

Overview

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

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

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

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

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

Note:

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

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

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

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

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

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

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

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

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

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

Our Competitive Strengths

High-quality coking coal assets with abundant resources

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

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

Closest coking coal exporter to major Chinese steel mills

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

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

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

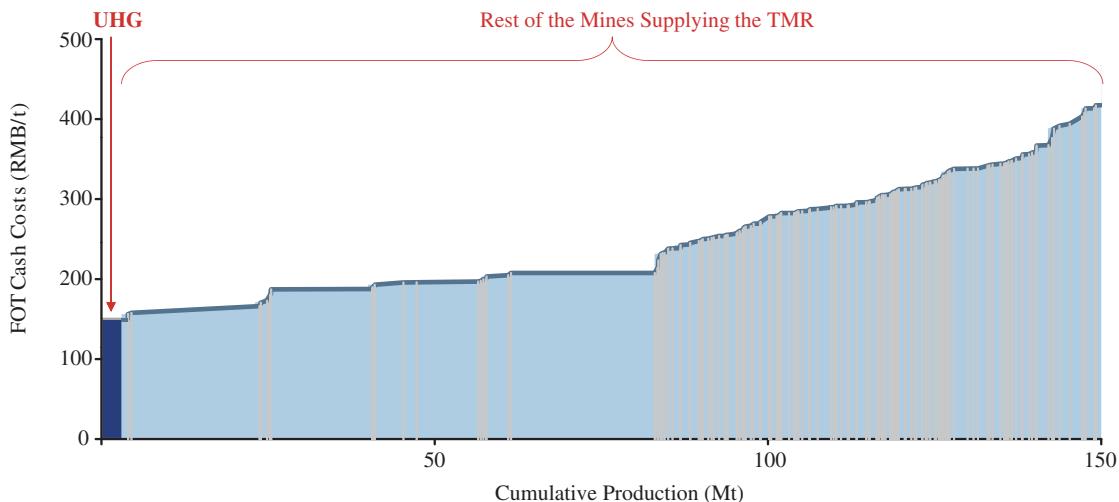
One of the lowest cost coking coal producers in the world

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

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

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

FOT 2010 Cost Curve TMR – Metallurgical Supply



Source: Wood Mackenzie, Norwest

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

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

High growth with established plan for margin expansion

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

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

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

Most advanced coking coal operations in Mongolia

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

Combination of Mongolian and international shareholders implementing international best practices

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

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

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

Strong management team partnered with internationally recognized experts

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

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

Our Strategy

Expand coal mine production

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

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

Complete construction of our coal handling and washing plant

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

Improve our transportation infrastructure

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

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

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

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

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

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

Optimize existing resources and reserves

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

Exploration and acquisition as an established Mongolian mining company

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

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

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

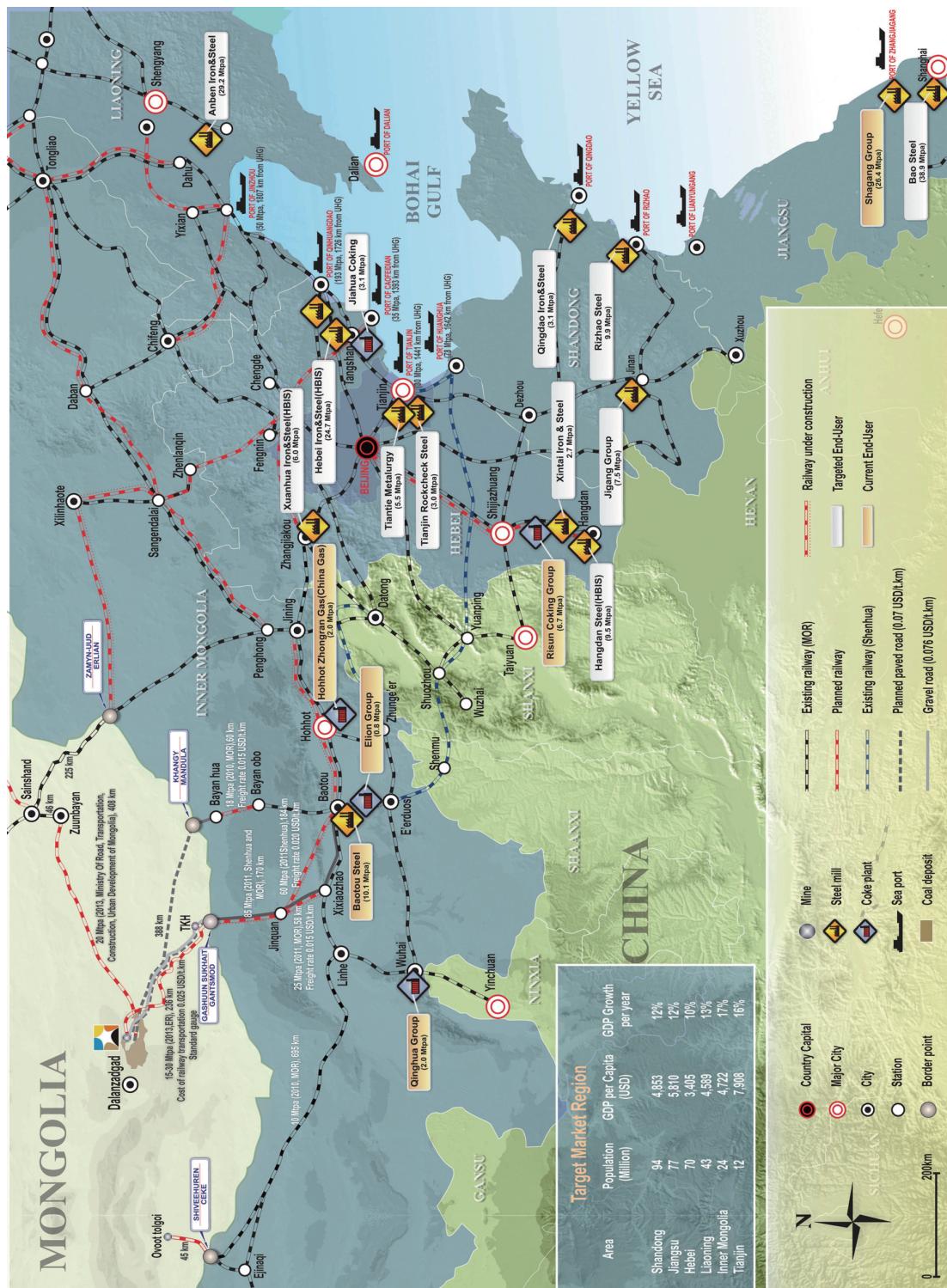
Strong commitment to corporate social responsibility

