

2009 Audit Report



SHARYN GOL JSC

REPORT OF INDEPENDENT AUDITOR

TO THE SHAREHOLDERS OF “SHARIN GOL” JOINT STOCK COMPANY

We have audited the Financial Statements including the Balance Sheet as of December 31, 2009, the Annual Income Statement ending the same day, the Equity Changes Statement, the Cash Flow Statement, the major accounting policies, and other notes of “Sharin Gol” Joint Stock Company (hereinafter to be referred to as the “Company”) as reflected on pages 3 - 7.

Responsibilities of the Management on Financial Statements

It is the responsibility of the Company management to produce and fairly present the Financial Statements according to the International Financial Reporting Standards, select its accounting policy, adhere to it throughout the report year, and organize its accounting in accordance with the legislation. It is also the responsibility of the Management to ensure its assets storage, protection, and security, create and implement internal control system to prevent different types of fraudulent activities.

Responsibilities of the Auditor

It is our responsibility to generate conclusions on these Financial Statements based on the audit performed. We have performed our audit in accordance with the International Audit Standards issued by the International Federation of Accountants. These Standards require us to plan and execute the audit to obtain evidence on the absence of material discrepancies in the Financial Statements. The audit includes activities to verify justification of data reflected in the financial statements based on testing. The auditor makes its decision on procedures to assess risks associated with potential material misreporting in the Financial Statements due to errors or fraud. The assessment of these risks is made not to develop conclusions on the effectiveness of the organization internal control system and the auditor considers internal control related to preparation and correct presentation of the Financial Statements aimed at developing audit procedures appropriate to respective conditions. Also the audit besides assessing the financial statements as a whole includes review of estimates made and accounting principles utilized by the management. We believe the audit performed provides us with sufficient justification to generate conclusions on these Financial Statements.

Justification of Notes

Our audit could not provide assurance on the following matters:

Since our audit started after the count had already taken place, we could not observe inventory and fixed assets counts as of 31 December 2009. Due to the limited time frame and characteristics of the company accounting, we were not in the position to obtain audit evidence on inventory and fixed assets value through other auditing procedure.

Auditor’s Opinion

In our opinion the Financial Statements of “Sharin Gol” Joint Stock Company produced as of December 31, 2009 were done so correctly. They reflect the reporting period activities results and Cash Flow as required by the International Financial Reporting Standards and relevant procedures and regulations in effect in Mongolia excluding items mentioned in the notes justification.

This opinion is valid alongside with the enclosed financial statement and notes number on the pages 7-20.

B.Byambasuren
CEO “Panthere Midland Audit” LLC

Date

"SHARIN GOL" JSC

Balance Sheet as of December 31, 2009

| A. ASSETS | 1/1/2009 | 12/31/2009 |
|---|--------------------------|-------------------------|
| 1.2. Non-current assets | | |
| Fixed assets | 11,638,182,861.86 | 11,996,161,738.78 |
| Accumulated depreciation | (8,374,752,837.81) | (9,071,859,345.86) |
| Intangible assets | 38,312,696.00 | 38,312,696.00 |
| Accumulated depreciation | (4,469,814.52) | (12,770,898.62) |
| Investment and other assets | 181,181,000.00 | 8,400,000.00 |
| Total non-current assets | 3,478,453,905.53 | 2,958,244,190.30 |
| TOTAL NON-CURRENT ASSETS | 3,478,453,905.53 | 2,958,244,190.30 |
| 1.1. Current assets | | |
| Cash and cash equivalent | 623,257,192.58 | 284,578,670.16 |
| Accounts receivable | 4,820,334,139.65 | 4,299,667,500.10 |
| Bad dept deduction | (385,881.00) | (385,881.00) |
| Other receivables | 6,238,301.99 | 4,975,997.16 |
| Inventory | 1,844,639,638.60 | 1,800,380,572.11 |
| Animals | 15,430,550.00 | 11,922,050.00 |
| Prepaid expenses | 2,964,425.84 | 175,745,425.84 |
| TOTAL CURRENT ASSETS | 7,312,478,367.66 | 6,576,884,334.37 |
| TOTAL ASSETS | 10,790,932,273.19 | 9,535,128,524.67 |
| B. SHAREHOLDERS' EQUITY AND LIABILITIES | | |
| 2.3. Shareholders' equity | | |
| Ordinary shares: a/ public | | |
| b/ private | 723,138,900.00 | 723,138,900.00 |
| Retained earnings (loss) | (4,259,675,375.97) | (4,039,755,567.61) |
| Previous period | (4,320,825,076.23) | (4,259,675,375.97) |
| Report period | 61,149,700.26 | 219,919,808.36 |
| Shareholders' equity other section | 1,700,139,876.01 | 1,700,139,876.01 |
| Re-evaluation reserve | 3,051,333,889.03 | 3,051,333,889.03 |
| Total shareholders' equity | 1,214,937,289.07 | 1,434,857,097.43 |
| TOTAL SHARE HOLDERS' EQUITY | 1,214,937,289.07 | 1,434,857,097.43 |
| 2.1. Current liabilities | | |
| Accounts payable | 3,182,187,660.92 | 2,710,918,320.39 |
| Salary payables | 70,007,382.00 | 56,685,351.00 |
| Corporate income tax payables | 20,153,491.00 | 26,580,544.90 |
| Personal income tax payables | 152,566,511.68 | |
| Value added tax payables | 907,634,362.70 | 167,739,071.72 |
| Other tax payables | 498,000.00 | 661,461.00 |
| Social health insurance premium payables | 275,617,523.86 | 223,827,285.03 |
| Dividends payables | 49,487,335.00 | |
| Other payables | 2,406,958,936.00 | 2,405,019,350.00 |
| Income prepaid | 2,543,737.76 | 500,000.00 |
| Total current liabilities | 7,067,654,940.92 | 5,591,931,384.04 |
| 2.2. Non-current liabilities | | |
| Long-term loan | 2,508,340,043.20 | 2,508,340,043.20 |
| Long-term loan interest payable | 0.00 | |
| Total non-current liabilities | 2,508,340,043.20 | 2,508,340,043.20 |
| TOTAL LIABILITIES | 9,575,994,984.12 | 8,100,271,427.24 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 10,790,932,273.19 | 9,535,128,524.67 |

