Mongolian Resource Corporation

2011 Annual Report

Mongolian Resource Corporation Limited and its Controlled Entities (formerly Alamar Resources Limited)

ABN 8312 762 0482

CORPORATE INFORMATION

ABN 83 127 620 482

Directors	Naidansuren Jargalsaikhan	Non-executive Chairman
	Anthony Bainbridge	Managing Director
	Stockley Davis	Non-executive Director
	John Lee	Non-executive Director
	Tanan Jargalsaikhan	Non-executive Director

Company secretary John Lee

Registered office
Suite 9, 1200 Hay Street
West Perth WA 6005
Telephone: (08) 6460 4960
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Principal place of business
Suite 904, Level 9 Grand Plaza Complex
Peace Avenue, Bayangol District, Ulaanbaatar, Mongolia

Share register
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Solicitors
Steinepreis Panagin
Lawyers and Consultants
Level 4, Next Building
16 Milligan Street
Perth WA 6000

Bankers
National Australia Bank
Level 1, 1238 Hay Street
West Perth WA 6005

Auditors
HLB Mann Judd
Level 4, 130 Stirling Street
Perth WA 6000

Website www.mongolianresourcecorporation.com

DIRECTORS' REPORT

Your directors submit the annual financial report of Mongolian Resource Corporation Limited (formerly Alamar Resources Limited) ("the Company or where appropriate the Group") for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr Naidansuren Jargalsaikhan	Non-executive Chairman (appointed 11 April 2011)
Mr Anthony Bainbridge	Managing Director (appointed 24 August 2011)
Mr Stockley Davis	Non-executive Director (appointed 16 September 2010)
Mr John Lee	Non-executive Director (appointed 29 July 2011)
Ms Tanan Jargalsaikhan	Non-executive Director (appointed 11 April 2011)
Mr James Bickel	Non-executive Director (appointed 11 April 2011, resigned 26 August 2011)
Mr Carey Smith	Non-executive Director (appointed 16 September 2010, resigned 29 July 2011)
Mr Grant Button	Non-executive Chairman (resigned 11 April 2011)
Mr Michael Cartwright	Non-executive Director (resigned 11 April 2011)
Mr James Robinson	Non-executive Director (resigned 16 September 2010)

Names, qualifications, experience and special responsibilities

Mr Naidansuren Jargalsaikhan

Non-executive Chairman

Age: 54

Qualifications: Master of Economics degree from the Prague School of Economics

Mr Naidansuren Jargalsaikhan (age 54) has over 30 years' of financial and banking experience. He is regarded as one of Mongolia's leading economists and bankers and has held many key roles in both the government and private sector. Mr Jargalsaikhan holds a Master of Economics degree from the Prague School of Economics. His career started in 1981 working for the State Committee for the External Economic Relations holding the position of Specialist in the Planning Department. Afterwards he held the role of Senior Economist for The State Bank of Mongolia and in 1990, progressed to the role of First Vice General Director at the Trade and Development Bank of Mongolia.

His career advanced in 1991 when he was appointed as the First Governor of The Central Bank of Mongolia (The Mongol Bank). His responsibility included drafting many of the financial sector laws to implement economic reform within Mongolia. He has worked as a Chief Advisor to the Minister of Finance on macroeconomic policy and controls in the banking sector. In later years, he entered the Mongolian Diplomatic Service, serving as Ambassador for 4 years in Prague and Paris. For the last few years, his work has been to assist in developing the mining sector within Mongolia, in a private capacity. His work has been instrumental in opening up Mongolia to foreign trade and expertize. He remains as a consultant to government and private sectors and with his extensive banking experience provides a vital link for foreign companies to Mongolia. Mr Jargalsaikhan also holds a non-executive director position on MGM Gold Mining Plc. Company.

During the last three years Mr has served as a director of the following listed companies:

MGM Gold Mining PLC	(appointed 20 April 2010)

DIRECTORS' REPORT (continued)

Ms Tanan Jargalsaikhan

Non-executive Director

Age: 33

Qualifications: Bachelor Degree in Banking and Finance from the Institute of Finance and Economics of Mongolia, Diploma in Human Resource Management (Tokyo, Japan)

Ms.Tanan Jargalsaikhan (age 33) has 12 years of experience in the Finance, Human Resources and Banking sector, she holds a Bachelor Degree in Banking and Finance from the Institute of Finance and Economics of Mongolia. This degree was followed by a Diploma in Human Resource Management (Tokyo, Japan). Ms Tanan completed her education with a Private Banking Course in Higher Finance from the Luxembourg Institute.

After graduation, Ms.Tanan served as Senior Officer of The National Statistical Office, responsible for State Budget Income. She has served as Senior Finance Officer at the Mongol Post Bank and then in 2006 entered private enterprise as Chief Financial Officer for various successful companies in construction and banking. She has held roles in these companies as Executive Director – Business with responsibility for all finance functions as well as Investor Relations, Corporate Governance and International Correspondence. Ms.Tanan brings her experience of management of large teams and knowledge of Mongolian tax and finance to the group.

During the last three years Ms Tanan has not served as a director on any listed companies.

Mr Stockley Davis

Non-executive Director

Age: 51

Qualifications: Bachelor of Economics from The University of Western Australia

Mr Davis has worked as a Corporate Manager, responsible for identifying undervalued investment opportunities in the natural resources sector. Mr Davis provides specialised advice on issues pertaining to the resources sector to executives, management and private investors alike. Mr Davis has been instrumental in the raising of equity capital for numerous resources companies operating in Australia and offshore. Mr Davis graduated from the University of Western Australia (UWA) in 1991 with a Bachelor in Economics degree, and has worked in the financial services industry for 12 years, with over 10 years experience in the resources sector.

During the last three years Mr Davis has not served as a director of any other listed company.

Mr Anthony Bainbridge

Managing Director

Age: 49

Qualifications: B.Sc Hons (Geology) from Queensland University, Member of the Australasian Institute of Mining and Metallurgy

Mr Tony Bainbridge was appointed as the Managing Director of Mongolian Resource Corporation Ltd, effective as of the 24th August, 2011. Mr. Bainbridge has more than 30 years experience in the Asia Region and brings his extensive technical background to this role. He has held key positions in resource companies in Management and Advisory Consultancy, and has been focused in the past years in acquisition and evaluation of projects. He has experience in team leading projects through the various stages of licensing, permitting and construction. During the years he has considerable experience in Fund Raising and Execution of IPO's. For the past 6 years, Tony has resided in Mongolia and has developed extensive contacts and business relations in this region and is providing the base for development of the Mongolian Resource Corporation Projects. Mr Bainbridge is a qualified person defined by the Australasian Institute of Mining and Metallurgy and has had more than 6 years of Board experience on various resources companies.

During the last three years Mr Bainbridge has served as a director of the following listed companies:

Garrison International Limited (TSX)

Polo Resources Limited (AIM/TSX)

DIRECTORS' REPORT (continued)

Mr John Lee
Non-executive Director and Company Secretary
Age: 64
Qualifications: B.Com, B. Ed p/g and MBA from University of Melbourne, FAICD, SA Fin

Mr John Lee joined the board on 27th July 2011. John has had more than 30 years board experience in small to large listed companies, including Crescent Gold Mining (Apollo Gold) Limited, PanBio Limited, and Guild Insurance Limited. An Economics and Accounting major (B.Com) a postgraduate degree in Education and an MBA from University of Melbourne, John has worked at senior executive levels in Federal Government, Elders IXL Limited and Woolworths Limited, where he was Chief General Manger, Corporate. Since 1988 John has consulted to numerous listed and unlisted companies, including those in mining and resources, in areas such as of corporate finance, mergers and acquisitions and investor relations.

During the last three years Mr Lee has served as a director of the following listed companies:
Latrobe Magnesium Limited (appointed 10 December 2010)
Moore Australasia (holdings) Limited (appointed 11 June 2010)

Interests in the shares and options of the company and related bodies corporate

The following relevant interests in shares and options of the Group or a related body corporate were held by the directors who served on the board at any point during the year as at the date of this report:

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares	Number of performance shares
Naidansuren Jargalsaikhan [1]	12,500,000	55,000,000	45,000,000
Tanan Jargalsaikhan[1]	12,500,000	55,000,000	45,000,000
James Bickel[2]	75,000	2,000,000	-
John Lee	-	-	-
Anthony Bainbridge	-	-	-
Grant Button[3]	225,000	615,000	-
Michael Cartwright[4]	320,000	640,000	-
Stockley Davis[5]	1,794,979	1,950,000	-
Carey Smith[6]	482,000	665,000	-
James Robinson	-	-	-
Totals	15,396,979	60,870,000	45,000,000

[1] 55,000,000 escrowed fully paid ordinary shares and 45,000,000 performance shares held in the name of Capital Ahead Limited, HK.

[2] 1,000,000 fully paid ordinary shares held in the name of held in the name of James Bickel as the beneficial owner and Director of Redwood Capital Inc.

[3] 250,000 Shares held in the name of Grant Button and 365,000 Shares held in the name of Grant Button as Trustee for the Wilberforce Trust.

[4] 560,000 ordinary shares held in the name of Michael Cartwright; 70,000 ordinary shares held in the name of Mrs Vanessa Cartwright, spouse of Mr Michael Cartwright and 10,000 ordinary shares held in the name of Cartwright Brothers Pty Ltd, Mr Michael Cartwright is a director and controller of Cartwright Brothers Pty Ltd.

[5] 425,000 Fully paid ordinary shares directly held, 25,000 Fully paid ordinary shares held in the name of Stockley Roy Davis < PKC Ortiz – Davis A/C >, 25,000 fully paid ordinary shares held in the name of Karla Beatriz Ortiz (spouse of Stockley Davis), 300,000 fully paid ordinary shares held in the name of Australian Sport & Recreation Link Pty Ltd < Davis – Ortiz A/c >, 375,000 fully paid ordinary shares held in the name of Australian Sport & Recreation Link Pty Ltd, 800,000 fully paid ordinary shares held in the name of Platinum Investment Corporation Pty Ltd.

[6] 665,000 fully paid ordinary shares held in the name of Carey Smith

DIRECTORS' REPORT (continued)

The following shares were granted to directors and to the five most highly remunerated executives of the Group during the financial year as part of their remuneration:

Directors and officers	Number of shares granted as remuneration	Number of options granted as remuneration
Naidansuren Jargalsaikhan	-	-
Tanan Jargalsaikhan	-	-
James Bickel	-	-
John Lee	-	-
Anthony Bainbridge	-	-
Stockley Davis	-	-
Carey Smith	167,500	-
Michael Cartwright	-	-
Grant Button	165,000	-
James Robinson	-	-
David Parker	167,500	-
Sonu Cheema	-	-
Totals	500,000	-

There were no shares issued during the financial year as a result of the exercise of an option. There were no alterations to the terms and conditions of options granted since their grant date.

At the date of this report unissued ordinary shares of the Group under option are 14,500,000 unlisted Company Options exercisable at $0.25 expiring on or before 31 March 2013 and 10,867,644 listed Company Options (MUBO) exercisable at $0.20 expiring on or before 31 March 2013.

