

A stylized graphic of a mountain range with several peaks in shades of brown and tan, set against a white background.

**SHARYN GOL JSC**

# SHARYN GOL JOINT STOCK COMPANY

ANNUAL REPORT FOR 2011

## ONE. 2011 MINING ACTIVITY OBJECTIVES AND IT'S PERFORMANCE

In 2011, we have done overburden and exploitation in accordance with the approved mining activity plan. The following is the comparison of performance 2011 with the previous year results:

Indications	Meas.	2010 perf.	2011 plan	2011 perf	2011/2011	2011/ 2010
<b>Extraction</b>	th.tons	422.1	370.0	375.1	101.4	88.9
<b>Coal sale</b>	th.tons	399.1	370.0	365.9	98.9	91.7
<b>Total</b>	th.m <sup>3</sup>	1448.7	2000.0	1123.7	56.2	77.6
<b>overburden:</b>	th.m <sup>3</sup>	144.5	300.0	32.3	10.8	22.4
- w/o transp.	th.m <sup>3</sup>	1304.2	1700.0	1091.4	64.2	83.7
- w transp.						
<b>Total coal with rock partings</b>	th.m <sup>3</sup>	1773.4	2284.6	1412.3	61.8	79.6
<b>Drilling</b>	linear m	45.9	45.0	32.9	73.1	71.7

### MINING OPERATION

93 % of the total production was exploited from the main seam in the North block, the rest 10% - from the foot of the mine. The coal supplied by us was of good quality, as the coal seam of the North block is with less rock partings and of high calorific value.

LC-290 , LC-450 , EKG-4U excavators were used for the operation. As great deal of water was spurting out from the North block, we made trenches and installed pipes to drain the water, which lead to normal exploitation. For flood control, we used hydro excavators.

Excavators and drilling rigs sitting idle were, in fact, planned to be transferred to the upper level, however, that did not work out for certain reasons.

The overburden was not actually completed due damages incurred to the drilling rigs number of times or lack of transportation means, which is why the overburdening is still carried on in 2012 delaying development of the South block.

In 2011, fire hazard generated in the UG decline due to excessive heating created an emergency situation. All necessary measures and methods to eliminate and control the hazard in the heated area were taken in an efficient and timely manner.

The main objective of the 2011 mining operation was opening a new pit in the Satellite area and start permanent production which is met to a certain extend.

### **Main Objective of 2012 Mining Operation**

From the North and South block of the current production totally 300.0 thousand tons of coal was planned for exploitation in 2012 and the relevant authority approved this operation plan. For coal exploitation from the South block, 116.0 m.m<sup>3</sup> must be removed from the roof of the coal seams. The main objectives of the 2012 mining operation are as follows:

- Exploitation of the coal rests in the North area (in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2012)
- Exploitation will be started in the South area as soon as coal partings are discovered
- Distinguishing rock layers in the coal partings, we will maintain the quality of our coal supply

- Placement of the standby excavators and rigs into the current operation levels (upper levels) to use for overburdening, engineering works and other activities such as preparation of earthmoving work site, and prevent stockpiles ruining etc.
- Preparation works for opening new open-pit at the Satellite deposit and start overburdening work. By November, 2012, we will open a coal deposit and make the preparation of exploitation in 2012-2013.
- In October and November, 2012 we will prepare for the 2012-2013 coal exploitation.
- Procurement of parts of the currently halted excavators and rigs at the earliest possibility and appropriate mechanical services will be provided either.
- New dump truck procurement for completing the current mining operation.
- Conduction of rehabilitation works in accordance with the approved activity plan.
- Maintenance of water drainage system.