Prepared by:
 Davaasuren L
 Accountant

Approved by:
 Nasanbat S
 Director

Notes on pages 7-20 represent inseparable part of these financial statements

"SHARIN GOL" JSC**Income Statement for Year Ending December 31, 2009**

| | Previous period | Report period |
|---|--------------------------|-------------------------|
| | MNT | MNT |
| Sales revenue | 10,626,651,031.92 | 9,550,701,730.97 |
| Sales returns | (100,518,229.60) | (738,446,699.69) |
| Sales discount | | |
| Total sales revenue | 10,526,132,802.32 | 8,812,255,031.28 |
| Cost of goods sold | (9,485,094,647.48) | (7,847,694,705.16) |
| Service cost | 0.00 | 0.00 |
| Total profit (loss) | 1,041,038,154.84 | 964,560,326.12 |
| <i>General Management expenses</i> | (466,504,681.14) | (454,433,774.84) |
| Salary for employers | (165,413,482.00) | (209,132,335.00) |
| Social insurance premium expenses | (21,625,785.00) | (28,170,907.00) |
| Service expenses | (85,000.00) | |
| Maintenances | (5,340,189.00) | (8,083,331.00) |
| Rent expenses | | (900,000.00) |
| Business trip expenses | (5,873,600.00) | (19,087,676.00) |
| Transportation expenses | | (49,980,900.00) |
| Raw material cost | (4,827,952.79) | (1,833,964.94) |
| Depreciation cost | (33,655,401.51) | (71,419,463.82) |
| Advertisement expenses | (1,004,497.00) | (1,666,766.98) |
| Post expenses | (12,410,704.79) | (11,924,415.47) |
| Fuel | (39,652,733.31) | (19,431,083.35) |
| Other expenses | (176,615,335.74) | (32,802,931.28) |
| Operational Gain (Loss) | 574,533,473.70 | 510,126,551.28 |
| Non-principal Production and Services Gain (Loss) | (150,234,290.88) | (123,235,719.00) |
| Interest income | 0.00 | |
| Interest, Penalties, Discounts Gain (Loss) | (55,109,212.31) | 110,552,937.40 |
| Gain on foreign currency exchange unrealized | 82,757,948.40 | 12,589,491.46 |
| Loss of currency difference | | 0.00 |
| Other income | 0.00 | |
| Other Non-Operational Gain (Loss) | (370,645,148.65) | (263,532,907.88) |
| Non-operational gain (loss) | (493,230,703.44) | (263,626,198.02) |
| Pre-Tax Profit (Loss) | 81,302,770.26 | 246,500,353.26 |
| Income Tax Expenses | (20,153,070.00) | (26,580,544.90) |
| Net Profit (Loss) | 61,149,700.26 | 219,919,808.36 |
| Per share Profit (Loss) | 8.46 | 30.41 |

Prepared by:
..... Davaasuren L
Accountant

Approved by:
..... Nasanbat S
Director

Notes on pages 7-20 represent inseparable part of these financial statements

"SHARIN GOL" JSC

Cash Flow Statement for Year Ending December 31, 2009

| INDICATORS | Previous period MNT | Report period MNT |
|--|----------------------------|----------------------------|
| Operating Activities Cash Flow | | |
| <i>Operating Revenues</i> | 11,593,167,952.39 | 9,938,581,325.99 |
| Cash Received from Sales and Customers | 11,428,070,100.00 | 9,722,532,200.00 |
| Non-principal operation revenue | 22,507,700.00 | 23,432,025.00 |
| Other revenues | 142,590,152.39 | 192,617,100.99 |
| <i>Operating Expenses</i> | (10,437,165,091.33) | (10,246,372,148.41) |
| Cash Paid to Employees | (1,778,266,351.32) | (1,534,574,500.00) |
| Cash Paid to Social Insurance Organization | (439,249,783.07) | (498,810,478.00) |
| Cash Paid for Raw materials | (597,445,400.00) | (1,003,752,250.00) |
| Cash Paid to Utilization expenses | (1,180,507,600.00) | (905,226,400.00) |
| Cash Paid to Fuel, Transportation and Spare parts | (5,015,222,440.22) | (3,624,302,789.40) |
| Cash Paid for Rent | 0.00 | 0.00 |
| Cash Paid to Suppliers | (713,558,851.32) | (821,718,893.00) |
| Interests paid | (27,375,600.00) | 0.00 |
| Taxes paid | (664,523,216.72) | (1,845,601,138.01) |
| Cash paid to Insurance premium | (21,015,848.68) | (12,385,700.00) |
| Other | 0.00 | 0.00 |
| Net Cash from Operating Activities | 1,156,002,861.06 | (307,790,822.42) |
| Investing Activities Cash Flow | | |
| Purchased Long Term Assets | 0.00 | 0.00 |
| Interest and Dividend Received | 0.00 | 0.00 |
| Net Cash from Investing Activities | 0.00 | 0.00 |
| Financing Activities Cash Flow | | |
| Stocks Issued | 0.00 | 0.00 |
| Financial Lease Payable Payments | (620,000,000.00) | 0.00 |
| Interest and Bonus Revenues | 124,073.59 | 0.00 |
| Various Donations | (20,693,400.00) | (30,887,700.00) |
| Currency rate difference | 3,008,156.59 | 0.00 |
| Net Cash from Financing Activities | (637,561,169.82) | (30,887,700.00) |
| Total Net Cash Flow | 518,441,691.24 | (338,678,522.42) |
| Net change in Cash and Cash Equivalent | 518,441,691.24 | (338,678,522.42) |
| Beginning Balance of Cash and Cash equivalent | 104,815,501.34 | 623,257,192.58 |
| Ending Balance of Cash of Cash Equivalent | 623,257,192.58 | 284,578,670.16 |