Performance shares were issued as per the approval of the General Meeting held 11 April 2011:

1. Capital Ahead Limited: 45,000,000 performance shares
2. Consultants to the acquisition : 1,000,000 performance shares

Dividends

On 10 October 2010 a dividend of $1,315,822 was paid from Gunbileg Gold LLC to its previous owner Mr Sumiya Bumangerel.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was the exploration and development of natural resources. There have been no other significant changes in the activities of the Group during this year other than the matters noted in this Report.

REVIEW OF OPERATIONS

This financial year has seen major changes to direction of the Group when in April 2011, the Group acquired a package of significant Mongolian assets. Upon this acquisition Alamar Resources Limited was renamed Mongolian Resource Corporation Limited ('MRC') and then refocused its energies and direction towards development of the near term gold assets in Mongolia. With completion of this acquisition Mongolian Resource Corporation Limited grew from having no full time employees to over 120 employees with a full technical team on the ground and is active in resource definition programs and construction of gold mines.

DIRECTORS' REPORT (continued)

Mongolia

In total, 14 new gold projects were acquired covering an area of 185.47km2 in the renown Selenge Gold District of Mongolia and it was via these acquisitions that Mongolian Resource Corporation Limited became the principal neighbour to the large mining projects of Boroo and Gatsuurt held by Centerra Gold Limited. (Toronto Stock Exchange Listed). These projects were held under 16 exploration and 3 mining tenements with the three mining tenements being in the refurbishment stage. In addition as part of the package, 2 early stage explorations tenements were acquired with iron ore and coal potential.

During the 4th quarter of the financial year, activity in Mongolia begun, and was focused on preparation for drilling on the Group's two main gold projects; Blue Eyes and Sujigtei. The projects represent narrow high grade bonanza style mineralization with grades recorded as high as 750 g/t Au by previous explorers. Our immediate work is to validate the potential 321,000 ounces' as defined by previous explorers and then expand upon this mineralization base by examining the untested depth and strike extents.

Blue Eyes Project

The project has a three level underground gold mine in refurbishment that had been previously been in operation for more than 4 years. Historical gold grades are in the 15-35 g/t Au range and were being treated via a 20 tonnes per day gravity operation. Mongolian Resource Corporation Limited has completed a stage 1 upgrade with the construction of a new 100 tonnes per day processing plant that includes a gold floatation circuit and a batch cyanidation processing plant to treat the floatation concentrates. The small plant is on final stages of permitting and is expected to be coming on line at the end of the calendar year 2011. During this process the Group is mechanizing the small underground mine.

In total 560m of rail has been installed in the mine and underground development commenced on opening up the new no. 3 level of the mine at 150m depth. A total of 180m of strike length of the vein is exposed on levels 1 and 2 currently and minor amounts of gold ore are being extracted during this development phase.

Mongolian Resource Corporation Limited completed metallurgical test work on bulk samples from underground at Blue Eyes and at from the Hilltop Project zone. Both projects show good recovery kinetics via conventional Carbon In Pulp (CIP) Processing. In detail the gravity test work showed gravity coarse gold recovery was (49.9%) and overall recovery was 94.5% of the gold using the conventional technology.

Sujigtei Project

This significant project was mined for over four years in the 1980's and has 3 years of development work completed and one year of ore extraction. The mineralization recorded during this period, showed bonanza grade results (>50 g/t Au) over narrow widths (0.4-0.5 m) and our Group is currently focused on validation of this mineralization.

Roads and mine camp infrastructure were upgraded at the project sites and a 40 man mining crew were employed to refurbish the Sujigtei underground adits. In total 4.6km of underground adit's have been opened and in process of recovery at Sujigtei and a new concrete portal has commenced.

In the quarter ended September 30, 2011, a rail system was installed for ore transport. An underground survey team has commenced detailed survey works at the site for stope evaluation and preparatory work for underground drilling. Channel sampling of these sections of the mine are underway and a bulk sample for metallurgical work has been collected for shipment to Australian Test Facilities at Independent Metallurgical Operations (IMO), Perth.

Glogex LLC., a Mongolian Consultancy and Services Group specializing in Geology, Mining Technology, Mineral Processing Services, has been commissioned to undertake all Mongolian Standard Permitting and Feasibility Studies for the Blue Eyes & Sujigtei Projects. All data is currently being entered into our Surpac software for creating a block model of resources and drill planning purposes. Outcome to date has shown the synergies and practicality of having a joint mill for the two underground mine operations (Blue Eyes & Sujigtei), and work is progressing in that direction. In order to recommence mining, the project permits have to be reactivated. This will require new feasibility and environmental reports being prepared, with an expected timeline of 6 months.

DIRECTORS' REPORT (continued)

A total of 3 drill rigs (2 surface and 1 underground) have been purchased to do the initial scout drilling on the 4 prospects identified at Blue Eyes and for the Mine Extensions at Sujigtei. Drilling with our rigs commenced in August, 2011.

In addition a drilling contract for 4,200m of diamond drilling has been signed with Ellechor Drilling Services to provide drilling services at Sujigtei on the deeper holes beneath the historical mine workings (below 200m depth) with the aim to extend to depth the mineralization. Contract drilling has commenced.

Regional Projects

Field Work during this period was completed on four soil anomaly regions. A total of 16,200 soil samples were collected and analyzed using a calibrated Niton G3 Analyser. The work areas included a rock chip sampling program that was completed on a first pass basis to define targets for future trenching and drilling. It was noted that outcropping alteration / stock work mineralization occurred coincident with lead anomalous in the soil sample results. The four areas showing from sampling and geophysics to be the best potential for zones of large open cut style mineralization were the Hill Top, Green Eyes, Timo and Hawshaw Prospects. Geological and alteration mapping occurred over these areas with a total of 854 rock chip surface samples collected. Results were very encouraging with gold returned up to 17.1 g/t Au in channel sampling and large areas were defined from mapping to show quartz stock work zones.

Hill Top Zone

Mongolian Resource Corporation Limited has collected 375 semi-continuous rock chip channel samples and is encouraged by the consistency of this mineralization and its recognized similarities to the mineralization at the nearby Boroo Mine Project (Centerra Gold, Ltd.). Our target is to drill out an area 300x500m to open cut depth within the mapped quartz vein stock working and alteration zones. Twin higher grade zones (2-3 g/t Au) have been defined by the +1g/t gold contour and are hosted in a pink rhyolite that is truncated by a Dacite Porphyry Intrusive (post mineralization). The alteration over the hill top zone displays an early intense potassic overprint that is cut by later multiple silica-sericite-pyrite which in places totally replaces the rock. Gold in rock chip samples is recorded over a vertical relief of more than 120m indicating the zones may have some depth potential.

Geophysics was completed that included detailed gradient array IP and a subsequent line Dipole-Dipole IP survey at 100m centers. Pronounced anomalies occurred in the zones of outcropping alteration / mineralization and have provided targets for future drilling.

No work was undertaken on the coal or iron ore tenements this year.

WESTERN AUSTRALIA

Prospects in Western Australia include the Yandal Gold Project of Mandilla Well (80% Mongolian Resource Corporation Limited), Maitland Joint Venture (51% Mongolian Resource Corporation Limited), and the Corboys North (100% Mongolian Resource Corporation Limited) prospects. These projects form a contiguous claim group located approximately 70km south east of Wiluna in the Yandal Greenstone Belt.

The Mandilla Well project is a joint venture with Furnance Technology Pty Ltd where Mongolian Resource Corporation Limited owns 80% of the project. It lies in the Yandal Greenstone Belt with mafic, ultramafic and felsic rocks that have had intensive shearing along a gabbro intrusive contact known as the Barwidgee Fault. Along this fault occurs historical mines and Mongolian Resource Corporation Limited is reviewing the results of drilling in 2010 that defined this fault zone on 800x100m spacing. Deep weathering meant the shallow 22 rab drill holes totally 1,391m of drilling were largely ineffective and the decision needs to be made for deeper drilling of this structure.

The Maitland JV project is a joint venture with West Gold Ltd where Mongolian Resource Corporation Limited owns 51% interest. This year the Group completed transfer title documents for the 51% earned interest in the Maitland Joint Venture tenements. Mongolian Resource Corporation Limited has elected to maintain its interest at 51% by co-contributing with West Gold to future exploration expenditure and remains the operator of the project. Discussions regarding the next phase of work on this project are ongoing with West Gold.

The Corboys North prospect lies immediately along strike of the Corboys historic line of workings where Navigator Resources Ltd announce in June 2010 a resource of 3.17 million tonnes @ 1.8 g/t Au for 184,000 contained ounces (ASX:NAV announcement 1 June 2010).

Desktop reviews of the Yandal Gold Projects and Companies Uranium Projects was completed this year with a drill proposal outlined for the Uranium Projects as the next work program. The Group was granted assistance for drilling under the Exploration Incentive Scheme as provided by the State Government's Exploration Incentive Scheme (Co-Funded Drilling

DIRECTORS' REPORT (continued)

Program) to test targets within the E38/2261 and E38/2262 license areas. Mongolian Resource Corporation Limited board approval for this drilling to occur is under review.

No field work was undertaken on the Western Australia projects during the year with the Group focused on completion of its Mongolian Asset purchase.

Competent Persons Statement

Scientific or technical information in this report has been prepared under the supervision of Mr Anthony Bainbridge BSc, a consultant to the Group and a Member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Bainbridge has sufficient experience which is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Mr Bainbridge consents to the inclusion in this report of the Information, in the form and context in which it appears.

Operating results for the year

The consolidated loss of the Group for the financial year, after providing for income tax amounted to $1,643,500.

Review of financial conditions

As at 30 June 2011 the Group had $6,878,161 in cash assets which the Directors believe puts the Group in a sound financial position with sufficient capital to effectively explore its tenements and pursue other resource based opportunities.

Risk management

Details of the Group's Risk Management policies are contained within the Corporate Governance Statement in Directors' Report.

Corporate Governance

Details of the Group's Corporate Governance policies are contained within the Corporate Governance Statement in Directors' Report.

Significant changes in the state of affairs

- **Settlement of MRCMGL LLC**
  Following the Company's General Meeting which was held on 28 March 2011 where all resolutions were passed, the Company completed the settlement for the acquisition of MRCMGL LLC on 11 April 2011. The necessary registrations and documentation had been filed and completed in Mongolia for the acquisition of MRCMGL LLC on 11 April 2011.
- **Capital Raising**
  On 11 April 2011 the Company settled the Capital Raising of 40,000,000 shares at $0.25 to raise $10,000,000. These funds will be used to fund the acquisition, exploration and development of the Mongolian Resource Corporation Limited's Mongolian assets and for general working capital purposes.
- **Appointment of new board members and management**
  The Company has appointed three new directors as part of the transaction on 11 April 2011. The three incoming directors were Naidansuren Jargalsaikhan (Chairman), Tanan Jargalsaikhan and James Bickel. The Group accepted the resignations of Grant Button, Michael Cartwright and David Parker. Sonu Cheema had replaced David Parker as the Company Secretary.
- **Change of Group name**
  The Company's name changed to Mongolian Resource Corporation Limited on 13 May 2011.

