

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

SHARYN GOL JSC

SHARYN GOL JOINT STOCK COMPANY

ANNUAL REPORT FOR 2010

One. Objectives of Mining Operations and Achievement in 2010

In 2010, the mine conducted mining operations according to the approved plan and worked to achieve its objectives for the year to strip 2,000.0 thousand cubic meters of overburden, extract and sell 400.0 thousand metric tons of coal, have 100,0 thousand metric tons of coal in reserve, and prevent any interruption until the next technical and technological solutions.

The performance of the 2010 mining operations plan is compared below with that of the previous year:

Item	Unit	Performance in 2009	Plan for 2010	Performance in 2010	Difference	
					Per.in 2009 Per.in 2010	Per.in 2010 Pl.for 2010
Coal Extraction	Thousand MT	420.6	400.0	422.1	+1.5	+22.1
Coal Sales	Thousand MT	425.8	400.0	399.9	-25.9	-0.1
Total Overburden	Thousand m ³	1,534.1	2,000.0	1,448.7	-85.4	-551.3
Without Transportation	Thousand m ³	570.0	500.0	144.5	-425.5	-355.5
Overburden Stripped with Transportation	Thousand m ³	964.1	1,500.0	1,304.2	+340.1	-195.8
Total Mass	Thousand m ³	1,857.6	2,307.7	1,295.6	-562.0	-1,012.1
Drilling	Thousand RM	44.5	88.0	45.8	+1.3	-42.2

Overburden stripping plan for the year 2010 was based on the following principles and requirements:

- To provide sites and faces to the basic mining equipment, such as excavators and drilling rigs, in order to prevent idle time;

- To discover coal reserves for mining in 2010-2012;
- To ensure continuous and smooth mining development; and
- To reduce the pressure from the mountain on the high walls of the mine.

1. Overburden Stripping with Transportation

It was planned to strip 1,500.0 thousand cubic meters of overburden with transportation, but 1,304.2 thousand cubic meters of overburden was stripped, and the performance was 86.9 percent.

The volume of overburden stripped with transportation was 340.0 thousand cubic meters more compared to 2009. It is attributed to the introduction of four new HOVA trucks, improvement of vehicle operation, and smooth fleet usage, as well as to being able to focus on overburden stripping by renting trucks for coal transportation and using other trucks for overburen transportation.

The failure to smoothly implement the plan for overburden stripping with transportation was mainly due to the failures and downtime of large drilling rigs SBSH.

2. Overburden Stripping without Transportation

It was planned to strip 500.0 thousand cubic meters of overburden without transportation, but 188.8 thousand cubic meters of overburden was stripped, and the performance was 37.7 percent.

Although it was planned to strip overburden without transportation at the higher levels of the mine in 2010, the plan was interrupted owing to the lack of a management decision.

In addition, it is believed that it is affected by the fact that there was a little opportunity to use overburden stripping without transportation because of the limited internal space of the mine.

3. Coal Mining

In 2010, 81.1 percent of coal was mined from the main faces, and 18.9 percent from the toes. The section line of mining operations was between 10 and 13, and a total of 79.6 thousand metric tons of coal was mined from the toes. There were no serious problems in coal mining, and successful drainage in the Northern Block allowed us to mine dry coal during the winter load period.

4. Coal Sales

67.0 percent of total coal sold was supplied to Darkhan and Erdenet power plants. Allowing small users to separate and take coal intensified retail sales.

In addition, coal was packaged in bags, delivered using our own vehicles, and sold at prices lower than the market prices in order to support the livelihood of residents from ger quarters in Darkhan-Uul Aimag.

5. Drilling and Blasting Operations

In 2010, it was planned to conduct drilling operations for 88.0 thousand running meters in total, but 45.8 thousand running meters were drilled.

The drilling plan was interrupted mostly due to the failures and downtime of the drilling rigs and it is found out that, on average of the year, 2 of 4 drilling rigs were operated.

It was planned to use 600.0 tons of blasting agents, but 281.4 tons of blasting agents was used.

6. Miscellaneous Works

The mine's groundwater drainage and opencast water drainage systems were smoothly operated in 2010. There was no fire site on the faces of the mine. Dykes are built on the mine's overburden, coal faces, and working levels to prevent caving and slides. Reclamation was not conducted due to the insufficiency of equipment.