Prepared by:
 Davaasuren L
 Accountant

Approved by:
 Nasanbat S
 Director

Notes on pages 7-20 represent inseparable part of these financial statements

"SHARIN GOL" JSC

Statement of Changes in Equity for Year Ending December 31, 2007

| | Capital Stock | Paid-in-Capital | Re-Evaluation Reserve | Other Part of Equity | Retained earnings | Total |
|--|-----------------------|-----------------|-------------------------|-------------------------|---------------------------|-------------------------|
| | MNT | MNT | MNT | MNT | MNT | MNT |
| Balance as of December 31, 2009 | 723,138,900.00 | | 3,051,333,889.03 | 1,700,139,876.01 | (4,259,675,375.97) | 1,214,937,289.07 |
| Changes of Accounting Policy | | | | | | 0.00 |
| Floated share Capital | | | | | | 0.00 |
| Adjusted Balance | | | | | | 0.00 |
| Gain / Loss Not Recognized in Income Statement | | | | | | 0.00 |
| Report Year Profit / Loss | | | | | 219,919,808.36 | 219,919,808.36 |
| Balance as of December 31, 2009 | 723,138,900.00 | 0.00 | 3,051,333,889.03 | 1,700,139,876.01 | (4,039,755,567.61) | 1,434,857,097.43 |

Prepared by:
 Davaasuren L
 Accountant

Approved by:
 Nasanbat S
 Director

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NOTES ON THE FINANCIAL STATEMENT OF “SHARIN GOL” JSC FOR THE YEAR ENDING DECEMBER 31, 2009

These notes represent inseparable part of the preceding financial statements and are to be read together with them.

A. BRIEF INFORMATION ON “SHARIN GOL” JSC

- *Location:*
Sharin Gol soum, Darkhan-Uul aimag
- *Ownership Form:*
Privately owned Joint Stock Company
- *Finance and Tax organization reporting to:*
Darkhan-Uul Aimag’s Finance and Economy, and Treasury Department, Tax Department
- *Report period:* From January 1, 2009
Throughout December 31, 2009
- *Major business profile:*
Coal Extraction, processing, and sales
- *On accounting staff:*
Senior accountant manager, Finance and Planning Department, and the company employs a total of 10 staff in accounting including Chief accountant, 6 accountants, economist, cashier and programmer.

BRIEF INTRODUCTION TO “SHARIN GOL” JSC

“Sharin gol” Coal mine was established in 1965. According to the Government of Mongolia’s Privatization Committee Decree number 55 dated October 2, 1993 it was transformed into “Sharin gol” Joint Stock Company. In 2001 it was reorganized as an 80 per cent state owned joint stock company. According to the Privatization Committee decree number 682 dated November 13, 2003 and “Sharin gol” Joint Stock Company state owned shares buy and sell agreement, 80 per cent of the state owned shares were purchased by Kraso company of Russian federation and thus the company became a 100 percent private owned joint stock company.

“Sharin gol” Joint Stock Company sells 90 per cent of extracted coal to Power Plants in towns of Erdenet and Darkhan and the rest is sold to other small customers. The price of coal sold to Erdenet and Darkhan Power Plants is determined by Energy Coordination Agency. The company itself determines the price of coal sold to smaller customers. The current price of 1

ton of coal sold to Erdenet and Darkhan Power Plants is set at MNT 21,400.00 (VAT excluded) and to smaller customers at MNT24,727.27(VAT excluded). The price was changed from Sep, 2009 which is now MNT28,000.00 (VAT excluded)

The company in total has 508 employees. 472 of them work in manufacture and service sector, the rest 36 people are sales and executive managers.

Accounting is maintained according to International Accounting Standards using “Interactive” company developed accounting software called “Pyramid” that was improved and adopted to the company specifics. Audited financial statements are only intended for “Sharin gol” Joint Stock Company’s and the data are expressed in tugrug (MNT) – national currency of Mongolia.

B.BRIEF DESCRIPTION OF MAJOR ACCOUNTING POLICIES

Justification for the statements preparation

The purpose of financial statements preparation is to truly express the company assets, their sources, financial position, accepted revenues and expenses, and their results in accordance with Mongolian Law on Accounting.

General base for the accounting

The Financial Statements have been expressed in Tugrug, Mongolian National currency, Mongolian tugrug and have been prepared on an accrual base.

Uninterrupted operations principle

Financial statements have been prepared on the basis of uninterrupted operations principle. Net income for this period is MNT 219,919,808.36.

Transaction on foreign currencies

Assets and liabilities expressed in foreign currencies have been converted to tugrug using the foreign currency official rate as of balance sheet date. Transactions made during the reporting year in foreign currency have been converted into tugrug using exchange rates from the day closest to the specific transaction date. Foreign currency exchange difference due to the conversation has been recognized in the Income Statement.

The closing rate for dollars exchanged during this period against Tugrug was 1442.84 on 31 December 2009.