Significant events after balance date

- On 7 July 2011 Mongolian Resource Corporation Limited concluded a Joint Venture Agreement with Ochir Leasing Co Limited to acquire 80% of Tsagaan Tokhoin Ereg for US$315,000.
- On 29 July 2011 Carey Smith resigned as a Director and John Robert Lee replaced him.
- On 4 August 2011 Sonu Cheema resigned as Company Secretary and was replaced by John Lee.
- On 29 August 2011 Tony Bainbridge appointed Managing Director and CEO of the Group.
- On 29 August 2011 Jim Bickel resigned as non-Executive Director of the Group.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Therefore, this information has not been presented in this report.

DIRECTORS' REPORT (continued)

Environmental legislation

The Group is subject to significant environmental and monitoring requirements in respect of its natural resources exploration activities.

The directors are not aware of any significant breaches of these requirements during the period.

Indemnification and insurance of Directors and Officers

The Group has agreed to indemnify all the directors of the Group for any liabilities to another person (other than the Group or related body corporate) that may arise from their position as directors of the Group and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Group paid a premium in respect of a contract insuring the directors and officers of the Group and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Remuneration report (Audited)

This report outlines the remuneration arrangements in place for directors and senior management of Mongolian Resources Limited (the "Group") for the financial year ended 30 June 2011.

The following persons acted as directors during or since the end of the financial year:

Mr Naidansuren Jargalsaikhan (Non- executive Chairman) (appointed 11 April 2011)

Ms Tanan Jargalsaikhan (Non- executive Director) (appointed 11 April 2011)

Mr Anthony Bainbridge (Managing Director) (appointed, 24 August 2011)

Mr John Lee (Non- executive Director and Company Secretary) (appointed 29 July 2011)

Mr James Bickel (Non- executive Director) (appointed 11 April 2011, resigned 26 August 2011)

Mr Stockley Davis (Non- executive Director) (appointed, 16 September 2010)

Mr Carey Smith (Non-executive Director) (appointed 16 September 2010, resigned 29 July 2011)

Mr Grant Button (Non- executive Chairman) (resigned 11 April 2011)

Mr Michael Cartwright (Non-executive Director) (resigned 11 April 2011)

Mr James Robinson (Non-executive Director) (resigned 16 September 2010)

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted the named persons held their current position for the whole of the financial year and since the end of the financial year:

Mr Naidansuren Jargalsaikhan (Non- executive Chairman) (appointed 11 April 2011)

Mr Tanan Jargalsaikhan (Non- executive Director) (appointed 11 April 2011)

Mr Anthony Bainbridge (Managing Director) (appointed, 24 August 2011)

Mr John Lee (Non- executive Director and Company Secretary) (appointed 29 July 2011)

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Mr Michael Cartwright (Non-executive Director) (resigned 11 April 2011)

Mr James Robinson (Non-executive Director) (resigned 16 September 2010)

Remuneration philosophy

The performance of the Group depends upon the quality of the directors and executives. The philosophy of the Group in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

DIRECTORS' REPORT (continued)

Non-executive Directors' Committee

The Non-Executive Directors' Committee of the Board of Directors of the Group is responsible for determining and reviewing compensation arrangements for the directors and the senior management team.

The Non-Executive Directors' Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 13 November 2009 when shareholders approved the remuneration report and an aggregate remuneration of up to $250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Group.

The remuneration of non-executive directors for the year ended 30 June 2011 is detailed in the Remuneration of directors and named executives section of this report on page 11 of this report.

Senior manager and executive director remuneration

Remuneration consists of fixed remuneration and Company options (as determined from time to time). In addition to the Group employees and directors, the Group has contracted key consultants on contractual basis. These contracts stipulate the remuneration to be paid to the consultants.

Fixed Remuneration

Fixed remuneration is reviewed annually by the non-executive directors committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Fixed remuneration is paid in the form of cash payments.

The fixed remuneration component of the 5 most highly remunerated Group executives is detailed in Table 1.

Employment Contracts

Executive Services Agreement – Tony Bainbridge

Following the appointment of Mr Tony Bainbridge to the position of Managing Director and CEO, resident in Mongolia, Mongolian Resource Corporation Limited ("MRC" or "the Company"), advises the following remuneration package details:

- Annual salary package of $200,000 inclusive of superannuation
- Housing rental allowance of $3,000 per month
- Vehicle and fuel allowance of $1,000 per month

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Options

During the year ended 30 June 2011, there were no Options that were granted, vested or lapsed as part of director remuneration.

Performance-based Remuneration

The Group currently has no performance-based remuneration component built into director and executive remuneration packages.

DIRECTORS' REPORT (continued)

Remuneration of directors and key executives

Table 1: Directors' and key executive's remuneration for the year ended 30 June 2011

	Short-term employee benefits			Post-employment benefits	Equity		
	Salary & Fees $	Bonuses $	Non-Monetary Benefits $	Super-annuation $	Shares Granted $	Total $	Performance Related %
Naidansuren Jargalsaikhan	10,918	-	-	-	-	10,918	-
Tanan Jargalsaikhan	25,838	-	-	-	-	25,838	-
James Bickel	12,000	-	-	-	-	12,000	-
Stockley Davis	28,250	-	-	1,462	-	29,712	-
Carey Smith	55,250	-	-	4,972	41,875	102,097	-
Grant Button	30,000	-	-	2,700	41,250	73,950	-
Michael Cartwright	22,500	-	-	2,025	-	24,525	-
David Parker [1]	72,600	-	-	-	41,875	114,475	-
James Robinson[1]	6,350	-	-	950	-	7,300	-
Total	**263,706**	**-**	**-**	**12,109**	**125,000**	**400,815**	**-**

[1] During the year ended 30 June 2011, Cicero Corporate Services Pty Ltd, an entity in which Mr Parker and Mr Robinson hold a 40% and 20% equity holding respectively, provided corporate administration services which included rent and reimbursement of expenditures incurred on behalf of the Group. The arrangement was on normal commercial terms and has not been included as part of executives' remuneration.

Remuneration of directors and key executives (continued)

Table 2: Directors' and key executive's remuneration for the year ended 30 June 2010

	Short-term employee benefits			Post-employment benefits	Equity		
	Salary & Fees $	Bonuses $	Non-Monetary Benefits $	Super-annuation $	Shares Granted $	Total $	Performance Related %
Grant Button	40,000	-	-	3,600	-	43,600	-
Tony Worth	135,417	-	-	12,187	-	147,604	-
Michael Cartwright	30,000	-	-	2,700	-	32,700	-
David Parker [1]	40,000	-	-	-	-	40,000	-
James Robinson[1]	4,200	-	-	378	-	4,578	-
Total	**249,617**	**-**	**-**	**18,865**	**-**	**268,482**	**-**

[1] During the year ended 30 June 2011, Cicero Corporate Services Pty Ltd, an entity in which Mr Parker and Mr Robinson hold a 40% and 20% equity holding respectively, provided corporate administration services which included rent and reimbursement of expenditures incurred on behalf of the Group. The arrangement was on normal commercial terms and has not been included as part of executives' remuneration.

DIRECTORS' REPORT (continued)

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors Meeting	
Directors	**Eligible to attend**	**Attended**
Mr Naidansuren Jargalsaikhan	2	2
Ms Tanan Jargalsaikhan	2	2
Mr James Bickel	2	2
Mr Carey Smith	6	6
Mr Stockley Davis	6	6
Mr Grant Button	4	3
Mr Michael Cartwright	4	3
Mr James Robinson	1	0

In addition, four circular resolutions were signed by the board during the year.

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Group with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 16 and forms part of this directors' report for the year ended 30 June 2011.

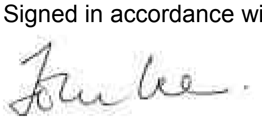
Non-Audit Services

During the year, HLB Mann Judd charged $1,250 for consulting work done on the acquisition of MRCMGL LLC. Other than this, there were no non-audit services provided to the Group.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 19 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the directors.



Mr John Lee
Director
Sydney, New South Wales; Dated this 28th day of October 2011

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Mongolian Resource Corporation Limited is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of Mongolian Resource Corporation Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Mongolian Resource Corporation Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

Principle 1. **Lay solid foundations for management and oversight**
Principle 2. **Structure the board to add value**
Principle 3. **Promote ethical and responsible decision making**
Principle 4. **Safeguard integrity in financial reporting**
Principle 5. **Make timely and balanced disclosure**
Principle 6. **Respect the rights of shareholders**
Principle 7. **Recognise and manage risk**
Principle 8. **Remunerate fairly and responsibly**

Mongolian Resource Corporation Limited's corporate governance practices were in place throughout the year ended 30 June 2011.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of Mongolian Resource Corporation Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment.

In the context of director independence, 'materiality' is considered from both the Group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

The directors that are considered independent are:

John Lee	Non-executive Director
Stockley Davis	Non-executive Director
Carey Smith	Non-executive Director (Resigned 29 July 2011)

Currently two of the Directors, Stockley Davis and John Lee, are considered independent. In line with ASX Best Practice Recommendation 2.3, the role of Chairman and Chief Executive Officer were separate and distinct. There are procedures in place, agreed by the Board, to enable directors in the furtherance of their duties to seek independent professional advice at the Group's expense.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in Office
Mr Naidansuren Jargalsaikhan	6 months
Ms Tanan Jargalsaikhan	6 months
Mr Tony Bainbridge	1 month
Mr John Lee	2 months
Mr Stockley Davis	13 months

CORPORATE GOVERNANCE STATEMENT (continued)

Nomination Committee

Notification of Departure: The Board has not established a separate Nomination Committee as per ASX Best Practice Recommendation 2.4.

Explanation for Departure: The Board considers that the Group is not of a size nor are its affairs of such complexity to justify formation of a nomination committee. The Board as a whole addresses the governance aspects of the full scope of the Group's activities and has assumed the role of the Nomination Committee during the year.

The Board intends to establish a nomination committee which intends to meet at least annually, to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The Nomination Committee is intended to comprise non-executive directors.

Audit Committee

Notification of Departure: The Board has not established a separate Audit Committee as per ASX Best Practice Recommendation 4.1.

Explanation for Departure: The Board has not established an Audit Committee, however it intends to establish an audit committee which intends to meet at least twice annually and which will operate under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non financial considerations such as the benchmarking of operational key performance indicators. The Board has assumed responsibility for establishing and maintaining a framework of internal control and ethical standards during the year.

The Committee is intended to provide the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are planned to be non-executive directors.

Performance

The performance of the Board and key executives is reviewed regularly. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Mongolian Resource Corporation Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

Remuneration

It is the Group's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the Group's financial and operational performance.

The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the Group; and
- performance incentives that allow executives to share the success of Mongolian Resource Corporation Limited.

For a full discussion of the Group's remuneration philosophy and framework and the remuneration received by directors and executives in the current year please refer to the remuneration report, which is contained within the Directors' Report.

A remuneration committee has been formed which consists of:

Naidansuren Jargalsaikhan	Non-executive chairman
Stockley Davis	Non-executive director
John Lee	Non-executive director

There is no scheme to provide retirement benefits, other than statutory superannuation to all directors.

