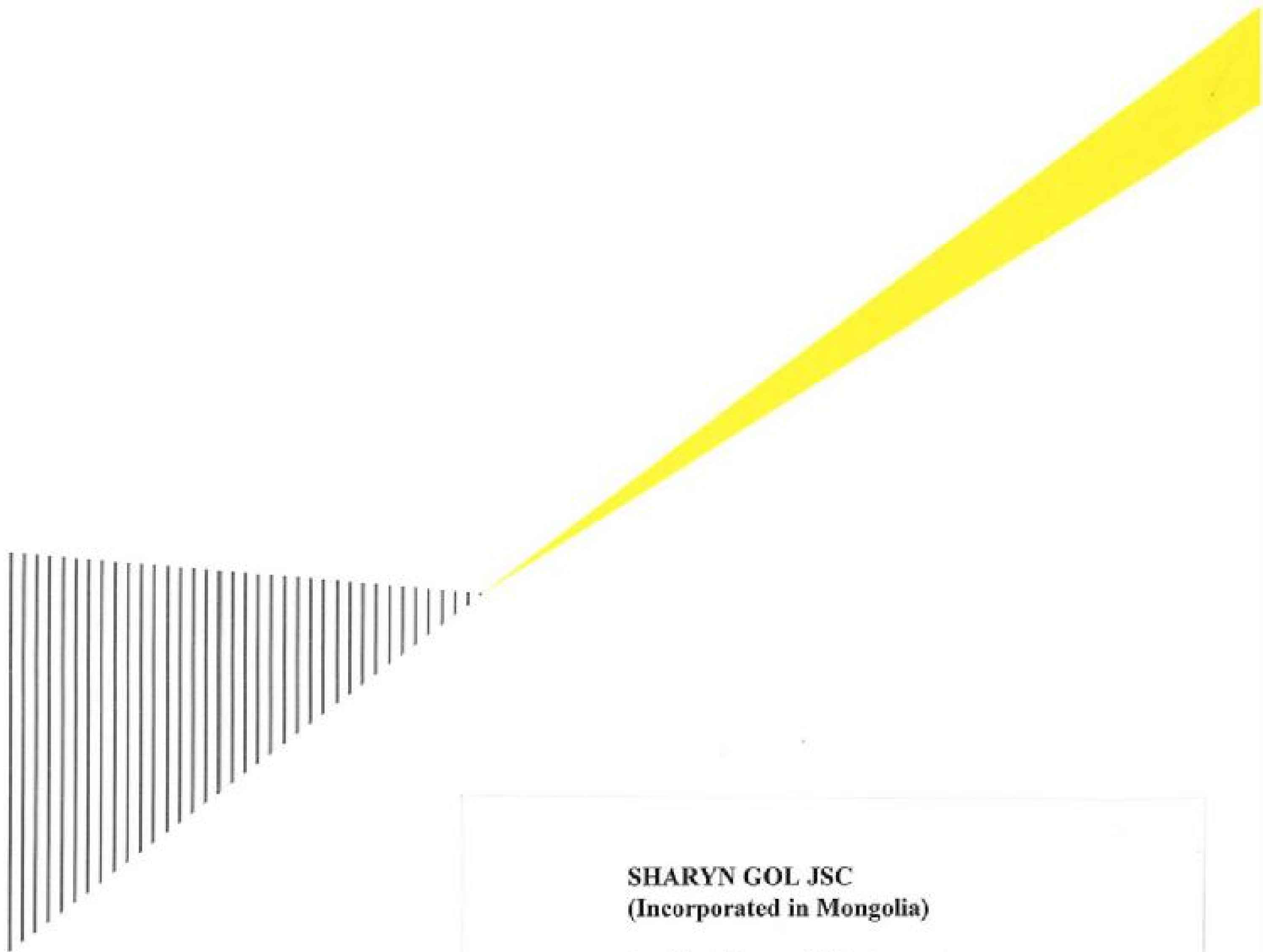

SHARYN GOL JSC
(Incorporated in Mongolia)

Audited Financial Statements
31st December 2010

Ernst & Young
AF : 0039

ERNST & YOUNG

SHARYN GOL JSC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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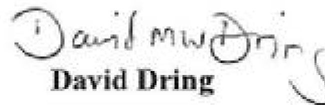
SHARYN GOL JSC

CORPORATE INFORMATION

DIRECTORS	: B. Batmunkh (Chairman) D. Bailiikhuu D. Dayanbilguun Ts. Ganbat J. Batbold James Passin Anthony Milewski (appointed on 08 March 2010) Joseph Naemi (appointed on 08 March 2010) Ian Spence (appointed on 30 April 2010) Otgonbaatar (resigned on 08 March 2010) Enkhbayar (resigned on 30 April 2010) D. Batmunkh (resigned on 08 March 2010)
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 Erel Bank HSBC Bank
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 57 give a true and fair view of the financial positions of the Company as at 31 December 2010 and of the financial performances and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) except for IAS 37: Provisions, contingent liabilities and contingent assets.



B. Batmunkh **David Dring**

Ulaanbaatar, Mongolia

Date: 11 April 2011

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 2010, 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

We were unable to express an opinion on the financial statements of the Company for the financial year ended 31 December 2009, which was dated 30 August 2010, due to the following:

1. 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.)