## **TWO. MINE FLEET, ITS MAINTENANCE AND INVESTMENT**

- In 2011, we had 10 major mining fleets, of which 8 excavators operated, excluding two: the excavator ESh 10/70 128 sat idle as its generator broke down, the excavator 5À 120 stood idle as well even after a repair work /bucket teeth broken/. Maintenance services were provided 100% in accordance with the initial plan.
- Drilling 3 rigs operated out of 4 reserves: Compressor equipment 5SBSH-200 was installed into the drill rig 134, whereas walking beam of the drill rig SBR

- 160 129, bullet of SBSH -250 135, SBSH-200 134 compressor and hydraulic systems were relatively fixed.
- We had a shortage of means of mine transport. Four haul trucks of CAT 769 had to be successively repaired during the operation period; we could not find necessary parts to maintain the means each time of the incurred mechanical breakdown, which is why the length of time waiting for service was extended. The parts needed and rare at the market were GTE, kiwi, engine parts, as well as 4 Howa engines etc.
  - Engines of the excavator ÍL 290 and HL 450 were repaired, however they still did not work as before. The productivity of the machines was 40-43% only, which reflects that higher cost is going to be incurred in further usage.
  - It necessitates of buying CAT 773 2-3 haul trucks as well as an excavator with indirect bucket. Therefore one CAT 345 excavator needs to be bought.
  - Conveyor, locomotive-1286, excavator 120 were relatively repaired in accordance with the planned time during June-July period.
  - In 2011, totally MNT 464.5 million was spent to buy fixed asset, including road irrigator Howa truck, bulldozer Chantui, shuttle bus Daewoo for the personnel transport, plotter, PC for office use, financial program DIAMOND, drying set (laundry complete set for cleaning PPE of employees).
  - Old fleet usage is 40.6%, drill rig use/productivity- 20.4%, haul trucks- 43.5% which reflects that mine equipment needs replacement and technology needs to be upgraded.
  - Out of haul trucks, CAT 134 conveyed 216.6 thousand cubic meter massive, which was the largest shipment ever for us.

### **THREE: 2011 FINANCIAL ACTIVITY**

#### **A.Performance of Sales Plan**

- In 2011 totally 1,123.7 thous.m<sup>3</sup> overburden was removed, exploiting 375.1 thous.tons of coal of which 365.9 thousand tons of coal was sold; 274.4 thousand tons of coal was supplied to Darkhan and Erdenet PP, implementing the contract with Darkhan PP 136.9%, the contract with Erdenet PP by 137.5% relatively.
- We have been widely acknowledged as the reliable suppliers to large plants of the locality, such as “Erel cement“, “Darkhan Silikat”, “Darkhan Metallurgy“ factory, several municipal organizations of Tuv, Selenge, Orkhon, Darkhan-Uul provinces that run with boilers and also to individual customers in the mentioned areas.

2011 Coal sale /sold to the customers/

Customers	2010 perf th.tons	2011 /th.tons/		Perf /in %/	Difference /th.tons/
		Planned	Perf		
<b>Darkhan PP</b>	134.4	100.0	136.9	136.9	<b>36.9</b>
<b>Erdenet PP</b>	135.2	100.0	137.5	137.5	<b>37.5</b>
<b>Erel Cement</b>	50.7	55.0	18.0	32.7	<b>-37.0</b>
<b>SG Heating</b>	11.3	15.0	12.4	82.7	<b>-2.6</b>
<b>Khansogoo LLC</b>	8.0	5.0	6.6	132.0	<b>1.6</b>
<b>Nako fuel</b>		40.0	1.1	2.8	<b>-38.9</b>
<b>By truck transport</b>	29.2	15.0	34.9	232.7	<b>19.9</b>
<b>Others</b>	31.1	40.0	18.5	45.3	<b>-21.5</b>
<b>Total</b>	<b>399.9</b>	<b>370.0</b>	<b>365.9</b>	<b>98.9</b>	<b>-4.1</b>

Performance of income plan /million MNT/

Indications	2010	2011		Result
	Perf	Planned	Perf	/%/
<b>Income from operating activity</b>	9,955.9	10,325.5	10,543.5	102.1
<b>Income from auxiliary units</b>	89.9	87.2	84.5	96.9
<b>Non-principle operation activity income</b>	890.8	35.5	941.0	26.5 times
<b>TOTAL</b>	<b>10,936.6</b>	<b>10,448.2</b>	<b>11,569.0</b>	<b>110.7</b>

The revenue of the fiscal year includes MNT 10,543.5 million from the principle operation and sales, MNT 84.5 million from the auxiliary units, MNT 941.0 million from the non-principle activity totally amounting to MNT 11,569.0 million.