CORPORATE GOVERNANCE STATEMENT (continued)

Treasury Committee

The Company Secretary, who reports to the Chairman and board, is responsible to monitor the financial risks and exposure from movements in interest rates and exchange rates. No hedging products are used.

Recognise and Manage risk

The identification, prioritization and effective management of risk, including calculated risk-taking, is viewed as an essential part of the Group's approach to creating long-term shareholder value.

The board is responsible for identifying the risks facing the Group, assessing the risks and ensuring that there are controls for these risks, which are to be designed to ensure that any identified risk is reduced to an acceptable level. The Board will review and discuss strategic risks and opportunities as they arise and arising from changes in the Group's business environment regularly and on an as need basis. The board may delegate some of the abovementioned responsibility to management and committees of the board but maintain the overall responsibility for the process.

Notification of Departure: ASX Recommendation 7.2; Management has not reported to it as to the effectiveness of the Group's management of its material business risks.

Reason for Departure: The board has taken responsibility for risk management during and since the end of the year.

HLB Mann Judd
Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Mongolian Resource Corporation Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is made in respect of Mongolian Resource Corporation Limited.

Perth, Western Australia
28 October 2011

N G NEILL
Partner, HLB Mann Judd

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Consolidated 2011 $
Continuing operations		
Other income	2	352,759
Administration expenses		(34,167)
Consulting fees		(26,861)
Director fees		(33,810)
Employment benefits expense		(12,467)
Occupancy expenses		(521)
Goodwill on acquisition written off		(1,545,945)
Depreciation		(12,002)
Share based payments		(622,352)
Other expenses	2	(12,518)
Loss before income tax expense		(1,947,884)
Income tax benefit	3	304,384
Loss after tax from continuing operations		(1,643,500)
Net loss for the year		(1,643,500)
Exchange differences on translation of foreign operations		(1,453,755)
Other comprehensive income		(1,453,755)
Total comprehensive loss for the year		(3,097,255)
Loss attributable to:		
Owners of the parent		(1,637,377)
Non-controlling interests		(6,123)
Total comprehensive loss attributable to:		
Owners of the parent		(3,090,634)
Non-controlling interests		(6,621)
Basic loss per share (cents per share)	4	(2.35)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Notes	Consolidated 2011 $	2010 $
Assets			
Current Assets			
Cash and cash equivalents	7	6,878,161	1,818,011
Trade and other receivables	8	91,859	1,829,734
Total Current Assets		6,970,020	3,647,745
Non-Current Assets			
Plant and equipment	9	4,468,688	3,199,911
Deferred exploration expenditure	10	10,651,999	3,158,595
Other non-current assets	11	296,478	93,763
Total Non-Current Assets		15,417,165	6,452,269
Total Assets		22,387,185	10,100,014
Liabilities			
Current Liabilities			
Borrowings	12	-	2,302,826
Trade and other payables	13	156,526	374,144
Other current liabilities	14	30,173	732,738
Tax payable		-	163,475
Total Current Liabilities		186,699	3,573,183
Non-Current Liabilities			
Borrowings	12	-	2,426,327
Total Non-Current Liabilities		-	2,426,327
Total Liabilities		186,699	5,999,510
Net Assets		22,200,486	4,100,504
Equity			
Issued capital	6	23,454,827	2,735,065
Options reserve	6	1,793,297	-
Foreign currency translation reserve		(1,453,399)	-
Accumulated losses		(1,593,055)	1,360,144
Parent entity interest		22,201,670	4,095,209
Non-controlling interest		(1,184)	5,295
Total Equity		22,200,486	4,100,504

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

Consolidated	Issued Capital $	Accumulated Losses $	Non-controlling Interest $	Options Reserve $	Foreign Currency Translation Reserve $	Total Equity $
Balance at 30 June 2010	2,735,065	1,360,144	5,295	-	-	4,100,504
Loss for the year	-	(1,637,377)	(6,123)	-	-	(1,643,500)
Exchange differences on translation of foreign operations	-	-	(356)	-	(1,453,399)	(1,453,755)
Total comprehensive (loss) for the year	-	(1,637,377)	(6,479)	-	(1,453,399)	(3,097,255)
Dividends paid	-	(1,315,822)	-	-	-	(1,315,822)
Shares issued during the year	21,570,049	-	-	-	-	21,570,049
Transaction costs on share issues	(850,287)	-	-	-	-	(850,287)
Recognition of share-based payments	-	-	-	1,793,297	-	1,793,297
Balance at 30 June 2011	23,454,827	(1,593,055)	(1,184)	1,793,297	(1,453,399)	22,200,486

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated 2011 $ Inflows/(Outflows)
Cash flows from operating activities		
Payments to suppliers and employees		(1,227,031)
Income tax paid		(136,698)
Interest paid		(3,420)
Interest received		38,978
Net cash (used in) operating activities	7	(1,328,171)
Cash flows from investing activities		
Payments for property, plant and equipment		(1,140,874)
Proceeds from sale of property, plant and equipment		100
Payments for intangibles		(229,722)
Payments for exploration and evaluation expenditure	10	(4,569,832)
Net cash acquired in acquisition of subsidiary	7	291,778
Net cash (used in) investing activities		(5,648,550)
Cash flows from financing activities		
Proceeds from issue of shares		17,905,582
Repayment of borrowings		(3,137,452)
Dividends paid		(1,315,822)
Net cash provided by financing activities		13,452,308
Net increase/(decrease) in cash held		6,475,587
Cash and cash equivalents at the beginning of the year		1,818,011
Effect of exchange rate fluctuations on cash held		(1,415,437)
Cash and cash equivalents at the end of the year	7	6,878,161

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Mongolian Resource Corporation Limited is a company domiciled in Australia. The consolidated balances of the Company for the year ended 30 June 2011 include the Company and its subsidiaries, including MRCMGL LLC. Mongolian Resource Corporation Limited acquired MRCMGL LLC on 11 April 2011. In accordance with AASB 3 Business Combinations, this acquisition was determined to be a "reverse acquisition" as described in Note 1(z).

As a result of this accounting treatment, the consolidated financial statements presented in this report represent a continuation of the financial statements of MRCMGL LLC and comprise the following:

(i) Statement of Financial Position:

- Comparative Statement of Financial Position - MRCMGL LLC as at 30 June 2010.
- Current Statement of Financial Position - MRCMGL LLC and its controlled entity as at 30 June 2011, including the reverse acquisition of Mongolian Resource Corporation Limited. In accordance with AASB 3 Business Combinations, whilst Mongolian Resource Corporation Limited is the “legal acquirer" of MRCMGL LLC, MRCMGL LLC is treated as the parent for accounting purposes and therefore the balances as presented in the Statement of Financial Position are based on:
  (a) the historical balances of MRCMGL LLC; and
  (b) the balances of Mongolian Resource Corporation Limited at fair value.

(ii) Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity:

- Comparative financial information - MRCMGL LLC for the year ended 30 June 2010.
- Current year financial information - MRCMGL LLC for the year ended 30 June 2011, with Mongolian Resource Corporation Limited for the period from 11 April 2011 to 30 June 2011.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the consolidated entity consisting of Mongolian Resource Corporation Limited and its subsidiaries.

The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The Group is a listed public Group incorporated in Australia, operating in Australia and Mongolia. The entity’s principal activity is exploration for natural resources.

(b) Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 28 October 2011.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of subsidiaries of Mongolian Resource Corporation Limited ('Group' or 'parent entity') as at 30 June 2011 and the results of subsidiaries for the year then ended. Mongolian Resource Corporation Limited and its subsidiaries are referred to in this financial report as the Group or the Consolidated Entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity. Business combinations have been accounted for using the acquisition method of accounting, refer note 1(t).

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within equity attributable to owners of Mongolian Resource Corporation Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty (continued)

Share-based payment transactions:

The Group measures the cost of equity-settled transactions by reference to the fair value of the services provided. Where the services provided cannot be reliably estimated fair value is measure by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model.

Impairment of goodwill and intangibles with indefinite useful lives:

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 1ab.

Exploration and evaluation costs carried forward

The recoverability of the carrying amount of exploration and evaluation costs carried forward has been reviewed by the directors. In conducting the review, the recoverable amount has been assessed by reference to the higher of “fair value less costs to sell” and “value in use”. In determining value in use, future cash flows are based on:

- Estimates of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Estimated production and sales levels;
- Estimate future commodity prices;
- Future costs of production;
- Future capital expenditure; and/or
- Future exchange rates

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

(f) Revenue Recognition

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis;

Run of Mine stockpiles – the cost of getting ore to the ROM pad including an allocation of waste cost to get to the ore in pit; and

Finished goods and gold in circuit – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(h) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Trade and other receivables

Trade receivables are measured on initial recognition at fair value. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(j) Foreign currency translation

Both the functional and presentation currency of Mongolian Resource Corporation Limited is Australian dollars. The functional and presentation currency of its subsidiaries (MRCMGL LLC, Gunbileg Trade LLC and Gunbileg Gold LLC) is the Mongolian national currency, Togrogs. Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. All exchange differences in the consolidated financial report are taken to profit or loss.

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.

(k) Income tax

Current 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 balance date.

Deferred income tax is provided on all temporary differences at the balance 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:

- when 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 that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income tax (continued)

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets 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:

- when 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; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date 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 each balance date and are recognised to the extent that it has become probable that future taxable profit will 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 at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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

(l) Other taxes

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

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and 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 and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future 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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also 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 recoverable amount is estimated. 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 that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(n) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets 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 the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Share-based payment transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Mongolian Resource Corporation Limited (market conditions) if applicable.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Cash settled transactions:
The Group also provides benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of Mongolian Resource Corporation Limited.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is re-measured to fair value at each balance date up to and including the settlement date with changes in fair value recognised in profit or loss.

(q) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

(a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

(b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest. Indirect costs that are included in the cost of an exploration and evaluation asset include, among other things, charges for depreciation of equipment used in exploration and evaluation activities.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(s) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method and the redemption amount is recognised in profit or loss over the period of the borrowings. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(t) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Business combinations (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(u) Employee leave benefits

(i)Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(v) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(y) Parent entity financial information

The financial information for the parent entity, Mongolian Resource Corporation Limited, disclosed in Note 24 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Mongolian Resource Corporation Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(z) Reverse acquisition accounting

The acquisition of all the issued shares of MRCMGL LLC has been accounted for under the principles of Reverse Acquisitions included in Australian Accounting Standard AASB 3 *Business Combinations*.

The legal structure of the Mongolian Resource Corporation Limited subsequent to the acquisition of MRCMGL LLC will be that Mongolian Resource Corporation Limited will remain as the parent entity. However, the principles of reverse acquisition accounting apply where the owners of the acquired entity (in this case, MRCMGL LLC) obtain control of the acquiring entity (in this case, Mongolian Resource Corporation Limited) as a result of the businesses' combination. Under reverse acquisition accounting, the consolidated financial statements are issued under the name of the legal parent (Mongolian Resource Corporation Limited) but are a continuation of the financial statements of the legal subsidiary (MRCMGL LLC), with the assets and liabilities of the legal subsidiary being recognised and measured at their pre-combination carrying amounts rather than their fair values.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – over 5 to 15 years

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

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future 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.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

(ii) Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, 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.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the assets' original costs.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Property, plant and equipment (continued)

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance date.