3. 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 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 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 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.

We discuss below the extent of the matters that gave rise to the disclaimer of opinion in respect of the financial year ended 31 December 2009 financial statements that remained unresolved, insofar as they impact both the corresponding as well as the current year's figures, and other additional matters that relate to the current financial statements:

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REPORT OF THE INDEPENDENT AUDITORS (CONTD.)

To the Shareholders of SHARYN GOL JSC (contd.)

1. The accounting policy of the Company on property, plant and equipment is to measure such property, plant and equipment subsequent to their initial recognition at their respective fair values. Prior to the 2010 revaluation exercise, the last revaluation done was in 2003. The 2010 revaluation exercise gave rise to a revaluation surplus of MNT5,250,680,961 and this was recognised as revaluation surplus arising for the year ended 31 December 2010. Certain amount of the revaluation surplus could be attributable to the years prior to 2010. However, as no further information were made available to us, we are unable to ascertain as to the quantum of the revaluation surplus attributable to the respective years.

2. As disclosed in Note 22 to the financial statements, as at 31 December 2010, long-term debts with the Ministry of Finance amounted to MNT2,508,340,043 (2009: 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 2010.

3. As at 31 December 2010, the stated carrying value of the provision for rehabilitation amounted to MNT Nil (2009: MNT 75,770,000). The Company is required to recognise a provision for the future cost of rehabilitating mine sites and related production facilities in accordance with the requirements of IAS 37: Provision, contingent liabilities and contingent assets. The provision for rehabilitation should represents the present value of expected cost to be incurred. However, the Company did not make an estimate on the amount of provision of rehabilitation necessary as at financial reporting date. 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 provision for rehabilitation as at 31 December 2010.

4. We did not observe the physical counting of the inventories as of 31 December 2009 so as to satisfy ourselves as to the quantities, ownerships and conditions of those inventories since that date was prior to our initial engagement as auditors for the Company. The records of the Company do not permit adequate retroactive audit procedures on the inventory quantities, ownerships and conditions as at 1 January 2010. Accordingly, we were unable to satisfy ourselves as to the inventory quantities as at 1 January 2010 and its corresponding effects on the current year's costs of sales and gross profits figures by other audit procedures.

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REPORT OF THE INDEPENDENT AUDITORS (CONTD.)

To the Shareholders of SHARYN GOL JSC (contd.)

5. As disclosed in Note 15 and Note 16 to the financial statements, the Company has long outstanding trade and other receivables amounting to MNT73,157,817 (2009: MNT206,060,515) and MNT657,587,546(2009: MNT1,658,657,480) due from a director and his related company, respectively. Subsequent to year end, the trade and other receivables were converted into investment in unquoted equity shares. As the fair value of the unquoted equity shares were not made available to us, we were unable to satisfy ourselves as to whether the stated carrying amounts of the outstanding receivables as at 31 December 2010 were impaired.

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 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.

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Alexander CHIN
Executive director

Ulaanbaatar, Mongolia
Date: 11-Apr-11

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SHARYN GOL JSC

STATEMENT OF COMPREHENSIVEINCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 MNT'000	2009 MNT'000
Revenue	3	9,929,752	8,628,045
Cost of sales	4	(8,182,514)	(7,793,510)
Gross profit		1,747,238	834,535
Other income	5	846,612	3,164,899
Administrative expenses	6	(1,162,854)	(454,434)
Other expenses	7	(1,581,211)	(1,318,408)
(Loss)/ profit before taxation		(150,215)	2,226,592
Income tax expense	8	(30,733)	(428,898)
(Loss)/ profit for the year, net of tax		(180,948)	1,797,694
Other comprehensive income			
Revaluation reserve	20	5,250,681	-
Income tax relating to component of other comprehensive income		-	-
Total comprehensive income for the year		5,069,733	1,797,694
Basis and diluted earnings per ordinary share (MNT per share)	9	(25.02)	248.60

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

SHARYN GOL JSC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

ASSETS	Note	2010 MNT'000	2009 MNT'000 (Restated)	As at 1.1.2009 MNT'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	10	8,177,480	2,876,300	3,263,430
Intangible assets	11	17,879	25,542	33,843
Financial investment - available-for-sale		-	-	8,400
Deferred exploration and evaluation assets	12	5,921,746	-	-
Deferred tax assets	13	24,287		
		14,141,392	2,901,842	3,305,673
CURRENT ASSETS				
Inventories	14	1,354,364	1,745,379	1,860,070
Trade receivables	15	1,162,946	1,551,313	1,751,898
Other receivables	16	4,062,513	1,816,613	2,750,034
Cash and bank balances	17	1,817,913	284,579	623,257
		8,397,736	5,397,884	6,985,259
TOTAL ASSETS		22,539,128	8,299,726	10,290,932
EQUITY AND LIABILITIES				
EQUITY				
Ordinary shares	18	723,139	723,139	723,139
Other reserve	19	-	-	-
Retained earnings/(accumulated losses)		1,285,348	(761,841)	(2,559,535)
Revaluation reserve	20	6,073,878	3,051,334	3,051,334
		8,082,365	3,012,632	1,214,938
NON-CURRENT LIABILITIES				
Provisions	21	-	75,770	2,402,554
Borrowings	22	2,508,340	2,508,340	2,508,340
		2,508,340	2,584,110	4,910,894
CURRENT LIABILITIES				
Borrowings	22	10,576,420	-	1,598,820
Trade payables	23	412,329	1,485,272	2,546,127
Other payables	24	608,786	788,814	20,153
Income tax payable		350,888	428,898	
		11,948,423	2,702,984	4,165,100
TOTAL LIABILITIES		14,456,763	5,287,094	9,075,994
TOTAL EQUITY AND LIABILITIES		22,539,128	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 2010

