Other comprehensive income, net of income tax	10, 20	–	–	–	–	1,742,681	–	1,742,681
Total comprehensive income, net of income tax		–	–	–	–	1,742,681	128,152	1,870,833
Issue of share capital	20	300,000	23,145,158	–	–	–	–	23,445,158
Purchase of Company's shares	20	–	–	(6,115)	–	–	–	(6,115)
Purchase of Company's shares through acquisition of investment in an associate	20	–	–	–	(692,858)	–	–	(692,858)
At 31 December 2011		**1,023,139**	**23,145,158**	**(6,115)**	**(692,858)**	**8,600,688**	**2,939,145**	**35,009,157**
Income for the year, net of income tax		–	–	–	–	–	769,400	769,400
Other comprehensive income, net of income tax	10, 20	–	–	–	–	203,655	–	203,655
Total comprehensive income, net of income tax		–	–	–	–	203,655	769,400	973,055
Transfers to retained earnings	20	–	–	–	6,929	–	(6,929)	–
At 31 December 2012		**1,023,139**	**23,145,158**	**(6,115)**	**(685,929)**	**8,804,343**	**3,701,616**	**35,982,212**

The accompanying notes form an integral part of the financial statement.

SHARYN GOL JSC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 MNT'000	2011 MNT'000
OPERATING ACTIVITIES			
Profit before income tax		976,625	372,389
Adjustments for:			
Depreciation and depletion of property, plant and equipment	10	1,657,473	1,550,688
Accretion of provision for mine rehabilitation	21	342,329	305,890
Loss on disposal of property, plant and equipment	7	129,464	32,834
Share of loss of an associate	13	117,130	119,378
Unrealised foreign exchange loss	7	27,270	6,702
Amortisation of intangible assets	6, 11	11,146	8,793
Interest income	5	(812,724)	(210,264)
Gain on sale of property, plant and equipment	5	(109,875)	–
Change in provision for mine rehabilitation related to fully depleted mine site	5, 7	(23,275)	38,012
Recovery of impairment loss on property, plant and equipment	5, 10	(2,319)	(223,721)
Gain on bargain purchase		–	(322,103)
Operating profit before working capital changes		2,313,244	1,678,598
Working capital adjustments:			
Decrease in inventories		351,435	48,489
Decrease (increase) in receivables		(2,017,250)	3,395,192
Increase in payables		630,085	214,914
Cash generated from operations		1,277,514	5,337,193
Interest received		812,724	210,264
Income tax paid		(361,893)	(218,849)
Net cash flows from operating activities		1,728,345	5,328,608
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(1,835,717)	(634,040)
Proceeds from sale of property, plant and equipment		200,000	22,726
Purchase of intangible assets	11	–	(10,382)
Expenditures on mining development	10	(783,448)	–
Expenditures on exploration and evaluation assets	12	(1,316,469)	(2,107,622)
Purchase of available-for-sale financial investment	14	(33,812)	–
Net cash flows used in investing activities		(3,769,446)	(2,729,318)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 MNT'000	2011 MNT'000
FINANCING ACTIVITIES			
Proceeds from issuance of share capital	20	–	17,989,111
Purchase of shares	20	–	(6,115)
Repayment of borrowings		(504,144)	(4,802,216)
Net cash flow (used in) from financing activities		(504,144)	13,180,780
Net (decrease) increase in cash and bank balances		(2,545,245)	15,780,070
Net foreign exchange difference		(27,644)	(6,702)
Cash and bank balances at 1 January		17,591,281	1,817,913
Cash and bank balances at 31 December	**19**	**15,018,392**	**17,591,281**

The accompanying notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The principal activities of the Company are the exploration for, development and production of coal.

The Company is a joint stock company listed on the Mongolia Stock Exchange, incorporated and domiciled in Mongolia. The registered address of the Company is Own Building, Sharyngol Sum, Sanjit bag, Darkhan-Uul province, Mongolia.

The Company's top 10 shareholders are listed below:-

1. Firebird Mongolia Fund - 2,318,415 shares
2. Firebird Global Masterfund – 2,028,906 shares
3. Nihan Holdings S.A.R.L. – 1,598,889 shares
4. Firebird Global Masterfund II – 1,142,674 shares
5. Mogul Resources, Inc – 1,000,000 shares
6. Sharyn Gol Energy LLC – 891,000 shares
7. J. Batbold – 196,941 shares
8. Elise Holdings S.A.R.L. – 124,980 shares
9. T. Erdenebat – 100,985 shares
10. Lexik Holdings S.A.R.L. – 94,350 shares

The financial statements of the Company for the year ended 31 December 2012 were authorised for issue in accordance with a Resolution of Director on 27 MAY 2013 .

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company have been prepared under the historical cost basis except for property, plant and equipment that have been measured at fair value. The financial statements are presented in Mongolian Togrog, which is denoted by symbol MNT, rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

2. ACCOUNTING POLICIES (CONTD.)

2.2 Change in accounting policies

The Company has adopted the following new and amended International Accounting Standards (IAS), IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year:

- IFRS 1: First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7: Financial Instruments: Disclosures (Amendment)
- IAS 1: Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 12: Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IAS 24: Related Party Disclosures (Revised)
- IFRIC 14: Prepayments of a Minimum Funding Requirement (Amendment)

Improvements to IFRS, which includes:

- IFRS 1: First-time Adoption of International Financial Reporting Standards
- IFRS 7: Financial Instruments : Disclosures
- IAS 1: Presentation of Financial Statements
- IAS 34: Interim Financial Reporting
- IFRIC 13: Customer Loyalty Programmes

The adoption of the above standards and interpretations did not result in significant changes to accounting policies and did not have any effect on the financial performance or position of the Company.