(iii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further 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 profit or loss in the year the asset is derecognised.

(ab) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ac) Interest in a jointly controlled operation

The Group has an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

(ad) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Mongolian Resource Corporation Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: REVENUES AND EXPENSES

	Consolidated 2011 $
(a) Other income	
Interest income	38,978
Sale of fixed assets	100
Other	313,681
	352,759
(b) Expenses	
Other	12,518
	12,518

NOTE 3: INCOME TAX

Current tax expense

(a) Income tax expense/(benefit)	
Current Tax	(304,384)
(b) Numerical reconciliation between tax-expense and pre-tax net loss	
Loss from ordinary activities	(1,947,884)
Income tax using the Group's domestic tax rate of 30% (2010: 30%)	(584,364)
Exploration expenditure	(26,739)
Capital raising costs	(21,724)
Non-deductible expenses/(deductible tax adjustments)	494,690
Movement in accruals and provisions	(1,670)
Difference in overseas tax rate	7,409
Current year losses for which no deferred tax asset was recognised	(171,986)
Income tax benefit/(expense) attributable to entity	(304,384)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3: INCOME TAX (continued)

(c) Tax losses

The tax benefit (at 30%) of estimated unused tax losses of $2,269,395 (2010: $1,317,840) has not been recognised as a deferred tax asset as the future recovery of these losses is subject to the Group satisfying the requirements imposed by the relevant regulatory authorities in each of the jurisdictions in which the Group operates. The benefit of deferred tax assets not brought to account will only be brought to account if:

Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; and

The conditions for deductibility imposed by the relevant tax legislation continue to be complied with and no changes in tax legislation adversely affect the Group in realising the benefit.

(d) Unrecognised temporary differences

Net deferred tax assets (calculated at 30%) have not been recognised in respect of the following items:

	Consolidated 2011 $
Unused tax losses	469,669
Foreign tax losses	37,045
Capital raising costs recognised directly in equity	58,464
Accrued expenses	1,930
Unrecognised deferred tax assets relating to the above temporary differences	567,108
Set off against recognised deferred tax liabilities	(301,642)
Set off against unrecognised deferred tax liabilities	(239,477)
Unrecognised deferred tax assets relating to above temporary differences	25,989

Net deferred tax liabilities (calculated at 30%) have not been recognised in respect of the following items:

Deferred exploration and evaluation expenditure	239,477
Income tax benefit/(expense) attributable to entity	239,477
Set off from unrecognised deferred tax assets	(239,477)
Unrecognised deferred tax liabilities relating to the above temporary differences	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3: INCOME TAX (continued)

(e) Recognised temporary differences

Net deferred tax assets (calculated at 30%) have not been recognised in respect of the following items:	Consolidated 2011 $
Fair value uplift on deferred exploration and evaluation expenditure	301,642
Set off from unrecognised deferred tax assets	(301,642)
Recognised deferred tax liabilities relating to the above temporary differences	-

NOTE 4: EARNINGS PER SHARE

	Consolidated 2011 Cents per share
Basic loss per share:	
Continuing operations	(2.35)
Total basic loss per share	(2.35)

(i) Loss used in the calculation of total basic loss per share reconciles to net loss in the statement of comprehensive income as follows:	
Net loss	(1,947,884)
Earnings used in the calculation of basic loss per share	
Earnings used in the calculation of basic loss per share from continuing operations	(1,947,884)

Basic loss per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:	70,079,694

There are no potential ordinary shares that are considered dilutive, as a result no dilutive earnings per share has been disclosed.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 5: SEGMENT REPORTING

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of its interests and projects. Discrete financial information about each of these projects is reported to the executive management team on at least a monthly basis.

Location of interests and nature of projects

Mongolia

In total, 14 new gold projects were acquired covering an area of 185.47km2 in the renown Selenge Gold District of Mongolia and it was via these acquisitions that MRC became the principal neighbour to the large mining projects of Boroo and Gatsuurt held by Centerra Gold Limited. (Toronto Stock Exchange Listed). These projects are held under 16 exploration and 3 mining tenements with the three mining tenements being in the refurbishment stage. In addition as part of the package, 2 early stage explorations tenements were acquired with iron ore and coal potential.

During the 4th quarter of the financial year, activity in Mongolia begun, and was focused on preparation for drilling on the Group's two main gold projects; Blue Eyes and Sujigtei. The projects represent narrow high grade bonanza style mineralization with grades recorded as high as 750 g/t Au by previous explorers. Our immediate work is to validate the potential 321,000 ounces' as defined by previous explorers and then expand upon this mineralization base by examining the untested depth and strike extents.

Blue Eyes Project

The project has a three level underground gold mine in refurbishment, that has been previously been in operation for more than 4 years. Historical gold grades are in the 15-35 g/t Au range and were being treated via a 20 tonnes per day gravity operation. MRC has completed a stage 1 upgrade with the construction of a new 100 tonnes per day processing plant that includes a gold floatation circuit and a batch cyanidation processing plant to treat the floatation concentrates. The small plant is on final stages of permitting and is expected to be coming on line at the end of the calendar year 2011. During this process the Group is mechanizing the small underground mine.

In total 560m of rail has been installed in the mine and underground development commenced on opening up the new no. 3 level of the mine at 150m depth. A total of 180m of strike length of the vein is exposed on levels 1 and 2 currently and minor amounts of gold ore are being extracted during this development phase.

MRC completed metallurgical test work on bulk samples from underground at Blue Eyes and at from the Hilltop Project zone. Both projects show good recovery kinetics via conventional Carbon In Pulp (CIP) Processing. In detail the gravity test work showed gravity coarse gold recovery was (49.9%) and overall recovery was 94.5% of the gold using the conventional technology.

Sujigtei Project

This significant project was mined by the Russians for over four years in the 1980's and has 3 years of development work completed and one year of ore extraction. The mineralization recorded during this period, showed bonanza grade results (>50 g/t Au) over narrow widths (0.4-0.5 m) and our Group is currently focused on validation of this mineralization.

Roads and mine camp infrastructure were upgraded at the project sites and a 40 man mining crew employed to refurbishment the Sujigtei underground adits. In total 4.6km of underground adit's have been opened and in process of recovery at Sujigtei and a new concrete portal has commenced.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 5: SEGMENT REPORTING (continued)

In the quarter ended September 30, 2011, a rail system was installed for ore transport. An underground survey team has commenced detailed survey works at the site for stope evaluation and preparatory work for drilling from underground. Channel sampling of these sections of the mine are underway and a bulk sample for metallurgical work has been collected for shipment to Australian Test Facilities at Independent Metallurgical Operations (IMO), Perth.

Glogex LLC., a Mongolian Consultancy and Services Group specializing in Geology, Mining Technology, Mineral Processing Services, has been commissioned to undertake all Mongolian Standard Permitting and Feasibility Studies for the Blue Eyes & Sujigtei Projects. All data is currently being entered into our Surpac software for creating a block model of resources and drill planning purposes. Outcome to date has shown the synergies and practicality of having a joint mill for the two underground mine operations (Blue Eyes & Sujigtei), and work is progressing in that direction. In order to recommence mining, the project permits have to be reactivated. This will require new feasibility and environmental reports being prepared, with an expected timeline of 6 months.

A total of 3 drill rigs (2 surface and 1 underground) have been purchased to do the initial scout drilling on the 4 prospects identified at Blue Eyes and for the Mine Extensions at Sujigtei. Drilling with our rigs commenced in August, 2011.

In addition a drilling contract for 4,200m of diamond drilling has been signed with Ellechor Drilling Services to provide drilling services at Sujigtei on the deeper holes beneath the historical mine workings (below 200m depth) with the aim to extend to depth the mineralization. Contract drilling has commenced.

Regional Projects

Field Work during this period was completed on four soil anomaly regions. A total of 16,200 soil samples were collected and analyzed using a calibrated Niton G3 Analyser. The work areas included a rock chip sampling program that was completed on a first pass basis to define targets for future trenching and drilling. It was noted that outcropping alteration / stock work mineralization occurred coincident with lead anomalous in the soil sample results. The four areas showing from sampling and geophysics to be the best potential for zones of large open cut style mineralization were the Hill Top, Green Eyes, Timo and Hawshaw Prospects. Geological and alteration mapping occurred over these areas with a total of 854 rock chip surface samples collected. Results were very encouraging with gold returned up to 17.1 g/t Au in channel sampling and large areas were defined from mapping to show quartz stock work zones.

Hill Top Zone

MRC has collected 375 semi-continuous rock chip channel samples and is quite encouraged by the consistency of this mineralization and its recognized similarities to the mineralization at the nearby Boroo Mine Project (Centerra Gold, Ltd.). Our target is to drill out an area 300x500m to open cut depth within the mapped quartz vein stock working and alteration zones. Twin higher grade zones (2-3 g/t Au) have been defined by the +1g/t gold contour and are hosted in a pink rhyolite that is truncated by a Dacite Porphyry Intrusive (post mineralization). The alteration over the hill top zone displays an early intense potassic overprint that is cut by later multiple silica-sericite-pyrite which in places totally replaces the rock. Gold in rock chip samples is recorded over a vertical relief of more than 120m indicating the zones may have some depth potential.

Geophysics was completed that included detailed gradient array IP and a subsequent line Dipole-Dipole IP survey at 100m centers. Pronounced anomalies occurred in the zones of outcropping alteration / mineralization and have provided targets for future drilling.

WA gold exploration projects

Mongolian Resource Corporation Limited's gold exploration projects consist of the following interest: Yandal Gold Projects: Mandilla Well (80% Mongolian Resource Corporation Limited), Maitland Joint Venture (51% Mongolian Resource Corporation Limited), Corboys North (100% Mongolian Resource Corporation Limited)

The Group's Yandal gold projects comprise three contiguous claim groups, located approximately 70km south east of Wiluna, within the Yandal Greenstone Belt of the Archaean Yilgarn Craton. Mongolian Resource Corporation Limited currently holds an 80% interest in the Mandilla Well project, and has earned a 51% interest in the Maitland Joint Venture project. It also has a 100% interest in a number of tenements surrounding and along strike of the Corboys historic line of workings.

The Maitland JV project is a joint venture with West Gold Ltd where Mongolian Resource Corporation Limited owns 51% interest. This year the Group completed transfer title documents for the 51% earned interest in the Maitland Joint Venture tenements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 5: SEGMENT REPORTING (continued)

Mongolian Resource Corporation Limited has elected to maintain its interest at 51% by co-contributing with West Gold to future exploration expenditure and remains the operator of the project. Discussions regarding the next phase of work on this project are ongoing with West Gold.

WA Uranium exploration projects

Mongolian Resource Corporation Limited now has five granted exploration licences and three exploration licence applications over calcrete hosted uranium targets in Western Australia's central and eastern Yilgarn regions.