	Note	Ordinary shares MNT'000 (Note 18)	Other reserve MNT'000 (Note 19)	Revaluation reserve MNT'000 (Note 20)	Retained earnings MNT'000	Total MNT'000
At 1 January 2009						
As previously stated		723,139	1,700,140	3,051,334	(4,259,675)	1,214,938
Prior year adjustment	**26**	-	(1,700,140)	-	1,700,140	-
At 1 January 2009 (restated)		723,139	-	3,051,334	(2,559,535)	1,214,938
Total comprehensive income for the year, net of tax		-	-	-	1,797,694	1,797,694
At 31 December 2009 and 1 January 2010		723,139	-	3,051,334	(761,841)	3,012,632
Transfer to retained earnings upon assets derecognition				(2,228,137)	2,228,137	-
Total comprehensive income for the year, net of tax		-	-	5,250,681	(180,948)	5,069,733
At 31 December 2010		723,139	-	6,073,878	1,285,348	8,082,365

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

SHARYN GOL JSC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 MNT'000	2009 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation		(150,215)	2,226,592
Adjustments for:			
Depreciation of property, plant & equipment	**10**	1,042,861	732,765
Amortisation of intangible assets	**6**	7,663	8,301
Investment written off	**7**	-	8,400
Property, plant and equipment written off	**4,7**	139,635	68,638
(Reversal)/allowance for impairment loss	**5, 7**	(47,482)	612,076
Unrealised foreign exchange loss/(gain)	**5,7**	27,321	(10,566)
Net gain on disposal of property, plant and equipment	**5**	(181,113)	-
Inventories written off	**4**	936,724	-
Impairment loss on property, plant and equipment	**7**	700,009	-
Write back of provisions	**5**	(75,770)	(2,326,784)
Write back of payables	**5**	(148,015)	-
Interest income	**5**	(91,291)	(2,750)
Operating profit before working capital changes		2,160,327	1,316,672
Changes in working capital:			
Inventories		(545,709)	114,691
Receivables		(1,942,253)	521,930
Payables		(1,104,956)	(1,870,861)
Cash (used in)/generated from operations		(1,432,591)	82,432
Interest received		91,291	2,750
Income tax paid		-	(20,153)
Net cash (used in)/generated from operating activities		(1,341,300)	65,029
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,049,355)	(414,273)
Proceeds from disposal of property, plant and equipment		296,636	-
Acquisition of exploration and evaluation assets		(5,921,746)	-
Net cash used in investing activities		(7,674,465)	(414,273)

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 MNT'000	2009 MNT'000
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from loans and borrowings		10,576,420	-
Net cash generated from financing activity		10,576,420	-
Net increase/(decrease) in cash and cash equivalents		1,560,655	(349,244)
Net foreign exchange difference		(27,321)	10,566
Cash and cash equivalents, beginning of year		284,579	623,257
Cash and cash equivalents, end of year	**17**	1,817,913	284,579

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 Company's top 10 shareholders are listed below:-

1) Firebird Global Masterfund - 2,401,572 shares
2) Mogul Resources Inc - 1,200,000 shares
3) Firebird Global Masterfund 2 - 911,155 shares
4) Sharyn Gol Energo - 900,000 shares
5) Firebird Mongolia Fund - 586,089 shares
6) Richard Gerson - 349,051 shares
7) J. Batbold - 226,310 shares
8) Mongolia Development - 165,062 shares
9) Leo Overseas - 87,300 shares
10) Nitin Mehta - 85,000 shares

The financial statements of the Company for the year ended 31 December 2010 were authorised for issue in accordance with a Resolution of Director on 11 April 2011.

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared under the historical cost basis except for 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 37: Provisions, contingent liabilities and contingent assets.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, 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, uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgement

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether future economic benefits are likely a) from future exploitation; b) from sale; or c) when 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. The carrying amount of the Company's exploration and evaluation expenditure capitalised is disclosed in Note 12.

Estimate and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

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.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTD

Impairment of assets (contd.)

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.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(b) Mineral exploration, evaluation and development expenditure

Pre-license costs

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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 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. 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.

Property, plant and equipment are measured at fair value less accumulated depreciation 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.

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.

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 or write off, any revaluation reserve relating to the particular asset being sold or written off 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
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 financial assets 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 and trade and other receivables. The Company's financial assets are all categorised as loans and receivables.

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 income.

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.

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.

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 (contd.)

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 expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the income statement.

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

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 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 31.

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 non-current (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, consumables and spare parts 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 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.