Fixed Assets

Initial value of fixed assets is composed of purchase price and expenses associated with its acquisition. Expenses and costs associated with maintenance and repair of fixed assets

taking place after their entry into operations are being capitalized in addition to the fixed assets in case they impact expected future economic benefits of utilizing respective fixed assets.

Fixed Assets Depreciation

Fixed assets depreciation over 2009 was established using the straight-line method on the basis of their useful life and recognized in the Income Statement.

Inventory

Raw materials, fuel, lubricant, spare parts, supply materials, packaging materials, and finished goods have been procured to ensure the company's uninterrupted production operations have been recorded as inventories.

Perpetual inventory system is used in recording inventory. Inventory disbursement and purchase procedures are indicated in the accounting policy paper. For instance, weight-average method is maintained in inventory disbursement.

In case of the quality deterioration it's recognized as a loss.

Receivables and Sales Revenue

Coal sales invoices, as sales from major operation, are issued before 15th of every month. And based on these invoices the transactions are recorded in both the sales account and receivables account in accordance with double entry system.

Receivables except sales are recognized in the other receivable account. Receivable recognition and evaluation are reflected in accounting policy paper.

Cash and Cash Equivalent

Cash and its equivalent consist of balance of cash on hand and current account balance.

B.Batmunkh, General Director is authorized to sign first to disburse cash and other assets and S.Nasanbat, Executive Director has right to sign the second authorized signature.

Liabilities

The company's economic duties and obligations to others are recognized as liabilities.

Liabilities are recognized in records at future payable amounts. Liabilities are classified as short term and long term liabilities and recognized in the balance sheet.

Short term liabilities are recorded as account based and others. Liabilities which mature in over one year are recognized as long term liabilities.

Short term liabilities consist of accounts payables, tax and social insurance premium payables, prepaid income, and long term loans interest payables.

2,508,340,043.20 tugrug, invested from Treasury Ministry, were recorded in other long-term payables.

Shareholders' equity

The company's issued stocks are recognized in capital stock of equity by par value. Par value per stock is 100.00 tugrug.

Equity consists of retained earnings, report period profit, equity other parts and re-evaluation reserve.

Income reorganization

The company sells coal at the price determined by The Energy Regulatory Authority. Currency price of 1 ton of coal sold to Erdenet and Darkhan a Thermal Power Station is set at MNT 21,400 (VAT excluded) and to retail consumers at MNT 24,545 (VAT excluded), began from September at MNT 28,000.00 (VAT excluded).

Expenses

Expenses are classified as cost of goods sold, management expense, and non-operational cost.

B. NOTES ON FINANCIAL STATEMENTS

1) CASH AND CASH EQUIVALENT

The company cash and cash equivalent were reported as of Balance Sheet date as follows:

| | Currency type | 12/31/2009 | | 1/1/2009 | | Total changes | |
|-------------------------------------|---------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-------------------------|
| | | In foreign currency | In MNT | In foreign currency | In MNT | In foreign currency | In MNT |
| Cash on hand | | | | | | | |
| Cash | MNT | | 890,335.39 | | 281,381,744.50 | | (280,491,409.11) |
| Cash | USD | 1.00 | 1,442.84 | 106.00 | 104,888.00 | (105.00) | (103,445.16) |
| Total | | 1.00 | 891,778.23 | 106.00 | 281,486,632.50 | (105.00) | (280,594,854.27) |
| Cash in bank current account | | | | | | | |
| SHG Khaan bank 5047011230 | MNT | | 4,900,970.25 | | 54,521,334.25 | - | (49,620,364.00) |
| SHG Khaan bank 5047184770 | USD | 135.01 | 194,797.83 | 222,264.01 | 284,497,932.80 | (222,129.00) | (284,303,134.97) |
| SHG Post bank 14050001705 | MNT | | 208,054.40 | | 1,648,525.40 | - | (1,440,471.00) |
| DA Erel bank 2101004 | MNT | | 94,698.40 | | 94,698.40 | - | - |
| UB TDB 499008342 | MNT | | 117,678.27 | | 134,678.27 | - | (17,000.00) |
| UB TDB 499034699 | USD | 66.41 | 95,833.43 | 67.42 | 79,624.37 | | 16,209.06 |
| Savings bank 1783060540 | MNT | | 100,302,644.59 | | 58,204.59 | | 100,244,440.00 |
| Savings bank 1783073537 | USD | 125.61 | 181,235.13 | 127.11 | 170,560.95 | | 10,674.18 |
| DA Chingis khaan 3920111009 | MNT | | 2,519,948.28 | | 565,001.05 | | 1,954,947.23 |
| DA Chingis khaan 3920141004 | MNT | 121,337.80 | 175,071,031.35 | | | | 175,071,031.35 |
| Total | | 121,664.83 | 283,686,891.93 | 222,458.54 | 341,770,560.08 | (222,129.00) | (233,154,699.50) |
| Grand total | | 121,665.83 | 284,578,670.16 | 222,564.54 | 623,257,192.58 | (222,234.00) | (513,749,553.77) |

Board of directors has approved authorized person signatory to cash disposition and cash authorization is based on cash request form. B.Batmunkh, General Director is authorized to sign first to disburse cash and other assets and S.Nasanbat, Executive Director has right to sign the second authorized signature.

The closing exchange rate announced from Mongolia of December 2009 was 1,442.84 tugrug.

Cash balance of foreign currency was converted and calculated by the closing rate announced from the Mongol Bank.

1) RECEIVABLES

Account receivables classified to coal receivables, advance payment receivables from employee, employee's advance salary and reflected on accounting.

