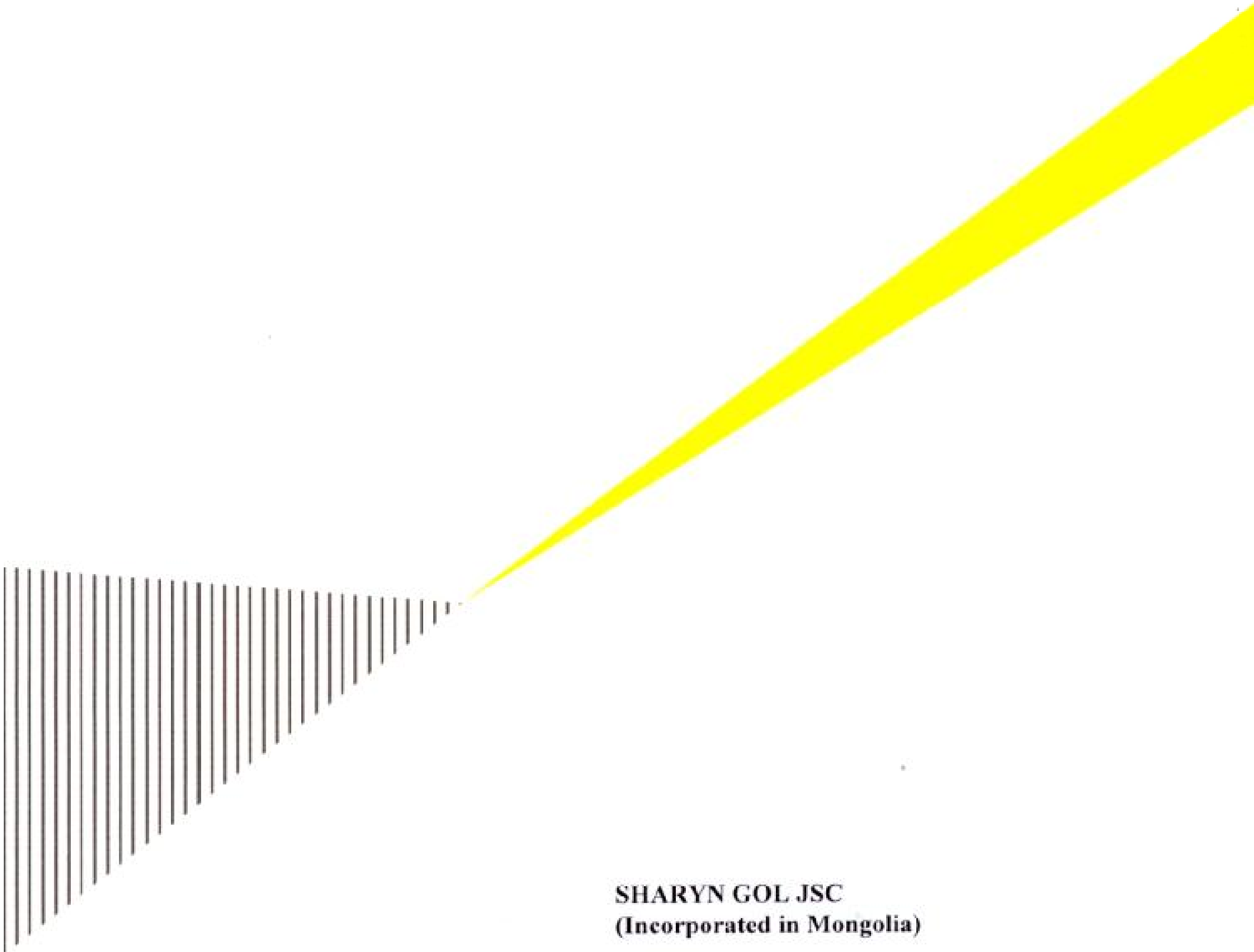

SHARYN GOL JSC
(Incorporated in Mongolia)

Audited Financial Statements
31st December 2009

Ernst & Young
AF : 0039

ERNST & YOUNG

SHARYN GOL JSC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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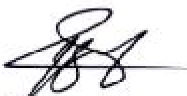
SHARYN GOL JSC

CORPORATE INFORMATION

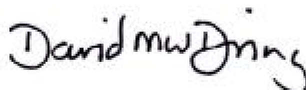
DIRECTORS	:	B. Batmunkh (Chairman) D. Bailiikhuu D. Dayanbilguun Ts. Ganbat J. Batbold James Passin Anthony Milewski Joseph Naemi Ian Spence
REGISTERED OFFICE	:	Own Building Sharyngol Sum, Sanjit bag, Darkhan-Uul province, Mongolia
COMPANY SECRETARY	:	Darisuren Jambaajav
PRINCIPAL BANKERS	:	Chinggis Khan Bank LLC Khan Bank LLC Savings Bank LLC Trade and Development Bank LLC
AUDITORS	:	Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY DIRECTOR AND EXECUTIVE

We, B. Batmunkh, being the director of SHARYN GOL JSC ("the Company"), and David Dring, being the Chief Financial Officer primarily responsible for the financial management of the Company, do hereby state that, in our opinion, the accompanying financial statements set out on pages 6 to 51 give a true and fair view of the financial positions of the Company as at 31 December 2009 and of the financial performances and cash flows for the year then ended in accordance with International Financial Reporting Standards.