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

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

Our Location and License

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



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

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

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

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

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

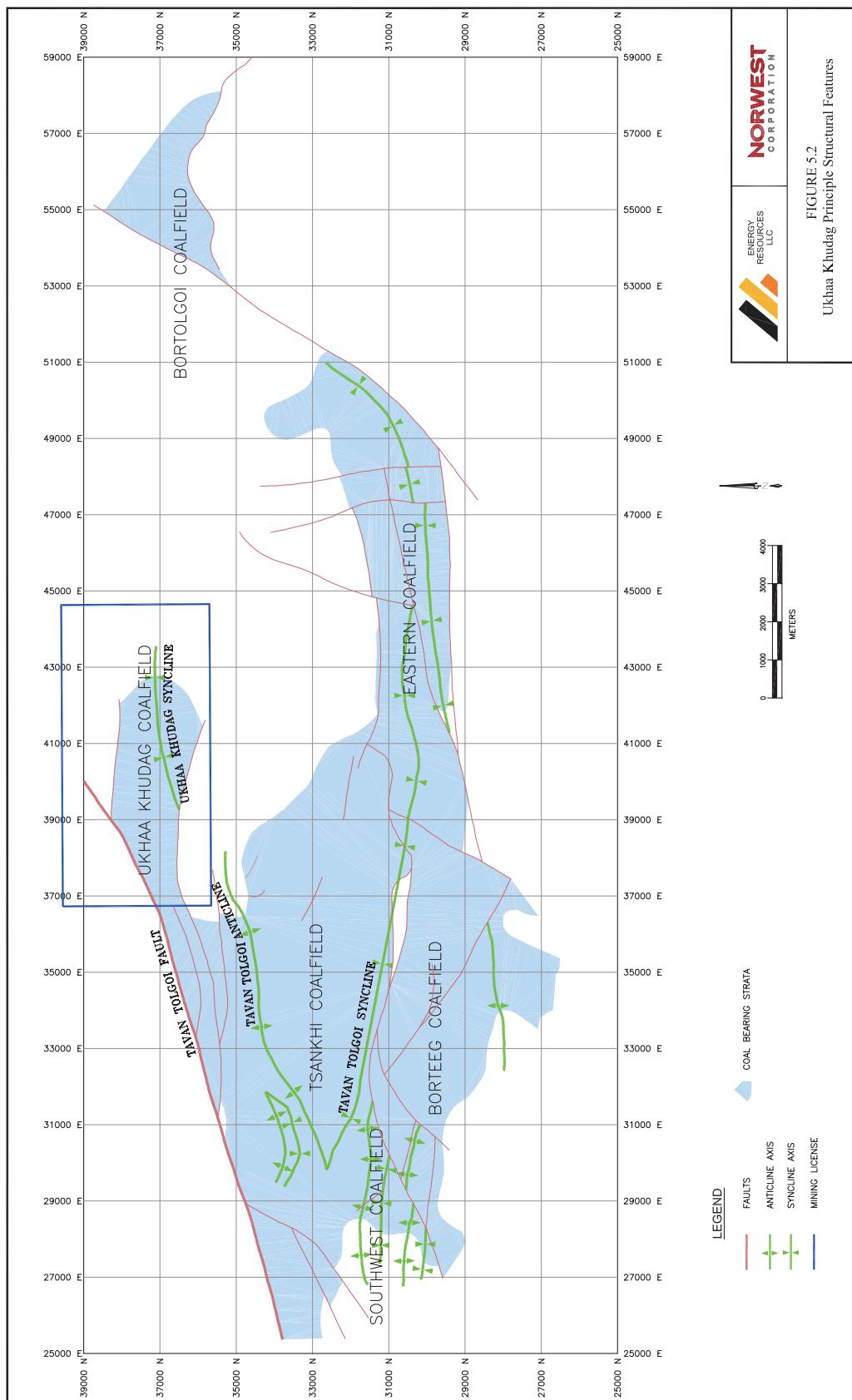
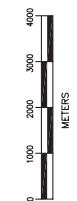
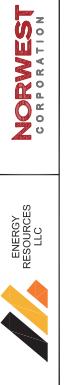


FIGURE 5.2
Ukhaa Khudag Principle Structural Features



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

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

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

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

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

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

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

Coal Resources and Reserves

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

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

Summary of Our Coal Reserves⁽¹⁾⁽²⁾

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

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

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

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Notes:

