



Coal Mining

Sharyn Gol (Bloomberg: SHG MO)

Company Profile

Founded: 1965
Business: Coal Mining
Market cap: 75.9 bn MNT (US\$61.6m)
Coal type: Bituminous black coal
Reserves: (Soviet) 120 million tons*
Main customers: Local power plants
Production: 500,000 tonnes per annum

New JORC resources statement expected in Jan, 2011

Overview

Sharyn Gol JSC is a single asset, Mongolian coal mining company with headquarters in Ulaanbaatar. The mine itself is located some 215km north of the capital. The open cut operation is 100% owned by the Company. With historical Soviet reserves of 120 million tons, it supplies high quality thermal coal, predominantly to the local market, including two nearby coal fired power plants. Over the last 5 years, the Company has produced an average of 0.5 million tonnes of coal per annum. However, this production base should not be taken as being indicative of the operations full production potential. Historically, production at the operation reached 2.5 million tonnes per annum (Mtpa) in the mid 1980's. The Sharyn Gol mine also has a competitive advantage in that it is connected to the Trans-Mongolian railway by a dedicated railspur. This railspur enables the Company to deliver coal to its customers directly via rail, without having any infrastructure related difficulties, common to other mining operations in Mongolia.

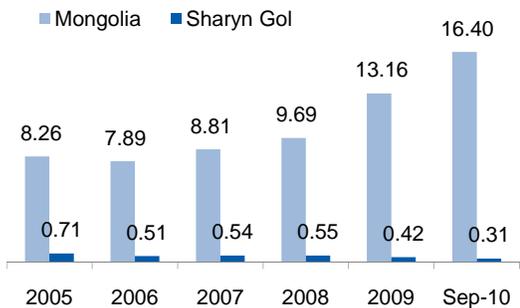
Sharyn Gol is the fifth largest company listed on the Mongolian stock exchange by market capitalisation and one of the four largest publically held coal mining companies in Mongolia. The Company was fully privatized in 2003 after the Mongolian government sold all of its interests to a local group, which maintained control until February 2010, whereupon US-based hedgefund Firebird, became the controlling shareholder.

Since Firebird assumed control, the Company has benefitted significantly in terms of access to capital, technical and corporate mining expertise. This capital and experience will transform the Company into a modern mining operation. With the soon to be released JORC resource report, we expect to see a significant increase in coal inventories which will secure the mines long term future. This is also expected to lead to an eventual increase in coal production and quality, as well as improving revenue streams by expanding into international export markets. We have also already observed significant improvements in corporate governance, financial reporting, and the attraction of high caliber management.

Key Investment Highlights

- Sharyn Gol JSC in our view, provides the best exposure and leverage to a high quality thermal coal mining company currently listed on the Mongolian Stock Exchange.
- A new Resource Statement to be released in January 2011 is expected to positively increase the Company's value considerably through a re-rating of the Project's resources and coal quality and provide a significant increase in the resource base.
- New International Institutional shareholder and experienced management provides investor confidence of the potential of the company for future wealth creation through growth and expansion.
- The Company now has improved access to international capital markets.
- With plans for increased production, the company is developing a strategy to access international export markets, providing premium income streams, when compared to the current local consumer base.
- Project has competitive advantage being connected to the Trans Mongolian railroad by a dedicated rail spur.

Sharyn Gol Production (mln tons)



Financials (GAAP) /billion MNT/

	08'	09'	3Q10'
Asset	10.8	9.5	17.8
Fixed asset	11.6	11.9	10.6
Total debt	9.6	8.1	15.1
Equity	1.2	1.4	2.7
Total sales	10.6	9.5	7.2
Gross profit	1.04	0.96	2.1
NPAT	0.06	0.2	1.3

Valuations

	10,500	Dec 6, '10'
Share price		
PE	345.3	2009
PB	52.9	2009
PS	8.8	2009

History

The Sharyn Gol coal deposit, discovered in 1930's was first explored by a Russian-Mongolian joint venture in the late 1950's. Following a decision to develop the deposit into a mine, first production was achieved in 1965. The mine produced approximately 1Mtpa until the late 1970's when increased capital input from the Soviets and a government directive saw the mines output increased to 2.5Mtpa.