E36/723 is a 42 square kilometre claim within the Yeelirrie paleo-channel, approximately 40km down-drainage from the Yeelirrie deposit, the world's largest known calcrete hosted uranium deposit. The tenement covers at least 7km of radiometrically anomalous paleo-channel which, to Mongolian Resource Corporation Limited's knowledge, has only been tested by two broadly spaced lines of drilling. While this drilling did not encounter significant uranium mineralisation, the untested portions of paleo-channel remain prospective.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note1(ad) to the accounts.

	Exploration Activities Australia $	Exploration Activities Mongolia $	Unallocated $	Total $
30 June 2011				
Revenue				
Interest income	-	-	38,978	38,978
Other	1,266	312,515	-	313,781
Total segment revenue	1,266	312,515	38,978	352,759
Expenses				
Corporate expenses	-	-	(754,698)	(754,698)
Goodwill on acquisition written off	(1,545,945)	-	-	(1,545,945)
Total segment expenses	(1,545,945)	-	(754,698)	(2,300,643)
Segment result	(1,544,679)	312,515	(715,720)	(1,947,884)
Unallocated revenues and expenses				715,720
Results from operating activities				(1,232,164)
Segment assets	1,803,731	13,316,956	7,266,498	22,387,185
Segment liabilities	-	-	(186,699)	(186,699)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6: ISSUED CAPITAL

On 11 April 2011 MRCMGL LLC completed a reverse acquisition of Mongolian Resource Corporation Limited. As such the comparative period figures relate to MRCMGL LLC only. The brought forward number of shares will therefore not correspond with the Mongolian Resource Corporation Limited shares in existence at 30 June 2010.

	2011 (Post consolidation)	
Movements in ordinary shares on issue	**No.**	**$**
Shares on issue at date of reverse acquisition[1]	26,257,357	2,319,599
Shares issued on 11 April 2011 to vendors of MRCMGL LLC	55,000,000	11,410,515
Performance shares issued on 11 April 2011 to vendors of MRCMGL LLC [2]	45,000,000	-
Shares issued on 11 April 2011 to third party advisors	1,000,000	250,000
Performance shares issued on 11 April 2011 to third party advisors[2]	1,000,000	-
Shares issued on 11 April 2011 to directors	500,000	125,000
Shares issued on 11 April 2011 as part of placement	40,000,000	10,000,000
Shares issued on 23 June 2011 on the exercise of listed options	500,000	100,000
Shares issued on 30 June 2011 on the exercise of listed options	500,000	100,000
Less share issue and share buy-back costs		(850,287)
Balance at end of financial year	169,757,357	23,454,827

[1]Reconciliation of shares on issue at date of reverse acquisition

Number of shares in Mongolian Resource Corporation Limited at beginning of financial year	22,500,001
Shares issued on 8 November 2010 as part of placement	3,375,000
Shares issued on 19 November 2010 on the exercise of options	15,000
Shares issued on 16 December 2010 on the exercise of options	60,000
Shares issued on 8 February 2011 on the exercise of listed options	85,000
Shares issued on 28 February 2011 on the exercise of listed options	122,356
Shares issued on 21 March 2011 on the exercise of listed options	100,000
Number of shares in Mongolian Resource Corporation Limited at time of reverse acquisition of MRCMGL LLC	26,257,357

[2]Performance Shares

Each Performance Share will convert into one Share upon achievement of an Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) compliant mineral resource in respect of:

(i) the area comprising the Tenements (defined as those being acquired under the acquisition of MRCMGL LLC); or

(ii) an alternative project area as vended to Mongolian Resource Corporation Limited by the vendors of MRCMGL LLC (or their associates) at no cost to Mongolian Resource Corporation Limited, within 3 years from the date of issue of the Performance Shares of a minimum of 1 million ounces of gold with a minimum of 300,000 ounces in the indicated category.

If the milestone is not achieved by the required date, then the performance shares held by Capital Ahead Limited HK will be automatically redeemed by Mongolian Resource Corporation Limited for the sum of $0.000001 within 10 business days of non-satisfaction of the milestone. No value has been attached to the performance shares on settlement of this transaction as the likelihood that they would vest is remote.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6: ISSUED CAPITAL (continued)

Company options

Company options carry no voting rights and carry no right to dividends

Share option Reserves	2011 (Post consolidation)	
Movements in company options	$	No.
Options on issue at date of reverse acquisition[1]	11,867,644	1,545,945
Options issued on 11 April 2011 to vendors of MRCMGL LLC[2]	12,500,000	-
Options issued to third party advisors[2]	2,000,000	247,352
Company options exercised on 23 June 2011	(500,000)	-
Company options exercised on 30 June 2011	(500,000)	-
At 30 June 2011[3]	25,367,644	1,793,297

[1]Reconciliation of options on issue at date of reverse acquisition

Number of shares in Mongolian Resource Corporation Limited at beginning of financial year	12,250,000
Company options exercised on 19 November 2010	(15,000)
Company options exercised on 16 December 2010	(60,000)
Company options exercised on 8 February 2011	(85,000)
Company options exercised on 28 February 2011	(122,356)
Company options exercised on 21 March 2011	(100,000)
Number of options in Mongolian Resource Corporation Limited at time of reverse acquisition of MRCMGL LLC	11,867,644

[2]The value of Options has been determined by reference to the fair value of the services provided (Note 22).

[3]There are 25,367,644 options on hand at year end exercisable at $0.25, expiring 31 March 2013.

NOTE 7: CASH AND CASH EQUIVALENTS

	Consolidated	
	2011	2010
	$	$
Cash at hand and in bank	1,150,202	1,818,011
Short term deposits	5,727,959	-
	6,878,161	1,818,011

Cash at bank earns interest at floating rates based on daily deposit rates.
The Group did not engage in any non-cash financing activities for the year ended 30 June 2010 and was not party to any borrowing facilities for the same period.
All cash was available for use, and no restrictions were placed on the use of it at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 7: CASH AND CASH EQUIVALENTS (continued)

Reconciliation of loss for the year to net cash flows from operating activities

	Consolidated 2011 $
Net Loss for the year	(1,643,500)
Depreciation on non-current assets	12,002
Goodwill on acquisition written off	1,545,945
Profit on disposal of plant and equipment	(100)
Foreign exchange loss	163,587
Share based payments expense	622,352
Changes in assets and liabilities:	
Decrease in trade payables and accruals	(4,388,685)
Increase in trade receivables and prepayments	2,516,121
Increase in inventories	(19,195)
Decrease in tax liability	(136,698)
Net cash used in operating activities	(1,328,171)

Acquisition of entities

Purchase consideration:	
Cash	-
Convertible notes (shares)	2,319,599
Convertible notes (options)	1,545,945
Contingent consideration	-
Total consideration	3,865,544
Cash consideration	-
Amounts under contract of sale	(291,778)
Cash outflow/(in flow)	(291,778)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 7: CASH AND CASH EQUIVALENTS (continued)

Assets and liabilities held at acquisition date:

	Consolidated
	2011
	$
Cash	291,778
Receivables	647,946
Deferred exploration expenditure	1,780,000
Plant and equipment	-
Payables	(98,483)
Deferred tax liabilities	(301,642)
	2,319,599
Goodwill on consolidation	1,545,945
Non-controlling interests	-
	3,865,544

Contingent consideration

As part of this acquisition Mongolian Resource Corporation Limited also issued 45,000,000 performance shares to MRCMGL LLC to be converted following completion of the milestones as set out in the acquisition agreement.

NOTE 8: TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011	2010
	$	$
Prepayments	6,179	7,804
Other receivables	85,680	1,821,930
Trade and other receivables balance at 30 June	91,859	1,829,734

NOTE 9: PLANT AND EQUIPMENT

Plant and equipment at cost	5,407,383	4,118,913
Accumulated depreciation	(938,695)	(919,002)
Balance at 30 June	4,468,688	3,199,911

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 9: PLANT AND EQUIPMENT (continued)

Movements in the carrying amounts of plant and equipment between the beginning and the end of the current financial year:

	Consolidated
	2011
	$
Balance at 1 July	3,199,911
Additions	1,280,779
Depreciation expense	(12,002)
Balance at 30 June	4,468,688

NOTE 10: DEFERRED EXPLORATION EXPENDITURE

Costs carried forward in respect of:	
Exploration and evaluation phase – at cost	
Balance at the beginning of the year	3,158,595
Expenditure incurred	5,713,404
Fair value of exploration assets acquired (i)	1,780,000
Total Exploration Expenditure balance at 30 June	10,651,999

(i) This relates to the revaluation of Australian projects as a result of the values provided by the Ravensgate Valuation Report.

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the discovery of commercially viable mineral or other natural resource deposits and their successful development and commercial exploration or sale of the respective mining areas.

NOTE 11: OTHER NON-CURRENT ASSETS

	Consolidated	
	2011	2010
	$	$
Deposit on Tsagaan Tokhoin Ereg joint venture	296,478	-
Other non-current assets	-	93,763
	296,478	93,763

Mongolian Resource Corporation Limited paid a deposit of US$315,000 to acquire 80% of Tsagaan Tokhoin Ereg through a joint venture with Ohir Leasing. The agreement was signed on 7 July 2011 (refer Note 18).

NOTE 12: BORROWINGS

Current		
Borrowings from related parties	-	1,740,883
Short term loan payable	-	561,943
	-	2,302,826

Non-current

Borrowings from related parties	-	2,426,327

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated	
	2011	2010
	$	$
Trade payables*	156,526	374,145

* Trade payables are non-interest bearing and are normally settled on 60-day terms

NOTE 14: OTHER CURRENT LIABILITIES

Other payables	30,173	732,738

NOTE 15: FINANCIAL INSTRUMENTS

Financial assets		
Receivables	85,680	1,821,930
Cash and cash equivalents	6,878,161	1,818,011
Balance at end of year	6,963,841	3,639,941

The following table details the expected maturity/s for the Group's non-derivative financial assets. These have been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month $	1 – 3 Months $	3 months – 1 year $	1 – 5 years $	5+ years $
2011						
Non-interest bearing	-	-	85,680	-	-	-
Variable interest rate instruments	-	1,150,202	5,727,959	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
		1,150,202	5,813,639	-	-	-
2010						
Non-interest bearing	-	-	1,821,930	-	-	-
Variable interest rate instruments	-	1,818,011	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
		1,818,011	1,821,930	-	-	-

The following tables detail the Group's remaining contractual maturity/s for its non-derivative financial liabilities. These are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: FINANCIAL INSTRUMENTS (continued)

	Weighted average effective interest rate %	Less than 1 month $	1 – 3 Months $	3 months – 1 year $	1 – 5 years $	5+ years $
2011						
Non-interest bearing	-	186,699	-	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
		186,699	-	-	-	-
2010						
Non-interest bearing	-	374,145	-	896,213	-	-
Variable interest rate instruments	-	-	-	2,302,826	2,426,327	-
		374,145	-	3,199,039	2,426,327	-

The carrying amount of cash and cash equivalents approximates fair value because of their short-term maturity.

Financial risk management objectives and policies:

The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Market risk
- Capital risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the Group. The Group also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the year under review, it has been the Group's policy not to trade in financial instruments.

