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

Risks Relating to our Business and Industry

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

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

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

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

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

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

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

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice. In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest maybe in the form of production or profit sharing or some other arrangement negotiated between the license holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia. In February 2007, the six mining licenses originally held by us were declared as Mineral Deposits of Strategic Importance under the 2006 Minerals Law. However, after taking into consideration the economic development policies of Mongolia, we decided to sign the Minerals License Transfer Agreement, under which we agreed to transfer five out of our six mining licenses to the Government of Mongolia. We received no cash consideration for the transfer of five of the six mining licenses to the Government of Mongolia. In the year ended December 31, 2007, we wrote off US$3.5 million, almost all of which are related to the write off of the carrying amount of the relevant capitalized drilling and exploration expenditures to profit and loss. Our UHG deposit is a Mineral Deposit of Strategic Importance, but the Government of Mongolia guaranteed in the Minerals License Transfer Agreement that our mining license would not be terminated or amended by requiring state equity participation thereon.

Coal prices are cyclical and subject to significant fluctuation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- manage our expanding operations, including the integration of any future acquisitions;

- anticipate and adapt to any changes in government regulation, mergers and acquisitions involving our competitors and other significant competitive and market dynamics;

- manage the logistics, utility and supply needs of our expanded operations; or

- maintain adequate control over our costs and expenses.

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

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

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

We face risks under our expansion program.

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

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

- the failure of equipment and machinery implemented to increase production to perform according to specifications or our expectations;

- difficulties encountered by our contractors in obtaining or financing the purchase of machinery, equipment and spare parts, particularly coal hauling trucks, excavators and tires for such equipment, required to increase production, due to capacity and supply constraints in the world steel and rubber markets and high global demand for those materials and other mining equipment;

- the failure of any of our contractors to fulfill its contractual obligations, which would require us to make alternative arrangements, may cause delays and potentially increase the costs of our expansion plans;

- the failure of our contractors to fulfill their capital expenditure and operating plans, which are subject to risks, contingencies and other factors, some of which are and will be beyond their control, such as increases in costs of equipment and materials and their ability to secure necessary approvals, recruit a sufficient number of qualified employees and obtain required financing on acceptable terms or at all; and

- unforeseen conditions or developments that could substantially delay its planned expansion, including adverse weather conditions and equipment and machinery malfunctions once operations commence.

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

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

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

Recently, the Parliament of Mongolia passed a resolution approving a formal policy on railway development in Mongolia. According to the policy, railway development will be conducted in three stages: (1) the Tavan Tolgoi-Sainshand-Choibalsan railway northward to Russia (construction to commence in 2010); (2) our UHG-GS railway and other railways that go directly to the border of Mongolia; and (3) railways going to western Mongolia from Tavan Tolgoi. Also, the policy specified that the railway gauge that crosses or connects to existing railway lines in Mongolia is to be Russian gauge. The timing for the start of construction and the gauge of the railways in the second stage, including our proposed railway, will be determined by the Government of Mongolia at a later stage. While we expect the Parliament of Mongolia to support the construction of our railway, there can be no assurance that the Parliament of Mongolia will explicitly indicate when we can commence construction in accordance with its railway development policy. Any delay in commencing our railway construction could have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, the Government of Mongolia recently announced its intention to develop one of its own deposits located in the Tavan Tolgoi coal formation. While we do not expect this development to interfere with the construction of our own proposed railway, there can be no assurance that the Government of Mongolia will not re-evaluate our railway project in light of its decision to develop its own deposit in the Tavan Tolgoi coal formation.

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

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

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

We may acquire and develop non-coal assets.

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

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

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

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

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

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

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

We have cash requirements both for ongoing operating expenses, working capital, general corporate purposes and for interest and principal payments on our outstanding indebtedness. As of December 31, 2007, 2008, 2009 and April 30, 2010, we recorded net current liabilities of US$2.0 million, US$10.6 million, US$12.0 million and US$42.2 million, respectively. As of December 31, 2007 and 2009, we had net cash used in operating activities of US$1.4 million and US$4.0 million, respectively. If we are unable to generate sufficient revenue and cash from our operations or secure additional financing to meet our obligations, we may be forced to reduce expenditures or not be able to continue as a going concern. Reduction of expenditures could have a negative impact on our business and would make it more difficult for us to execute our strategy, including our expansion plans in accordance with our expectations.

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

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

Our mining operations are concentrated at one mining site.

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

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

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

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

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

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

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

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

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

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

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

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

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

An oversupply of coal could adversely affect our profitability.

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

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

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

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

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

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

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

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

These risks can result in, among other things:

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

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

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

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

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

Licenses and permits are subject to renewal and various uncertainties.

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

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

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

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

Our business depends substantially on the continued services of our executive officers and, to a significant extent, on our ability to attract, train and retain qualified technical personnel, particularly those with expertise in coal mining and production. We do not carry key person insurance on any of our personnel, and there can be no assurance that we will be able to attract or retain qualified technical personnel. If one or more of our executive officers or key employees were unable or unwilling to continue their service with us, we might not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time or at all. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key personnel and staff members. If any dispute arises between such employees and us, there can be no assurance that the extent to which any non-competition undertakings of such employees could be enforced in our favor or at all. These executive officers and key employees primarily include Mr. Odjargal Jambaljamts, Dr. Battsengel Gotov, Mr. Enkhtuvshin Dashtseren, Mr. Gary Ballantine, Mr. Oyunbat Lkhagvatsend, Mr. Davaakhuu Chultem, Mr. Bat-Erdene Gansukh, Mr. Buljinsuren Gelenkhuu, and Mr. Bayarbayasgalan Dorjderem. Our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain personnel. Furthermore, some of our technical personnel are trained by our contractors. If our contractors cease to train our technical personnel, we will not be able to train or find qualified parties to train our technical personnel. As our business has grown and is expected to continue to grow rapidly, our ability to train and integrate new employees into our operations may not meet the growing demands of our business.

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

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

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

Foreign currency fluctuations could affect expenses and any future earnings.

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

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

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

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

The PRC government may impose restrictions on Mongolian coal.

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

Our mining operations are exposed to environmental risks.

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

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

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

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

Inclement weather may adversely affect our operations.

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

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

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

Risks Relating to Mongolia

Legislation in Mongolia may be subject to conflicting interpretations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Global Offering and Our Shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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