2. ACCOUNTING POLICIES (CONTD.)

2.2 Change in accounting policies (contd.)

At the date of authorisation of these financial statements, the following standards and interpretations were issued but not yet effective:

	Effective for periods beginning on or after
• IFRS 1: Government Loans – Amendments to IFRS 1	1 January 2013
• IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7	1 January 2013
• IFRS 9: Financial Instruments – Classification and Measurement	1 January 2015
• IFRS 10: Consolidated Financial Statements, IAS 27 Separate Financial Statements	1 January 2013
• IFRS 11: Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures	1 January 2013
• IFRS 12: Disclosure of Interests in Other Entities	1 January 2013
• Amendments to IFRS 10: Consolidated Financial Statements, IFRS 12: Disclosures of Interests in Other Entities and IAS 27: Separate Financial Statements – Investment Entities	1 January 2014
• IFRS 13: Fair Value Measurement	1 January 2013
• IAS 19: Employee Benefits (Revised)	1 January 2013
• IAS 27: Separate Financial Statements	1 January 2013
• IAS 32: Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	1 January 2014
• IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Improvements to IFRS, which includes:

- IFRS 1: First-time Adoption of International Financial Reporting Standards
- IAS 1: Presentation of Financial Statements
- IAS 16: Property, Plant and Equipment
- IAS 32: Financial Instruments: Presentation
- IAS 34: Interim Financial Reporting
- Annual Improvements Cycle 2009 - 2011 - effective on or after 1 January 2013

Except for IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*, Management anticipates that the adoption of these Standards and Interpretations in the future periods will have no material impact on the financial statements of the Company.

2. ACCOUNTING POLICIES (CONTD.)

2.2 Change in accounting policies (contd.)

IFRIC 20 describes the accounting for waste removal costs incurred during the production phase of a surface mine. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred must be accounted for in accordance with the principles of IAS 2 *Inventories*. To the extent that the benefit is improved access to ore to be mined in future periods and if criteria set out in the interpretation are met, the waste removal costs must be recognised as a stripping activity asset under non-current asset. The Company expects to adopt the interpretation from 1 January 2013 and is currently studying its potential impact.

2.3 Summary of significant accounting policies

(a) Investment in an associate

The Company's investment in associate is accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in an associate is carried on the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The statement of comprehensive income reflects the Company's share on the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company's share on profit of an associate is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate, if any.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on its investment in its

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(a) Investment in an associate (contd.)

associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(b) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, net of accumulated depreciation and depletion and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment when the costs are incurred if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Subsequent to acquisition, property, plant and equipment are stated at valuation except for mining development costs which are stated at cost less accumulated depreciation and depletion. Valuations are undertaken on a three to five years cycle. Any revaluation surplus is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously charged to profit and loss, in which case, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit and loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(b) Property, plant and equipment (contd.)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Category	Number of years
Buildings	10-60
Machinery and equipment	5-15
Furniture and fittings	10
Computers	5

Mining development consists of mine development costs and capitalized cost of mine rehabilitation and decommissioning (refer to accounting policy on "Provision for mine rehabilitation"). Mine development costs consists of capitalised costs previously carried under "Deferred exploration and evaluation assets", which were transferred to property, plant and equipment upon start of commercial development.

The net carrying amount of mining development is depleted using unit-of-production method based on the estimated economically recoverable reserves of the mine concerned or is written-off if the property is abandoned.

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The residual values, useful life and depreciation and depletion methods are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

(c) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation over their useful lives of five years and accumulated impairment losses, if any.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(c) Intangible assets (contd.)

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the statement of comprehensive income when the asset is derecognised.

(d) Impairment of non-financial assets

The carrying values of these assets are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units (CGUs) for impairment purposes. Such CGU's represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical or license basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount to its recoverable amount (i.e., the higher of fair value less cost to sell and value in use), or in the case of property, plant and equipment, to other comprehensive income to the extent that there is a surplus within the revaluation reserve against which to charge it.

Impairment losses related to continuing operations are recognised in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes assumptions of the recoverable amount.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(d) Impairment of non-financial assets (contd.)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, depletion or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit and loss or in the case of assets stated at valuation, in the revaluation reserve.

(e) Financial assets

(i) Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs in the case of financial assets recorded not at fair value through profit or loss.

The Company's financial assets comprise of cash and bank balances, loans and receivables and available-for-sale financial investment.

(ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(e) Financial assets (contd.)

(ii) Subsequent measurement (contd.)

Loans and receivables (contd.)

included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

Available-for-sale financial investment

Available-for-sale financial investment includes equity investment. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investment is subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to finance costs within profit and loss. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its available-for-sale financial investment in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Company may elect to reclassify this financial asset. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the Company has the intent and ability to hold this asset for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(e) Financial assets (contd.)

(ii) Subsequent measurement (contd.)

Available-for-sale financial investment

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

(iii) Impairment

An assessment is made at each financial reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (an incurred "loss event") and that loss event has impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Loans and receivables

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. Evidence of impairment may include indicators that the borrower is experiencing significant difficulty, default or delinquency in payments, it has become probable that they will enter bankruptcy, or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with defaults. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(e) Financial assets (contd.)

(iii) Impairment (contd.)

Loans and receivables (contd.)

impairment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, past due status and term.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Available-for-sale financial investment

The Company assesses at each financial reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial investment, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Significant is evaluated against the original cost of the investment and prolonged against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit and loss - is removed from the available-for-sale reserve and recognized in profit and loss. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(e) Financial assets (contd.)