B. Batmunkh



David Dring

Ulaanbaatar, Mongolia

30 AUG 2010

ERNST & YOUNG

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REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of SHARYN GOL JSC

We have audited the financial statements of SHARYN GOL JSC, which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, changes in equity and cash flow for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. As disclosed in Note 21 to the financial statements, as at 31 December 2009, the carrying value of the revaluation reserve was stated at MNT3,051,333,889 (2008: MNT3,051,333,889). This revaluation reserve arose from the revaluation of certain buildings and machinery and equipment performed internally by the Company in 2003. Since there were no subsequent revaluation done to state these buildings and machinery and equipment at their respective fair values, we were unable to satisfy ourselves as to the carrying values of these buildings and machinery.

2. We did not observe the physical counting of the inventories as of 31 December 2009 since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the inventory quantities by other audit procedures.

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REPORT OF THE INDEPENDENT AUDITORS (CONTD.)

To the Shareholders of SHARYN GOL JSC (contd.)

Basis for Disclaimer of Opinion (contd.)

3. As disclosed in Note 16 and Note 17 to the financial statements, the Company has long outstanding trade and other receivables amounting to MNT206,060,515 (2008: MNT196,167,830) and MNT1,658,657,480 (2008: MNT1,524,935,049) due from a director and his related company, respectively. The directors are of the view that the receivables are recoverable. As these receivables are long outstanding, in our opinion, these receivables are impaired. However, since the Company did not performed impairment tests on these receivables, we were unable to satisfy ourselves as to the carrying amounts of these receivables.

4. As disclosed in Note 20 to the financial statements, as at 31 December 2009, the stated carrying amount of other reserves was MNT1,700,139,876. These other reserves represents the amount of government grant given to the Company in relation to the purchase of mining equipment in the prior years. IAS 20: Accounting for Government Grant requires assets related grants to be recorded as either deferred income to be subsequently amortised to income on a systematic basis or to be accounted for as a reduction in the carrying value of the mining equipment. Accordingly, the above accounting treatment of the Company of taking the government grant amount to other reserve is not in accordance with the requirements of IAS 20. In addition, owing to the nature of the accounting records kept by the Company, we were also not able to satisfy ourselves to the stated carrying amount of MNT1,700,139,876.

5. As disclosed in Note 23 to the financial statements, as at 31 December 2009, long-term debts with the Ministry of Finance amounted to MNT2,508,340,043 (2008: MNT2,508,340,043). Based on the loan agreements signed between the Ministry of Finance and the Company dated 15th May 2000 and 17th April 2001 respectively, the debts should have been fully settled in 2002 and 2004 respectively. The Company subsequently requested to extend the term of the debts for another 10 years. However, no documentary evidence were made available to us to support such an extension by the Ministry of Finance. In addition, we were unable to perform sufficient audit procedures to satisfy ourselves as to the stated carrying amount of the debts outstanding as at 31 December 2009.

6. As disclosed in Note 22 to the financial statements, as at 31 December 2009, the stated carrying value of the provision for rehabilitation amounted to MNT75,770,000 (2008: MNT75,770,000). However, owing to the nature of the records made available to us, we were unable to satisfy ourselves as to the carrying amount of the above provision for rehabilitation.

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REPORT OF THE INDEPENDENT AUDITORS (CONTD.)

To the Shareholders of SHARYN GOL JSC (contd.)

Disclaimer of Opinion

Because of the significance of the matters as discussed in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the financial statements.

Other Matters

This report is made solely to the shareholders of the Company, as a body, in connection with the special audit requested by shareholders in accordance with Article 91 of Company Law of Mongolia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Panthere Midland Audit LLC also have reported separately on the financial statements of SHARYN GOL JSC as at 31 December 2009. Their audit report dated 24th February 2010 was that of qualified opinion on the financial statements as at 31 December 2009.

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

ALEXANDER CHIN
Executive director

Ulaanbaatar, Mongolia
Date: 30 AUG 2010

A member firm of Ernst & Young Global Limited

SHARYN GOL JSC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

ASSETS	Note	2009 MNT'000	2008 MNT'000
NON-CURRENT ASSETS			
Property, plant and equipment	**12**	2,876,300	3,263,430
Intangible assets	**13**	25,542	33,843
Financial investment - available-for-sale	**14**	-	8,400
		2,901,842	3,305,673
CURRENT ASSETS			
Inventories	**15**	1,745,379	1,860,070
Trade receivables	**16**	1,551,313	1,751,898
Other receivables	**17**	1,816,613	2,750,034
Cash and bank balances	**18**	284,579	623,257
		5,397,884	6,985,259
TOTAL ASSETS		8,299,726	10,290,932
EQUITY AND LIABILITIES			
EQUITY			
Ordinary shares	**19**	723,139	723,139
Other reserve	**20**	1,700,140	1,700,140
Accumulated losses		(2,461,981)	(4,259,675)
Revaluation reserve	**21**	3,051,334	3,051,334
		3,012,632	1,214,938
NON-CURRENT LIABILITY			
Provisions	**22**	75,770	2,402,554
CURRENT LIABILITIES			
Borrowings	**23**	2,508,340	2,508,340
Trade payables	**24**	1,485,272	2,546,127
Other payables	**25**	788,814	1,598,820
Income tax payable		428,898	20,153
		5,211,324	6,673,440
TOTAL LIABILITIES		5,287,094	9,075,994
TOTAL EQUITY AND LIABILITIES		8,299,726	10,290,932

The accompanying notes form an integral part of the financial statements.