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 - Additional Exemptions for First-time Adopters (Amendments) - effective on or after 1 January 2010
* IFRS 2: Share-based payments - Group Cash-settled Share-based Payment Arrangements - effective on or after 1 January 2010

Improvements to International Financial Reporting Standards, which includes:

* IAS 1: Presentation of Financial Statements - effective on or after 1 January 2010
* IAS 7: Statement of Cash Flows - effective on or after 1 January 2010
* IAS 17: Leases - effective on or after 1 January 2010
* IAS 36: Impairment of Assets - effective on or after 1 January 2010
* IAS 39: Financial Instruments: Recognition and Measurement - effective on or after 1 January 2010
* IFRS 8: Operating Segments - effective on or after 1 January 2010

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.

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

* IAS 24 Related Party Disclosures (Revised) - effective on or after 1 January 2011
* IAS 32: Financial Instruments: Presentation - Classification of Right Issues (Amendment) - effective on or after 1 February 2010
* IFRS 1: First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters - effective on or after 1 July 2010
* IFRS 9: Financial Instruments - effective on or after 1 January 2013
* IFRIC 14: Prepayments of Minimum Funding Requirement (Amendment) - effective on or after 1 January 2011
* IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments - effective on or after July 2010

Improvements to International Financial Reporting Standards, which includes:

* IAS 1: Presentation of Financial Statements - effective on or after 1 January 2011
* IAS 27: Consolidated and Separated Financial Statements - effective on or after 1 January 2011
* IAS 34: Interim Financial Reporting - effective on or after 1 January 2011
* IFRS 1: First-time Adoption of International Financial Reporting Standards - effective on or after 1 January 2011
* IFRS 3: Business Combinations - effective on or after 1 January 2011
* IFRS 7: Financial Instruments Disclosures - effective on or after 1 January 2011
* IFRIS 13: Customer Loyalty Programmes - effective on or after 1 January 2011

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

	2010 MNT'000	2009 MNT'000
Included in cost of sales are the following expenses:		
Contributions to Social and Health Insurance Fund	229,244	217,249
Depreciation of property, plant and equipment (Note 10)	1,006,908	662,004
Diesel oil	1,191,058	1,060,888
Equipment rental	179,089	331,974
Inventory written off	936,724	-
Property, plant and equipment written off (Note 10)	32,244	-
Royalty tax	248,852	224,708
Salaries, wages and bonuses	1,700,260	1,643,552
Spare parts	1,183,928	997,753
Supply materials	683,419	1,198,455

5. OTHER INCOME

	2010 MNT'000	2009 MNT'000
Cafeteria income	43,197	49,581
Gain on disposal of spare parts	45,191	7,333
Gold sales	-	180,132
Interest income	91,291	2,750
Net gain on disposal of property, plant and equipment	181,113	-
Others	119,572	126,849
Penalty income	94,981	458,880
Realised gain on foreign exchange	-	2,024
Reversal of impairment loss of trade and other receivables (net) (Note 15 and 16)	47,482	-
Unrealised gain on foreign exchange	-	10,566
Write back of provisions (Note 21)	75,770	2,326,784
Write back of trade and other payables	148,015	-
	846,612	3,164,899

6. ADMINISTRATIVE EXPENSES

	2010 MNT'000	2009 MNT'000
Included in administrative expenses are the following expenses:		
Amortisation of intangible assets (Note 11)	7,663	8,301
Contributions to Social and Health Insurance Fund	27,301	28,171
Depreciation of property, plant and equipment (Note 10)	35,953	63,118
Legal and professional fees	445,899	8,404
Salaries, wages and bonuses	210,044	209,132
Transportation	35,247	49,981
Travelling expenses	31,088	19,088

7. OTHER EXPENSES

	2010 MNT'000	2009 MNT'000
Included in other expenses are the following expenses:		
Allowance for impairment loss for trade and other receivables (Note 15 & 16)	-	612,076
Building demolishing expenses	-	171,333
Cafeteria expenses	84,128	88,723
Donation and compensation	283,476	120,159
Gold extraction expenses	-	121,109
Impairment loss of property, plant and equipment	700,009	-
Investment written off	-	8,400
Property, plant and equipment written off (Note 10)	107,391	68,638
Realised loss on foreign exchange	249,531	-
Unrealised loss on foreign exchange	27,321	-

8. INCOME TAX EXPENSE

	2010 MNT'000	2009 MNT'000
Current income tax :		
Based on results for the year	110,346	428,898
Overprovision in prior year	(55,326)	-
	55,020	428,898
Deferred tax (Note 13)		
Relating to origination & reversal of temporary differences	(24,287)	-
	30,733	428,898

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% (2009: 10%) for taxable income up to MNT3 billion (2009: MNT3 billion) and 25% (2009: 25%) for taxable income in excess of MNT3 billion (2009: MNT3 billion).

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

	2010 MNT'000	2009 MNT'000
(Loss)/profit before taxation	(150,215)	2,226,592
Tax at statutory tax rate of 25% (2009: 25%)	(37,553)	556,648
Effect of tax subject to lower tax rate	(165,518)	(450,000)
Effect of income not subject to tax	(92,817)	(5,162)
Effect of expenses not allowable for tax purposes	381,947	327,412
Over provision of income tax expense in prior years	(55,326)	-
Tax expense for the year	30,733	428,898

9. 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.

	2010	2009
Net (loss)/ profit attributable to ordinary shareholders (MNT'000)	(180,948)	1,797,694
Weighted average number of ordinary shares	7,231,389	7,231,389
Basic and diluted earnings per ordinary share (MNT)	(25.02)	248.60

Current borrowings as referred to in Note 22 that could potentially dilute basic earnings per share in the future were not included in the calculation of diluted earnings per share because they are anti-dilutive for the period presented.