To summarize the mining development in 2010, we have achieved the main objectives to create conditions to continue opencast mining, mine all discovered coal reserves while reducing tailings, ensure continuous coal mining until the transfer to Shaazgait in 2012, provide sites to equipment, and ensure mine technical safety.

Overburden Stripping Objectives and Problems in 2011

The main overburden stripping objectives for the year 2011:

1. To conduct overburden stripping at high level for the purpose of reducing the pressure from the mountain on the high walls;

2. To conduct and complete intensive overburden stripping in the southern block to discover reserves for transfer in order to overcome the winter load for 2011-2012;
3. To introduce technology to mine the reserves discovered in the northern block without water problems;
4. To determine the further guidelines on opencast mining development; and
5. To provide sites to the existing mining equipment, such as excavators and drilling rigs

Problems:

1. Water is essential to remove the toes of the coal seams and the disintegration of coal with a view to mining all coal reserves to be discovered in the northern block. It will be difficult to use electric excavators (EKG-8I or EKG-4U). Therefore, excavators ESH-10/70, LC-290, and LC-450 will be used mainly.
2. Inadequate number of trucks for overburden transportation.
3. Lack of space to contain overburden to be transported and thrown.

Two: Financial Activities in 2010:

1. Production

In 2010, Sharyn Gol JSC planned to strip **2,000.0** thousand cubic meters of overburden and extract and sell **400.0** thousand metric tons of coal and stripped **1,448.7** thousand cubic meters of overburden, extracted **422.1** thousand metric tons of coal, and sold **399.9** thousand metric tons of coal.

In 2010, the average daily volume of overburden stripped was **3,969.0** cubic meters, the volume of coal extracted **1,156.4** metric tons of coal, and the drilling operations conducted for **125.8** running meters.

2. Equipment Operation and Maintenance

In 2010, the performance of equipment maintenance was 96 percent according to the approved schedule.

- » Heavy repairs were not done to ESH 10/70 Excavator No. 28 because of insufficient spare parts. EKG 5 A No. 40 was not repaired due to the lack of vacuum switches.
The parts and components of scrapped excavators were repaired and reused to repair the excavators.
High-quality repairs were done thanks to the purchase of excavator spare parts from the Russian Federation for MNT248.0 million in March 2010.
- » The drilling rigs were poorly repaired due to the insufficiency of spare parts.
- » Maintenance was performed at the drainage areas by repairing the old pumps although we could not purchase new pumps TSNS 300-240.
- » Heavy repairs were done to Boiler-Shop No. 3, which helped pass the winter load period without water and heat supply problems.
- » In order to increase the number of trucks, we purchased two 24-ton HOVA trucks in April 2010.
- » Process flow maintenance was completed 100 percent from June 1 through July 1.
- » New counterbalancing blocks for ESH-10/70 were made using internal resources, and bucket shackles, short shanks, and shank couplers were made and used for operation. As a result, a total of more than MNT30 million was saved.

Expenses on Equipment

Type of Unit	Brand	Quantity	Repaired in 2010	Expenses in 2010, Million MNT	Number of Currently Used Units
Excavators	ESH Walking Excavators	3	2	287.0	2
	EKG Track-Type Excavators	7	6	698.5	6
Dump Trucks	CAT	4	4	864.2	4
	Hova	4	4	376.7	4

Drilling Rigs	SBSH	3	3	281.6	3
Bulldozers	Komatsu	1	1	320.1	1
Wheel and Track-Type Excavators and Graders	CAT Graders Hyundai Excavators	1 2	1 2	41.6 226.0	1 2
Other Units		27	25	423.1	25
TOTAL		52	48	3,518.8	48

3. Sales:

A. Sales

During the reporting year, **399.9** thousand metric tons were sold, of which **269.6** thousand metric tons were supplied to Darkhan Thermal Power Plant and Erdenet Thermal Power Plant, fulfilling contractual obligations 100 percent. In addition, we supplied coal to more than 40 organizations, including Erdenet Mining Corporation, Erel Cement, Khar Tumurlug JSC, Naco Fuel, and Dulaan SHG, as well as to the communities in Darkhan and Selenge.