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

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

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

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

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

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

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

Coal Production and Ramp-Up Schedule

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

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

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

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

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

Coal Products

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

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

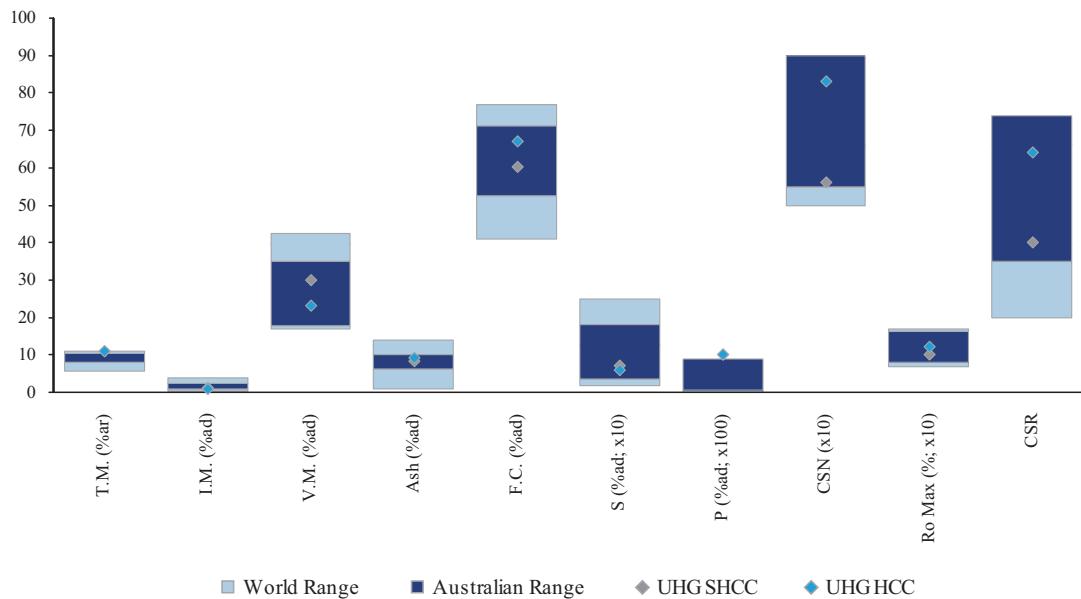
We are currently producing unwashed HCC. According to Wood Mackenzie, our HCC will likely be viewed by most consumers as high-quality coking coal and will be readily used by coke manufacturers in their coking operations both in China and abroad. The Chinese classification of coking coals differs from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

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

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

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

Comparison of UHG Coking Coals with Australian and World Ranges



Source: Wood Mackenzie.

Note:

T.M.: Total moisture

I.M.: Inherent moisture

V.M.: Volatile matter

F.C.: Fixed carbon

S: Sulphur

P: Phosphorus

CSN: Crucible Swelling Number

Ro Max: Maximum vitrinite reflectance

CSR: Coke Strength after Reduction

Mining Operations

General

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

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

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

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

Equipment

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

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

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

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

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

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

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

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

Repair and maintenance

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

Coal handling and washing plant

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

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

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

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

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

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

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

Power plants

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

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

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

Water supply facility

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

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

Suppliers

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

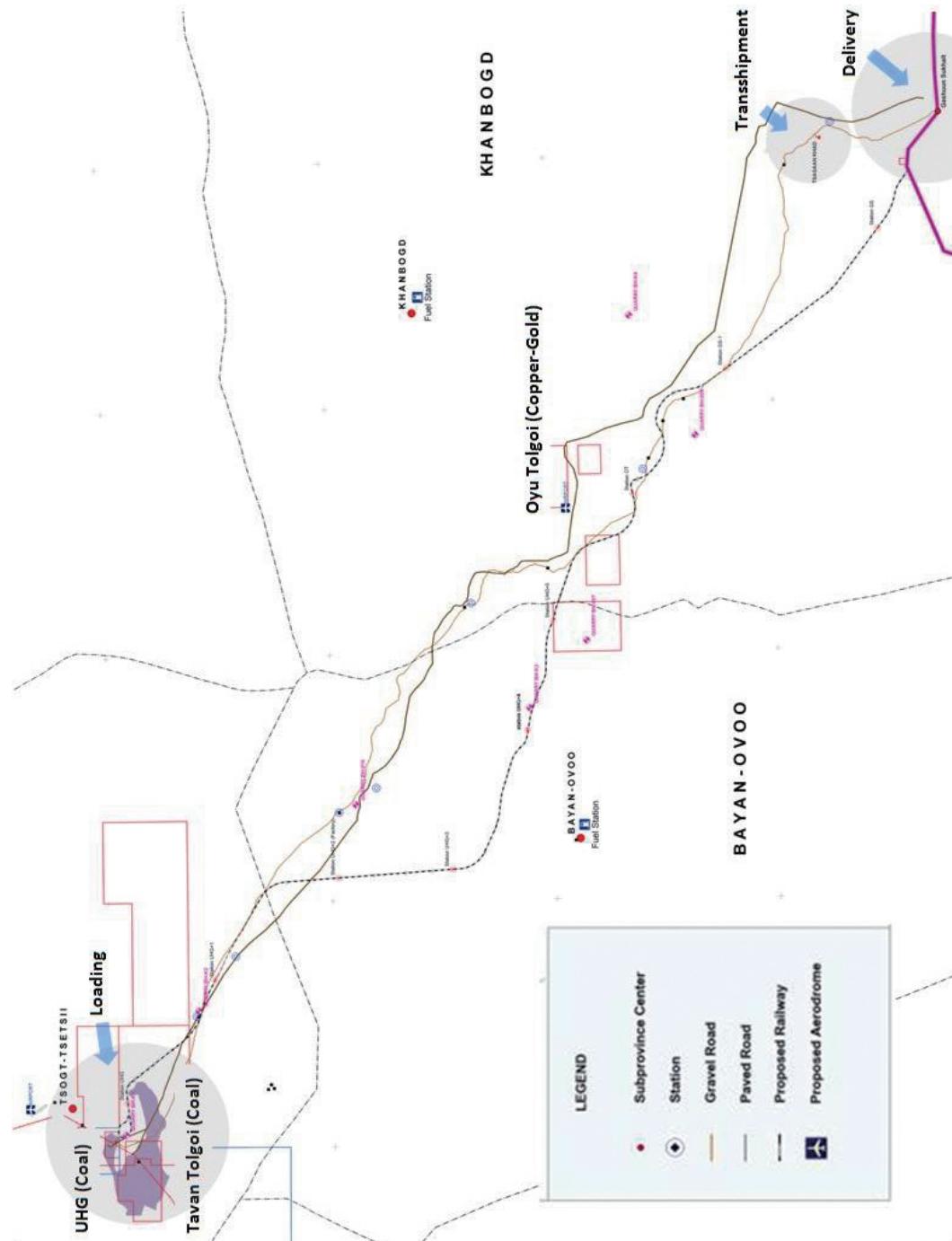
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The principal terms of our long-term contracts with suppliers and contractors are the terms of payment, delay penalties, testing and commissioning and acceptance of the completion. In general, we require a minimum performance security from the supplier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