The company receivables were reported as of Balance sheet date as follows:

| | Balance of 2009/12/31 | Balance of 2009/01/01 | Changes | |
|--------------------------------------|--------------------------|--------------------------|-------------------------|-----------------|
| | | | Amount | Percentage |
| Coal receivables from organizations | 1,610,638,609.14 | 1,722,627,885.31 | (111,989,276.17) | (6.50) |
| Spare parts and material receivables | 1,878,587,983.58 | 1,907,011,566.67 | (28,423,583.09) | (1.49) |
| Court decision receivables | 213,124.00 | 213,124.00 | 0.00 | 0.00 |
| Loan receivables | 170,000.00 | 487,345.00 | (317,345.00) | (65.12) |
| Advance Payment receivables | 54,028,089.00 | 67,598,820.56 | (13,570,731.56) | (20.08) |
| Spare part receivable | 672,034,197.69 | 843,141,605.97 | (171,107,408.28) | (20.29) |
| Foody receivables | 1,030,225.50 | 3,910,980.50 | (2,880,755.00) | (73.66) |
| Coal receivables from individuals | 18,687,998.00 | 29,655,540.46 | (10,967,542.46) | (36.98) |
| Electricity sold receivable | 64,277,273.19 | 245,687,271.18 | (181,409,997.99) | (73.84) |
| Grand total | 4,299,667,500.10 | 4,820,334,139.65 | (520,666,639.55) | (297.96) |

Other Receivables

| | Balance as of 2009/12/31 | Balance as of 2009/01/01 | Changes | |
|------------------------------|-----------------------------|-----------------------------|-----------------------|----------------|
| | | | Amount | Percentage |
| SKHSh department receivables | | 1,350,000.00 | (1,350,000.00) | (100.00) |
| Wages receivables | 270,500.00 | 174,163.00 | 96,337.00 | 55.31 |
| Maternity leave receivables | 58,117.98 | 66,759.81 | (8,641.83) | (12.94) |
| Infant allowance receivables | 4,647,379.18 | 4,647,379.18 | 0.00 | 0.00 |
| Total | 4,975,997.16 | 6,238,301.99 | (1,262,304.83) | (57.63) |

Bad debt resource

| | Balance as of 2009/12/31 | Balance as of 2009/01/01 | Changes | |
|--------------------|-----------------------------|-----------------------------|----------|------------|
| | | | Amount | Percentage |
| Bad debt provision | (385,881.00) | (385,881.00) | - | - |
| Grand total | (385,881.00) | (385,881.00) | - | - |

Prepaid expenses

| | Balance of 2009/12/31 | Balance of 2009/01/01 | Changes | |
|--------------------|--------------------------|--------------------------|-------------------------|-------------------|
| | | | Amount | Percentage |
| Prepaid expenses | 175,745,425.84 | 2,964,425.84 | (172,781,000.00) | (5,828.48) |
| Grand total | 175,745,425.84 | 2,964,425.84 | (172,781,000.00) | (5,828.48) |

In the reporting year, receivables of company decreased by 521,928.4 thousand tugrug (31.04 percent). As of December 31, 2009, 96% of total receivable was account receivables, and 3.9% of total receivable was prepaid receivables, 0.1% of total receivable was other receivables.

The account receivables are divided into coal receivables from individuals and organizations by 37.9%, electricity receivables by 1.5%, court decision receivables and loan receivables, advance payment receivables, foody receivables by 1.3%.

37.9% of account receivable was coal receivables from individuals and organizations, and 59.3% of account receivable was spare parts and materials receivables, 1.5% of account receivable was electricity sales receivables, 1.3% of account receivable was others receivables.

2) INVENTORY

Inventories were reported on financial report as follows:

| | Balance as of | Balance as of | Changes | |
|------------------------|-------------------------|-------------------------|----------------------|-------------|
| | 2009/12/31 | 2009/01/01 | Amount | Percentage |
| Raw materials | 45,746,639.75 | 57,749,353.93 | 12,002,714.18 | 0.21 |
| Work in process | 0.00 | 0.00 | 0.00 | 0.00 |
| Finished goods | 95,909,071.03 | 117,942,497.18 | 22,033,426.15 | 0.19 |
| Fuel and lubricants | 153,131,531.35 | 89,978,131.38 | (63,153,399.97) | (0.70) |
| Spare parts | 1,368,765,038.12 | 1,465,741,460.93 | 96,976,422.81 | 0.07 |
| Supply materials | 69,773,775.21 | 98,511,301.93 | 28,737,526.72 | 0.29 |
| Other | 67,054,516.65 | 14,716,893.25 | (52,337,623.40) | (3.56) |
| Total inventory | 1,800,380,572.11 | 1,844,639,638.60 | 44,259,066.49 | 0.02 |

As of December 31, 2009, balance of inventory are divided to spare parts by 76.0%, fuel and lubricants by 8.5%, finished goods 5.3%, raw and supply materials and other accounts by 10.2%.

3) FIXED ASSET AND DEPRECIATION

Fixed asset and fixed asset's depreciation were reported as of balance sheet date follows:

| Classification | Explanation | Balance as of 2009/01/01 | Increase | Decrease | Balance as of 2009/12/31 |
|------------------------|--------------------------|-----------------------------|------------------|-----------------|-----------------------------|
| Apartment | Asset | 46,146,456.85 | 96,636,363.64 | 0.00 | 142,782,820.49 |
| | Accumulated depreciation | (7,520,602.61) | (1,377,974.38) | (1,024,500.00) | (7,874,076.99) |
| Other plant | Asset | 1,451,033,101.44 | 37,413,436.78 | 1,024,500.00 | 1,487,422,038.22 |
| | Accumulated depreciation | (1,037,831,708.78) | (29,766,473.94) | (29,049,333.66) | (1,038,548,849.06) |
| Equipment | Asset | 6,472,585,625.26 | 18,660,000.00 | 49,406,919.50 | 6,441,838,705.76 |
| | Accumulated depreciation | (4,335,407,744.63) | (383,550,486.78) | (99,403.95) | (4,718,858,827.46) |
| Furniture and fixtures | Asset | 107,295,067.02 | 3,000,000.00 | 101,140.00 | 110,193,927.02 |
| | Accumulated depreciation | (63,848,401.89) | (16,233,921.84) | (5,484,326.25) | (74,597,997.48) |