B. Coal Prices

In 2010, it was planned to sell coal for **MNT24,716.4** per metric ton, and coal was sold for **MNT24,890.2** per metric ton, **MNT173.8** per metric ton more than it was initially planned. The main reasons for the increase in the coal price are as follows:

- ▶ In 2010, it was planned to sell coal to be supplied to Darkhan and Erdenet for **MNT22,680.0** per metric ton, but the coal price was increased by **MNT3,595.0** to **MNT26,275.0** by Order No. a/3411 of the Minister of Mineral Resources and Energy of Mongolia, effective from November 1, 2010 (59.1 thousand metric tons of coal was supplied to the Darkhan and Erdenet thermal power plants in November and December 2010);

- ▶ The coal price per metric ton was increased owing to the fact that the retail price per metric ton of coal transported by trucks (the planned price was MNT30,000 per metric ton) was increased to MNT50,000 by Resolution No. 22 of the Board of Directors for November and December 2010 (9.9 thousand metric tons of coal was sold using trucks in November and December 2010).
- Although the sales prices were increased, 1,658.5 metric tons, or MNT36.7 million, was lost due to the differences in weight, thus losing **MNT24.0** million from coal supplied to Darkhan Thermal Power Plant and **MNT17.7** million from coal supplied to Erdenet Thermal Power Plant.

4. Revenues and Expenses, Profit and Loss

Items	Revenue, Million MNT	Expenses, Million MNT	Profit/Loss, Million MNT
Coal	9,954.1	8,095.8	1,858.3
Canteen	43.2	84.1	(40.9)
TAA	25.8	25.3	0.5
Repair Shop	1.8		1.8
Sports Palace	0.4	50.2	(49.9)
Resort	11.3	17.9	(6.7)
Workers Accommodation	8.6	29.4	(20.8)
Ulaanbaatar Office		212.1	(212.1)
training	0.6	0.2	0.5
Rental	38.8	12.7	26.2
Interest, Cash, Commission	91.3		91.3
Sales of Fixed Assets	300.5	213.4	87.1
Penalties and Torts	119.9	24.9	95.0
Sales of Scrap Iron	11.7	1.1	10.6
Sales of Spare Parts and Materials	291.5	1,183.1	(891.5)
Exchange Difference	24.9	313.1	(288.2)
Social care fund Expenses		283.5	(283.5)
Tax Expenses		174.8	(174.8)
Miscellaneous	12.1		12.1
TOTAL AMOUNT	10,936.6	10,721.5	215.0

In 2010, **MNT9,954.1** million was earned from coal sales and **MNT982.5** million from other services, amounting to **MNT10,936.6** million, whereas the total amount of expenses was **MNT10,721.5** million, generating a profit of **MNT215.0** million.

5. Costs and Expenses

In 2010, the total amount of expenses planned for coal production was **MNT9,452.5** million. The actual amount of expenses was **MNT8,460.1** million, saving **MNT992.4** million.

Expenses by Items:

Expenses	Planned for 2010	Performance in 2010	Percentage	Difference
Auxiliary Materials	1,385.3	683.4	8.1	(701.9)
Fuel and Lubricants	2,019.5	1,398.3	16.5	(621.2)
Electricity	606.6	565.4	6.7	(41.2)
Salary and Wage	1,964.2	1,884.1	22.2	(80.1)
Social Insurance	255.4	253.2	3.0	(2.2)
Fixed Asset Turnover	643.1	1,072.8	12.7	429.7
Spare Parts	949.2	933.6	11.1	(15.6)
Maintenance	209.4	68.8	0.8	(140.6)
Steam and Heat Supply	164.0	113.7	1.3	(50.3)
Labor Safety	157.3	93.1	1.1	(64.2)
Tax, Payment and Insurance	321.8	358.1	4.2	36.3
Works Executed by Others	8.0	404.7	4.8	396.7
Rental	211.0	183.6	2.2	(27.4)
Security	108.0	148.4	1.8	40.4
Miscellaneous	449.7	298.9	3.5	(150.8)
Total Amount	9,452.5	8,460.1	100.0	(992.4)