(iv) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(f) Financial liabilities

(i) Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(f) Financial liabilities (contd.)

(i) Initial recognition and measurement (contd.)

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities comprise of borrowings and trade and other payables.

(ii) Subsequent measurement

Borrowings

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using EIR method. Gains and losses are recognised in profit and loss when the liabilities are derecognised, as well as through the EIR amortisation process.

Trade and other payables

After initial measurement, non-interest bearing trade and other payables are subsequently measured at amortised cost.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in profit and loss.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit and loss.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(g) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(h) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

(i) Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash on hand and at banks.

For the purpose of the statement of cash flows, cash and bank balances consist of cash as defined above, net of outstanding bank overdrafts.

(j) Inventories

Coal stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(j) Inventories (contd.)

Materials, consumables and spare parts are valued at the purchase cost. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

(k) Deferred exploration and evaluation assets

Costs arising from exploration and evaluation activities relating to an area of interest are carried forward, provided such costs are expected to be recouped through successful development, or by sales, or where exploration and evaluation activities have not, at financial reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable resources. All license acquisition, directly attributable administration and exploration costs are initially capitalised by exploration area, as appropriate. Pre-licence costs are expensed in the period in which they are incurred.

Cost carried forward in respect of an area of interest that is abandoned are written off to the statement of comprehensive income under other expenses in the year in which the decision to abandon is made.

Costs capitalised from exploration and evaluation activities are transferred to mining development assets under property, plant and equipment when the decision is made to commercially develop the mine.

(l) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(l) Taxes (contd.)

Current income tax (contd.)

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; or

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(l) Taxes (contd.)

Deferred income tax (contd.)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Royalties

Royalties, resource rent taxes and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred income taxes are provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in cost of sales. The royalties incurred by the Company are considered not to meet the criteria to be treated as part of income tax.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(l) Taxes (contd.)

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(m) Provisions

General

Provisions are recognised when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for mine rehabilitation

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(m) Provisions (contd.)

Provision for mine rehabilitation (contd.)

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development / construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed or depleted sites, changes to estimated costs are recognised immediately in profit or loss.

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

The following criteria are also met in specific revenue transactions:

Coal sales

Revenue from coal sales is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred onto a train, conveyor or other delivery mechanisms.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(o) Foreign currency translation

The Company's financial statements are presented in MNT, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at exchange rates ruling at the statement of financial position date. All differences are taken to statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(p) Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services rendered by employees that increase their entitlement to future compensated absences and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by the law, companies in Mongolia make contributions to the government pension scheme, Social Security and Health Insurance Fund. Such contributions are recognised as an expense in the statement of comprehensive income as incurred.

2. ACCOUNTING POLICIES (CONTD.)

2.3 Summary of significant accounting policies (contd.)

(q) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

(r) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared. The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction, which would otherwise have been avoided.

(s) Treasury shares

Shares acquired by the Company are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

2. ACCOUNTING POLICIES (CONTD.)

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about those estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future period.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements is described below.

Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of comprehensive income in the period when the new information becomes available. The carrying amount of the Company's exploration and evaluation expenditure capitalized is disclosed in Note 12.

Mining development costs

The mining property's life is assessed annually with regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mining property. This requires the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

Estimates and assumptions made may change if new information becomes available. Abandoned mining development assets are written off to the statement of comprehensive income under other expenses in the year in which new information becomes available. The carrying amount of the Company's capitalised mining development costs is disclosed in Note 10.

2. ACCOUNTING POLICIES (CONTD.)

2.4 Significant accounting judgments, estimates and assumptions (contd.)

Coal reserves

Coal reserves are estimates of the amount of coal that can be economically and legally extracted from the Company's mining properties. The Company estimates its coal reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal reserve, and require complex geological judgment to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgment made in estimating the size and quality of the coal reserve. Changes in the reserve estimates may impact upon the carrying value of deferred exploration and evaluation assets, property, plant and equipment, provision for mine rehabilitation, recognition of deferred income tax assets, and depreciation and depletion charges.

Provision for mine rehabilitation

The Company assesses its provision for mine rehabilitation annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the provision. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at end of the financial reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the mining development asset and provision for mine rehabilitation and decommissioning. The estimated provision for mine rehabilitation is disclosed in Note 21.

Impairment of assets

The Company assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an

2. ACCOUNTING POLICIES (CONTD.)

2.4 Significant accounting judgments, estimates and assumptions (contd.)

Impairment of assets (contd.)

independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For 2012 and 2011, the real discount rates were 10.70% and 10.52%, respectively. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets.

3. REVENUE AND SEGMENT INFORMATION

The Company's activities are predominantly in one industry segment, namely coal mining, and its properties are all situated in Mongolia. Revenue is mainly generated from customers under the control of the Mongolian government and domiciled in Mongolia.