SHARYN GOL JSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	-------------------Distributable-----------------			*Non-distributable*	
	Ordinary shares MNT'000 (Note 19)	**Other reserve MNT'000 (Note 20)**	**Revaluation reserve MNT'000 (Note 21)**	**Retained earnings MNT'000**	**Total MNT'000**
At 1 January 2008	723,139	1,700,140	3,051,334	(4,344,813)	1,129,800
Total comprehensive income for the year, net of tax	-	-	-	206,625	206,625
Dividends (Note 11)	-	-	-	(121,487)	(121,487)
At 31 December 2008 and 1 January 2009	723,139	1,700,140	3,051,334	(4,259,675)	1,214,938
Total comprehensive income for the year, net of tax	-	-	-	1,797,694	1,797,694
At 31 December 2009	723,139	1,700,140	3,051,334	(2,461,981)	3,012,632

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 MNT'000	2008 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		2,226,592	226,778
Adjustments for:			
Depreciation of property, plant & equipment	**12**	732,765	929,253
Amortisation of intangible assets	**6**	8,301	4,470
Investment written off	**7**	8,400	-
Property, plant and equipment written off	**7**	68,638	160,864
Allowance for impairment loss	**7**	612,076	-
Unrealised foreign exchange gain	**5**	(10,566)	(535)
Provision for future exploration and extraction	**4**	-	1,148,285
Provision for rehabilitation	**4**	-	62,120
Write back of other payables	**5**	-	(145,476)
Write back of provisions	**5**	(2,326,784)	-
Interest expense	**8**	-	67,444
Interest income	**5**	(2,750)	(124)
Operating profit before working capital changes		1,316,672	2,453,079
Changes in working capital:			
Inventories		114,691	24,238
Receivables		521,930	384,315
Payables		(1,870,861)	(427,461)
Cash generated from operations		82,432	2,434,171
Interest received		2,750	124
Interest paid		-	(67,444)
Income tax paid		(20,153)	(32,137)
Net cash generated from operating activities		65,029	2,334,714
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	**12**	(414,273)	(1,086,495)
Purchase of intangible assets	**13**	-	(38,313)
Net cash used in investing activities		(414,273)	(1,124,808)

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 MNT'000	2008 MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(72,000)
Repayment of borrowings		-	(620,000)
Net cash used in financing activities		-	(692,000)
Net (decrease)/increase in cash and cash equivalents		(349,244)	517,906
Net foreign exchange difference		10,566	535
Cash and cash equivalents, beginning of year		623,257	104,816
Cash and cash equivalents, end of year	**18**	284,579	623,257

The accompanying notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The principal activities of the Company are the exploration for, development and production of coal.

The Company is a joint stock company listed in Mongolia Stock Company, incorporated and domiciled in Mongolia. The registered address of the Company is Own Building, Sharyngol Sum, Sanjit bag, Darkhan-Uul province, Mongolia.

The financial statements of the Company for the year ended 31 December 2009 were authorised for issue in accordance with a Resolution of Director on

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared under the historical cost basis except for certain property, plant and equipment that have been measured at fair value. The financial statements are presented in Mongolian Tugrug, which is denoted by symbol MNT, rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) except for IAS 16 Property, Plant and Equipment, IAS 20 Accounting for Government Grant, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 39 Financial Instruments: Recognition and Measurement as detailed in the Report of the Independent Auditors.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements is described below.

Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of comprehensive income in the period when the new information becomes available.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTD

Impairment of assets

The Company assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

The financial statements are presented in Mongolian Tugrug (MNT), which is the Company's functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(b) Mineral exploration, evaluation and development expenditure

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and evaluation costs

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the statement of comprehensive income as incurred, unless the directors conclude that a future economic benefit is more likely than not to be realised. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Mineral exploration, evaluation and development expenditure (contd.)

Exploration and evaluation costs (contd.)

In evaluating if expenditures meet the criteria to be capitalised, several different sources of information are utilised. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

(c) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Buildings, machinery and equipment are measured at fair value less accumulated depreciation on buildings, machinery and equipment and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The Company performs its valuation internally and does not engage an independent valuer.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Property, plant and equipment (contd.)

Assets under construction are not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	10 to 60 years
Machinery and equipment	5 to 15 years
Motor Vehicles	5 to 8 years
Furniture and fittings	10 years
Computers	5 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

(d) Intangible assets

Intangible assets of the Company represents computer software.

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation on a straight line basis over their useful lives of five years and any accumulated impairment losses.

Internally generated intangible assets are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the statement of comprehensive income when the asset is derecognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Impairment of non-financial assets

The carrying values of property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units (CGUs) for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets This generally results in the Company evaluating its non-financial assets on a geographical or license basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of comprehensive income so as to reduce the carrying amount to its recoverable amount (i.e., the higher of fair value less cost to sell and value in use).

Impairment losses related to continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.
An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the statement of comprehensive .

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (contd.)

i) Financial assets (contd.)

Financial assets at fair value through profit or loss (contd.)

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Company evaluated its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (contd.)

i) Financial assets (contd.)

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

The Company evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and managements intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (contd.)

i) Financial assets (contd.)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

ii) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a Company of financial assets is impaired. A financial asset or a Company of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (contd.)

ii) Impairment of financial assets (contd.)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.
If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and borrowings.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (contd.)

iii) Financial liabilities (contd.)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (contd.)

iii) Financial liabilities (contd.)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (contd.)

vi) Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting as prescribed by IAS 39) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and non-current portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

vii) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

viii) Normal purchase or sale exemption

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption' (with the exception of those with quotational period clauses, which result in the recognition of an embedded derivative. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Company recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Inventories

Coal stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods.