However, after the withdrawal of Soviet control and operational capital in the late 1980's, and factors including an aging mining fleet, increased overburden removal, production gradual declined to the current 500,000 tonnes per annum we see today. Despite the historical reduction in productivity, the new management recognised the operation as still having the potential for significant open cut operations to be maintained and developed. Consequently, the major resource drilling campaign commenced in May 2010.

The Mine

Sharyn Gol Coal Mining licence covers an area of approximately 16,060 hectares. The lease has been the subject of significant exploration historically, which has seen in excess of 100million tons of coal 'reserves' reported to Soviet resource standards. However, during 2009, the Company was advised by its consultants, Triton Coal Pte Ltd, that in order to secure international investment to maintain, improve and expand on its current operations, the Company required a modern resource estimation which complied with international standards.

In early 2010, management and the new shareholders agreed to a proposal to undertake a major resource drilling program at the project. The 16,000 metre core drilling program commencing in May 2010 was completed in mid October 2010. The program, overseen by leading international mining consultants and management was designed to provide sufficient drilling information to allow for a high category resource to be reported in accordance with JORC (Joint Ore Reserve Committee) code guidelines. The program also aimed to increase the existing coal reserves and test for the possibility of expanding on the current range of coal products. It is anticipated that the JORC resource report when released in January 2011 will demonstrate a significant resource increase, well beyond current estimations.

Coal Quality

The operation currently produces two types of coal product purely based on size fractioning. Both basic, non optimised, products are used for thermal use only. With an official 3,900kcal/kg calorific value pronounced in 1989 the Company currently easily meets the requirements set by its main customers, the thermal power plants in Darkhan and Erdenet. However the Company strongly believes that that actual calorific value, is an average over the entire deposit and that with more selective mining, tighter grade control and more advanced processing the Project is looking like it could be capable of producing coal products achieving and exceeding 5,500kcal/kg. By undertaking extensive studies and collecting substantial data during the JORC resource drilling, the Company should be able to officially demonstrate this in the near future.

It is recognized that for the Company to achieve better prices for its coal products and expand into new markets including international export markets, its coal products now have to compete on an international platform and hence all aspects of improving coal quality are being considered.

Production

To the uninformed investor production appears simply to be in continual decline since the 1990's, and this certainly has been the case, largely due to increasing overburden removal requirements, lack of mining experience at the board and senior management level as well as lack of access to capital markets for new plant and equipment. However it is important to note that the decline in production is certainly not due to a lack of quality coal resources. In fact, abundant resources remain. With the exception of pilot underground mining exercises undertaken sporadically between 2004 and 2009 the Company has been using an open-cut owner operator mining method for its entire life. With the recent change in ownership and strengthening the technical expertise at board level, management focus has switched from considering the operation having no choice but to transform to underground operations, to continuing with open cut mining methods for many years to come.

International resource consultants, have been mandated to design the JORC drilling program, and estimate high category JORC resources.

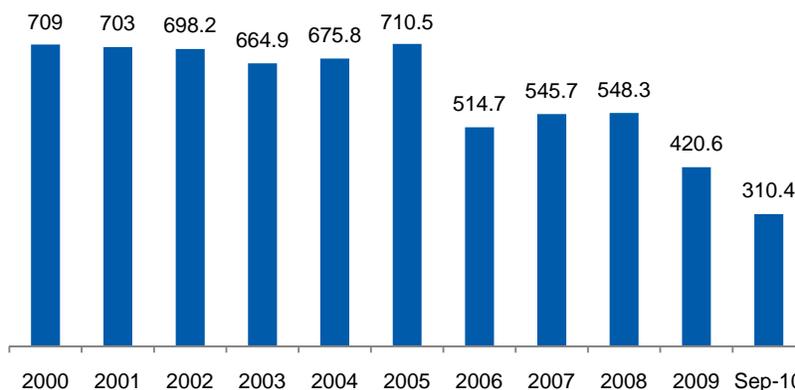
Average Calorific Values of other major Mongolian thermal coal mining projects;
Shivee Ovoo (SHV) – 3000 kcal/kg
Baganuur (BAN) – 3000 to 3600 kcal/kg

The new drilling data will be used to establish new models that will enable future underground and open cut mining methods at the existing operation.