4. COST OF SALES

	2012 MNT'000	2011 MNT'000
Salaries, wages and bonuses	2,201,831	1,840,887
Depreciation and depletion of property, plant and equipment (Note 10)	1,483,968	1,401,918
Oil and fuel	1,026,908	1,654,701
Equipment rental	949,941	279,974
Repairs and maintenance	384,495	709,792
Contributions to Social and Health Insurance Fund	288,077	241,363
Others	2,163,903	2,078,792
	8,499,123	8,207,427

5. OTHER INCOME

	2012 MNT'000	2011 MNT'000
Interest income	812,724	210,264
Penalty income	117,857	3,712
Gain on sale of property, plant and equipment	109,875	–
Rental income	69,908	91,098
Gain on disposal of unused iron	56,134	82,154
Reversal of impairment loss of trade and other receivables, net (Note 17 and 18)	30,311	9,535
Change in provision for mine rehabilitation related to fully depleted mine site	23,275	–
Cafeteria income	15,940	34,415
Recovery of impairment loss on property, plant and equipment (Note 10)	2,319	223,721
Others	406,506	129,728
	1,644,849	784,627

6. ADMINISTRATIVE EXPENSES

	2012 MNT'000	2011 MNT'000
Salaries, wages and bonuses	1,193,602	622,656
Audit fee	342,000	140,000
Travel and transportation	236,800	126,330
Contributions to Social and Health Insurance Fund	155,051	80,772
Rentals	163,559	109,469
Depreciation of property, plant and equipment (Note 10)	107,103	79,826
Amortisation of intangible assets (Note 11)	11,146	8,793
Others	1,612,451	872,612
	3,821,712	2,040,458

7. OTHER EXPENSES

	2012 MNT'000	2011 MNT'000
Donation	566,186	200,367
Impairment loss on trade and other receivables (Notes 17 and 18)	284,308	64,975
Loss on disposal of property, plant and equipment	129,464	32,834
Cafeteria expenses	76,783	107,282
Depreciation of property, plant and equipment (Note 10)	66,402	68,944
Unrealised loss on foreign exchange, net	27,270	6,702
Realised loss on foreign exchange, net	4,398	995
Inventory written off	3,456	–
Change in provision for mine rehabilitation related to fully depleted mine site	–	38,012
Others	506,329	84,561
	1,664,596	604,672

8. INCOME TAX EXPENSE

	2012 MNT'000	2011 MNT'000
Current income tax:		
Based on the results for the year	328,770	170,888
Deferred income tax:		
Relating to origination & reversal of temporary differences (Note 15)	(121,545)	73,349
	207,225	244,237
Deferred income tax on other comprehensive income:		
Revaluation of property, plant and equipment (Note 15)	22,628	(1,330,371)

The Company provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate is 10% (2011: 10% for taxable profit up to MNT 3 billion (2011: MNT 3 billion) and 25% (2011: 25%) for taxable profit in excess of MNT 3 billion (2011: MNT 3 billion).

8. INCOME TAX EXPENSE (CONTD.)

A reconciliation of income tax expense applicable to income before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company for the year ended 31 December 2012 and 2011 is as follows:

	2012 MNT'000	2011 MNT'000
Income before income tax	976,625	372,389
Tax at statutory rate of 10% (2011: 10%)	97,663	37,239
Effect of income not subject to tax	(3,263)	(55,536)
Effect of expenses not allowable for tax purposes	112,825	262,534
Income tax expense for the year	207,225	244,237

Deferred income tax

The following table shows net deferred income tax assets recorded on the statement of financial position and changes recorded in the income tax expense:

	Statement of financial position		Statement of comprehensive income	
	2012 MNT'000	2011 MNT'000	2012 MNT'000	2011 MNT'000
Deferred income tax assets:				
Property, plant and equipment accelerated accounting depreciation	199,183	118,384	80,799	94,097
Provision for mine rehabilitation	352,174	325,274	26,900	(381,497)
Unrealised foreign exchange loss	2,727	–	2,727	–
	554,084	443,658	110,426	(287,400)
Deferred income tax liabilities:				
Mining properties	(135,588)	(146,707)	11,119	214,051
Change in fair value of property, plant and equipment	(978,260)	(955,632)	(22,628)	1,330,371
	(1,113,848)	(1,102,339)	(11,509)	1,544,422
Net deferred income tax liabilities	(559,764)	(658,681)	98,917	1,257,022

9. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted earnings per share are the same as there are no dilutive effects on earnings.

	2012	**2011**
Net income attributable to ordinary shareholders (MNT'000)	769,400	128,152
Weighted average number of ordinary shares	9,902,942	8,414,856
Basic and diluted earnings per ordinary share (MNT)	77.69	15.23

10. PROPERTY, PLANT AND EQUIPMENT

At 31 December 2012	Mining Development MNT'000	Buildings MNT'000	Machinery, Equipment and Motor Vehicles MNT'000	Furniture and Fittings MNT'000	Computers MNT'000	Construction in-progress MNT'000	Total MNT'000
At Cost or Valuation							
At 1 January 2012	9,862,269	24,767,899	13,827,210	94,087	56,025	–	48,607,490
Addition	783,448	58,099	1,661,392	35,877	13,469	66,880	2,619,165
Disposals	–	(138,488)	(202,811)	(716)	(1,135)	–	(343,150)
Change in provision for mine rehabilitation	(50,063)	–	–	–	–	–	(50,063)
Revaluation	–	2,021,216	301,675	(15,314)	(87)	–	2,307,490
At 31 December 2012	10,595,654*	26,708,726	15,587,466	113,934	68,272	66,880	53,140,932
Depreciation, depletion and impairment losses							
At 1 January 2012	179,841	18,039,839	9,615,870	48,272	16,743	–	27,900,565
Charge for the year	61,128	389,874	1,188,893	9,195	8,383	–	1,657,473
Impairment (reversal)	–	(82,849)	80,227	(406)	709		(2,319)
Disposals	–	(42,085)	(80,465)	(306)	(705)	–	(123,561)
Revaluation	–	1,859,710	231,528	(8,872)	(1,159)	–	2,081,207
At 31 December 2012	240,969	20,164,489	11,036,053	47,883	23,971	–	31,513,365
Net book value							
At 31 December 2012	10,354,685	6,544,237	4,551,413	66,051	44,301	66,880	21,627,567

*Stated at cost.

10. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

At 31 December 2011	Mining Development MNT'000	Buildings MNT'000	Machinery, Equipment and Motor Vehicles MNT'000	Furniture and Fittings MNT'000	Computers MNT'000	Total MNT'000
At Cost or Valuation						
At 1 January 2011	1,565,154	22,119,846	12,322,852	95,391	32,450	36,135,693
Addition	–	9,572	604,147	7,680	12,641	634,040
Transfer from exploration and evaluation assets	8,215,355	–	–	–	–	8,215,355
Disposals	–	–	(62,500)	–	–	(62,500)
Reclassification	–	–	–	(8,678)	8,678	–
Change in provision for mine rehabilitation	81,760	–	–	–	–	81,760
Revaluation	–	2,638,481	962,711	(306)	2,256	3,603,142
At 31 December 2011	9,862,269*	24,767,899	13,827,210	94,087	56,025	48,607,490
Depreciation, depletion and impairment losses						
At 1 January 2011	122,120	15,582,309	7,634,848	39,669	10,760	23,389,706
Charge for the year	57,721	390,332	1,087,688	8,873	6,074	1,550,688
Reversal of impairment	–	(94,331)	(122,249)	(1,342)	(5,799)	(223,721)
Disposals	–	–	(6,940)	–	–	(6,940)
Revaluation	–	2,161,529	1,022,523	1,072	5,708	3,190,832
At 31 December 2011	179,841	18,039,839	9,615,870	48,272	16,743	27,900,565
Net book value	9,682,428	6,728,060	4,211,340	45,815	39,282	20,706,925

* Stated at cost.

10. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Had the revalued assets been carried at historical cost, the net book value of property, plant and equipment stated at valuation that would have been included in the financial statements of the Company as at 31 December 2012 and 2011 would be as follows:

At 31 December 2012	Buildings MNT'000	Machinery, Equipment and Motor Vehicles MNT'000	Furniture and Fittings MNT'000	Computers MNT'000	Total MNT'000
Cost	2,608,475	10,148,566	153,755	96,632	13,007,428
Accumulated depreciation, depletion and impairment losses	(2,035,914)	(9,391,266)	(92,593)	(64,256)	(11,584,029)
Net book value	572,561	757,300	61,162	32,376	1,423,399

At 31 December 2011	Buildings MNT'000	Machinery, Equipment and Motor Vehicles MNT'000	Furniture and Fittings MNT'000	Computers MNT'000	Total MNT'000
Cost	2,688,864	8,689,985	118,594	84,298	11,581,741
Accumulated depreciation, depletion and impairment losses	(1,770,974)	(8,202,611)	(84,110)	(55,869)	(10,113,564)
Net book value	917,890	487,374	34,484	28,429	1,468,177

10. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Mining development consists of capitalised exploration costs at the satellite seam area and capitalised cost of provision for mine rehabilitation upon initial recognition. The Company has fully expensed its mining development cost in relation to the Sharyn Gol area in previous years. Borrowing cost which has been capitalised within "Mining development" during the year amounted to MNT 11,634,495 (2011: MNT 185,987,214). No property, plant and equipment are pledged as security for borrowings disclosed in Note 22.

In 2012, the Company recognised reversal of impairment loss amounting to MNT 2,319,786 (2011: MNT 223,721,501) since the net book value of the property, plant and equipment is lower than its recoverable amount. Recoverable amount is the property, plant and equipment's fair value less cost to sell and is determined based on depreciated replacement cost for buildings, machinery, equipment and motor vehicles, and market value for furniture and fittings and computers.

Revaluation of property, plant and equipment

The Company engaged Pantheon LLC., an accredited independent valuer, to determine the fair value of its property, plant and equipment.

The fair value of buildings, machinery, equipment and motor vehicles is determined based on depreciated replacement cost, while the fair value of furniture and fittings and computers are determined based on market value. The dates of valuation were 31 December 2012 and 2011.

11. INTANGIBLE ASSETS

	2012 MNT'000	2011 MNT'000
Cost		
At 1 January	48,695	38,313
Additions	–	10,382
At 31 December	48,695	48,695
Amortisation		
At 1 January	29,227	20,434
Charge for the year (Note 6)	11,146	8,793
At 31 December	40,373	29,227
Net book value	8,322	19,468

12. DEFERRED EXPLORATION AND EVALUATION ASSETS

	2012 MNT'000	2011 MNT'000
At 1 January	–	5,921,746
Additions	1,316,469	2,293,609
Transfer to mining development (Note 10)	–	(8,215,355)
At 31 December	1,316,469	–

Deferred exploration and evaluation assets include borrowing costs arising from loans borrowed specifically for the purpose of funding the drilling program. During the financial year, the borrowing costs capitalised amounted to MNT Nil (2011: MNT 185,987,214) at a weighted average interest rate of 0% (2011: 10%).

13. INVESTMENT IN AN ASSOCIATE

On 13 March 2011, the Company acquired a 30% equity interest in Sharyn Gol Energy LLC, a Company incorporated in Mongolia with the principal activity of processing coal.