#### **B. INCOME, EXPENSE, PROFIT AND LOSS /million MNT/**

Types	Income	Expenses	P&L
<b>Coal</b>	10,543.4	10,438.5	104.9
<b>Agro activities</b>	32.3	26.5	5.8
<b>Holiday camp and sports' complex</b>	9.8	61.9	-52.1
<b>Canteen</b>	34.4	107.3	-72.9
<b>Rental</b>	91.1		91.1
<b>Personnel lounge</b>	7.5	29.3	-21.8
<b>Parts sales</b>	31.6	23.8	7.8
<b>Scrap metal</b>	73.4	1.7	71.7

<b>Currency rate difference and loan interest</b>	267.6	65.9	201.7
<b>Sales of fixed capital assets</b>		32.8	-32.8
<b>Penalty</b>	3.7	5.3	-1.6
<b>Socio-economic welfare fund expenses</b>		200.3	-200.3
<b>Bad debt</b>	341.1		341.1
<b>Tax expenses</b>		149.1	-149.1
<b>Miscellaneous</b>	133.1	5.2	127.9
<b>Profit after tax</b>	<b>11,569.0</b>	<b>11,147.6</b>	<b>421.4</b>

In 2011, MNT 11,569.0 million of revenue, MNT 11,147.6 million of expenses incurred making MNT 421.4 million of profit.

In 2011, MNT 71.5 million- from the margin of calorific value, MNT 27.3 million was relatively lost from the margin of weight.

### C.COSTS AND EXPENSES

In 2011, MNT 10,774.1 million was budgeted, of which MNT 10,438.5 million was actually expended, saving MNT 335.6 million. Expenses include:

338.9 tons of blasting materials were budgeted for MNT 638.8 million, however during the operation 240.0 tons were purchased by MNT 443.7 million, saving MNT 195.1 million. 518.3 th.m<sup>3</sup> of mountain massive was cut off, and blasting material per unit was spent less by 0.042 kg/m<sup>3</sup> or in total 10.08 tons amounting to MNT 18.6 million was saved.



1,984.6 th.m<sup>3</sup> massive was budgeted to be transported by using 604.2 th/L of fuel or MNT 725.0 million; however during the operation 1,379.9 th.m<sup>3</sup> mine massive was relocated by consuming 524.3 th.L of diesel or MNT 737.3 million. The fact that amount of fuel budgeted for per unit is exceeded by 0.076 L/m<sup>3</sup> totals to 104.9 th.L or MNT 147.4 million.

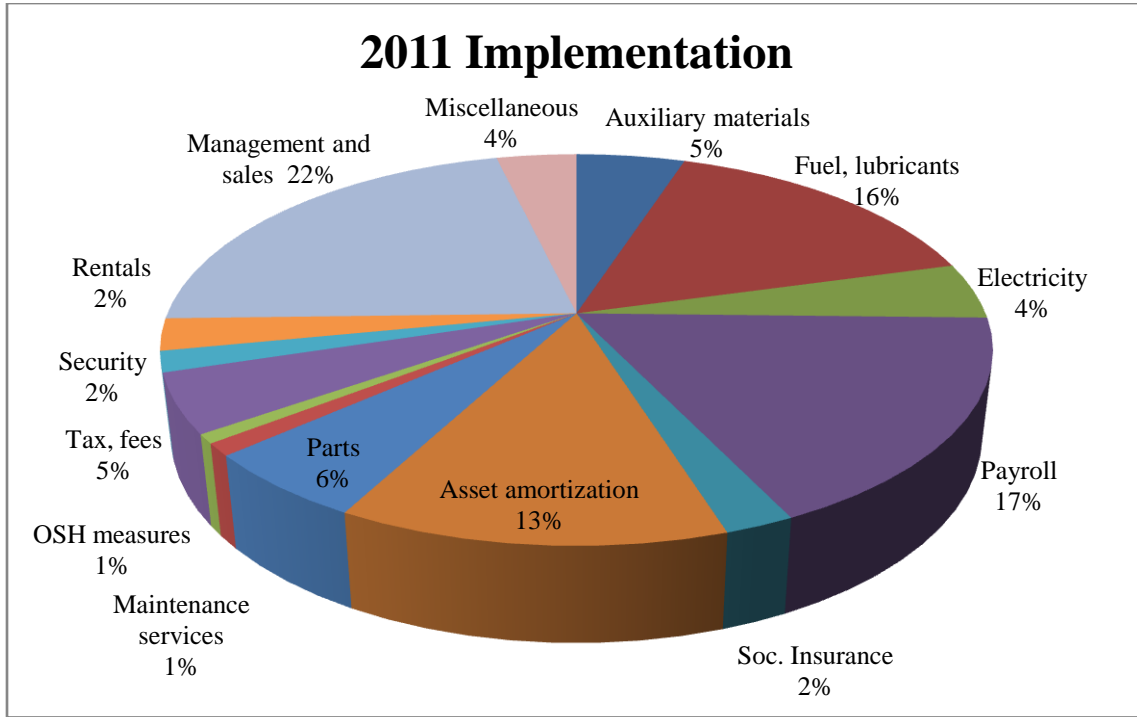
In 2011, payroll of MNT 2,312.9 million was budgeted for 473 employees; however 414 staff were paid MNT 2,059.6 million. It is 59 less than initially budgeted positions /including 22 UG staff/ which results in saving MNT 194.3 million payroll expense. As of September 2011, the pay was raised 20%, making the average rate at MNT 415.1 thousand.