This reconsideration about the operation remaining an open cut operation has largely been in response to new drilling data highlighting substantial coal resources located close to surface within the vicinity immediately east of the processing plant and rail loadout facility. Even at this early stage, prior to the new JORC resource estimation, the drilling has demonstrated that a new open cut operation could potentially see surface mining continue for many years to come. Additionally, the abundance of coal intersected by drilling also indicates the potential for production to exceed its historic capacity of 2.5Mtpa.

Providing, the Company can secure financing on a timely basis to allow for the replacement of old equipment and technology, and the right management secured to set up an optimum mining strategy it's very likely that we will see future production increase substantially over the medium term.

Coal production by thous. tons (source: Sharyn Gol annual report)



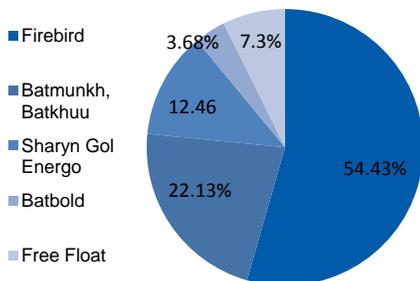
Firebird's asset under management is in excess of 1.5 billion USD

Management

Having a US Fund Manager as the Largest Shareholder is Viewed as a Major Advantage

Local company B&G Group LLC bought the majority shares of Sharyn Gol through the privatization in 2003. B&G is mainly involved in mining equipment, machinery and vehicle imports as well as international trading businesses. Firebird Management LLC, is a New-York based hedge fund which specialises in frontier and emerging markets investments globally. Firebird, which is the largest investor in the Mongolian equity capital markets, has been present in the country since 2005. Firebird has substantial experience in providing venture capital investment in early-development stage companies and assisting their development to a level where they become a considerable investment opportunity to local and foreign investors.

Sharyn Gol Board Members: (ownership structure on the left hand side)



- **Batmunkh Batkhuu** — Board Chairman, is co-founder and manages B&G Group LLC
- **Anthony Milewski** — Vice Chairman, extensive private equity experience in various emerging markets including Russia, Kazakhstan, and Mongolia.
- **Bailikhuu Dambachultem** — has been a member of the Board since 1996. His current position is Adviser to the State Property Committee of Mongolia.
- **Dayanbilguun Danzan** — is an Executive Director of BDBSec JSC.
- **Batbold Jigjidsuren** — joined Sharyn Gol JSC in 1996 as Executive Director and Chairman of the Board.
- **Joseph Naemi** — has had significant exposure across the energy sector value chain throughout Central Asia, Latin America, and Africa.
- **James Passin** — co-founded and manages Firebird Global Fund, Firebird Global Fund II, and Firebird Mongolia Fund.
- **Ian Spence** — is Managing Director of Triton Coal Pte Ltd.
- **Ganbat Tsogzol** — is a co-founder of the B&G Group.

Sharyn Gol's competitive advantage is its rail spur connecting the mine to Trans-Mongolian Railway