Materials and supplies are valued at the purchase cost. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

(h) Provisions

General

Provisions are recognised when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Rehabilitation provision

The Company records the estimated cost of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines, restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground is disturbed at the production location. When the liability is initially recognised, the estimated cost is recognised to the statement of comprehensive income as cost of sales. Additional disturbances or changes in rehabilitation costs will be recognised as charges to the cost of sales and rehabilitation liability when they occur.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Taxes (contd.)

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The Company recognises neither the deferred tax asset regarding the temporary difference on the rehabilitation liability, nor the corresponding deferred tax liability regarding the temporary difference on the rehabilitation asset.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Taxes (contd.)

Royalties

Royalties, resource rent taxes and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in cost of sales. The royalties incurred by Sharyn Gol JSC are considered not to meet the criteria to be treated as part of income tax.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred onto a train, conveyor or other delivery mechanisms. Revenue is measured at the fair value of the consideration received or receivable.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Revenue recognition (contd.)

The following criteria are also met in specific revenue transactions:

Coal sales

Revenue from coal sales is brought to account when the significant risks and rewards of ownership have transferred to the buyer and selling prices are known or can be reasonably estimated.

Interest revenue

Interest revenue is recognised as it accrues, using the effective interest rate method (EIR).

(k) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the ‘probable economic benefits’ test and also are rarely debt funded. Any related borrowing costs are therefore generally recognised in the statement of comprehensive income in the period they are incurred.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and amended IAS, IFRS and IFRIC interpretations during the year.

* IFRS 1: First-time Adoption of International Financial Reporting Standards - Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
* IFRS 2: Share-based payments - Vesting Conditions and Cancellations (Amendments)
* IFRS 7: Financial Instruments: Disclosures (Amendments)
* IFRS 8: Operating Segments
* IAS 1: Presentation of Financial Statements (Revised)
* IAS 23: Borrowing Costs (Revised)
* IAS 27: Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
* IAS 32: Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
* IFRIC 9: Reassessment of Embedded Derivatives and IAS 39 Financial Instruments : Recognition and Measurement - Embedded Derivatives (Amendments)
* IFRIC 13: Customer Loyalty Programmes
* IFRIC 15: Agreements for the Construction of Real Estate
* IFRIC 16: Hedges of a Net Investment in a Foreign Operation
* IFRIC 18: Transfers of Assets from Customers

Improvements to International Financial Reporting Standards, which includes:

* IAS 1: Presentation of Financial Statements
* IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
* IAS 10: Events after the Reporting Period
* IAS 16: Property, Plant and Equipment
* IAS 18: Revenue
* IAS 19: Employee Benefits
* IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
* IAS 23: Borrowing Costs
* IAS 27: Consolidated and Separate Financial Statements
* IAS 28: Investments in Associates
* IAS 29: Financial Reporting in Hyperinflationary Economics
* IAS 31: Interest in Joint Ventures
* IAS 34: Interim Financial Reporting
* IAS 36: Impairment of Assets
* IAS 38: Intangible Assets
* IAS 39: Financial Instruments: Recognition and Measurement
* IAS 40: Investment Property
* IAS 41: Agriculture
* IFRS 7: Financial instruments: Disclosures

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTD.)

The adoption of the above interpretations did not result in significant changes to accounting policies and did not have any effect on the financial performances or position of the Company except for those discussed below:

IAS 1: Presentation of financial statements (Revised)

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Company has elected to present comprehensive income in one single statement. There is no other comprehensive income recognised during the year. The Company has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

At the date of authorisation of the financial statements, the following Standards and Interpretations were in issue but not yet effective:

* IFRS 1: First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters (Amendments)
* IFRS 2: Group Cash-settled Share-based Payment Arrangements
* IFRS 3: Business Combinations (Revised)
* IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
* IAS 27: Consolidated and Separate Financial Statements (Amendment)
* IAS 39: Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendment)
* IFRIC 17: Distributions of Non-Cash Assets to Owners
* IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTD.)

Improvements to International Financial Reporting Standards, which includes:

* IAS 1: Presentation of Financial Statements
* IAS 36: Impairment of Assets
* IAS 38: Intangible Assets
* IAS 39: Financial Instruments: Recognition and Measurement
* IFRS 2: Share based Payments
* IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
* IFRS 8: Operating Segments
* IAS 7: Statement of Cash Flows
* IAS 17: Leases
* IAS 18: Revenue
* IFRIC 9: Reassessment of Embedded Derivatives
* IFRIC 16: Hedges of a Net Investment in a Foreign Operation

The Directors anticipate that the adoption of these Standards and Interpretations in the future periods will have no material impact on the financial statements of the Company.

3. REVENUE

Revenue of the Company represents sales of coal, net of sales return.