In 2011, MNT 95.0 million was expended for maintaining safety, including procurement of PPE at the cost of MNT 21.6 million, meals for night shift staff and anti-toxicities by MNT 34.1 million, other safety gears for MNT 39.3 million relatively.

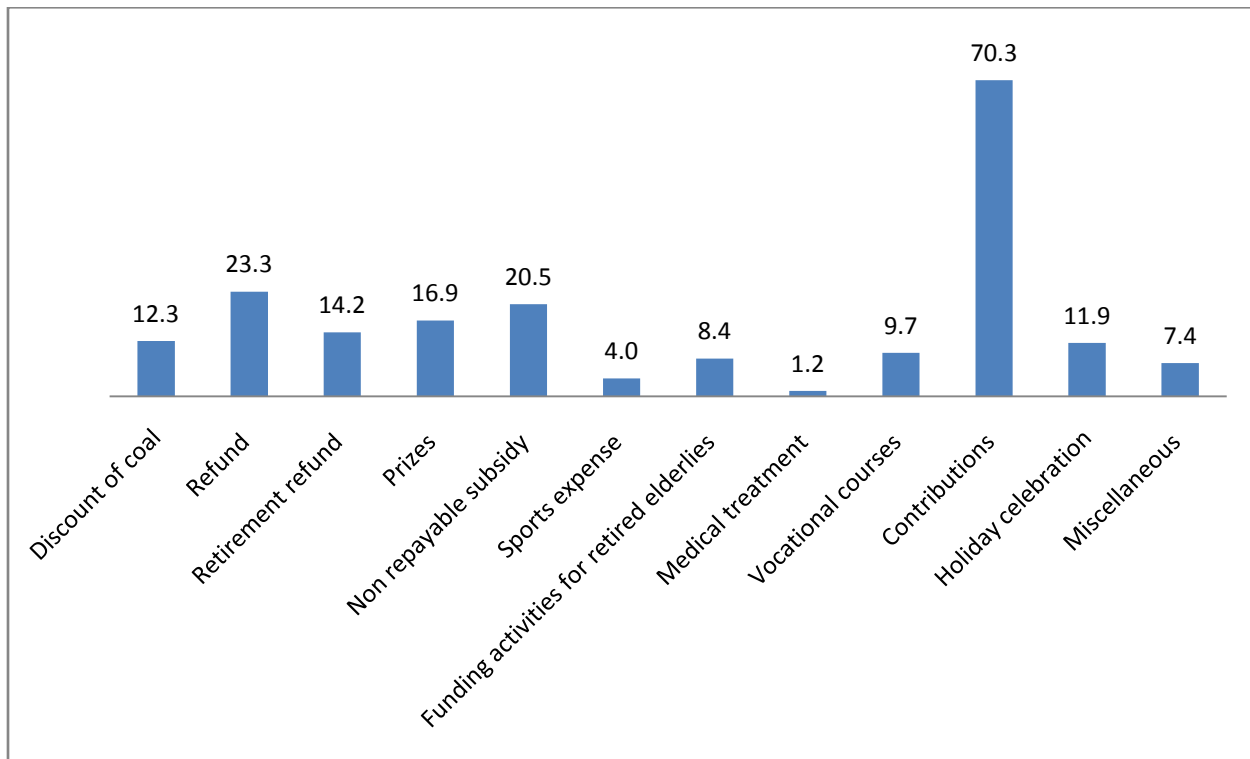
In 2011 totally 1,379.9 thous.m<sup>3</sup> mountain massive was transported, of which 253.4 m.m<sup>3</sup> or 18.4 % was conveyed by rental trucks. For the rental trucks MNT 214.5 million was paid.