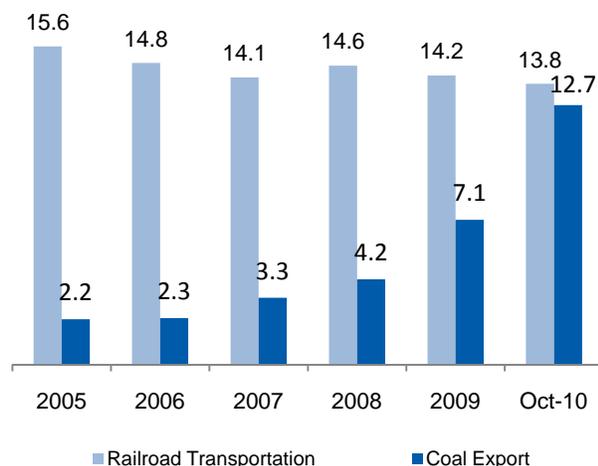
Infrastructure

It is widely acknowledged Mongolia's greatest challenge to becoming one of the world's fastest growing mining-based economies is developing of its infrastructure, particularly regarding transportation of bulk commodities. Very few mining projects in the country have any direct or dedicated transport links to markets. Sharyn Gol however, is a rare exception to this with a well developed transportation network for transporting its coal. The Company is advantageously connected to the Trans-Mongolian railway by a 65km long dedicated railspur which was purposely built during Soviet times to deliver Sharyn Gol's coal to its regional and national customers. We view the existence of this railspur as a huge competitive advantage over the majority of the Company's Mongolian peers. The utilisation of this railspur will be critical in accessing international export markets.

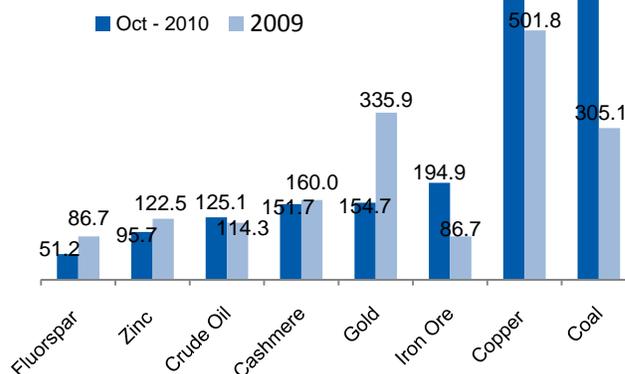
Other infrastructure advantages Sharyn Gol enjoys include the Project's access to power supply from the nearby Darkhan Power Plant, which coincidentally is a major consumer of Sharyn Gol coal. The majority of the mining fleet is electrically powered, vastly reducing reliance on expensive diesel.

Also, the township of Sharyn Gol itself (8,000 inhabitants), which like the railroad, was purpose built to service the mine and provide employees with accommodation. The town has a hospital, two schools, banks, a post office, shops and other necessary services.

Railroad Transportation Vs. Coal Export (by mio tons)



Mongolia's main export products by value (mio USD)



Source: National Statistic Office

The Coal Sector

The coal sector is now the fastest growing sector among the other industry sectors in Mongolia. It has recently overtaken copper concentrate exports to become the most revenue generating export for the country. However, the Mongolian coal export business is still quite a new sector with Mongolia only commencing selling this commodity on international markets (mostly China) since only 2005. Coal production has doubled in the last 5 years and it is expected that the same trend or double or triple growth will continue into the near future when the large scale coal mining projects start their production.

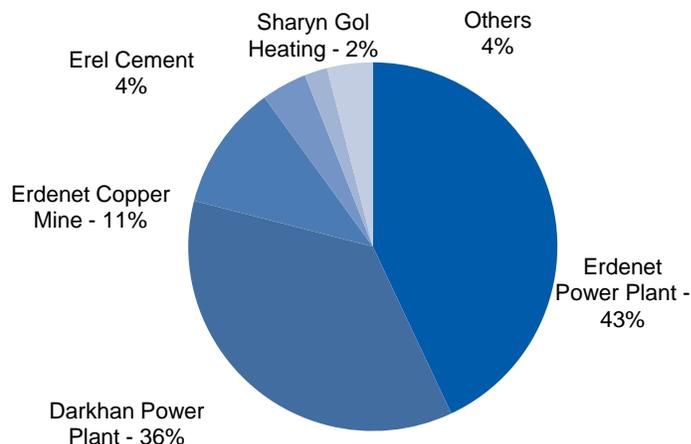
Almost all existing Mongolian coal mining operations as well as advanced coal projects are eyeing China as their main market. China's domestic consumption totals around 4 billion tonnes per annum. China is presently the largest consumer of thermal coal in the world and its annual coal consumption is 200 times higher what Mongolia produces every year. However, management believes that opportunities also lie to the north, into Russia and beyond into Japan and South Korea.