Logistics and Transport

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

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



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

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

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

Trucking fleet

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

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

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

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

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

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

Road paving

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

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

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

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

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

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

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

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

Railway

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Expenditures

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

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

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Notes:

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

Marketing and Sales

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

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

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

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Customer Base

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

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

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

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

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

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

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

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

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

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

Baogang

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

Shagang

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

Qinghua

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

China Gas

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

Winsway

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

Risun

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

Elion

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

FengDa

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

Sinoglory

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

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

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

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

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

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

Competition

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

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

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

The Government of Mongolia has publicly announced its intention to develop other coal deposits in the Tavan Tolgoi coal formation. We believe the Government of Mongolia will most likely develop the Tsankhi deposit, which is located five km from our UHG deposit. The Tsankhi deposit would yield coking coal with similar qualities as our coking coal. While it currently remains undeveloped, if the Tsankhi deposit were developed, our competitiveness and market share would be diminished. In addition, it is likely that the Tsankhi deposit would be developed in part by a state-owned enterprise, which would likely provide it with greater access and support to public financing, infrastructure and other related benefits. See “Risk Factors – Risks Relating to our Business and Industry – An oversupply of coal could adversely affect our profitability”. Other coal deposits in the Tavan Tolgoi region are all still in the greenfield stage, with no exploration activity. While we assume that the coal quality in the other coal deposits in the Tavan Tolgoi coal formation may contain the same or substantially similar coal seams as the UHG deposit, we have no knowledge as to the actual size of the coal deposits contained in any of the other deposits in the Tavan Tolgoi coal formation.

We believe that it would take at least two years from the commencement of the development of the Tsankhi deposit to begin producing coking coal at a level that would have any significant competitive impact on our business. At that point, we will have had approximately three years of ongoing operations, a functional coal handling and washing facility, significantly improved infrastructure and time to establish our brand name in the coking coal markets. We believe these factors would provide us with significant advantages over the Tsankhi deposit or any other Tavan Tolgoi deposit the Government of Mongolia may choose to develop. Nonetheless, it is difficult to quantify the actual impact that development of the Tsankhi deposit or any other Tavan Tolgoi deposit may have on our business.

Quality Control

We implement quality control from the exploration stage through the mining, hauling and loading stages of our coal production. We have an onsite geology department and lab where we conduct our mine planning and quality testing. Our full-time onsite geology team is led by our senior geologist, Mr. Lkhagva-Ochir Said, with over four years of experience, who leads a team of ten other geologists to routinely work with Mr. Gary Ballantine in our geology department. Our team of eight chemists working in our onsite laboratory is led by Mr. Khatantuul Chuluunbat, our laboratory supervisor, who has over seven years of laboratory testing experience. In addition, we have engaged Stewart Laboratories (Ulaanbaatar) to conduct quarterly independent audits of our coal laboratory testing procedures and accuracy. They also provide training for our laboratory personnel.

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We engage in careful mine planning activities from 500m by 500m drilling to 50m by 50m field test drilling for day to day mine planning. Core samples taken from the holes undergo a full analysis covering all major coal quality parameters. Representative samples are also chosen for trace minerals analysis. This coal quality data is then entered into the geological database and ultimately incorporated into our mining plans. We take coal quality into account when we prepare mine plans to ensure consistent coal quality throughout the life of the mine.

During mining, samples are taken for short-term quality projections from coal seams exposed at each operating face to confirm the data that had been collected during the exploration phase. The data is then incorporated into our short-term mining plans, which include using selective mining methods to exclude coal that does not comply with quality specifications.

Once our coal handling and washing plant is functional, we will be able to produce washed coking coals at consistent quality levels. We believe this will greatly enhance our quality control.

After coal is extracted from the mine, it is transported to our coal stockpile, and is then loaded onto coal hauling trucks that take our coal to our trans-shipment facility 21km from GS. Transport trucks are weighed: 1) upon entry into our loading site for coal pickup; 2) upon departure from our loading site after picking up coal; and 3) upon entry into our trans-shipment facility. The average amount of coal lost in the transport process has been approximately 100kg per 80-100 tonnes coal hauling truck.

Properties

As of the Latest Practicable Date, we held: (i) 11 property interests in Mongolia with an aggregate site-area of approximately 13,399.50 hectares, being land used for our mining operations and supporting infrastructure; (ii) an apartment with a gross floor area of approximately 40 square meters; and (iii) two leased properties for office use.