| | | | | | |
|--------------------------------|---------------------------------|---------------------------|-------------------------|------------------------|---------------------------|
| Computer and appliances | Asset | 64,537,641.00 | 382,480.00 | 5,761,850.00 | 59,158,271.00 |
| | Accumulated depreciation | (40,705,487.95) | (7,397,111.44) | 0.00 | (48,102,599.39) |
| Transportation | Asset | 3,496,584,970.29 | 258,181,006.00 | 0.00 | 3,754,765,976.29 |
| | Accumulated depreciation | (2,889,438,891.95) | (294,438,103.53) | 0.00 | (3,183,876,995.48) |
| Intangible asset | Asset | 38,312,696.00 | 0.00 | 0.00 | 38,312,696.00 |
| | Accumulated depreciation | (4,469,814.52) | (8,301,084.10) | 0.00 | (12,770,898.62) |
| Invest and other asset | | 181,181,000.00 | 0.00 | 0.00 | 8,400,000.00 |
| TOTAL NON CURRENT ASSET | assets | 11,857,676,557.86 | 414,273,286.42 | 56,294,409.50 | 12,042,874,434.78 |
| | Accumulated depreciation | (8,379,222,652.33) | (741,065,156.01) | (35,657,563.86) | (9,084,630,244.48) |
| TOTAL ASSET | | 3,478,453,905.53 | 326,791,869.59 | 20,636,845.64 | 2,958,244,190.30 |

During the report period, fixed asset was increased by MNT 414,273.3 thousand tugrug in relation with 17,263 thousand tugrug from supply materials account, 3,382.5 thousand tugrug caused by booked entry was closed to debit a fixed assets, other section was prepared by own equity.

Fixed assets decreased by 56,294.4 million tugrug caused by the assets were written off according to the decision of Board of Directors.

4) SHORT-TERM LIABILITIES

Payable of company were reported as of balance sheet date as follows:

| accounts | Account names | Balance as of 2009/12/31 | Balance as of 2008/12/31 | Changes | |
|----------|--------------------------------------|-----------------------------|-----------------------------|-------------------------|-------------|
| | | | | Amount | Percentage |
| 310101 | Coal payables 60-1 | 22,920,118.43 | 34,334,130.08 | 11,414,011.65 | 0.33 |
| 310102 | Spare parts payables 60-2 | 2,550,889,647.60 | 2,961,444,857.48 | 410,555,209.88 | 0.14 |
| 310104 | Children's benefit payables | 2,627,213.00 | 810,850.00 | (1,816,363.00) | (2.24) |
| 310107 | Advance payment payables 76-7 | 475,641.78 | 982,281.48 | 506,639.70 | 0.52 |
| 310108 | Spare parts payables 76-8 | 116,466,058.78 | 173,923,596.06 | 57,457,537.28 | 0.33 |
| 310109 | Foody payables | 0.00 | 3,017.00 | 3,017.00 | 1.00 |
| 310110 | Coal payable 76-10 | 2,626,922.80 | 624,540.80 | (2,002,382.00) | (3.21) |
| 310112 | Contracted work payment payables | 2,817.00 | 110,817.02 | 108,000.02 | 0.97 |
| 310112 | Compensation payables | 14,494,901.00 | 9,443,571.00 | (5,051,330.00) | (0.53) |
| 310111 | Court payment payables 76-3 | 415,000.00 | 510,000.00 | 95,000.00 | 0.19 |
| 310115 | Accrued payables | 2,405,019,350.00 | 2,406,958,936.00 | 1,939,586.00 | 0.00 |
| 510501 | Income tax payables | 26,580,544.90 | 20,153,491.00 | (6,427,053.90) | (0.32) |
| 310503 | Personal income tax payables | 0.00 | 132,801,524.76 | 132,801,524.76 | 1.00 |
| 310508 | Individual income deduction tax | 0.00 | 19,764,986.92 | 19,764,986.92 | 1.00 |
| 310401 | Health and social insurance payables | 223,827,285.03 | 275,617,523.86 | 51,790,238.83 | 0.19 |
| 310502 | Value added tax payables | 167,739,071.72 | 907,634,362.70 | 739,895,290.98 | 0.82 |
| 310516 | Real estate tax payables | 661,461.00 | 498,000.00 | (163,461.00) | (0.33) |
| 310901 | Wages payables | 56,685,351.00 | 70,007,382.00 | 13,322,031.00 | 0.19 |
| 311002 | Dividend payables | 0.00 | 49,487,335.00 | 49,487,335.00 | 1.00 |
| 310601 | Prepaid revenue | 500,000.00 | 2,543,737.76 | 2,043,737.76 | 0.80 |
| | | 5,591,931,384.04 | 7,067,654,940.92 | 1,475,723,556.88 | 0.21 |

During the report period, account payables decreased by 1,475,723.6 thousand tugrug (21 percent). 47.7% of total payables was spare parts payables, 43% of total payables was accrued payables, 4.0% of total payables was health and social insurance payables, 3.0% of total payables was value added tax payables, 1.0% of total payables was salary payables, 1.3% of total payables was advance payables and coal payables, compensation payables.