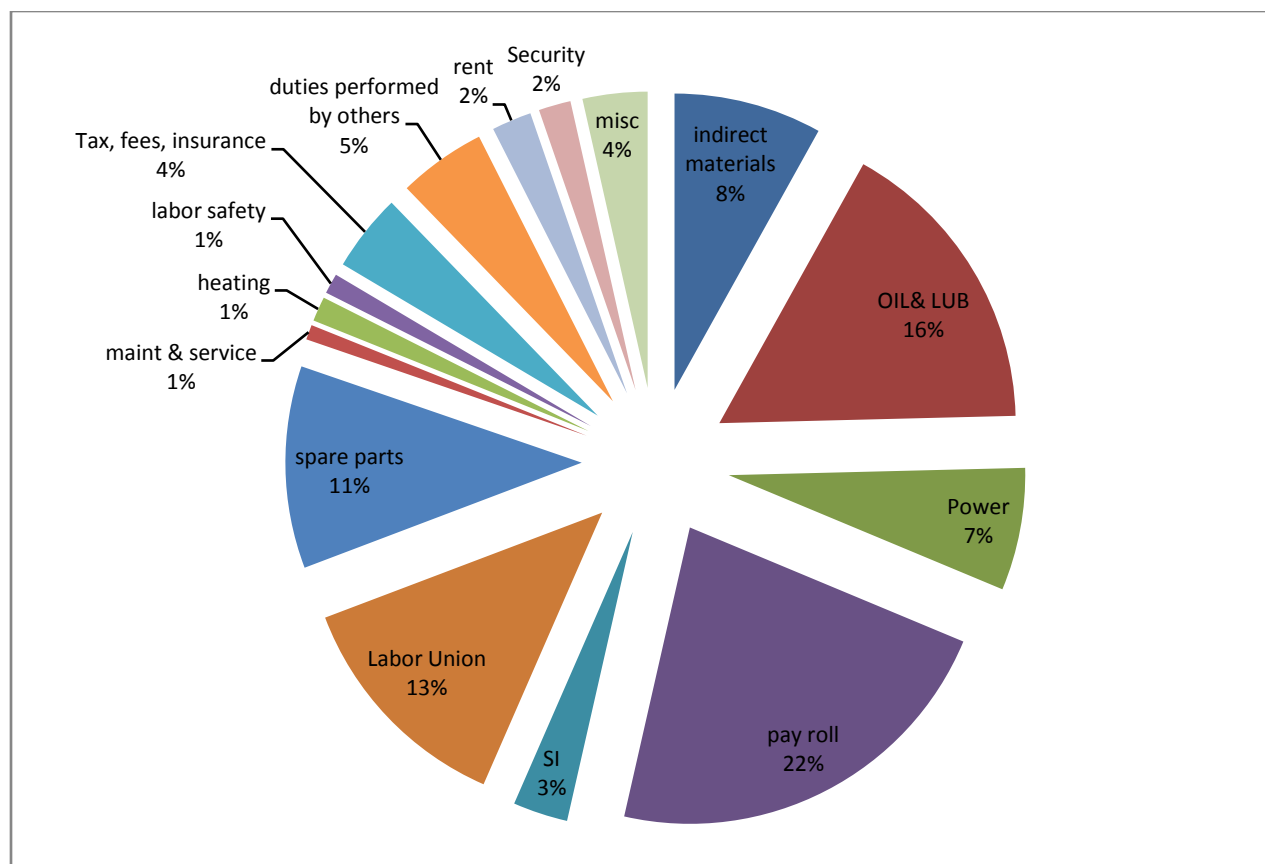
Expenses:

- ▶ It was planned to purchase 600.0 tons of blasting material for MNT1,015.0 million, but 281.4 tons were purchased for MNT530.1 million, saving MNT485.0 million. 107.6 tons (or MNT202.7 million) were saved owing to the fact that the volume of mining mass to be blasted was cut by 598.4 thousand cubic meters and the amount of blasting material per unit consumed was 0.097 kg/m³ less than planned.
- ▶ It was planned to transport 1,807.7 thousand cubic meters of mining mass consuming 1,117.26 thousand liters or for MNT1,396.6 million, but 1,628.9 thousand cubic meters of mining mass was transported consuming 914.9

thousand liters of diesel fuel or for MNT1,037.4 million. The amount of fuel per unit consumed was 0.05 l/m³ more than planned, thus saving 81.4 thousand liters or MNT92.3 million.