Pursuant to land use certificates issued by the governor of the Umnugobi Aimag, an official of the Government of Mongolia, we are permitted to use the 11 parcels of land for an airport, camp, railway, mining site construction, customs control filed for loading and unloading exporting coal, water supply pipeline, power line and hard paved road. Economic & Legal Consultancy LLC, our legal advisors as to Mongolian law, has confirmed that our use of the land is in compliance with the relevant Mongolian laws and regulations.

American Appraisal China Limited, an independent property valuation firm, valued our property interests in Mongolia as of June 30, 2010, and attributed no commercial value to the above mentioned 11 parcels of land and the leased properties, either as a result of their non-assignability in the market, because there are prohibitions against subletting and/or assignment contained in the respective leases and/or tenancy agreements, or otherwise due to the lack of substantial profit rent. See “Appendix IV – Property Valuation”.

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Site infrastructure principally consists of a dedicated airstrip and terminal, and mine-site accommodations for project personnel. The airstrip and terminal have been commissioned and constructed. The employees and foreign consultants at our UHG mine are transported to the mine site from Ulaanbaatar by air. We have a private airstrip near our mine site. The airport is fully operational and licensed with the Mongolian Civil Aviation Authority. A temporary camp of approximately 170 gers has already been established at the project site to accommodate about 650 people. The facilities include permanent shower/washing/toilet facilities and large gers for offices, cooking and eating. While some current residents of the ger camp will move to other accommodations including the mine camp, the ger camp will continue to function until the railway operation commences. The mine camp can accommodate a total of approximately 650 persons, and includes 150 rooms, a canteen, and a recreation area. The mine camp serves all employees, including mine, washing plant and power plant.

| No | Company name | Certificate number | Issue date | Period | Size | Location | Designation | Issued by |
|-----|---------------|--------------------|------------|----------|------------------|----------------------------------|---|--|
| 1. | ER LLC | 0203104 | 2010.03.30 | 60 years | 811.2 hectares | Tsogttsetsii | for mining site construction | Head of Land Division, Tsogttsetsii Soum, Umnugobi Aimag |
| 2. | ER LLC | 0203103 | 2010.03.30 | 60 years | 834.7 hectares | Tsogttsetsii | mining site at UHG | Head of Land Division, Tsogttsetsii Soum, Umnugobi Aimag |
| 3. | ER LLC | 0203102 | 2010.03.30 | 60 years | 1,510.6 hectares | Tsogttsetsii | mining site reserve located to the east of the UHG | Head of Land Division, Tsogttsetsii Soum, Umnugobi Aimag |
| 4. | ER LLC | 0173666 | 2009.01.08 | 15 years | 10 hectares | Khanbogd | for customs control field for loading and unloading exported coal | Head of Land Division, Khanbogd Soum, Umnugobi Aimag |
| 5. | ER LLC | 0203101 | 2010.03.30 | 10 years | 600 hectares | Tsogttsetsii | of site construction located to the north of UHG | Head of Land Division, Tsogttsetsii Soum, Umnugobi Aimag |
| 6. | ER LLC | 0173540 | 2008.09.19 | 60 years | 10 hectares | Tsogttsetsii | building a camp | Head of Land Division, Tsogttsetsii Soum, Umnugobi Aimag |
| 7. | ER LLC | 0173536 | 2008.09.09 | 40 years | 115 hectares | Tsogttsetsii | an airport | Head of Land Division, Tsogttsetsii Soum, Umnugobi Aimag |
| 8. | ER LLC | 0173591 | 2009.08.07 | 60 years | 6,740 hectares | Tsogttsetsii-Bayan-Ovoo-Khanbogd | building a railway from the Tsogttsetsii soum to the inland port of Gashuun Sukhait | Head of Land Division, Umnugobi Aimag |
| 9. | ER LLC | 0173625 | 2009.12.30 | 60 years | 134 hectares | Tsogttsetsii | water reservoir, water sources, water supply pipeline | Head of Land Division, Umnugobi Aimag |
| 10. | ER LLC | 0203112 | 2010.04.27 | 40 years | 184 hectares | Tsogttsetsii | Power line for water supply facilities | Head of the Land Division, Tsogttsetsii Soum, Umnugobi Aimag |
| 11. | Gobi Road LLC | 0173628 | 2010.05.01 | 10 years | 2,450 hectares | Tsogttsetsii | paved road | Head of the Land Division, Umnugobi Aimag |

Each Group entity has obtained all land use rights required to conduct their business, free and clear of all defects and encumbrances and all such land use rights are legal, valid, binding and enforceable in accordance with the terms of their establishment.

Corporate Social Responsibility

We have a team of health, safety and environmental specialists led by Ms. Baigalmaa Shurka, the head of our health, safety and environment department. Ms. Shurka obtained a master's degree in environmental engineering from the Red Labor Banner Orders Polytechnic Institute of Irkutsk, Russia in 1986, a master's degree in public administration from the Mongolian University of Science & Technology in 2002 and a master's degree in civil engineering from the School of Mines & Technology in South Dakota, United States. Ms. Shurka has over 22 years of experience. Mr. Munkhzorig Dalanbayar is our health, safety and environment manager. Mr. Dalanbayar obtained his bachelor's degree in forestry from Mongolian National University in 1996 and has over 14 years of experience associated with health, safety and environmental operations in Mongolia. He works with a team of one environmental supervisor, three environmental coordinators and two environmental officers. From time to time, we also use internationally renowned consultants to assist our staff. In addition, our entire workforce is charged with complying with our environmental policies, which has been bolstered by EBRD's heightened environmental standards. All our employees receive environmental training at initiation and are routinely re-trained on matters regarding environmental compliance.

We have implemented a number of internal policies to take responsibility for the impact of our business activities on the environment, employees and local communities.