10. PROPERTY, PLANT AND EQUIPMENT

At 31 December 2010	Buildings MNT'000	Machinery, Equipment and Motor Vehicles MNT'000	Furniture and Fittings MNT'000	Computers MNT'000	Total MNT'000
At cost or valuation					
At 1 January 2010	1,630,206	10,148,602	110,193	59,158	11,948,159
Additions	252,205	1,759,656	21,963	15,531	2,049,355
Revaluation surplus	2,780,521	2,450,125	15,548	4,487	5,250,681
Write off	(4,976)	(2,758,829)	(13,655)	(11,710)	(2,789,170)
Transfer	(1,600) [1]	-	-	-	(1,600)
Disposals	(196,543)	-	-	-	(196,543)
Elimination of accumulated depreciation on revaluation	(865,916)	(5,919,505)	(64,700)	(47,365)	(6,897,486)
Reclassification	-	(1,091)	1,091	-	-
At 31 December 2010	3,593,897	5,678,958	70,440	20,101	9,363,396
Accumulated depreciation and impairment loss					
At 1 January 2010	1,075,473	7,873,786	79,982	42,618	9,071,859
Charge for the year (Note 4 & 6)	31,917	994,050	1,528	15,366	1,042,861
Impairment loss	20,951	663,446	9,640	5,972	700,009
Write off	(1,722)	(2,624,058)	(13,655)	(10,100)	(2,649,535)
Transfer	(772)	-	-	-	(772)
Disposals	(81,020)	-	-	-	(81,020)
Elimination of accumulated depreciation on revaluation	(865,916)	(5,919,505)	(64,700)	(47,365)	(6,897,486)
At 31 December 2010	178,911	987,719	12,795	6,491	1,185,916
Net carrying amount					
At 31 December 2010	3,414,986	4,691,239	57,645	13,610	8,177,480

10. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Buildings MNT'000	Machinery, Equipment and MNT'000	Furniture and Fittings 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	9,969,170	107,294	64,538	-	11,638,182
Additions	103,240	276,841	3,000	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	10,148,602	110,193	59,158	-	11,948,159
Accumulated depreciation						
At 1 January 2009	1,045,352	7,224,847	63,848	40,705	-	8,374,752
Charge for the year (Note 4 & 6)	31,145	677,989	16,234	7,397	-	732,765
Write off	(1,024)	(29,050)	(100)	(5,484)	-	(35,658)
At 31 December 2009	1,075,473	7,873,786	79,982	42,618	-	9,071,859
Net carrying amount						
At 31 December 2009	554,733	2,274,816	30,211	16,540	-	2,876,300

[1] Property, plant and equipment with net carrying amount of MNT828,000 were transferred to inventory during the year.

10. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

All property, plant and equipment have been revalued at the reporting date based on valuations performed by independent valuers. If the property, plant and equipment were measured using the cost model, the carrying amounts would be as follows:

At 31 December 2010	Buildings MNT'000	Machinery, Equipment and Motor Vehicles MNT'000	Furniture and Fittings MNT'000	Computers MNT'000	Total MNT'000
At cost					
At 1 January 2010	1,630,206	10,148,602	110,193	59,158	11,948,159
Additions	252,205	1,759,656	21,962	15,531	2,049,354
Write off	(4,976)	(2,758,829)	(13,655)	(11,710)	(2,789,169)
Transfer	(1,600)	-	-	-	(1,600)
Disposals	(196,543)	-	-	-	(196,543)
Reclassification	-	(1,091)	1,091	-	-
At 31 December 2010	1,679,293	9,148,338	119,591	62,979	11,010,201
Accumulated depreciation					
At 1 January 2010	1,075,473	7,873,786	79,982	42,618	9,071,859
Charge for the year	31,918	994,050	1,528	15,366	1,042,861
Impairment	20,951	663,447	9,640	5,972	700,009
Write off	(1,722)	(2,624,058)	(13,655)	(10,100)	(2,649,535)
Transfer	(774)	-	-	-	(774)
Disposals	(81,019)	-	-	-	(81,019)
At 31 December 2010	1,044,826	6,907,225	77,495	53,856	8,083,402
Net carrying amount					
At 31 December 2010	634,466	2,241,113	42,096	9,123	2,926,799

10. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Buildings MNT'000	Machinery, Equipment and MNT'000	Furniture and Fittings MNT'000	Computers MNT'000	Construction in-progress MNT'000	Total MNT'000
At 31 December 2009						
At cost						
At 1 January 2009	1,497,180	9,969,170	107,294	64,538	-	11,638,182
Additions	103,240	276,841	3,000	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	10,148,602	110,193	59,158	-	11,948,159
Accumulated depreciation						
At 1 January 2009	1,045,352	7,224,847	63,848	40,705	-	8,374,752
Charge for the year	31,145	677,989	16,234	7,397	-	732,765
Write off	(1,024)	(29,050)	(100)	(5,484)	-	(35,658)
At 31 December 2009	1,075,473	7,873,786	79,982	42,618	-	9,071,859
Net carrying amount						
At 31 December 2009	554,733	2,274,816	30,211	16,540	-	2,876,300

Impairment of assets

An impairment loss of MNT 700,009,327 (2009: nil), representing the write-down of the property, plant and equipment to the market value amount was recognised in "Other expenses" line item of the statement of comprehensive income for the financial year ended 31 December 2010.