- ▶ From October through December 2010, the Sports Palace did not receive heat from the central line, saving MNT27.1 million from heat supply. Installation of a water purification system reduced process water supplied from DSHG by 10,575.0 cubic meters, thus saving MNT10.6 million. In the end, the costs of water and heat supply were reduced by MNT37.7 million.
- ▶ In 2010, it was planned to pay MNT2,022.6 million to 512 employees, but MNT2,009.3 million was paid to 484 employees. The number of employees was decreased by 28, reducing costs of salary by MNT110.7 million. The costs of salary were increased by MNT74.3 million for the office in Ulaanbaatar. The wage fund was increased by 10 percent in March and October 2010, respectively. The average monthly salary for employees is MNT333.2 thousand.
- ▶ Although MNT8.0 million was planned for works to be executed by others, MNT405.6 million was spent for such works during the reporting year. They include: MNT232.0 million for audit works, MNT106.8 million for legal consulting services provided by GTS Advocates Co., Ltd., MNT2.5 million for control software installation, and MNT14.5 million for the revaluation of property.
- ▶ In 2010, 1,628.9 thousand cubic meters of mining mass was transported by trucks, of which 327.0 thousand cubic meters of mining mass, or 20.0 percent, was transported by rented trucks. MNT183.6 million was paid for these works (rental fees).
- ▶ MNT114.5 million was spent on maintenance, of which MNT34.5 million was spent on the office repairs and MNT45.7 on the repairs to the office in Ulaanbaatar.
- ▶ In 2010, MNT90.1 million was spent on occupational safety, of which MNT57.8 million was spent on personal safety equipment and MNT32.3 million on night meals and antidotes, respectively.

Cost Structure in 2010:



In 2010, the cost of one cubic meter of mining mass was **MNT4,565.1**, and the prime cost of one metric ton of coal was **MNT19,179.4**. Compared to 2009, the cost of one cubic meter of mining mass exceeded by **MNT95.9**, whereas the prime cost of one metric ton of coal dropped by **MNT559.4**.

The economic and social development funds have spent **MNT283.5** million to resolve social problems of employees (Million MNT):

» Fuel Allowace for Employees	10.6
» Compensation for Occupational Disease	64.9
» Compensation for Pension	5.4
» Various Types of Incentives	20.4
» Medical Treatment and Nursing	12.9
» For the 45 th Anniversary	42.5
» Grants	74.7
» Sports Events	16.8