4. COST OF SALES

	2009 MNT'000	2008 MNT'000
Included in cost of sales are the following expenses:		
Supply materials	1,198,455	773,365
Diesel oil	1,060,888	1,544,366
Salaries, wages and bonuses	1,643,552	1,617,183
Contributions to Social and Health Insurance Fund	217,249	211,818
Depreciation of property, plant and equipment	662,004	844,135
Spare parts	997,753	917,829
Reserve tax	224,708	265,616
Provision for rehabilitation (Note 22)	-	62,120
Provision for future exploration and extraction (Note 22)	-	1,148,285
Equipment rental	331,974	494,070

5. OTHER INCOME

	2009 MNT'000	2008 MNT'000
Gold sales	180,132	-
Penalty income	110,553	-
Cafeteria income	49,581	54,908
Gain on disposal of spare parts	7,333	-
Realised gain on foreign exchange	2,024	82,223
Unrealised gain on foreign exchange	10,566	535
Interest income	2,750	124
Write back of trade and other payables	348,327	145,476
Write back of provisions (Note 22)	2,326,784	-
Others	126,849	91,596
	3,164,899	374,862

6. ADMINISTRATIVE EXPENSES

	2009 MNT'000	2008 MNT'000
Included in administrative expenses are the following expenses:		
Salaries, wages and bonuses	209,132	196,956
Contributions to Social and Health Insurance Fund	28,171	25,742
Depreciation of property, plant and equipment	63,118	29,185
Amortisation of intangible assets (Note 13)	8,301	4,470
Travelling expenses	19,088	16,261
Transportation	49,981	50,832

7. OTHER EXPENSES

	2009 MNT'000	2008 MNT'000
Included in other expenses are the following expenses:		
Property, plant and equipment written off	68,638	160,864
Allowance for impairment loss for trade and other receivables	612,076	-
Investment written off	8,400	-
Penalty	-	194,464
Cafeteria expenses	88,723	100,507
Gold extraction expenses	121,109	-
Donation and compensation	120,159	185,550
Building demolishing expenses	171,333	-
Loss on disposal of spare parts	-	152,474

8. FINANCE COSTS

	2009 MNT'000	2008 MNT'000
Loan interest expense	-	67,444

9. INCOME TAX EXPENSE

	2009 MNT'000	2008 MNT'000
Current income tax :		
Based on results for the year	428,898	20,153

The Company provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the tax authorities. The income tax rate is 10% (2008: 10%) for taxable income up to MNT3 billion (2008: MNT3 billion) and 25% (2008: 25%) for taxable income in excess of MNT3 billion (2008: MNT3 billion).

A reconciliation of income tax expense applicable to the profit assessable by the tax authorities to the profit before taxation at the effective income tax rate of the Company for the year ended 31 December is as follows:

	2009 MNT'000	2008 MNT'000
Profit before taxation	2,226,592	226,778
Tax at statutory tax rate of 25% (2008: 25%)	556,648	56,695
Effect of tax subject to lower tax rate	(450,000)	(34,017)
Effect of income not subject to tax	(5,162)	(23,328)
Effect of expenses not allowable for tax purposes	327,412	20,803
Tax expense for the year	428,898	20,153

Deferred tax is not provided for in the current and previous financial years as there are no material temporary differences.

10. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted earnings per share are the same as there are no dilutive effects on earnings.

	2009	2008
Net profit attributable to ordinary shareholders (MNT'000)	1,797,694	206,625
Weighted average number of ordinary shares	7,231,389	7,231,389
Basic and diluted earnings per ordinary share (MNT)	248.60	28.57

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

11. DIVIDENDS

	2009 MNT'000	2008 MNT'000
Declared and paid during the year:		
Final dividend prior period	-	121,487
Total dividends paid in the year	-	121,487

	2009	2008
Weighted average number of ordinary shares	7,231,389	7,231,389
Dividend per ordinary share (MNT)	-	16.80

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings MNT'000	Machinery and Equipment MNT'000	Furniture and Fittings MNT'000	Motor Vehicles MNT'000	Computers MNT'000	Construction in-progress MNT'000	Total MNT'000
At 31 December 2009							
At cost or valuation							
At 1 January 2009	1,497,180	6,472,585	107,294	3,496,585	64,538	-	11,638,182
Additions	103,240	18,660	3,000	258,181	382	30,810	414,273
Write off	(1,024)	(97,409)	(101)	-	(5,762)	-	(104,296)
Reclassification	30,810	-	-	-	-	(30,810)	-
At 31 December 2009	1,630,206	6,393,836	110,193	3,754,766	59,158	-	11,948,159
Accumulated depreciation							
At 1 January 2009	1,045,352	4,335,602	63,848	2,889,245	40,705	-	8,374,752
Charge for the year	31,145	383,551	16,234	294,438	7,397	-	732,765
Write off	(1,024)	(29,050)	(100)	-	(5,484)	-	(35,658)
At 31 December 2009	1,075,473	4,690,103	79,982	3,183,683	42,618	-	9,071,859
Net carrying amount							
At 31 December 2009	554,733	1,703,733	30,211	571,083	16,540	-	2,876,300

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Buildings MNT'000	Machinery and Equipment MNT'000	Furniture and Fittings MNT'000	Motor Vehicles MNT'000	Computers MNT'000	Construction in-progress MNT'000	Total MNT'000
At 31 December 2008							
At cost or valuation							
At 1 January 2008	1,505,886	4,370,304	93,602	5,964,639	78,998	-	12,013,429
Additions	-	641,984	8,573	52,421	3,803	379,714	1,086,495
Write off	(8,576)	(150,941)	(1,568)	(1,289,672)	(10,829)	-	(1,461,586)
Transfer	-	(9) [1]	(147) [1]	-	-	-	(156)
Reclassification	(130)	1,611,247	6,834	(1,230,803)	(7,434)	(379,714)	-
At 31 December 2008	1,497,180	6,472,585	107,294	3,496,585	64,538	-	11,638,182
Accumulated depreciation							
At 1 January 2008	1,022,417	3,295,461	51,408	4,334,839	42,096	-	8,746,221
Charge for the year	30,515	438,687	13,682	436,931	9,438		929,253
Write off	(7,450)	(94,322)	(1,242)	(1,186,879)	(10,829)	-	(1,300,722)
Reclassification	(130)	695,776	-	(695,646)	-	-	-
At 31 December 2008	1,045,352	4,335,602	63,848	2,889,245	40,705	-	8,374,752
Net carrying amount							
At 31 December 2008	451,828	2,136,983	43,446	607,340	23,833	-	3,263,430

[1] Property, plant and equipment with cost of MNT155,547 were transferred to inventory in prior year.

12. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) Certain buildings and machinery and equipment are stated at market value based on the revaluation conducted internally by the management in 2003. No revaluation exercise was performed subsequently.

13. INTANGIBLE ASSETS

	Computer software	
	2009 MNT'000	**2008 MNT'000**
At cost		
At 1 January	38,313	-
Additions	-	38,313
At 31 December	38,313	38,313
Accumulated amortisation		
At 1 January	4,470	-
Charge for the year (Note 6)	8,301	4,470
At 31 December	12,771	4,470
Net carrying amount	25,542	33,843

14. FINANCIAL INVESTMENT-AVAILABLE FOR SALE

	2009 MNT'000	**2008 MNT'000**
Unquoted shares, at cost	-	8,400

Unquoted shares represents investment made in unquoted company. Investment in unquoted share is recorded at cost as the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant. There is no market for this investment and the Company has written off the investment during the year.

15. INVENTORIES

	2009 MNT'000	2008 MNT'000
At cost		
Coal stockpiles	95,909	117,943
Consumables	223,036	189,121
Raw materials	45,747	57,749
Spare parts	1,368,765	1,479,827
Others	11,922	15,430
	1,745,379	1,860,070

16. TRADE RECEIVABLES

	2009 MNT'000	2008 MNT'000
Trade receivables	1,255,634	1,349,417
Amount due from a shareholder (Note 26)	204,400	194,508
Amount due from Company's directors (Note 26)	10,738	10,063
Amount due from related companies (Note 26)	158,554	198,296
	1,629,326	1,752,284
Less: Allowance for impairment loss	(78,013)	(386)
	1,551,313	1,751,898

Trade receivables are non-interest bearing and are generally on 15-30 days' credit terms, which is approved on a case-by-case basis. Included in trade receivables were amounts totalling MNT 206,060,515 (2008: MNT 196,167,830) that has been long outstanding. The directors are of the view that the receivable is recoverable and hence no allowance for impairment loss has been provided.

The Company has significant credit concentration from state-owned entities, however, the directors believe this does not pose significant risk to the Company.

As at 31 December 2009, trade receivables with a nominal value of MNT 77,627,335 (2008: -Nil-) were impaired and provided for. Movements in the allowance for impairment of trade receivables were as follows:

	2009 MNT'000	2008 MNT'000
At 1 January	386	386
Charge for the year (Note 7)	77,627	-
At 31 December	78,013	386

16. TRADE RECEIVABLES (CONTD.)

As at 31 December 2009 and 31 December 2008, the aging analysis of trade receivables are as follows:

	Total MNT'000	Neither past due nor impaired < 30 days MNT'000	Past due but not impaired > 30 days MNT'000	Past due and impaired > 30 days MNT'000
31.12.2009	1,629,326	1,107,950	237,688	283,688
31.12.2008	1,752,283	859,100	613,932	279,251

17. OTHER RECEIVABLES

	2009 MNT'000	2008 MNT'000
Amount due from a shareholder (Note 26)	1,186,476	1,087,754
Amount due from Company's directors (Note 26)	542,559	680,936
Amount due from related parties (Note 26)	170,750	197,114
Sundry receivables	451,277	784,230
	2,351,062	2,750,034
Less: Allowance for impairment loss	(534,449)	-
	1,816,613	2,750,034

Amount due from a shareholder and amount due from related companies are unsecured, non-interest bearing and with no fixed terms of repayment. Included in other receivables were amounts totalling MNT 1,658,657,480 (2008: MNT 1,524,935,049) that have been long outstanding. The directors are confident of its eventual recovery and hence no allowance for impairment losses has been provided.

As at 31 December 2009, other receivables with a nominal value of MNT 534,449,152 (2008: -Nil-) were impaired and provided for. Movements in the allowance for impairment of other receivables were as follows:

	2009 MNT'000	2008 MNT'000
At 1 January	-	-
Charge for the year (Note 7)	534,449	-
At 31 December	534,449	-

18. CASH AND BANK BALANCES

	2009 MNT'000	2008 MNT'000
Cash on hand	892	281,487
Cash at bank	283,687	341,770
	284,579	623,257

Cash at bank earns interest at floating rates based on monthly bank deposit rates. The fair value of cash and cash equivalents is MNT284,578,670 (2008: MNT623,257,192).

19. ORDINARY SHARES

	Number of ordinary shares of		Amount	
	MNT 100 each 2009	MNT 100 each 2008	2009 MNT'000	2008 MNT'000
Issued and fully paid				
At 1 January and 31 December	7,231,389	7,231,389	723,139	723,139
Authorised				
At 1 January and 31 December	7,231,389	7,231,389	723,139	723,139

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

20. OTHER RESERVE

Other reserves arose from government grant given to the Company in relation to the purchase of mining equipment in the prior years.