No washing or other beneficiation processes required by its customers

Sharyn Gol's Customers

Sharyn Gol's main customers are the two state run thermal power plants of Darkhan and Erdenet, both located in the northern part of Mongolia. Between them they annually consume approximately 620,000 tonnes of coal per annum, currently taking nearly 80% of Sharyn Gol's total sales. Most of the remaining sales go to Mongolian-Russian joint venture Erdenet Copper Mine and Khutul Cement Factory in Darkhan and a few other industrial companies in the region.

Sharyn Gol's Customers



Source: Sharyn Gol Annual Report

Sharyn Gol has sold to both China and Russia historically

The Darkhan and the Erdenet Power Plants have and continue to be the long term customers of Sharyn Gol. The Company has been selling coal to these power plants since its establishment in 1965. When the Company was in its production peak in the mid 1980's Sharyn Gol also supplied Ulaanbaatar City's power plants. However when production reduced supply to Ulaanbaatar ceased, and the two local power plants started buying coal from the government run Baganuur coal mine, located approximately 400km to the south of both plants, in order to fill their remaining consumption requirements.

In addition to the power plants, coal demand is also increasing gradually in the Darkhan City region as new industrial plants and factories are being established on the back of the economic growth. Also worth noting are a number of large scale industrial projects which are planned to be built in the city's industrial sector which also would require additional coal supply and which could offer Sharyn Gol additional markets in the future. Historically, Darkhan with its immediate access to the Trans-Mongolian railroad, is a heavy industrial city which was established and flourished on the availability of abundant mineral resources for construction raw materials such as limestone (cement), iron ore, wool and Sharyn Gol coal.

There is another new business growing in the country called coal beneficiation, which is being heavily regarded as the most beneficial way to produce value added product using ordinary coal. It increases a caloric value of coal by removing noncombustible elements such as rock and ash. One of the first coal beneficiation companies in Mongolia, Naco Fuel (MSE:NKT), which resides in the Darkhan City, is a new customer of Sharyn Gol. The company produces a number of products such as semi-coke, smokeless briquette, coal tar and coal gas using ordinary coal. Naco currently uses 100 thousand tons of coal per year but this amount tends to further increase as the company's capacity becomes bigger. Naco chose Sharyn Gol because of its coal quality and it means that there is a big opportunity to beneficiate Sharyn Gol coal as well as a new market likely to raise some serious amount of demand in the near future.

Pricing

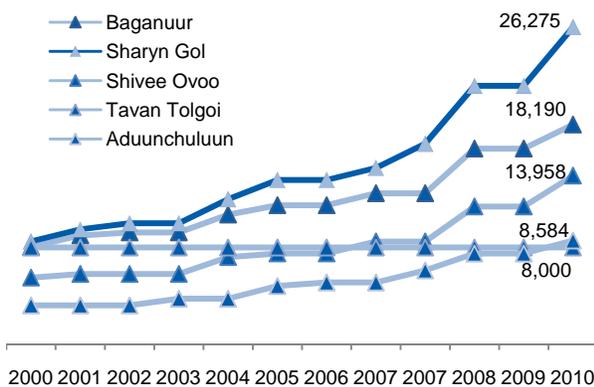
Sharyn Gol's per ton coal is valued at about 0.5 USD if its mkt cap is divided by its coal reserves

Traditionally the Company has sold its coal to the government power plants at a price more than 10% lower than the local free market price. This is due to the Mongolian government regulating coal prices between state-run power plants and the coal mines. Sharyn Gol is one of several local coal mines that currently supply coal to the state-run power plants and all those coal mines are forced to give a certain amount of discount to the power plants that are also required to produce cheap electricity that the citizens can afford.