As at 31 December 2012, the carrying amount of investment in associate amounted to MNT 126,696,171 (2011: MNT 243,826,340) as shown in the following table:

	2012 MNT'000	2011 MNT'000
Cost of investment	363,205	363,205
Accumulated share of net loss		
At 1 January	119,378	–
Share on net loss	117,130	119,378
At 31 December	236,508	119,378
Carrying amount		
At 31 December	126,697	243,827

13. INVESTMENT IN AN ASSOCIATE (CONTD.)

Summarized financial information of the associate is as follows:

	2012 MNT'000	2011 MNT'000
Statement of Financial Position		
Current assets	302,244	254,268
Noncurrent assets	1,852,948	1,980,541
Current liabilities	994,671	413,957
Noncurrent liabilities	623,825	794,928
Net assets	536,696	1,025,924
Statement of Comprehensive Income		
Revenue	154,102	81,437
Net loss	390,434	397,927

14. AVAILABLE-FOR-SALE FINANCIAL INVESTMENT

	2012 MNT'000	2011 MNT'000
Unquoted available-for-sale financial investment	33,812	–

Available-for-sale financial investment represents investment made in a non-listed entity, which is valued based on non-market observation information (Level 3). Changes in underlying assumptions can lead to adjustments in the fair value of the investment. Available-for-sale financial investment is neither past due nor impaired.

15. DEFERRED INCOME TAX LIABILITIES

	2012 MNT'000	2011 MNT'000
At 1 January	658,681	1,915,703
Recognised in income statement (Note 8)	(121,545)	73,349
Recognised in other comprehensive income (Note 8)	22,628	(1,330,371)
At 31 December	559,764	658,681

16. INVENTORIES

	2012 MNT'000	2011 MNT'000
At cost		
Coal stockpiles	226,189	553,516
Spare parts	458,714	489,693
Consumables	208,400	188,373
Raw materials	53,030	66,005
Others	8,107	8,288
	954,440	1,305,875

In 2012, inventories recognised as an expense in the cost of sales of the Company amounted to MNT 8,445,694 (2009: MNT 8,155,565).

17. TRADE RECEIVABLES

	2012 MNT'000	2011 MNT'000
Trade receivables	2,381,025	370,001
Amount due from Company's directors (Note 25)	–	5,584
	2,381,025	375,585
Less: Allowance for impairment loss	(19,556)	(13,543)
	2,361,469	362,042

Trade receivables are non-interest bearing and are generally on 15-30 days' credit terms, which is approved on a case-by-case basis. They are recognised at their original invoice amounts which represent their fair value on initial recognition.

Amount due from Company's directors arises from purchase of coal from the Company and are unsecured, non-interest bearing and with no fixed term of repayment.

The Company has significant credit concentration from state-owned entities. However, the directors believe this does not pose a significant risk to the Company.

17. TRADE RECEIVABLES (CONTD.)

As at 31 December 2012, trade receivables with a nominal value of MNT19,555,842 (2011: MNT13,544,268) were individually impaired and fully provided for. Movements in the allowance for impairment of trade receivables were as follows:

	2012 MNT'000	2011 MNT'000
At 1 January	13,543	17,067
Charge for the year (Note 7)	8,296	9,745
Reversal of impairment loss (Note 5)	(2,283)	(5,669)
Transfer to investment in an associate	–	(7,600)
At 31 December	19,556	13,543

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

	Total MNT'000	Neither past due nor impaired <30 days MNT'000	Past due and not impaired >30 days MNT'000	Past due and impaired >30 days MNT'000
31.12.2012	2,381,025	2,338,198	23,271	19,556
31.12.2011	375,585	335,173	26,869	13,543

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Company. Most of the Company's trade receivables arise from customers with more than ten years of experience with the Company and losses have occurred infrequently.

None of the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

18. OTHER RECEIVABLES

	2012 MNT'000	2011 MNT'000
Amount due from Company's directors (Note 25)	206,801	126,009
Amount due from related companies (Note 25)	12,083	16,186
Amount due from a shareholder (Note 25)	–	1,471
Sundry receivables	1,047,200	856,611
	1,266,084	1,000,277
Less: Allowance for impairment loss	(513,995)	(266,011)
	752,089	734,266

Amounts due from Company's directors, related companies, shareholder and sundry receivables are unsecured, non-interest bearing and with no fixed terms of repayment.

Amount due from Company's directors, related companies and shareholder consists of expenses paid by the Company on behalf of these related parties.

As at 31 December 2012, other receivables with a nominal value of MNT403,994,674 (2011: MNT266,010,735) were impaired and fully provided for. Movements in the allowance for impairment of other receivables were as follows:

	2012 MNT'000	2011 MNT'000
At 1 January	266,011	547,913
Charge for the year (Note 7)	276,012	55,230
Reversal of impairment loss (Note 5)	(28,028)	(3,866)
Transfer to investment in an associate	–	(333,266)
At 31 December	513,995	266,011

19. CASH AND BANK BALANCES

	2012 MNT'000	2011 MNT'000
Cash on hand	1,980	4,005
Cash at banks	15,016,412	17,587,276
	15,018,392	17,591,281

Cash at banks consist of MNT and United States Dollar (USD) accounts which bear fixed interest rates.

20. ISSUED CAPITAL AND RESERVES

Authorised Shares	Number of Ordinary Shares at MNT100 each 2012	2011	Amount 2012 MNT'000	2011 MNT'000
At 1 January and at 31 December	10,231,389	10,231,389	1,023,139	1,023,139
Issued and fully paid				
At 1 January	10,231,389	7,231,389	1,023,139	723,139
Issued during the year	–	3,000,000	–	300,000
At 31 December	10,231,389	10,231,389	1,023,139	1,023,139

On 2 March 2011, the Company issued 1,292,596 ordinary shares of MNT100 each at price of MNT4,221 per share to settle loans amounted to MNT5,456,047,716 obtained from Firebird Mongolia Fund Ltd, Firebird Global Master Fund Ltd and Firebird Global Master Fund II Ltd. In 2011, the Company also issued 1,707,404 shares to the public with a par value of MNT170,740,400. The excess between consideration and par value of ordinary share is recorded in share premium as below.