- » Events for the Elderly 7.2
- » Miscellaneous Expenses 28.1

6. Liabilities and Receivables



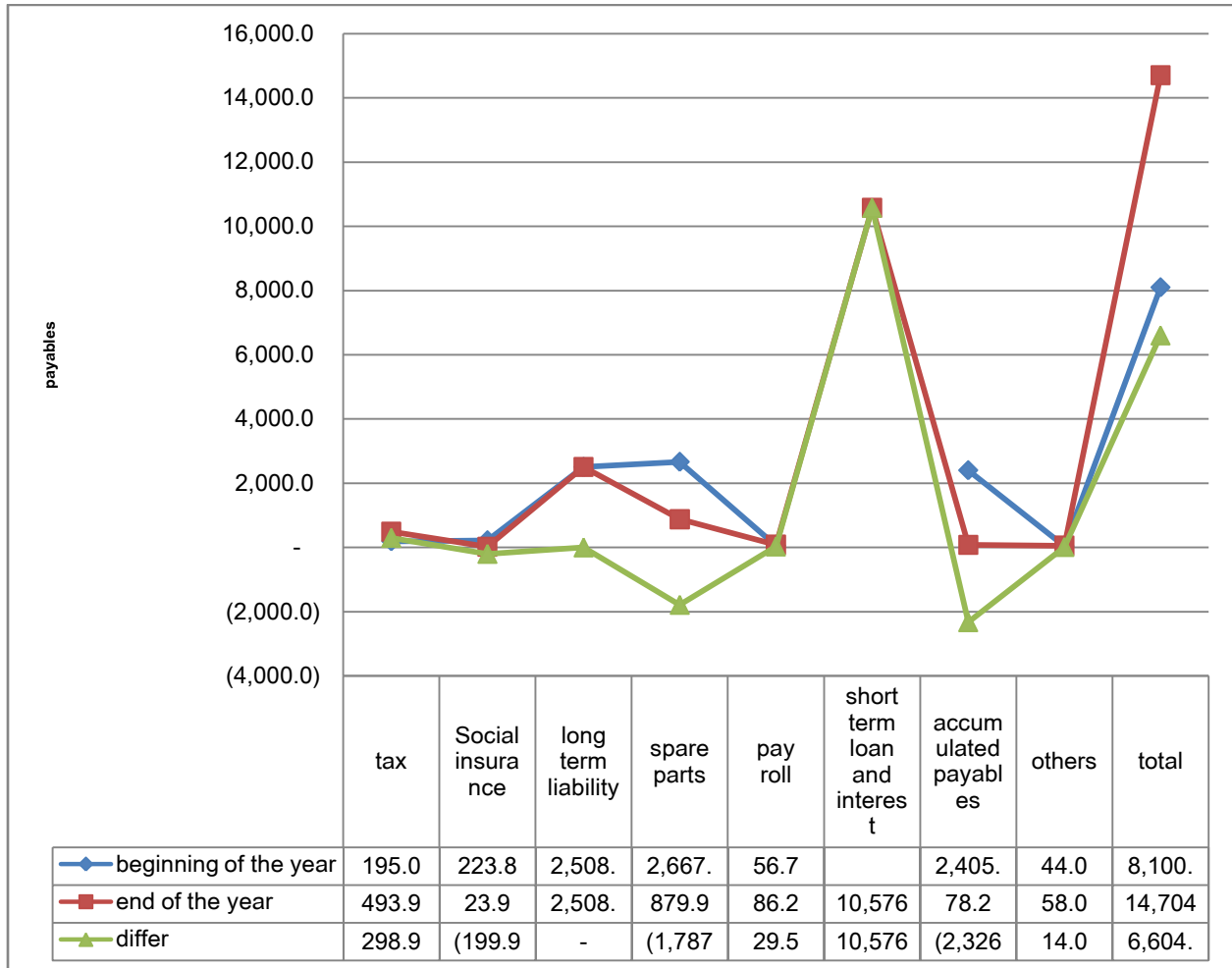
Receivables

Receivables increased by MNT1,540.2 million from the beginning of the year:

- ▶ Receivables for spare parts and materials amounted to MNT2,552.3 at the beginning of the year and decreased by MNT1,168.2 million to MNT1,384.1 million, but receivables of MNT220.0 million from Euro Brick were newly created, MNT80.0 million from Delger Khangai Security, MNT35.4 from Panter Midland, and MNT21.0 million from MIBS Co., Ltd., whereas Sharyn Gol Energo Co., Ltd. has paid MNT1,501.1 million.
- ▶ Accounts receivable increased by MNT2,936.6, as the loan obtained from the Anod Bank was repaid by Firebird and to be obtained from Global SHG.
- ▶ There were receivables of MNT1,629.3 million from 26 organizations at the beginning of the year and MNT1,206.5 million from 24 organizations at the end of the year, as receivables for coal fell by MNT422.8 million.

Receivables from the thermal power plants amount to MNT903.9 million, accounting for 75.0 percent of receivables for coal.

Payables



- ▶ Payables increased by MNT6,604,6 million from the beginning of the year:
 - Accumulated tax debts are MNT298.9 million (imposed following an audit inspection performed by Ernst & Yang)
 - The amount of short loans and interest relating to new exploration works increased by MNT10,576.4 million.
- ▶ Despite the increase in payables, social insurance payable decreased by MNT199.9 million and payables for spare parts and materials by MNT1,787.5 million.

7. Tax Payment

In 2010, **MNT1,878.3** million was paid to the state and local budgets for tax.

Social insurance and health insurance contributions are paid in a timely manner, and in 2010, **MNT672.9** million was paid.