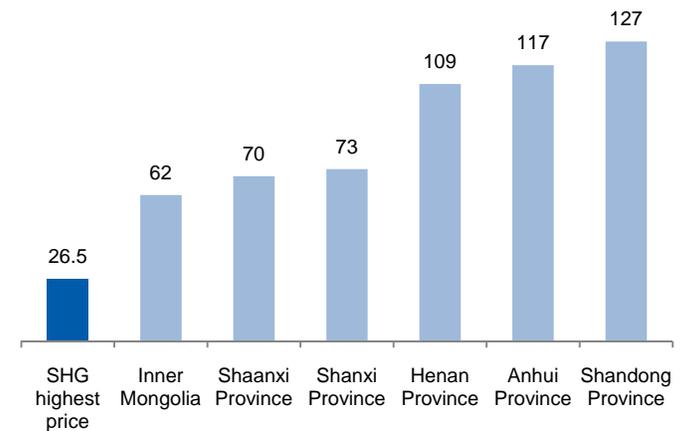
It is very important to note, that unlike the other government owned or part government owned operations such as Baganuur, Shivee Owoo and Tavan Tolgoi, Sharyn Gol, because it is fully privatised has actually no legal obligation to supply coal to the state, but chooses to follow a moral obligation to supply the regions power plants. This we view is an enormous advantage to the Company now that it is planning to ramp up production in that it will be able to seek the best price for its additional coal production on international and domestic markets whilst continuing to supply the government power plants locally.

Sharyn Gol's coal price for the power plants is currently 26,275 MNT (as of Nov 1st, 2010), almost 2 times higher than an average coal price of the state-run coal mines, whilst its wholesale price for corporate customers is about 30,000 MNT and retail price is about 50,000 MNT in the market.

Thermal coal prices for the power plants (by MNT)



Chinese thermal coal price by region Vs. SHG price (by USD)



The Energy Regulation Authority

Source: www.coalworld.net (As of Nov 15, 2010)

Talks and debates are underway, lobbying the government to de-regulate the coal industry. This may have to occur sometime between now and 2014 as recent studies have demonstrated domestic coal consumption needs to go higher along with growing industrialisation if economic growth is to continue at a satisfactory level.

Recent Milestones

- **New Resource Drilling program Completed**

A 16,000 metre diamond drilling program has recently been completed over the majority of the mining lease. This drilling has provided new data and information to allow the Company's international resource consultants to complete a new internationally recognized (JORC) resource. In addition the drilling has also allowed for the discovery of new coal seams and extensions to existing seams which, prior to the drilling program, were previously unknown. The Company has been advised that new resource estimates and report, be completed and released in January 2011. Additionally laboratory results from samples taken during the drilling program are demonstrating the coal deposit to have an overall higher calorific value than the official figure.

- **International Standard Auditing Implemented**

Reputable international accounting firm Ernst & Young has been retained by the Company to review Sharyn Gol's financial activities and implement major change in the Company's accounting activities in accordance with international accounting standards. Ernst & Young will undertake the audit for 2010 financial year financials.

- **Legal Due Diligence**

Sharyn Gol has signed an agreement with GTS Advocates LLC over completing a legal due diligence at the Company.

- **Corporate Governance**

The company has launched an own website in order to better distribute information on stock exchange announcements, stock performance, financial results, shareholders general meetings and share registry to its share holders. In addition to improve corporate governance, the Company's has appointed on its board independent directors.

- **New management**

The company has recently announced the appointment of a new Chief Financial Officer, Mr. David Dring who has over 10 years of experience in accounting, stock broking and compliance.

Future Plans

Following the release of the new JORC resource report in January 2011, the Company will commit to a full revaluation of its operations and future strategy. Management have already indicated that subject to a positive report it plans to:

- Increase current production capacity considerably from the current 0.5Mtpa. This will require a feasibility study and new capital input into the company to replace old mining technology, equipments and machineries etc.
- Export coal to foreign countries (China and Russia). The Company's management has indicated that the Russians are ready to buy its coal once current capacity increases. By exporting coal internationally it is hoped the company can achieve better prices for its quality coal products.
- Increase its coal products by Coal Beneficiation activities. This will allow the company to expand on its current customers and also produce coal products to customer specific requirements.
- Open a new open cut at the operation taking advantage of exploiting the recently discovered shallow coal resources east of the existing open cut. This will also mean there would be no need for the development of an underground operation for many years to come.

The release of a JORC resource report and the Company moving towards international accounting and legal standards will pave the way for a potential secondary listing on an international stock exchange which would have very positive benefits to existing shareholders (i.e. increased liquidity and a positive stock rating) and the Company alike providing easier access to international capital markets.