For auto maintenance MNT 112.5 million was expended, including MNT 82.1 million for CAT repair works.

**STRUCTURE OF 2011 EXPENSES**



**D. Socio-economic development fund expenses**



### E. PURCHASE OF FIXED CAPITAL ASSETS

In 2011, the company purchased fixed assets of MNT 644.4 million:

HOVA truck for road irrigation	70.3
Coal bunker	4.0
Shuttle bus	10.5
Sonata 5 /car/	10.0
Land cruiser-200	103.5
Chantu Bulldoser	237.7
Lexus -470	83.7
Pump D32-50 75 KWT	9.6
Pump TsNS300-240	68.2
Laundry/washing equipment of staff PPE	10.7
Personal computer-2, printer-2, plotter	20.3
Financial program	10.4
Miscellaneous	5.5

### F. RECEIVABLES AND PAYABLES

Receivables /million MNT/

Receivables type	Beginning	End of the year	Differ
Coal receivables	1,204.5	402.0	-802.5
Parts receivables	1,205.2	430.0	-775.2
Receivables from individuals	1.2	7.7	6.5
Electricity receivables	50.9	6.4	-44.5
Social welfare fund	4.7	4.8	0.1
Advance payment	83.1	21.5	-61.6

<b>Account receivables</b>	182.7	321.5	138.8
<b>Short term loan</b>	2,936.6		2,936.6
<b>Loan interest receivables</b>	80.5	1.5	-79.0
<b>VAT receivables</b>		7.7	7.7
<b>TOTAL</b>	<b>5749,4</b>	<b>1,203,1</b>	<b>-4,546.3</b>
<b>Exploration expenses</b>	5,746.0	6,753.9	

## Coal receivables /Mill.MNT/

Customer	Balance in the beginning of the year	Received in 2011	Payments of 2011	End of the quarter
<b>Darkhan PP</b>	513.1	3,978.3	4,354.5	136.9
<b>Erel Cement</b>	102.1	675.5	758.5	19.1
<b>Sharyngol Energo</b>	71.5		71.5	
<b>Khansogoo LLC</b>	19.9	175.7	178.6	17.0
<b>Sharyngol Heating</b>		384.7	316.0	68.6
<b>Erdenet Copper Mine</b>	71.2		71.2	
<b>Erdenet PP</b>	364.0	4,029.7	4,287.2	106.5

## Payables /million MNT/

Payables type	Beginning of the year	End of the year	Margin
<b>All sorts of taxes</b>	493.9	416.7	-77.2
<b>Social insurance</b>	23.9	0.6	-23.3
<b>Long term payables</b>	2,508.3	2,508.3	-
<b>Parts</b>	507.8	160.2	-347.6

<b>Coal</b>	37.9	25.9	-12.0
<b>Payables to individuals</b>	22.7	16.3	-6.4
<b>Payroll</b>	86.2	98.9	12.7
<b>Short term loan</b>	10,422.0	467.9	-9,954.1
<b>Interest of short term loan</b>	154.4	36.2	-118.2
<b>Accumulated payables</b>	78.2	16.1	-62.1
<b>Account payables</b>	369.5	749.2	379.7
<b>Total Liability</b>	<b>14,704.8</b>	<b>4,496.3</b>	<b>-10,208.5</b>

### G. TAX PAYMENT

In 2011, the company paid MNT 2,125.0 million to the State and locality budget.