21. REVALUATION RESERVE

	2009 MNT'000	2008 MNT'000
At 1 January and 31 December	3,051,334	3,051,334

Revaluation reserve arises from the revaluation of buildings, machinery and equipment carried out internally by the Company in 2003.

22. PROVISIONS

	Rehabilitation MNT'000	Others MNT'000	Total MNT'000
At 1 January 2008	13,650	1,178,499	1,192,149
Arising during the year (Note 4)	62,120	1,148,285	1,210,405
At 31 December 2008 and 1 January 2009	75,770	2,326,784	2,402,554
Write-back of unused provisions (Note 5)	-	(2,326,784)	(2,326,784)
At 31 December 2009	75,770	-	75,770
Comprising:			
Non-current 2009	75,770	-	75,770
Non-current 2008	75,770	2,326,784	2,402,554

Provision for rehabilitation

The Company makes partial provision for the future cost of rehabilitating mine sites and related production facilities. The provision for rehabilitation represents the expected cost to be incurred at the end of the mine's life and it does not represent the present value of the expect cost incurred. These provisions have been created based on internal estimates. Assumptions based on the current economic environment have been made which management believes are a reasonable basis upon which to estimate the future liability. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future coal price, which are inherently uncertain.

Other provision

Other provisions include mostly provisions for future exploration and extraction cost.

23. BORROWINGS

The Company obtained long-term loan from Ministry of Finance Mongolia totalling MNT2,508,340,043 on 15th May 2000 and 17th April 2001 maturing in 2002 and 2004 respectively. The Company has subsequently requested to extend the term of the loans for another 10 years.

24. TRADE PAYABLES

	2009 MNT'000	2008 MNT'000
Trade payables	1,078,614	1,494,737
Amount due to Company's directors (Note 26)	8,542	86,520
Amount due to related companies (Note 26)	398,116	964,870
	1,485,272	2,546,127

Amount due to related companies are unsecured, non-interest bearing and with no fixed terms of repayment. Trade payables are non-interest bearing and are normally settled on 30 to 60 days basis.

25. OTHER PAYABLES

	2009 MNT'000	2008 MNT'000
Accrual	293,392	354,372
Personal income tax payable	-	152,567
VAT payable	167,739	907,634
Sundry payables	307,327	152,660
Deferred revenue	20,356	31,587
	788,814	1,598,820

26. RELATED PARTY DISCLOSURES

The following tables provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and information regarding outstanding balances as at 31 December:

	Sales		Purchases		Amount due from		Amount due to	
	2009 MNT'000	2008 MNT'000	2009 MNT'000	2008 MNT'000	2009 MNT'000	2008 MNT'000	2009 MNT'000	2008 MNT'000
					(NOTE 16 & 17)		(NOTE 24 & 25)	
Rekated Companies where the directors have significant control								
B&G Equipment LLC	-	-	-	-	-	-	391,107	932,720
B&G International LLC	-	-	-	-	-	-	53	1,053
UB Green Engine LLC	12,777	-	19,556	63,455	164	34,384	-	24,141
NMES LLC	11,000	-	-	-	11,000	-	-	-
Sharyn Gol Trading	11,701	27,865	-	-	60,190	63,936	-	-
BD Sec LLC		-		-	-	-	-	-
Shoroo ord mining LLC	-	-	-	-	67,976	67,120	-	-
Taise Mongol LLC	-	-	-	-	61,157	61,157	-	-
Us Orchin LLC	14,210	279,634	51,700	-	96,364	132,360	-	-
TI nonbanking financing	-	-	-	-	-	4,000	-	-
TSJ LLC	-	-	-	-	-	-	-	-
B&G Motors	-	-	-	-	-	-	6,956	6,956
Mon Och Od LLC	-	-	-	-	30,453	30,453	-	-
Ikh Terem LLC	7,266	-	10,153	7,181	2,000	2,000	-	-
	56,954	307,499	81,409	70,636	329,304	395,410	398,116	964,870

26. RELATED PARTY DISCLOSURES (CONTD.)

	Sales		Purchases		Amount due from		Amount due to	
	2009 MNT'000	2008 MNT'000	2009 MNT'000	2008 MNT'000	2009 MNT'000	2008 MNT'000	2009 MNT'000	2008 MNT'000
					(NOTE 16 & 17)		(NOTE 24 & 25)	
Amount due from a shareholder								
Da Sharyngol Energo	10,615	300	-	-	1,390,876	1,282,262	-	-
Due from Company's directors								
Batbold.J	-	272	-	-	476,269	441,269	-	-
Batmunkh.B	-	-	-	-	-	83,672	-	81,178
Batmunkh.D	-	-	-	-	-	100,000	-	-
Tsogt	-	-	-	-	19,068	19,071	-	-
Batchuluun	7,663	-	-	-	7,663	-	-	-
Battulga.S	-	-	-	-	27,498	27,498	-	-
Nergui.D	29,163	3,609	-	103,207	22,799	19,489	8,542	5,342
	36,826	3,881	-	103,207	553,297	690,999	8,542	86,520

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Company has recorded MNT 612,076,487 In relation to allowance for impairment of receivables relating to amounts owed by related parties (2008: MNT –Nil-). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

26. RELATED PARTY DISCLOSURES (CONTD.)

	2009 MNT'000	2008 MNT'000
Compensations to key management personnel:		
- Salaries, incentives and allowances	16,947	16,107
- Contribution to Social and Health fund	2,203	2,114
- Fringe benefit	41,854	20,077
Total compensation paid to key management personnel	61,004	38,298

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's business whilst managing its foreign exchange, credit and liquidity risks in order to minimise the potential adverse effects on the performance of the Company. The Company operates within clearly defined guidelines that are approved by the Board and the Company's policy is not to engage in speculative transactions.