(a) Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. An example is that the Group only dealt with the NAB in Australia and UBCB in Mongolia for Term Deposits during the year. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers and suppliers.

The Group's exposure and the credit ratings of its counter-parties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board annually.

The Group does not have any significant credit risk exposure to NAB or UBCB. The credit risk on liquid funds and Term Deposits is reduced because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group did not have any undrawn facilities at its disposal as at balance date.

(c) Interest rate risk management

The Group is exposed to interest rate risk as the Group deposits the bulk of the Group's cash reserves in Short Term Deposits with NAB and UBCB or other acceptable Australian and Mongolian Banking entities. The risk is managed by the Group by maintaining an appropriate mix between short term deposits and at call deposits. The Group's exposure to interest rate on financial assets is detailed in the interest rate risk sensitivity analysis section of this note.

Interest rate risk sensitivity analysis

The sensitivity analyses below have been determined based on the Group's cash and cash equivalent exposure to interest rates. A 100 basis point increase or decrease is used when reporting interest rate risk. The Group's sensitivity to interest rates may decrease during the current period depending on the use of the cash reserves of the Group.

The effect on loss and equity as a result of change in the interest rate, with all other variable remaining constant would be as follows:

	Consolidated
	2011
	$
Change in Loss	
Increase in interest rate by 1%	(6,878)
Decrease in interest rate by 1%	6,878
Change in Equity	
Increase in interest rate by 1%	(1,818)
Decrease in interest rate by 1%	1,818

(d) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Group is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The Group does not have short or long term debt, and therefore the risk is minimal. The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have acceptable credit ratings.

The Group may be exposed to currency risk on international investments and purchases that are denominated in a currency other than the respective currencies of the Group. Whilst the Group has projects in Mongolia, there may be an exposure to an element of currency risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: FINANCIAL INSTRUMENTS (continued)

(i) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date expressed in Australian dollars are as follows:

	Liabilities		Assets	
	2011	2010	2011	2010
	$	$	$	$
Mongolian Togrogs	7,137,596	5,999,510	17,446,842	10,100,014

(e) Capital Risk Management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders. Due to the nature of the Group's activities, being mineral exploration, it does not have ready access to credit facilities and therefore is not subject to any externally imposed capital requirements, with the primary source of Group funding being equity raisings. Accordingly, the objective of the Group's capital risk management is to balance the current working capital position against the requirements to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

NOTE 16: COMMITMENTS AND CONTINGENCIES

Officers' Remuneration Commitments

The Group entered into remuneration commitments with all the non-executive directors of the Group for all services. The non-executive chairperson and non-executive director salaries have been set at $72,000 and $48,000 per annum respectively. The Group entered into a remuneration commitment with the Company secretary for a monthly retainer fee of $5,000, effective 5 August 2011, for all services rendered from this date forward. Remuneration of non-executive directors and the Company secretary is reviewed annually. Non-executive directors appointed during or since the end of the period have been retained on the standard non-executive director salaries of $30,000 per annum.

Executive Services Agreement – Tony Bainbridge

Following the appointment of Mr Tony Bainbridge to the position of Managing Director and CEO, resident in Mongolia, Mongolian Resource Corporation Limited ("MRC" or "the Company"), advises the following remuneration package details:

- Annual salary package of $200,000 inclusive of superannuation
- Housing rental allowance of $3,000.00 per month
- Vehicle and fuel allowance of $1,000 per month

Mr Bainbridge will participate in an Executive and Employee share scheme, the details of which are yet to be finalised. This scheme will require shareholder approval of the issue of shares and or options to Mr Bainbridge. Termination: Mr Bainbridge's employment can be terminated, by either party, without cause, on six months notice, or payment in lieu. The employment agreement can be terminated by MRC for cause, without notice or any payment.

Administration Agreement

On 30 May 2008, the Group entered into an agreement with Cicero Corporate Services Pty Ltd (Cicero) defining the terms of engagement for the provision of administration services by Cicero as a contractor to the Group. This Agreement was amended during April 2011. Cicero will provide the office rent and administration services to the Group for a monthly fee of $12,000 plus GST. Cicero may be requested to make available additional services at an hourly rate. This agreement has been terminated by mutual consent of both parties since the end of the period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: COMMITMENTS AND CONTINGENCIES (continued)

Tenement Related Commitments and Contingencies

	Consolidated	
	2011	**2010**
	$	**$**
Commitments for exploration expenditure on Western Australian Projects		
Not longer than 1 year	628,094	430,492
Longer than 1 year and less than 2 years	628,094	430,492
Longer than 2 year and less than 5 years	1,884,281	1,291,476
Commitments for exploration expenditure on Mongolian Projects		
Not longer than 1 year	33,391	-
Longer than 1 year and less than 2 years	33,391	-
Longer than 2 year and less than 5 years	100,173	-

Tenement Related Commitments and Contingencies

The Group has expenditure commitments of $80,600 and rental commitments of $4,254 on the 100% owned granted tenements as part of the Mandilla Well Project in Western Australia, and has expenditure commitments of $64,480 and rental commitments of $3,403 on the 80% owned granted tenements as part of the Mandilla Well Project in Western Australia. The Group also has expenditure commitments of $114,200 and rental commitments of $6,776 on the granted tenements as part of the Maitland Joint Venture with West Gold Ltd in Western Australia. All Maitland Joint Venture tenements are owned 100% by West Gold Ltd, with Mongolian Resource Corporation Limited earning in to the tenements.

Tenement Security

As at the balance date, the Group has provided written security in respect of 18 exploration tenements and 24 prospecting licences with the Department of Mineral Resources, to the value of $5,000 each, totalling $150,000. This binds the Group to the provisions of the Mining Act 1978.

Mongolia

The Group has expenditure commitments of $15,701 and rental commitments of $14,336 on the 100% owned granted tenements as part of the Gold Projects in Mongolia. The Group also has expenditure and rental commitments of $1,677 on the granted tenements as part of the Blue Eyes Project in Mongolia of which the Group is granted an 85% interest.

NOTE 17: DIVIDENDS

On 10 October 2010 a dividend of $1,315,822 was paid from Gunbileg Trade LLC to its previous owner Mr Sumiya Bumangerel. The dividend per share is $0.78, calculated using the shares of Mongolian Resource Corporation Limited.

NOTE 18: EVENTS SUBSEQUENT TO REPORTING DATE

- On 7 July 2011 MRCMGL LLC concluded a Joint Venture Agreement with Ochir Leasing Co Limited to acquire 80% of Tsagaan Tokhoin Ereg for US$315,000.
- On 29 July 2011 Carey Smith resigned as a Director and John Robert Lee replaced him.
- On 4 August 2011 Sonu Cheema resigned as Company Secretary and was replaced by John Lee.
- On 29 August 2011 Tony Bainbridge appointed Managing Director and CEO of the Group.
- On 29 August 2011 Jim Bickel resigned as non-Executive Director of the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19: AUDITOR'S REMUNERATION

The auditor of Mongolian Resource Corporation Limited is HLB Mann Judd.

	Consolidated	
	2011	**2010**
	$	**$**
Amounts received or due and receivable by HLB Mann Judd for:		
Advice for the accounting of the MRCMGL LLC acquisition	1,250	-
Audit or review of the financial statements	24,860	20,000
Total	26,110	20,000

The auditor of MRCMGL LLC and its subsidiaries is Sevillia Audit LLC .

Amounts received or due and receivable by Sevillia Audit LLC for:		
Audit or review of the financial statements	14,192	-
Total	14,192	-

NOTE 20: DIRECTORS AND EXECUTIVES DISCLOSURES

(a). **Details of Directors' and Executives**

The following persons were directors and executives of Mongolian Resource Corporation Limited during the financial year:

- Naidansuren Jargalsaikhan — Non-executive Chairman
- Tanan Jargalsaikhan — Non-executive Director
- Stockley Davis — Non-executive Director
- James Bickel — Non-executive Director
- Carey Smith — Non-executive Director
- Grant Button — Non-executive Chairman
- Michael Cartwright — Non-executive Director
- David Parker — Company Secretary
- James Robinson — Non-executive Director
- Sonu Chema — Company Secretary

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

Directors and executives remuneration has been included in the Remuneration Report section of the Directors' Report.

(b) Option holdings of Directors and Executives

30 June 2011	Balance at Beginning of Year	Granted as Remuneration	Options Exercised	Net Change Other[2]	Balance at end of Year
Directors					
Jargalsaikhan Naidansuren	-	-	-	12,500,000	12,500,000[3]
Tanan Jargalsaikhan	-	-	-	12,500,000	12,500,000[3]
Stockley Davis	-	-	-	1,794,979	1,794,979
Carey Smith	-	-	-	482,000	482,000
James Bickel	-	-	-	75,000	75,000
Grant Button	-	-	-	225,000	225,000[1]
Michael Cartwright	-	-	-	320,000	320,000[1]
James Robinson	-	-	-	-	-[1]
Executives					
David Parker	-	-	-	125,000	125,000[1]
Sonu Chema	-	-	-	-	-

[1] Balance at retirement

[2] Net change other represents options issued through the entitlement issue which was on the same terms and conditions as other shareholders.

[3] Options held in the name of Capital Ahead Limited HK and were received as consideration for the acquisition of MRCMGL LLC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

30 June 2010	Balance at Beginning of Year	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of Year
Directors					
Grant Button	-	-	-	225,000	225,000
Tony Worth	1,000,000	-	-	50,000	1,050,000[1]
Michael Cartwright	-	-	-	330,000	330,000
James Robinson	-	-	-	-	-
Executives					
David Parker	-	-	-	125,000	125,000

[1] Balance at retirement
[2] Net change other represents options issued through the entitlement issue which was on the same terms and conditions as other shareholders.

(c) Shareholdings of Directors and Executives

30 June 2011	Balance at Beginning of Year	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of Year
Directors					
Jargalsaikhan Naidansuren	-	-	-	55,000,000	55,000,000[1]
Tanan Jargalsaikhan	-	-	-	55,000,000	55,000,000[1]
Stockley Davis	-	-	-	1,950,000	1,950,000
Carey Smith	-	-	-	167,500	167,500
James Bickel	-	-	2,000,000	-	2,000,000
Grant Button	450,000	-	-	165,000	615,000[2]
Michael Cartwright	640,000	-	-	-	640,000[2]
James Robinson	-	-	-	-	-[2]
Executives					
David Parker	250,001	-	-	207,500	457,501[2]

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20: Directors and Executives disclosures (continued)

[1] Shares held in the name of Capital Ahead Limited HK and were received as consideration for the acquisition of MRCMGL LLC.

[2] Balance at retirement.

30 June 2010	Balance at Beginning of Year	Received as Remuneration	On Exercise of Options	Net Change Other	Balance at end of Year
Directors					
Grant Button [1]	450,000	-	-	-	450,000
Tony Worth	100,000	-	-	-	100,000
Michael Cartwright [2]	640,000	-	-	-	640,000
James Robinson[4]	-[4]	-	-	-	-
Executives					
David Parker[3]	250,001	-	-	-	250,001

[1] 250,000 Shares held in the name of Grant Button and 200,000 Shares held in the name of Grant Button as Trustee for the Wilberforce Trust.