5) LONG-TERM LIABILITIES

Payables were reported as of balance sheet date as follows:

| Account | Account name | Balance of 2009/12/31 | Balance of 2008/12/31 | Changes | |
|---------|-----------------|--------------------------|--------------------------|-------------|------------|
| | | | | Amount | Percentage |
| 330201 | Long-term loans | 2,508,340,043.20 | 2,508,340,043.20 | 0.00 | 0.00 |
| | | 2,508,340,043.20 | 2,508,340,043.20 | 0.00 | 0.00 |

Investment from Ministry of Finance worth MNT 2,508,340,043.00 received in 1993-1998 has payback condition and recognized in long term other liabilities

6) STOCKHOLDERS' EQUITY

As of December 31, 2009, stockholders' equity and stockholder's equity other section were reported as follows:

| Stock names | Stock numbers | Price per stock | Total price |
|------------------------------------|------------------|-----------------|-------------------------|
| Common stock : public | | | |
| Private | 7,231,389 | 100.00 | 723,138,900.00 |
| Paid in capital | | | 0.00 |
| Revaluation reserve | | | 3,051,333,889.03 |
| Shareholder's equity other section | | | 1,700,139,876.01 |
| | 7,231,389 | 100.00 | 5,474,612,665.04 |

7) RETAINING EARNINGS

| | Balance of previous year ending | Increase | Decrease | Balance of report period |
|---------------------------------|------------------------------------|-----------------------|----------|-----------------------------|
| Report period retained earnings | 61,149,700.26 | 219,919,808.36 | | 281,069,508.62 |
| Previous year retained earnings | (4,320,825,076.23) | | | (4,320,825,076.23) |
| Total retaining earnings | (4,259,675,375.97) | 219,919,808.36 | - | (4,039,755,567.61) |

8) TOTAL REVENUE

| | | |
|----------|--|-------------------------|
| | <i>Main operation revenue</i> | |
| Net sale | | 8,812,255,031.28 |
| | Amount | 8,812,255,031.28 |
| | <i>Non-principal operation revenue</i> | |

| | |
|---------------------------------|-------------------------|
| Training Course Combination | 2,058,999.82 |
| Auxiliary facility | 44,888,606.36 |
| Holiday | 13,626,635.32 |
| Cafeteria of employees | 49,580,527.07 |
| Sport palace | 1,144,013.64 |
| Habitat of employees | 2,793,900.98 |
| Amount | 114,092,683.19 |
| Spare parts and materials sales | 42,163,375.18 |
| Broken iron sale | 6,503,637.00 |
| Foreign currency difference | 23,279,476.72 |
| Interest revenue | 2,750,404.12 |
| Loss surcharge of contract | 114,430,285.00 |
| Rent /machinery and equipment/ | 11,285,935.46 |
| Other revenues | 86,308.08 |
| Amount | 200,499,421.56 |
| Total revenues | 9,126,847,136.03 |

9) TOTAL EXPENSES

As of December 31, 2009, expenses were reported on financial report as follows:

| | |
|--|-------------------------|
| Cost of goods sold | 7,847,694,705.16 |
| <i>Operation /sales and administration/ expenses</i> | |
| Salary | 209,132,335.00 |
| Social insurance charge | 28,170,907.00 |
| Advertisement | 1,666,766.98 |
| Postal service | 11,924,415.47 |
| Fuel | 19,431,083.35 |
| Raw materials | 1,833,964.94 |
| Maintenance costs | 8,083,331.00 |
| Rent | 900,000.00 |
| Maintenance allowance | 19,087,676.00 |
| Transportation costs | 49,980,900.00 |
| Depreciation | 71,419,463.82 |
| Others | 32,802,931.28 |
| Amount | 454,433,774.84 |
| <i>Non-principal operation expenses</i> | |
| Training Course Combination | 2,035,843.52 |
| Auxiliary facility | 35,215,155.31 |
| Holiday | 21,833,544.83 |
| Cafeteria of employees | 88,723,012.65 |
| Sport palace | 71,922,026.08 |
| Habitat of employees | 17,598,819.80 |
| Amount | 237,328,402.19 |
| Spare parts materials sales | 34,829,711.58 |
| Fixed asset sales | 1,196.53 |
| Foreign currency difference | 10,689,985.26 |
| Demolish the building | 171,332,798.00 |
| Undue loss of contract and penalty | 3,877,347.60 |
| Economic and Social Development Fund | 120,158,855.16 |
| Others | 6.45 |
| Amount | 340,889,900.58 |
| Income tax expense | 26,580,544.90 |

| | |
|-----------------------|-------------------------|
| Total expenses | 8,906,927,327.67 |
|-----------------------|-------------------------|

10) EARNINGS PER SHARE

During the report period, share numbers of the company were as follows:

| | <u>2009.12.31</u> | <u>2008.12.31</u> | <u>changes</u> |
|-----------------------------------|-------------------|-------------------|----------------|
| Issued stock numbers | 7,231,389 | 7,231,389 | 0 |
| Weighted average number of shares | 7,231,389 | 7,231,389 | 0 |

Estimation:

Weighted average number of shares = 7,231,389 tugrug.

Earning per share $219,919,808.36 / 7,231,389 = 30.41$ tugrug.

11) ANALYSIS

A. Payment ability analysis

1. Net current asset /working capital/ = Total current asset – short-term liability

$$\text{NCA / Paid in capital/} = 6,576,884,334.37 - 5,591,931,384.04 = 984,952,950.33$$

This indicator shows the liability was paid by current assets and excess section use on operating.