11. INTANGIBLE ASSETS

	Computer software	
	2010	**2009**
	MNT'000	**MNT'000**
At cost		
At 1 January/31 December	38,313	38,313
Accumulated amortisation		
At 1 January	12,771	4,470
Charge for the year (Note 6)	7,663	8,301
At 31 December	20,434	12,771
Net carrying amount	17,879	25,542

12. DEFERRED EXPLORATION AND EVALUATION ASSETS

	2010	**2009**
	MNT'000	**MNT'000**
At 1 January	-	-
Additions	5,921,746	-
At 31 December	5,921,746	-

Deferred exploration and evaluation assets include borrowing costs arising from loans borrowed specifically for the purpose of funding the drilling program. During the financial year, the borrowing costs capitalised amounted to MNT 193,028,367 (2009: Nil).

13. DEFERRED TAX ASSETS

	Property, plant and equipment	
	2010	**2009**
	MNT'000	**MNT'000**
At 1 January	-	-
Deferred tax assets recognised	24,287	-
At 31 December	24,287	-

14. INVENTORIES

	2010 MNT'000	2009 MNT'000
At cost		
Coal stockpiles	464,956	95,909
Consumables	308,827	223,036
Raw materials	56,023	45,747
Spare parts	516,143	1,368,765
Others	8,415	11,922
	1,354,364	1,745,379

During the year, the amount of inventories recognised as an expense in cost of sales of the Company was MNT936,724,454 (2009: Nil).

15. TRADE RECEIVABLES

	2010 MNT'000	2009 MNT'000
Trade receivables	1,104,855	1,264,712
Amount due from shareholders (Note 25)	71,498	204,400
Amount due from Company's directors (Note 25)	1,660	1,660
Amount due from related companies (Note 25)	2,000	158,554
	1,180,013	1,629,326
Less: Allowance for impairment loss	(17,067)	(78,013)
	1,162,946	1,551,313

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 73,157,817 (2009: MNT 206,060,515) that has been long outstanding. The receivables were subsequently converted into 30% unquoted equity investment as disclosed in Note 32.

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 2010, trade receivables with a nominal value of MNT'000 17,067 (2009:MNT'000 78,013) were individually impaired and provided for. Movements in the allowance for impairment of trade receivables were as follows:

	2010 MNT'000	2009 MNT'000
At 1 January	78,013	386
Charge for the year (Note 5 and 7)	25	77,627
Reversal of impairment loss (Note 5)	(60,971)	-
At 31 December	17,067	78,013

15. TRADE RECEIVABLES (CONTD.)

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

As at 31 December 2010 and 31 December 2009, the aging analysis of trade receivables are as follows:

	Total MNT'000	Neither past due nor impaired < 30 days MNT'000	Past due and not impaired > 30 days MNT'000	Past due and impaired > 30 days MNT'000
31.12.2010	1,180,013	408,006	754,940	17,067
31.12.2009	1,629,326	1,107,950	237,688	283,688

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Company. More than 74% (2009: 60%) of the Company's trade receivables arise from customers with more than ten years of experience with the Company and losses have occurred infrequently.

None of the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

16. OTHER RECEIVABLES

	2010 MNT'000	2009 MNT'000
Loan due from a shareholder (Note 25)	2,941,538	-
Amount due from a shareholder (Note 25)	182,979	1,186,476
Amount due from Company's directors (Note 25)	474,609	474,609
Amount due from related parties (Note 25)	170,586	170,750
Sundry receivables	840,714	519,227
	4,610,426	2,351,062
Less: Allowance for impairment loss	(547,913)	(534,449)
	4,062,513	1,816,613

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 657,587,546 (2009: MNT 1,661,084,768) that have been long outstanding. The receivables were subsequently converted into unquoted equity investment as disclosed in Note 32.

Loan due from a shareholder bears interest at rate of 10% per annum and to be repayable together with principal on 20 June 2011. The loan is secured by way of a building and land usage rights owned by the shareholder.

As at 31 December 2010, other receivables with a nominal value of MNT 547,013,934 (2009: MNT 534,449,152) were impaired and provided for. Movements in the allowance for impairment of other receivables were as follows:

	2010 MNT'000	2009 MNT'000
At 1 January	534,449	-
Charge for the year (Note 5,7)	27,123	534,449
Reversal of impairment loss (Note 5)	(13,659)	-
At 31 December	547,913	534,449

17. CASH AND BANK BALANCES

	2010 MNT'000	2009 MNT'000
Cash on hand	74,332	892
Cash at bank	1,743,581	283,687
	1,817,913	284,579

Cash at bank earns interest at fixed rates. The fair value of cash and cash equivalents is MNT1,817,913 (2009: MNT284,578,670).

18. ORDINARY SHARES

	Number of ordinary shares of		Amount	
	MNT 100 each 2010	MNT 100 each 2009	2010 MNT'000	2009 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.

19. OTHER RESERVE

Other reserves arose from government grant given to the Company in relation to the purchase of mining equipment in the prior years, and had been fully utilised.