<b>Tax types</b>	<b>Balance</b>	<b>Payable</b>	<b>Paid</b>	<b>End balance</b>
<b>Corporate income tax</b>	69.4	207.8	277.5	-0.3
<b>Personal income tax</b>	58.7	217.3	271.5	4.5
<b>Value added tax</b>	-0.1	1,094.3	1,101.9	-7.7
<b>Royalty tax</b>	15.0	263.2	277.2	1.0
<b>Tax on means of transport</b>		2.2	2.2	-
<b>Land and water tax</b>		74.5	74.5	
<b>Immovable property tax</b>		19.1	19.1	
<b>Air pollution</b>		132.5	101.0	31.5
<b>TOTAL</b>	<b>143.0</b>	<b>2,011.0</b>	<b>2,125.0</b>	<b>29.0</b>
<b>Social insurance</b>	23.9	554.7	578.0	0.6

### H. FINANCIAL CRITERIONS

The main indications /Mill.MNT/

<b>#</b>	<b>Main indications</b>	<b>2010</b>	<b>2011</b>
<b>1</b>	Cash	1,817.9	17,591.3
<b>2</b>	Short sale security	-	-

<b>3</b>	Receivables	5,057.2	932.0
<b>4</b>	Short term payables	12,196.7	1,953.9
<b>5</b>	Current assets	8,421.5	20,004.9
<b>6</b>	Current liabilities	14,117.1	16,572.6
<b>7</b>	Net profit	215.0	421.4
<b>8</b>	Sales	9,955.9	10,543.5
<b>9</b>	Owners' equity	7,833.7	32,115.3
<b>10</b>	Fixed asset	8,663.4	9,234.9
<b>11</b>	Total assets	22,538.6	36,577.6
<b>12</b>	Total liabilities	14,705.0	4,462.2
<b>13</b>	Average cost of Fixed asset	8,663.4	9,234.9
<b>14</b>	Cost of Goods sold	7,245.8	8,149.7
<b>15</b>	Inventory	1,362.3	1,297.6

## Ratio

<b>№</b>	<b>Indications</b>	<b>2010</b>	<b>2011</b>
<b>1</b>	Current ratio	0.69	10.24
<b>2</b>	Quick ratio	0.56	9.48
<b>3</b>	Net working capital	(3,775.11)	18,051.04
<b>4</b>	Free Cash Flow	14.90	900.31
<b>5</b>	Debt to equity ratio	53.27	719.71
<b>6</b>	Net profit Ratio	0.03	0.01
<b>7</b>	Return on Sales	0.02	0.04
<b>8</b>	Return on equity	(0.06)	0.02
<b>9</b>	Return on capital	44.17	28.82
<b>10</b>	Fixed asset to equity ratio	90.42	347.76

<b>11</b>	Asset turnover	114.92	114.17
<b>12</b>	Receivables turnover (times)	1.97	11.31
<b>13</b>	Receivables turnover (daily)	183	32
<b>14</b>	Payables turnover (times)	0.69	10.24
<b>15</b>	Payables turnover (daily)	521	35
<b>16</b>	Inventory turnover	7.3	8.1
<b>17</b>	Stock turnover (times)	5.3	6.3
<b>18</b>	Stock turnover (daily)	68	57
<b>19</b>	Production cycle	251	89
<b>20</b>	Financial cycle	(271)	54

#### 4. Achievements in 2011:

Our Achievements:

1. Approved it's resource by internationally recognized JORC standard which is totaled 374 Mt
2. Capital increase 18.3 billion MNT on Oct 17, 2011 by the additional shares which was the first security of mining entity introduced via MSE and is considered to be the largest IPO.
3. Our company was recognized as **THE BEST OF THE BEST ORGANIZATION OF THE YEAR** in ENTREPRENEUR-2011, a competition announced among entrepreneurs by the National Chamber of Commerce and Industry of Darkhan Province of Mongolia.
4. Our company participated in the selection of TOP ECONOMIC ENTITIES making significant contributions to the socioeconomic and business development in Mongolia by the Government of Mongolia and the Mongolian National Chamber of Commerce and Industry and was selected as one of the **TOP-150** economic entities based on the performance in 2011.
5. Awarded as **THE BEST SOCIAL INSURANCE TAX PAYER** in **TOP-70** social insurance payer among the country .