2. Absolute liquid assets ratio = cash + available-for-sale securities / short-term liability

$$\text{ALAR} = 284,578,670.16 + 0.00 / 5,591,931,384.04 = 0.05$$

3. In a flash liquid assets = Cash + available-for-sale securities / short-term liability + receivables / short-term liability

$$\text{IFLA} = 284,578,670.16 + 0.00 + 4,304,257,616.26 / 5,591,931,384.04 = 0.82$$

4. Turnover ratio = Total current asset/short-term liability

$$\text{Turnover ratio} = 6,576,884,334.37 / 5,591,931,384.04 = 1.18$$

B. Financial position analyses

1. Equity ratio

This indicator shows how much percent of the total asset is composed by owner’s equity.

$$\text{ER} = \text{owner's equity} / \text{Total asset} * 100$$

$$\text{ER} = 1,434,857,097.43 / 9,535,128,524.67 * 100\% = 15.05\%$$

There is a negative correlation between this ratio and the risk of the loan. Therefore if the ratio is less than 50%, the risk of loan is likely to be higher. 15.05% of total assets are

composed by owner's equity, the rest of total assets are from external equity. The indicator increased from previous year by 3.75 percent.

2. *Return on assets*

This indicator shows us how much percent of total activities of the entity is composed by owner's recourses:

$$ROA = \text{net profit} / \text{total asset} * 100\%$$
$$ROA = 219,919,808.36 / 9,535,128,524.67 * 100\% = 2.3\%$$

If this indicator is lower, operating expense won't be financed by owner's equity. The indicator increased from previous year by 1.73 percent.

3. *Financial capacity ratio*

The ratio defines business performance. If it is lower than 50%, the performance is satisfactory.

$$STD = \text{short-term liability} / \text{Total asset} * 100\%$$
$$STD = 5,591,931,384.04 / 9,535,128,524.67 * 100\% = 58.6\%$$

58.6 > 50 not satisfactory. But the indicator decreased from previous year by 6.9 percent.

4. *Cash ratio*

The ratio of cash and short-term liability is 1:1. It is considered normal.

$$CR = \text{Cash balance} / \text{short term liability} * 100\%$$
$$CR = 284,578,670.16 / 5,591,931,384.04 * 100\% = 5.08$$

5. *Appropriate utilization ratio*

This indicator shows which part of its equity the legal person is using for. It is appropriate if the indicator is not lower than 40 percent.

$$AUR = \text{Working capital} / \text{total asset} * 100\%$$
$$AUR = 984,952,950.33 / 9,535,128,524.67 * 100\% = 10.3\%$$

40 > 10.3 not satisfactory. But the indicator was increased from previous year by 8.0 percent.

C. The indicators of assets composition

1. *Asset's ratio*

This indicator refers to the ratio between current and non current assets.

$$AR = \text{Non current assets} / \text{current assets} * 100\%$$
$$AR = 2,958,244,190.30 / 6,576,884,334.37 = 45.0\%$$

2. *Current asset ratio*

$$CAR = \text{Current asset} / \text{total asset} * 100\%$$

$$CAR = 6,576,884,334.37 / 9,535,128,524.67 * 100\% = 69.0\%$$

3. *Ratio of making up the non current asset by shareholder's equity*

This indicator shows how much percent of the non current asset was purchased with the shareholder's equity.

$$NCSE = \text{Owner's equity} / \text{fixed asset} * 100\%$$

$$NCSE = 1,434,857,097.43 / 2,958,244,190.30 * 100\% = 48.5\%$$

48.5% of total asset was prepared by owner's equity. This indicator was increased from previous year by 13.6% per cent.

D. The indicator of asset utilization

1. *Total asset turnover*

This indicator determines the turnover of total active asset.

$$TAT = \text{Sales revenue} / \text{Total asset} * 100\%$$

$$TAT = 8,812,255,031.28 / 9,535,128,524.67 * 100\% = 92.4\%$$

2. *Ratio of asset capacity efficiency*

It shows amount of assets utilized for the sale of 1 tugrug.

$$RAC = \text{Total asset} / \text{Sales income} * 100\%$$

$$RAC = 9,535,128,524.67 / 8,812,255,031.28 * 100 = 108.2\%$$

3. *Current asset turnover*

It measures how many times current asset is turned over a year.

$$\text{Current asset /times/} = \text{sales income} / \text{current asset}$$

$$\text{Current asset /times/} = 8,812,255,031.28 / 6,576,884,334.37 = 1.4 \text{ times}$$

E. Profitability ratio

1. *The level of general profitability*

It measures before tax profit of asset of 1 tugrug.

$$\text{General profitable activity level} = \text{operating profit} / \text{total asset}$$

$$\text{General profitable activity level} = 510,126,551.28 / 9,535,128,524.67 = 0.05$$

During the report year, the company made a profit of 50 tugrug using assets of 1 tugrug.

This indicator was the same to previous year.

2. *Return on equity*

$$NPA = \text{Net profit} / \text{Shareholder's equity}$$

$$NPA = 219,919,808.36 / 1,434,857,097.43 = 0.153$$

During the report year, the company made a profit of 0.153 tugrug using shareholders' equity of 1 tugrug. This was increased by 0.103 tugrug.

3. *Profit margin*

$$\text{Net profitable activity} = \text{net profit} / \text{sales revenue}$$

$$\text{Net profitable activity} = 219,919,808.36 / 8,812,255,031.28 = 2.5$$

The sales revenue of the company was decreased from previous year by 1,713,877.8 thousand tugrug. But net profit was increased by 157,770.1 thousand tugrug.

TRANSLATION

This report is also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the Mongolian version will prevail.

Auditors' report developed by:

Auditor

Bilegsaikhan D.

The audit report internal review made by:

Auditor of quality controls

Dolgor A.

**“PANTHERE MIDLAND AUDIT” LLC
2010-02-20**