Community and Public Awareness

We maintain an ongoing dialogue with the public, government agencies and regulators. We believe directly engaging in the communities in which we operate is important. We are committed to communities near our mining operations, our employees and their families, the investment community, local and central governments, our suppliers, contractors and consultants and interested non-governmental organizations. In cooperation with Environmental Resources Management, we developed a stakeholder engagement plan as part of our environmental and social action plan. In accordance with this plan, we conducted a series of public consultation and disclosure activities which we intend to continue from time to time to keep our communities informed of recent developments and any potential impact such developments may have. Starting in 2008, we conducted a number of open house public consultations in all soums that would be affected by our operations. For each significant phase in our mine and community infrastructure development we have conducted public consultations and intend to continue to do so in the future.

Compliance with Environmental Laws and Regulations

Open-pit mining is used throughout the world. Environmental challenges associated with this mining method include pit closure plans and the water potentially impounded in the final pit. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, we seek to minimize the impact of our activities on the environment. We also aim to introduce an ISO 14001 environmental management system that will drive continual performance improvements. In addition, we have

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conducted over a dozen environmental impact studies relating to our mine and community infrastructure development projects and closely monitor the continuing impact of our projects.

We employ a full time environmental manager tasked with monitoring and implementing environmental compliance. We also have environmental officers both at our UHG deposit and our office in Ulaanbaatar. From time to time we also use internationally renowned consultants to assist our staff. In addition, our entire workforce is charged with complying with our environmental policies. All employees receive environmental training at initiation and annual refresher training on environmental compliance.

As a responsible and committed entity to the local community, we recognize the importance of internationally accepted social and environmental management practices that go beyond Mongolian Government requirements, including EBRD environmental and social standards and guidelines, and are using our best efforts to adhere to these practices.

For the year ended December 31, 2009 and the four months ended April 30, 2010 our environmental compliance costs amounted to US\$290,741 and US\$13,578, respectively. Our environmental compliance costs are budgeted at US\$508,866 for the year ending December 31, 2010. We have complied with such environmental laws and regulations in all material respects. As of the Latest Practicable Date, we received no complaints, fines or penalty orders from relevant environmental authorities. See “Laws and Regulations Relating to the Industry”.

Environmental Policy

We are committed to conducting our operations in a manner that complies with environmental laws and regulations, and endeavor to mitigate the adverse impact of our operations on the environment. Mining processes inherently generate surface subsidence, solid waste, dust, waste matter, and other industrial pollution and disposal of waste and hazardous materials. We have obtained all requisite environmental permits and approvals to conduct our business, and our mining and production facilities, construction, operation, process and equipment are in compliance with relevant national environmental and safety standards.

We aspire to become a leading supplier of coal from Mongolia through implementing industry best practices and demonstrating leadership in environmental practices. We are committed to performing all of our mining and exploration activities in an environmentally conscious manner and returning the environment to a natural state as required by the Government of Mongolia. We believe that conducting our activities in an environmentally responsible manner is integral to good business management.

All our employees and contractors are encouraged to accept, as their shared responsibility, that minimizing environmental harm is a priority when performing all activities. We expect to fulfill our commitment to the environment by:

- complying with all applicable legislation and regulations, and exceeding those requirements where necessary, with a view towards maintaining a healthy and pollution free environment;

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- identifying, assessing and managing the environmental risks of our activities in all planning and operational decisions;
- establishing and implementing management programs relevant to our environmental risks to prevent, reduce or mitigate impacts at all stages of exploration and mining;
- promoting the participation of our employees and contractors in implementing this policy by identifying their competency requirements and providing training appropriate to their responsibilities;
- regularly evaluating our performance through auditing business processes and practices and monitoring the surrounding environment in which we operate; and
- periodically reviewing our environmental management system and operational procedures to improve efficiency, minimize waste, prevent pollution and achieve continuous improvement.

According to a study done by Environmental Resources Management, there are no social-economic issues that threaten the feasibility of our mine. Furthermore, We have taken several measures to mitigate the social-economic impact of the project. These include:

- improving local healthcare and educational facilities;
- establishing monitoring programs to ensure that pit dewatering and other water sourcing for the mine does not adversely affect shallow ground water sources that are used by herders; and
- implementing controls to verify contracts adjust designs and behaviors to minimize risks of depleting shallow ground water sources that are used by herders.

We have also implemented several measures to specifically mitigate various aspects of our mine and supporting infrastructure. In the construction of our transportation infrastructure, we have committed to ensuring that quarry rock and fill materials will be sourced from areas that will not adversely affect cultural heritage, and monitoring contractors to ensure that only approved quarry sites are used to source construction materials. In connection with our water supply project we will implement procedures that will monitor the levels of local shallow wells to assess if our use of water sources has any impact on wells used by herders in and outside of our UHG mining area. In addition, we may compensate herders, through improved wells and/or access to secure water sources, for any loss of utility or access to water.

In general, the large amount of earth works planned for mine expansion, including the creation of large waste rock dumps and topsoil piles, naturally high winds in South Gobi could create additional dust impacts. This risk adversely affecting herders and their livelihoods, both through direct health impacts to humans as well as by damaging pasture land and animal health. As a result, we have implemented specific mitigation and management measures to reduce dust impacts, and will provide compensation for economic displacement to all those affected by expanded land use as a result of expanded mine activities.

Health and Safety Standards

We believe that one of our most important assets is our employees. We consider injuries to our employees and/or damage to our physical assets a threat to our reputation and success. We are therefore committed to a target of zero incidents in all of our activities by implementing industry best practices and demonstrating leadership in loss control. We will also continue to provide effective training and appropriate and sufficient resources for people to work safely and effectively.

We insist that all employees and contractors must accept as their shared responsibility that zero harm and loss is a priority when performing all work related activities. To achieve this target it is essential that our employees and contractors believe that all loss is preventable and accept responsibility for their personal safety and the safety of others and to protect the integrity of our physical assets at all times.