Stock Information

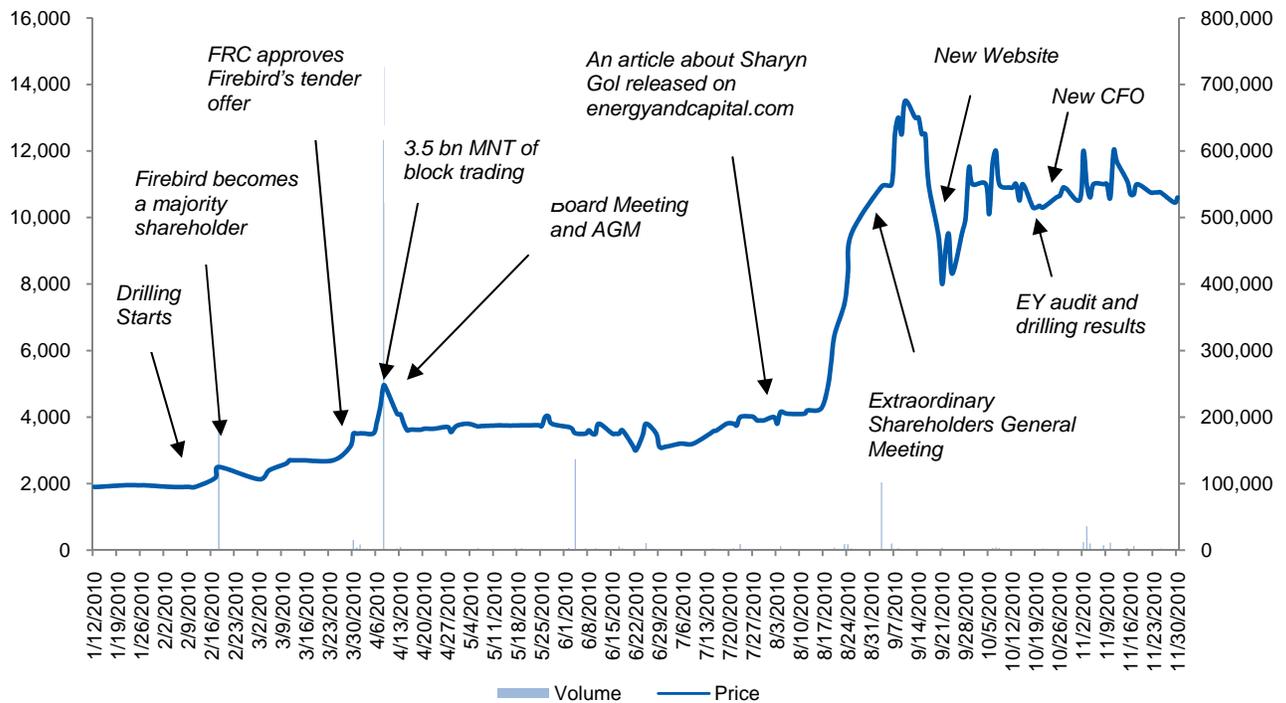
Stock symbol (code): SHG (309)
 Free float: 7.3%
 Shares outstanding: 7,231,389 shares
 Last traded price: 10,500 (Dec 6, 10')
 52 week high: 13,500 (Sep 10, 10')
 52 week low: 1696 (Dec 22m 09')
 Daily average volume: ~40,000 USD (YTD)

* The stock quote can be viewed at following links on daily basis: <http://m.bdsec.mn/>,
<http://bdsec.mn/test/indexFull.php?lang=en>

Stock Performance

Sharyn Gol Joint Stock Company is a publically traded on the Mongolia Stock Exchange (MSE) under the ticker symbol SHG. It has total 7,231,389 shares that are majority owned by US hedge fund, Firebird Management LLC. The remaining shares are largely owned by management, domestic individuals and international institutional investors. More than 7.3% of the Company's shares are on a free float. This stock has demonstrated very strong performance throughout this year increasing nearly 6 times on a year-to-date basis. This sharp move was mainly influenced by the arrival of new owners who have been actively involved in the development process of the company and creating value. The Company's stock performance chart is shown on the below chart:

Sharyn Gol stock price year-to-date (MNT) Source: MSE

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