The Company principal financial liabilities comprise trade payables, other payables and interest-bearing borrowings. The Company has various financial assets such as trade receivables, financial investment and cash and bank balances, which arise directly from its operations.

It is, and has been throughout 2009 and 2008 the Company's policy that no trading in derivatives shall be undertaken.

The main risk that could adversely affect the Company's financial assets , liabilities or future cash flows are commodity price risk, cash flow interest rate risk, foreign currency risk, liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarised below:

(a) Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's fixed rate current accounts in the bank and borrowings. As of the reporting date, the Company has not adopted sensitivity analysis to measure interest rate risk due principally to the facts that the Company has insignificant amount of floated rate financial assets and liabilities on statements of financial position date and believe the fluctuation on the floated rate interest-bearing borrowings would not be significant to the Company's result.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(b) Foreign Currency Risk

The Company's foreign currency exposure is mainly related to United States Dollar.

The Company policy is to manage on its foreign financial assets and liabilities using the best available foreign currency exchange rates. Foreign exchange exposures in transaction currencies other than functional currencies of the operating entity are kept to an acceptable level.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Company's profit before taxation due to changes in the carrying value of monetary assets and liabilities:

	Effect on profit before tax	
	2009 MNT'000 Increase/ (Decrease)	**2008 MNT'000 Increase/ (Decrease)**
Increase/ decrease in foreign currency exchange rate (USD)		
+5%	8,777	14,099
-5%	(8,777)	(14,099)

(c) Credit Risk

The Company trades only with state-owned entities and recognised, creditworthy third parties. It is the Company's policy to enter sales contract with customers. Deposits are collected from customers and are then settled by way of the performance of the sales contract through delivery of the petroleum products to the customer. As such, the Company's exposure to credit risk arises from default of the counterparty is minimal. The Company's maximum credit exposure of its financial instruments equivalent to its carrying amount as disclosed on statements of financial position.

Refer to Note 16 for analysis of trade receivables ageing.

(d) Commodity and Market Risk

The Company's sales of coals to state-owned entities are based on prices regulated by the Mongolia government. As such it is not exposed to variability in world market. As of the reporting date, the Company does not have any policy in place to manage these risk as the directors believe the Company's exposure to commodity and market risk are kept at minimum level.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(e) Liquidity Risk

The Company actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash and cash equivalents to meet its working capital requirements. The table below summarises the maturity profile of the Company's financial liability based on contractual undiscounted payments.

	On Demand MNT'000	Less than 1 year MNT'000	1 to 2 years MNT'000	2 to 5 years MNT'000	> 5 years MNT'000	Total MNT'000
Year ended 31 December 2009						
Interest bearing loans and borrowings	2,508,340	-	-	-	-	2,508,340
Trade payables	1,485,272	-	-	-	-	1,485,272
Sundry payables	475,066	-	-	-	-	475,066
	4,468,678	-	-	-	-	4,468,678
Year ended 31 December 2008						
Interest bearing loans and borrowings	2,508,340	-	-	-	-	2,508,340
Trade payables	2,546,127	-	-	-	-	2,546,127
Sundry payables	1,212,861	-	-	-	-	1,212,861
	6,267,328	-	-	-	-	6,267,328

28. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2009 and 31 December 2008.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio as minimal as possible. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

	2009 MNT'000	2008 MNT'000
Trade payables	1,485,272	2,546,127
Other payables, excluding provision and deferred revenue	768,458	1,567,233
Interest bearing loans and borrowings	2,508,340	2,508,340
Less: Cash and bank balances	(284,579)	(623,257)
Net Debt	4,477,491	5,998,443
Equity	3,012,632	1,214,938
Total capital and net debt	7,490,123	7,213,381
Gearing ratio	60%	83%

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. Where quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

A considerable portion of the financial instruments as at 31 December 2009 and 31 December 2008 is short term in nature with maturities of less than one year. Based on fair value assessments as indicated above, the estimated fair values of those financial assets and financial liabilities as at the statements of financial position date is approximate their carrying amounts as shown in the statements of financial position.

30. COMPARATIVE

The comparative figures have been audited by a Certified Public Accountants firm other than Ernst and Young Mongolia Audit LLC. The following comparative amounts as at 31 December 2008 has been reclassified to conform with current year presentation:

	As Restated MNT'000	Adjustments MNT'000	As previously stated MNT'000
Financial investments - available for sale	8,400	(172,781)	181,181
Trade receivables	1,751,898	(3,068,050)	4,819,948
Other receivables	2,750,034	2,740,831	9,203
Provisions	(2,402,554)	(2,402,554)	-
Trade payables	(2,546,127)	636,061	(3,182,188)
Other payables	(1,598,820)	2,266,493	(3,865,313)
Revenue	10,524,131	(2,002)	10,526,133
Cost of sales	(9,278,296)	206,799	(9,485,095)
Other income	374,862	292,104 [1]	82,758
Other expenses	(859,971)	(283,981)	(575,990)
Finance cost	(67,444)	(67,444)	-

[1] Included in adjustments are write back of payables pursuant to tax amnesty law amounting to MNT145,475,600 which has been reclassified from Retained Earnings into Other Income.

31. MONGOLIAN TRANSLATION

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.