We endeavor:

- to plan for safe, efficient and productive work;
- to ensure that all employees and contractors are made aware of their responsibilities minimize wastage (time, resources, expenses);
- to assess and control the risk of loss as part of every decision we make;
- to comply with relevant legislation and internal loss control policies and procedures;
- to ensure that all our employees, contractors and managers will demonstrate and promote safety leadership;
- to ensure that our employees and contractors will participate in managing health and safety related issues;
- to ensure that final contractor selection will include an acceptable review of potential contractors' health and safety programmes and a commitment to minimize wastage (time, resources, expenses); and
- to ensure that all reported incidents will be investigated with a view to preventing recurrence.

We have complied with applicable health and safety regulations in all material respects. See "Laws and Regulations Relating to the Industry – Mongolian Laws and Regulations Relating to Labor, Health and Safety".

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Leighton is currently operating in coordination with us to ensure that UHG activities are controlled in such a way as to provide a safe and healthy working environment while satisfying Mongolian legislative requirements, industry best practices and client's expectations. A training program is in development and currently being implemented that will provide all employees with the tools required to conduct their work in a safe manner. Our heavy machinery operators undergo extensive onsite simulator trainings conducted by Leighton personnel in order to minimize potential damage from equipment failure or accidents. In addition, it is a requirement of Mongolian labor law that all employees are to take safety and hygiene training annually, and all of our employees have undertaken safety and hygiene training. As part of the Safety Management System implementation, all staff, employees and visitors are subjected to a drug /alcohol testing program.

Workers safety during construction and while living in work camps will be managed consistently with Mongolian laws and EBRD performance requirements. Contractors health and safety programs will be required to meet these standards. Similar requirements will be met by as construction of our new projects commence.

Community Development

We have planned and implemented a number of community development programs focusing on employment, development of local businesses, localization of procurement, education, health, culture, community infrastructure development and cultural preservation.

Our goal is to generate employment in the communities in which we operate thereby directly contributing to the development of the communities surrounding our UHG mine. For the year ended December 31, 2009, we employed approximately 43% of our workforce from South Gobi, Mongolia and expect to employ approximately 50% by the end of 2010. In addition, we have plans to employ 100% of our trainee positions from South Gobi, Mongolia by training unskilled job applicants to meet our employment requirements.

We value and support local businesses in our operations, to promote fair competition and compliance with relevant laws and regulations. We have localized a portion of our procurement. For the year ended December 31, 2009, we contracted with 38 individual entrepreneurs and 17 small to medium sized enterprises for the procurement of goods and services at our UHG mine. We plan to continue to do so in the future.

We have established a number of education programs including a scholarship program, promoting cooperation among secondary schools and a cooperation agreement with the Mongolian University of Science and Technology ("MUST"). Our scholarships are aimed to prepare young and skillful minds with the future goal of contributing to the community. For the year ended December 31, 2009, we arranged teachers' training for secondary school teachers in Tsogtsetsii soum. We are cooperating with MUST to provide employment opportunities for qualified graduates, exchange scientific information, conducting joint research and implementing scholarship and internship programs.

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For the year ended December 31, 2009, we provided hospitals in Tsogttsetsii soum medical equipment valued at US\$8,300 and also donated fully equipped medical service vans to three soums to provide timely and accessible health services.

We strongly believe in community infrastructure development as it plays a vital role in the progress of such communities. We are working with ESTO Company to develop and maintain the Tsogttsetsii soum road. Construction work started in September 2009. We are also considering this as part of our paved road project. We have made a number of donations for local secondary schools, kindergardens and cultural organizations. We also sponsored the construction of a new stadium for Tsogttsetsii soum which was completed in July 2009 and the repair of the secondary school dormitory, accommodating 155 children.

The preservation of cultural heritage is an important aspect of fostering community support. We are committed to protect and preserve tangible and intangible forms of cultural heritage. For the year ended December 31, 2009, we helped to restore the “Tsagaa Ovoo” Worship Mountain, sponsored local festivals and made donations targeted at book publication.

We have secured land in Tsogttsetsii soum center to accommodate 100 families with standing pipe water supplies. Families that move into this accommodation will receive a subsidy of US\$715, equivalent to three months of cost savings to us from not housing the employee at the camp. In addition, construction will commence on 92 to 114 apartments and houses in Tsogttsetsii soum. These houses will be rented and sold (with financial assistance) to employees.

Employees

As of December 31, 2007, 2008 and 2009 and April 30, 2010, we had a total of six, 45, 700 and 820 direct employees, respectively. As of the Latest Practicable Date, we had a total of 1,041 direct employees based in Mongolia. As of the Latest Practicable Date, we had no employees based in China.

For the year ended December 31, 2009, we employed approximately 43% of our workforce from South Gobi, Mongolia and expect to employ approximately 50% by the end of 2010. In addition, we plan to employ 100% of our trainee positions from South Gobi, Mongolia by training unskilled job applicants to meet our employment requirements.

The majority of our employees are employed under employment contracts which set out fully, among other things, the employee's responsibilities, remuneration and grounds for termination of employment. Our mine operates 24 hours a day, seven days a week and 365 days a year. Our mine operators work 12 hour shifts and are on a three week rotation: (1) first week, day shift; (2) second week, evening shift; and (3) third week, off.

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We have maintained good working relationships with our employees and have not encountered any difficulties in recruiting and retaining experienced staff. In April 2010, we entered into a Memorandum of Understanding with the newly established Mine Worker's Trade Union of Mongolia pursuant to which we agreed to cooperate with any trade union or organization existing under applicable labor laws, regulations and requirements. There were no labor disputes, strikes or related negotiations in the past that led to the signing of this Memorandum of Understanding. We believe that this memorandum will further improve our relationship with our employees by providing them with a more formal platform through which to communicate with us about their questions and concerns.