20. REVALUATION RESERVE

	2010 MNT'000	2009 MNT'000
At 1 January	3,051,334	3,051,334
Revaluation surplus	5,250,681	-
Transfer to retained earnings upon assets written off	(2,228,137)	
At 31 December	6,073,878	3,051,334

Revaluation reserve arises from the revaluation of buildings, machinery and equipment, furniture and fittings and computers as disclosed in Note 10.

21. PROVISIONS

	Rehabilitation MNT'000	Others MNT'000	Total MNT'000
At 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 and 1 January 2010	75,770	-	75,770
Write-back of unused provisions (Note 5)	(75,770)	-	(75,770)
At 31 December 2010	-	-	-
Comprising:			
Non-current 2010	-	-	-
Non-current 2009	75,770	-	75,770

Provision for rehabilitation

The Company makes provision for the cost of rehabilitating mine sites on an annual basis. The provision for rehabilitation represents the cost to be incurred annually and it does not represent the present value of the expect cost incurred at the end of the mine's life. These provisions have been created based on internal estimates and approved by Ministry of Natural Resources. The 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.

22. BORROWINGS

Non-Current borrowing:	**2010 MNT'000**	**2009 MNT'000**
Loan from Ministry of Finance, unsecured	2,508,340	2,508,340

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.

Current borrowings:

	Effective Interest rate 2010(%)	**Principal MNT'000**	**Accrued Interest MNT'000**	**2010 Total MNT'000**
Unsecured:				
Firebird Global Master Fund, Ltd	10%-15%	1,856,878	42,051	1,898,929
Firebird Global Master Fund II, Ltd	10%-15%	1,077,407	24,399	1,101,806
Firebird Mongolia Fund, Ltd	10%-15%	7,487,712	87,973	7,575,685
		10,421,997	154,423	10,576,420

The loans are secured by the mining license (1498 M) of the Company. The loans can be repaid by cash as a bullet repayment 12 months from drawdown date or to be converted into variable number of equity shares of the Company. The conversion is subjected to shareholders approval at the shareholders meeting.

On 3 March 2011, loans amounted to MNT5,456,047,716 were converted into 1,292,596 equity shares of the Company as disclosed in Note 32. The new common shares issued rank equally with regards to the Company's residual assets.

23. TRADE PAYABLES

	2010 MNT'000	**2009 MNT'000**
Trade payables	397,629	1,078,614
Amount due to Company's directors (Note 25)	3,510	8,542
Amount due to related companies (Note 25)	11,190	398,116
	412,329	1,485,272

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.

24. OTHER PAYABLES

	2010 MNT'000	2009 MNT'000
Accrual	189,055	293,392
Personal income tax payable	58,711	-
VAT payable	-	167,739
Sundry payables	331,106	307,327
Deferred revenue	29,914	20,356
	608,786	788,814

Sundry payables are non-interest bearing and has no fixed repayment term.

25. 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	
	2010 MNT'000	2009 MNT'000	2010 MNT'000	2009 MNT'000	2010 MNT'000	2009 MNT'000	2010 MNT'000	2009 MNT'000
					(NOTE 15 & 16)		(NOTE 23 & 24)	
Related Companies where the directors have significant influence or control								
B&G Equipment LLC	-	-	-	-	-	-	3,721	391,107
B&G International LLC	-	-	-	-	-	-	53	53
UB Green Engine LLC	-	12,777	-	19,556	-	164	460	-
NMES LLC	-	11,000	-	-	11,000	11,000	-	-
Sharyn Gol Trading	5,820	11,701	-	-		60,190	-	-
Shoroo ord mining LLC	-	-	-	-	67,976	67,976	-	-
Taise Mongol LLC	-	-	-	-	61,157	61,157	-	-
Us Orchin LLC	-	14,210	-	51,700	-	96,364	-	-
B&G Motors	-	-	-	-	-	-	6,956	6,956
Mon Och Od LLC	-	-	-	-	30,453	30,453	-	-
Ikh Terem LLC	-	7,266	-	10,153	2,000	2,000	-	-
Naco Fuels LLC	42,801	-	-	-	-	-	-	-
Firebird Global Master Fund, Ltd	-	-	-	-	-	-	1,898,929	-
Firebird Global Master Fund II, Ltd	-	-	-	-	-	-	1,101,806	-
Firebird Mongolia Fund, Ltd	-	-	-	-	-	-	7,575,685	-
	5,820	56,954	-	81,409	172,586	329,304	10,587,610	398,116

25. RELATED PARTY DISCLOSURES (CONTD.)

	Sales		Purchases		Amount due from		Amount due to	
	2010 MNT'000	2009 MNT'000	2010 MNT'000	2009 MNT'000	2010 MNT'000	2009 MNT'000	2010 MNT'000	2009 MNT'000
					(NOTE 15 & 16)		(NOTE 23 & 24)	
Shareholder of the Company								
Global Sharyn Gol LLC	-	-	-	-	2,941,538	-	-	-
Da Sharyngol Energo	32,832	10,615	-	-	254,477	1,390,876	-	-
	32,832	10,615	-	-	3,196,015	1,390,876	-	-
Company's directors								
	-	-	-	-	476,269	476,269	3,510	-