Share premium	2012 MNT'000	2011 MNT'000
At 1 January	23,145,158	–
Increase	–	23,145,158
At 31 December	23,145,158	23,145,158

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Treasury shares	2012 MNT'000	2011 MNT'000
At 1 January	6,115	–
Purchase of shares	–	6,115
At 31 December	6,115	6,115

On 27 October 2011, the treasury shares were bought as part of the Company's investment decision.

20. ISSUED CAPITAL AND RESERVES (CONTD.)

Capital reserve	2012 MNT'000	2011 MNT'000
At 1 January	692,858	–
Addition	–	692,858
Transfer to retained earnings	(6,929)	–
At 31 December 2011	685,929	692,858

Capital reserve arises from Company shares owned by an associate as a stockholder.

Revaluation reserve	2012 MNT'000	2011 MNT'000
At 1 January	8,600,688	6,858,007
Revaluation surplus (Note 10)	226,283	412,310
Tax effect (Note 8)	(22,628)	(103,078)
Effect of change in tax rate (Note 8)	–	1,433,449
At 31 December	8,804,343	8,600,688

Revaluation reserve arises from the revaluation of buildings, machinery and equipment, furniture and fittings and computers as disclosed in Note 10.

21. PROVISIONS

	Mine rehabilitation	
	2012 MNT'000	2011 MNT'000
At 1 January	3,252,745	2,827,083
Accretion	342,329	305,890
Effect of change in assumption	(73,338)	119,772
At 31 December	3,521,736	3,252,745

The Company makes full provision for the future cost of rehabilitating mine sites on a discounted basis on the development of mines. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred up to 2035. Assumptions, based on the current economic environment, have been made which management believes, are reasonable bases upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

21. PROVISIONS (CONTD.)

However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommisioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future coal prices, which are inherently uncertain.

22. BORROWINGS

	Effective Interest rate	Principal MNT'000	Accrued interest MNT'000	Total MNT'000
31 December 2011				
Secured				
Firebird Global Master Fund, Ltd.	10%	296,120	22,913	319,033
Firebird Global Master Fund II, Ltd.	10%	171,816	13,294	185,111
		467,936	36,207	504,144

On 20 July 2010, the Company entered into a one year loan agreement with Firebird Global Master Fund I Ltd., Firebird Global Master Fund II Ltd. and Firebird Mongolia Fund, Ltd. for an aggregate amount of USD 1,630,000 to fund its ongoing and future operation. The terms of the loan are as follows:

a. The loan is secured by a mining license (1498A) of the Company.
b. The loan can be repaid by cash as a bullet repayment 12 months from drawdown date or be converted into a variable number of equity shares of the Company subject to the approval of the shareholders meeting.
c. The loan bears interest at 10% per annum, payable together with the loan principal 12 months after the drawdown date.
d. The loan principal together with interest is payable in MNT. The loan principal amount due is based on the translated amount of the USD drawn-down by the Company at the transaction date. The loan interest is accrued based on MNT amount outstanding.

On 3 March 2011, a portion of the loan amounting to MNT 5,456,047,716 was converted into 1,292,596 equity shares of the Company (see Note 20).

On 20 July 2011, the loan agreement was amended to extend the term to 31 March 2012 and on 2 April 2012, these loans were repaid.

23. TRADE PAYABLES

	2012 MNT'000	2011 MNT'000
Trade payables	899,443	259,546

Trade payables are non-interest bearing and are normally settled on 30 to 60 days basis.

24. OTHER PAYABLES

	2012 MNT'000	2011 MNT'000
Salary payable	270,813	98,937
Accruals	195,759	77,000
Social and health insurance payable	83,269	623
Personal income tax payable	11,797	–
Deferred revenue	27,893	–
Amount due to a Company's director (Note 25)	4,374	–
Amount due to related companies (Note 25)	4,659	5,786
Deferred revenue	500	500
Sundry payables	367,234	793,638
	966,298	976,484

Sundry payables and amount due to related companies are non-interest bearing and have no fixed repayment term. Deferred revenue represents payments received by the Company for provision of electricity not yet rendered. Amount due to a related company relates to disbursements paid on behalf of the Company.

25. RELATED PARTY DISCLOSURES

The following tables provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and information regarding outstanding balances as at 31 December 2012 and 2011:

	Sales		Purchases		Amount due from related parties *		Amount due to related parties *	
	2012	2011	2012	2011	2012	2011	2012	2011
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Related companies where the directors have significant influence or control					(Note 18)	(Notes 18)	(Note 24)	
B&G Equipment LLC	–	–	–	–	–	–	3,721	3,721
B&G International LLC	–	–	–	–	–	–	–	53
UB Green Engine LLC	–	–	–	4,290	–	–	231	231
Sharyn Gol Trading	–	–	–	–	1,074	–	–	1,074
Sharyn Gol Energy LLC	–	–	–	–	9	–	–	–
NMES LLC	–	–	–	–	11,000	11,000	–	–
Naco Fuels LLC	–	–	–	–	–	–	707	707
Triton Coal Pte. Ltd.	–	53,790	–	–	–	5,186	–	–
	–	53,790	–	4,290	12,083	16,186	4,659	5,786

* The amounts are classified as trade and other receivables and other payables, respectively.

25. RELATED PARTY DISCLOSURES (CONTD.)

	Sales		Purchases		Amount due from related parties *		Amount due to related parties *	
	2012	2011	2012	2011	2012	2011	2012	2011
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Shareholder of the Company					(Notes 17 & 18)		(Note 24)	
Global Sharyn Gol LLC	–	–	–	–	–	1,471	–	–
Company's Directors								
Batbold, J.	–	–	–	–	190,869	–	–	–
Batmunkh, B.	–	2,071	–	–	–	130,517	–	–
Nasanbat S.	–	–	–	–	–	959	4,374	–
David Michael Wilson	–	–	–	–	–	117	–	–
Graham Chapman	–	–	–	–	15,932	–	–	–
	–	2,071	–	–	206,801	131,593	4,374	–

* The amounts are classified as trade and other receivables and other payables, respectively.