Type of Tax	Payable	Paid
Corporate Income Tax	213.4	170.5
Personal Income Tax	193.7	135.0
VAT	215.4	1,265.2
Royalties	248.2	233.9
Vehicle Tax	1.5	1.5
Land and Water Tax	68.8	63.7
Real Estate Tax	7.8	8.5
Total Amount	948.8	1,878.3
Social Insurance Contributions	473.0	672.9

8. Investment

In 2010, **MNT757.8** million was invested:

▶ Nissan Pickup	MNT20.0 million
▶ Land 100	MNT63.5 million
▶ Hova Trucks, 2 trucks	MNT217.7 million
▶ Water Softening Plant	MNT20.4 million
▶ Truck Scales	MNT42.6 million
▶ Kamaz Crane (25 tons)	MNT195.6 million
▶ Housing	MNT150.0 million
▶ UAZ 469	MNT4.2 million
▶ Miscellaneous Equipment	MNT43.8 million

The abovementioned two HOVA trucks facilitated our operations by transporting 229.6 thousand cubic meters, or 14.1 percent, of mining mass transported in 2010.

9. Financial Criteria

Key Data:		(Million MNT)	
No.	Key Criteria	2009	2010
1	Cash	284.6	1,817.9
2	Marketable Securities	-	-
3	Receivables	4,304.3	5,057.2
4	ÁÕªÒ	5,591.9	12,196.7
5	Current Assets	6,576.9	8,421.5
6	Current Liabilities	2,958.2	14,117.1
7	Net Profit	219.9	215.0
8	Sales	8,812.3	6,952.3
9	Owner's Equity	1,434.9	7,833.7
10	Fixed Assets	11,996.2	8,663.4
11	Total Assets	9,535.1	22,538.6
12	Total Liabilities	8,100.3	14,705.0
13	Average Cost of Fixed Assets	11,996.2	8,663.4
14	Costs of Goods Sold	7,847.7	8,095.8
15	Inventory	1,800.4	1,362.3

Ratio:

	Criteria	2009	2010
1	Ratio of Current Assets	1.18	0.69
2	Ratio of Liquid Assets	0.82	0.56
3	Net Working Capital	985.00	(3,775.12)
4	Ratio of Cash Turnover	5.09	14.90
5	Debt/Equity Ratio	17.71	53.27
6	Net Profit Ratio	0.15	0.03
7	Return on Sales	0.02	0.03
8	Return on Equity	0.22	(0.06)
9	Return on Capital	92.42	30.85
10	Asset/Equity Ratio	11.96	90.42
11	Asset Turnover	73.46	80.25
12	Receivables Turnover (times)	2.05	1.37
13	Receivables Turnover (days)	176	262
14	Payables Turnover (times)	1.18	0.69
15	Payables Turnover (days)	306	521
16	Inventory Turnover	4.9	5.1
17	Stock Turnover (times)	4.4	5.9
18	Stock Turnover (days)	83	61
19	Operating Cycle	258	322
20	Financial Cycle	(48)	(199)

10. Potential Sources of Investment

The company made a profit of MNT215.0 million in the reporting year.

In 2010, the fleet was obsolete, and therefore, the downtime of excavators was 32.0 percent, drilling rigs 66.4 percent, and vehicles 39.2 percent of all operation hours only due to technical failures or lack of spare parts. It is planned to spend MNT327.5 million on necessary repairs and maintenance, including heavy repairs to dump trucks, heavy equipment, power lines, Boiler-Shop No. 2, and Locomotive No. 1286, in 2011. It is planned to invest a total of MNT3,648.0

million on two Komatsu bulldozers, KAT 773D dump trucks, one water truck, and two buses for employee transportation.

The sources of investment required for the aforementioned heavy repairs and investment are insufficient in 2011.

11. Achievements in 2010:

Our Achievements:

1. Our company was recognized as **THE BEST OF THE BEST ORGANIZATION OF THE YEAR** in ENTREPRENEUR-2010, a competition announced among entrepreneurs by the Mongolian National Chamber of Commerce and Industry.
2. Our company participated in the selection of TOP ECONOMIC ENTITIES making significant contributions to the socioeconomic and business development in Mongolia by the Government of Mongolia and the Mongolian National Chamber of Commerce and Industry and was selected as one of the **TOP-100** economic entities based on the performance in 2010.
3. Following the selection from 336 joint stock companies listed on the Mongolian Stock Exchange, our company was recognized as the Most Transparent Joint Stock Company by leading others in terms of information transparency.