We have complied with all the relevant laws, regulations and requirements in relation to fair labor standards, working conditions, employment contracts and codes of conduct in respect of our employees in Mongolia. As of the Latest Practicable Date, we had not received notice of any threatened or pending proceedings by employees, which if adversely determined, would materially and adversely affect us.

Employee Remuneration Policy

Our remuneration policy is designed to attract, retain and motivate highly talented individuals to ensure the capability of our workforce to implement our business strategy. Key principles of the remuneration policy are to:

- set competitive rewards to attract, retain and motivate highly skilled people;
- provide detailed feedback to develop employees' skills and critically analyze employees' contributions;
- establish short and long-term incentive programs across, including, but not limited to, the equity incentive plan;
- ensure remuneration planning continues to be integrated within our business planning process; and
- ensure total reward levels and performance targets are set at appropriate levels to reflect the competitive market in which we operate, the prevailing economic environment and the relevant performance of similar companies.

We seek to accomplish the above goals by conducting annual remuneration reviews which take into account individual performance, the economic environment, the unique requirement for certain employees to travel and spend time in Mongolia, particularly at mine sites and relevant job and industry comparisons. We value the contribution of both individuals and teams in achieving the goals and objectives of our business.

Benefit Schemes

We maintain benefit schemes for our employees as required by relevant laws in Mongolia.

Injuries

As a result of these 15 accidents, damages of MNT351.2 million which are subject to insurance coverage, have been incurred by the Company. Tenger Insurance has covered the losses for 13 of the 15 accidents and has paid us insurance proceeds of MNT234.5 million as of June 30, 2010. One accident, which resulted in damages of MNT58 million, is currently being investigated by Tenger Insurance. The party at fault fully compensated the Company against the damages of MNT28 million caused by the last accident. As of Latest Practicable Date, 10 of these 15 accidents were resolved, dismissed, or settled finally. The remaining 5 accidents, including the 2 fatalities, were still being investigated by the Umnugobi aimag police department and our internal safety department. We are unable to estimate the level of our potential liability in relation to these remaining 5 accidents. Also, as of the Latest Practicable Date, none of these accidents resulted in any significant financial or operational impact to our operations.

In an effort to reduce further accidents such as those that occurred during the Track Record Period, we have taken the following steps: (1) assisting the local police to control traffic along the existing coal hauling road by setting up two police stations; (2) establishing a traffic safety unit, a professional team whose purpose is to prevent future traffic accidents; and (3) meeting with all transport companies to discuss safety issues and how to comply with applicable laws and regulations.

Insurance

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

We maintain, and intend to continue to maintain, insurance within ranges of coverage consistent with industry practice. We will continue to assess our risk portfolio and make necessary and appropriate adjustments. Our Directors confirm that they believe that we maintain more than sufficient insurance coverage considering our risk exposure.

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Research and Development

As our Directors believe is typical for a mining operation of our size, we do not currently engage in any research and development activities.

Intellectual Property

We own the trademark to our logos under the Certificate of Trademark in Mongolia registration numbers 7827, 7828, 7829, 7830, 7831 and 7832. We have applied to register our logo in Hong Kong as a service mark.

Compliance/ Internal Controls

We have complied in all material respects with the applicable laws and regulations in Mongolia. We believe that our internal control procedures are designed to assist with our compliance with all applicable laws and regulations. Furthermore, we have an experienced in-house team of nine Mongolian qualified lawyers with work experience ranging from one to 20 years in the legal field in Mongolia. The team is led by our chief legal counsel with over 20 years of legal work experience as a qualified lawyer in Mongolia, and routinely consults with outside counsel regarding ongoing compliance with applicable laws and regulations.

In preparation for the Global Offering, we have implemented the following measures to improve our internal control:

1. we have appointed three independent non-executive Directors who possess the relevant industry, financial and management experiences to enhance the corporate governance of our Group. Initial training has been provided to all Directors and senior management with regard to compliance with the Listing Rules, duties and responsibilities of directors, disclosure requirements and connected transactions;
2. an Audit Committee comprising three independent non-executive Directors has been established in accordance with the Listing Rules. The Audit Committee will review annually and supervise the financial reporting process and internal control system of our Group to ensure, among other things, that we comply with the relevant laws and regulations in relation to accounting and taxation related matters. In addition, the Audit Committee will also be required to report to the Board on any suspected non-compliance;
3. we will retain a Mongolian lawyer to act as our advisor for Mongolian legal issues. We will seek legal advice when required from time to time to ensure compliance with relevant laws and regulations;
4. we have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor to advise on compliance matters in accordance with Rule 3A.19 of the Listing Rules; and

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5. we have appointed Ms. Ng Sin Yee, Clare as the company secretary on July 23, 2010. Ms. Ng has experience in handling compliance matters for listed companies in Hong Kong and will be responsible for overseeing the day-to-day compliance matters of the Listing Rules of our Group subsequent to the Listing.

We intend to continue to monitor and take further steps to improve our internal controls in the future.

Legal Proceedings

As of the Latest Practicable Date, we were not a party to any material legal or administrative proceedings.

Except as set forth in “– Employees – Injuries”, as of the Latest Practicable Date, we had not received notice of any threatened or pending proceedings by government authorities or third parties, which if adversely determined, would materially and adversely affect us.

We confirm that as of the Latest Practicable Date, we were not aware of any claims in relation to exploration rights or our mining rights made or notified either by third parties against us or vice versa.

Confirmation

Except as set forth herein, the Directors confirm that none of the risk factors set forth in the “Risk Factors” resulted in any material losses or claims during the Track Record Period.