25. RELATED PARTY DISCLOSURES (CONTD.)

	2012 MNT'000	2011 MNT'000
Loan obtained from :		
Firebird Global Master Fund Ltd. (Note 22)	–	319,033
Firebird Global Master Fund II, Ltd. (Note 22)	–	185,111
	–	504,144

	2012 MNT'000	2011 MNT'000
Compensation to key management personnel:		
Salaries, incentives and allowances	446,565	20,297
Contribution to Social and Health Insurance Fund	58,053	2,639
	504,618	22,936

Terms and conditions of transactions with related parties

Terms and conditions of balances owing to / from related parties are set out in Notes 17, 18, 22 and 24, respectively. Sales of coal and purchase of spare parts and fuels from related parties are made at terms equivalent to those that prevail in arm's length transactions. There have been no guarantees provided to or received from any related party. For the year ended 31 December 2012, the Company has recorded MNT5,500,000 (2011: MNT769,833,676) in relation to allowance for impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

26. COMMITMENTS

Operating lease commitments - as a lessor

The Company has entered into leases with its related parties. These non-cancellable leases have remaining lease terms of less than one year. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases at the reporting dates are as follows:

	2012 MNT'000	2011 MNT'000
Within 1 year	–	80,281

26. COMMITMENTS (CONTD.)

Operating lease commitments - as a lessee

The Company has entered into a non-cancellable operating lease agreement with the local government of Sharyn Gol Sum to lease a parcel of land where the Company's mining operations are being held. The agreement has a term of one year and is renewable for another term of one year.

The future minimum lease payments under the lease agreement are as follows:

	2012 MNT'000	2011 MNT'000
Within 1 year	39,200	–

Capital commitments

	2012 MNT'000	2011 MNT'000
Within 1 year	14,230,046	1,904,416
After 1 year but not more than 5 years	5,568,400	–
	19,798,446	1,904,416

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's business whilst managing its foreign exchange, credit and liquidity risks in order to minimise the potential adverse effects on the performance of the Company. The Company operates within clearly defined guidelines that are approved by the Board and the Company's policy is not to engage in speculative transactions.

The Company has various financial assets and liabilities such as trade receivables, other receivables, cash and bank balances and trade and other payables, which arise directly from its operations. Also, the Company has interest bearing borrowings and investments from its financing and investing activities.

It is, and has been throughout 2012 and 2011 the Company's policy that no trading in derivatives shall be undertaken.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

The main risk that could adversely affect the Company's financial assets, liabilities or future cash flows are commodity price risk, interest rate risk, foreign currency risk, liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarised below:

(a) Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's fixed rate current accounts in the bank and borrowings. As of the reporting date, the Company has not adopted sensitivity analysis to measure interest rate risk due principally to the fact that the Company has no floating rate financial assets and liabilities at the financial reporting date

(b) Foreign currency risk

The Company's foreign currency exposure is mainly to USD. The Company does not transact in any other foreign currencies which would expose it to foreign currency exchange rate fluctuations.

The Company's policy is to manage its foreign currency financial assets and liabilities using the best available foreign currency exchange rates.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all variables held constant, of the Company's profit before tax due to changes in the carrying value of monetary assets and liabilities

	2012 MNT'000 Increase (Decrease)	**2011 MNT'000 Increase (Decrease)**
Increase (decrease) in foreign currency exchange rate (USD)		
+5%	1,687	15,617
-5%	(1,687)	(15,617)

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(c) Credit risk

The Company trades only with state-owned entities and recognised, creditworthy third parties. It is the Company's policy to enter sales contract with customers. Deposits are collected from customers and are then settled by way of the performance of the sales contract through delivery of the coals to the customer. As such, the Company's exposure to credit risk arising from default of the counterparty is minimal. The Company's maximum credit exposure of its financial instruments is equivalent to the carrying amount as disclosed in the statements of financial position.

Refer to Note 17 for analysis of trade receivables aging and Note 14 for available-for-sale financial investment.

(d) Commodity and Market Risk

The Company's sales of coals to state-owned entities are based on prices regulated by the Mongolian government and, as such, are not exposed to variability in world market price of coal.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(e) Liquidity risk

The Company actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash and cash equivalents to meet its working capital requirements. The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	On Demand MNT'000	Less than 1 year MNT'000	Total MNT'000
Year ended 31 December 2012			
Borrowings	–	–	–
Trade payables	411,860	520,788	932,648
Other payables	304,194	345,222	649,416
	716,054	866,010	1,582,064
Year ended 31 December 2011			
Borrowings	–	504,144	504,144
Trade payables	112,098	153,234	265,332
Other payables	98,937	870,638	969,575
	211,035	1,528,016	1,739,051

28. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2012.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. Where quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

A considerable portion of the financial instruments as at 31 December 2012 is short term in nature with maturities of less than one year. Based on fair value assessments as indicated above, the estimated fair values of those financial assets and financial liabilities as at the statements of financial position date approximates their carrying amounts as shown in the statements of financial position.

30. EVENTS OCCURRING AFTER THE REPORTING DATE

The Company declared dividend of MNT 50 per share to its shareholders on record as at 18 February 2013. Payment shall be made in June 2013.

31. MONGOLIAN TRANSLATION

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.

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