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 2010, the Company has recorded Nil (2009: MNT 612,076,487) in relation to allowance for impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

25. RELATED PARTY DISCLOSURES (CONTD.)

	2010 MNT'000	2009 MNT'000
Compensations to key management personnel:		
- Salaries, incentives and allowances	104,015	16,947
- Contribution to Social and Health fund	13,522	2,203
- Fringe benefit	30,000	41,854
Total compensation paid to key management personnel	147,537	61,004

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

26. PRIOR YEAR ADJUSTMENT

In prior financial years, United States of America grant aid amounting to MNT1.7 billion was erroneously accounted for as other reserves. The treatment of the grant was not in accordance with IAS 20: Accounting for Government Grants and Disclosures of Government Assistance. The following adjustments relating to the prior years financial statements of the Company were identified during the current financial year to rectify the error in accounting treatment of the grant and were accounted for retrospectively by way of prior year adjustments.

Description of changes	As previously stated MNT'000	Adjustment MNT'000	Restated MNT'000
Effect on statement of financial position as at 31 December 2009			
Other reserve	1,700,140	(1,700,140)	-
Accumulated losses	(2,461,981)	1,700,140	(761,841)
Effect on statement of financial position as at 1 January 2009			
Other reserve	1,700,140	(1,700,140)	-
Accumulated losses	(4,259,675)	1,700,140	(2,559,535)

27. COMMITMENTS

Operating lease commitments - as a lessor

The Company has entered into leases with its related parties. These non-cancellable leases have remaining lease terms in less than one year. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases at the reporting date are as follows:

	2010 MNT'000	2009 MNT'000
Not later than 1 year	15,539	-

28. MEASUREMENT BASIS OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in Note 2.3 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category as defined in IAS39 and by statement of financial position heading. The Company does not has designated any financial assets and liabilities upon initial inception at fair value through profit or loss.

	Financial assets and financial liabilities at amortised cost	
	2010	**2009**
At 31 December 2010	**MNT '000**	**MNT '000**
Financial assets		
Trade receivables	1,162,946	1,551,313
Other receivables	4,062,513	1,816,613
Cash and bank balances	1,817,913	284,579
Total financial assets	7,043,372	3,652,505
Financial liabilities		
Trade payables	412,329	1,485,272
Other payables excluding deferred revenue	578,872	768,458
Borrowings	13,084,760	2,508,340
Total financial liabilities	14,075,961	4,762,070

29. 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 2010 and 2009 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 pc

(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 does not have floating rate financial assets and liabilities on statements of financial position date.

29. 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 (loss)/profit before taxation due to changes in the carrying value of monetary assets and liabilities:

	Effect on profit before tax	
	2010	**2009**
	MNT'000	**MNT'000**
	Increase/ (Decrease)	**Increase/ (Decrease)**
Increase/ decrease in foreign currency exchange rate (USD)		
+5%	39,352	8,777
-5%	(39,352)	(8,777)

(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 coals 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 is equivalent to its carrying amount as disclosed in the statements of financial position.

Refer to Note 15 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 and as such, 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.

29. 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 2010						
Interest bearing loans and borrowings	5,456,049	5,406,339	1,235,474	1,272,866	-	13,370,728
Trade payables	412,329	-	-	-	-	412,329
Sundry payables	331,106	-	-	-	-	331,106
	6,199,484	5,406,339	1,235,474	1,272,866	-	14,114,163
Year ended 31 December 2009						
Interest bearing loans and borrowings	-	-	-	-	-	-
Trade payables	1,485,272	-	-	-	-	1,485,272
Sundry payables	475,066	-	-	-	-	475,066
	1,960,338	-	-	-	-	1,960,338

30. 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 2010 and 31 December 2009.

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.

	2010 MNT'000	2009 MNT'000
Trade payables	412,329	1,485,272
Other payables, excluding provision and deferred revenue	578,872	768,458
Interest bearing loans and borrowings	10,576,420	-
Less: Cash and bank balances	(1,817,913)	(284,579)
Net Debt	9,749,708	1,969,151
Equity	8,082,365	3,012,632
Total capital and net debt	17,832,073	4,981,783
Gearing ratio	55%	40%

31. 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 2010 and 31 December 2009 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. It is not practical to estimate the fair value of the non-current borrowing due to Ministry of Finance because of the lack of quoted market prices, relevant information and the inability to estimate their fair value without incurring excessive costs.

32. SEGMENT INFORMATION

Sharyn Gol JSC's activities are predominantly in one industry segment and its properties are all situated in Mongolia. Revenue mainly generated from customers under the control of the Mongolia government and domiciled in Mongolia.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

On 2 March 2011, the Company issued 1,292,596 ordinary shares of MNT100 each at price of MNT 4,221 per share to settle loans amounted to MNT5,456,047,716 obtained from "Firebird Mongolia Fund" Ltd, "Firebird Global Master Fund" Ltd, "Firebird Global Master Fund II" Ltd. The shares issuance have been duly registered with Mongolia Stock Exchange on that date.

On 18 March 2011, the Company acquired 30% unquoted equity interest of Sharyn Gol Energo LLC ("SGE") who is also a shareholder of Sharyn Gol JSC. The considerations of the acquisition represent trade and other receivables due from Sharyn Gol Energo as disclosed in Note 15 and Note 16.

34. 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.