[2] 560,000 ordinary shares held in the name of Michael Cartwright; 70,000 ordinary shares held in the name of Mrs Vanessa Cartwright, spouse of Mr Michael Cartwright and 10,000 ordinary shares held in the name of Cartwright Brothers Pty Ltd, Mr Michael Cartwright is a director and controller of Cartwright Brothers Pty Ltd.

[3] Mr Parker holds 200,000 shares in a controlled entity Cobblestones Corporate Pty Ltd at trustee for the DRP Investment Trust and 50,000 shares in Cobblestones Corporate Pty Ltd at trustee for the DRP (2006) Super Fund.

[4] Balance as at appointment date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Mongolian Resource Corporation Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	% Equity Interest 2011	% Equity Interest 2010
MRCMGL LLC	Mongolia	100%	-
Subsidiaries of MRCMGL LLC:			
Gunbileg Gold LLC	Mongolia	85%	-
Gunbileg Trade LLC	Mongolia	90%	-

Mongolia Resource Corporation Ltd is the ultimate Australian parent entity and ultimate parent of the Group.

Disclosure of interest of Administration Agreement with Cicero Corporate Services Pty Ltd:

- David Parker is a shareholder and director of Cicero Corporate Services Pty Ltd.
- Services provided include company secretarial, accounting, bookkeeping, reception, office of the Group's principal place of business and boardroom facilities (the "Services").
- Cicero Corporate Services Pty Ltd is contracted to provide the Services on an ongoing basis, of approximately $12,000 (excluding GST) plus reimbursements per month.
- Cicero Corporate Services Pty Ltd provided the Services to the Group on commercial terms during the year. The Group made payments during the year of $99,764 ($57,320 – 2010) to Cicero Corporate Services Pty Ltd.

During the period of integration of businesses, an entity associated with Naidansuren Jargalsaikhan and Tanan Jargalsaikhan was paid $61,579 for the provision of office space, telecommunications, photocopying and general expenses. These payments were on normal commercial terms. This amount was reimbursed to the entity by the Company.

NOTE 22: SHARE BASED PAYMENTS

(a). Recognised Share Based Payments Expense

The Group provides Incentive Options to officers, employees, consultants and other key advisors as part of remuneration and incentive arrangements. The number of options granted, and the terms of the options granted are determined by the Board. Shareholder approval is sought where required. During the past two years, the following equity-settled share-based payments have been recognised:

	Consolidated 2011 $
Expense arising from equity-settled share-based payment transactions	622,352
Total Expense arising from equity-settled share-based payment transactions	622,352

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: SHARE BASED PAYMENTS (continued)

(b). Summary of Options Granted as Share Based Payments

During the period, the following Company Options were granted as share-based payments:

Options Series	Issuing Entity	Number	Grant Date	Expiry Date	Exercise price $	Grant Date fair Value $
Tranch A	Mongolia Resource Corporation Ltd	12,500,000	11-Apr-2011	31-Mar-13	0.25	$0.177
Tranch B	Mongolia Resource Corporation Ltd	2,000,000	11-Apr-2011	31-Mar-13	0.25	$0.177

(b). Options pricing model

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Black Scholes option valuation model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the valuation model used for share options granted by the Group during the last two years:

Inputs	Tranch A	Tranch B
Exercise Price	$0.25	$0.25
Grant date Share Price	$0.30	$0.30
Volatility	101%	101%
Risk-free interest rate	5.065%	5.065%
Grant Date	11-Apr-2011	11-Apr-2011
Expiry Date	30-Jun-13	30-Jun-13
Discount for lack of marketability	30%	30%
Fair Value at Grant	$0.177	$0.177

NOTE 23: BUSINESS COMBINATION

On 11 April 2011, the parent entity acquired 100% of the voting shares of MRCMGL LLC, a mineral exploration company based in Mongolia.

The purchase was satisfied by the issue of 55,000,000 ordinary shares with a fair value of $0.25 each, based on the 11 April 2011 placement price of the shares, of Mongolian Resource Corporation Limited, 45,000,000 performance shares of Mongolian Resource Corporation and 11,867,644 options exercisable at 25 cents expiring in 2 years, in exchange for all the MRCMGL LLC Pty Ltd ordinary shares owned by Capital Ahead Limited HK.

Due to the nature of the acquisition, the acquisition of MRCMGL LLC was considered a reverse acquisition for accounting purposes. Refer to Note 1(z). The following represents the net assets and consideration paid by MRCMGL LLC for Mongolian Resource Corporation Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 23: BUSINESS COMBINATION (continued)

The assets and liabilities compromising the acquisition as at the date of acquisition are:

	Fair value at acquisition date $
Cash and cash equivalents	291,778
Trade and other receivables	647,946
Deferred exploration expenditure	1,780,000
Trade and other payables	(98,483)
Deferred tax liabilities	(301,642)
Net assets acquired	**2,319,599**
Goodwill on acquisition*	1,545,945
Non-controlling interests in identifiable net assets	-
Fair value of assets acquired	**3,865,544**
Consideration paid	
55,000,000 Ordinary shares	**2,319,599**
45,000,000 Performance shares **	**-**
11,867,644 Options	**1,545,945**
Consideration paid	**3,865,544**

*The goodwill arising on acquisition has been written off, as no cash generating unit was present within MRCMGL LLC. Management's assessment of the recoverability of the goodwill arising on acquisition has indicated that an impairment charge should be recognised, as such the whole of the goodwill have been written off accordingly.

** Performance Shares

Each Performance Share will convert into one Share upon achievement of an Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) compliant mineral resource in respect of:

(i) the area comprising the Tenements (defined as those being acquired under the acquisition of MRCMGL LLC); or

(ii) an alternative project area as vended to Mongolian Resource Corporation Limited by the vendors of MRCMGL LLC (or their associates) at no cost to Mongolian Resource Corporation Limited, within 3 years from the date of issue of the Performance Shares of a minimum of 1 million ounces of gold with a minimum of 300,000 ounces in the indicated category.

If the milestone is not achieved by the required date, then the performance shares held by Capital Ahead Limited HK will be automatically redeemed by Mongolian Resource Corporation Limited for the sum of $0.000001 within 10 business days of non satisfaction of the milestone. No value has been attached to the performance shares on settlement of this transaction as the likelihood that they would vest is remote.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 24: PARENT ENTITY DISCLOSURES

	2011 $	2010 $
Assets		
Current assets	3,136,612	1,531,324
Non-current assets	17,099,676	710,563
Total assets	20,236,288	2,241,887
Liabilities		
Current liabilities	123,985	28,520
Non-current liabilities	-	-
Total liabilities	123,985	28,520
Net Assets	20,112,303	2,213,367
Equity		
Issued capital	26,746,269	2,688,834
Options reserve	1,905,797	146,438
Accumulated Losses	(8,539,763)	(621,905)
Total Equity	20,112,303	2,213,367
Financial performance		
Loss for the year	(7,917,858)	(294,781)
Other comprehensive income	-	-
Total comprehensive income	(7,917,858)	(294,781)

Contingent liabilities of the parent entity

For details on commitments, see Note 16.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Mongolian Resource Corporation Limited ('the Group'):

   a. the financial statements and notes of the Group are in accordance with the Corporations Act 2001 including:

      i. giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year then ended; and

      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

   c. The financial statements and note thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

This declaration is signed in accordance with a resolution of the Board of Directors.

Mr John Lee
Director
Sydney, New South Wales; Dated this 28th day of October 2011

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Mongolian Resource Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of Mongolian Resource Corporation Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Mongolian Resource Corporation Limited for the financial year ended 30 June 2011 included on Mongolian Resource Corporation Limited's website. The company's directors are responsible for the integrity of the Mongolian Resource Corporation Limited website. We have not been engaged to report on the integrity of this website. The company's directors are responsible for the integrity of the

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Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au
Liability limited by a scheme approved under Professional Standards Legislation

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Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the audited financial report (continued)

Mongolian Resource Corporation Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Basis for Qualified Opinion

As disclosed in Note 1(z), the acquisition of MRCMGL LLC was accounted for as a reverse acquisition. The comparatives required to be presented in the annual report are the comparatives for the accounting parent (being MRCMGL LLC) rather than the comparatives of Mongolian Resource Corporation Limited. The directors have been unable to present for audit the comparative balances for the statement of financial performance, the statement of changes in equity, the statement of cash flows and certain information in the notes to the financial statements. This represents a departure from Australian Accounting Standards which require the disclosure of comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

The directors were able to determine comparative balances for the statement of financial position. We have been unable to obtain sufficient appropriate audit evidence to be satisfied that these balances are correctly stated. We therefore, do not express an opinion on the comparative balances in the statement of financial position. As these balances contribute to the determination of the results for the year ended 30 June 2011, we are not in a position to and do not express an opinion on the results, statement of changes in equity and statement of cash flows for the year ended 30 June 2011.

Qualified Opinion

In our opinion, because of the matters described in the qualifications paragraph, we are unable to and do not express an opinion on the comparative balances for the year ended 30 June 2010 and the results of the operations, statement of changes in equity and statement of cash flows of Mongolian Resource Corporation Limited for the year ended 30 June 2011.

Auditor's Opinion

In our opinion:

(a) the statement of financial position of Mongolian Resource Corporation Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the statement of financial position also complies with International Financial Reporting Standards as disclosed in Note 1(c).

HLB Mann Judd
Accountants | Business and Financial Advisers

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Mongolian Resource Corporation Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glad

Perth, Western Australia
28 October 2011

N G NEILL
Partner

ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Group has followed the best practice recommendations set by the ASX Corporate Governance Council during the period is contained within the Director's Report.

B. SHAREHOLDING

1. Substantial Shareholders

There were two substantial shareholders listed on the Companies register as at 23 September 2011, being
CAP AHEAD LTD holding 55,000,000 fully paid ordinary shares, being 44.44% of the fully paid ordinary shares on issue.

CHINGGIS METALS PL holding 21,000,000 fully paid ordinary shares being 16.97% of the fully paid ordinary shares on issue.

2. Number of holders in each class of equity securities and the voting rights attached (as at 30 September 2011)

Ordinary Shares

There are 393 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

In accordance with the Group's Constitution, on a show of hands every number present in person or by proxy or attorney or duly authorized representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorized representative has one vote for every fully paid ordinary share held.

Options (Listed and unlisted)

There are 194 holders of listed options.. There are no voting rights attached to these options.

3. Distribution schedule of the number of holders in each class of equity security as at 30 September 2011.

a) *Fully Paid Ordinary Shares*

Spread of holdings	Holders	Securities	% of issued capital
NIL holding			
1 - 1,000	11	3,418	.00 %
1,001 - 5,000	16	53,849	.04 %
5,001 - 10,000	82	803,500	.65 %
10,001 - 100,000	211	7,829,920	6.33 %
100,001 -	73	115,066,670	92.98 %
Total on register	393	123,757,357	100.00 %
Total overseas holders	16	63,164,627	51.04 %

ADDITIONAL SHAREHOLDER INFORMATION (continued)

Shareholding (continued)

b) Listed Options exercisable at $0.20 on or before 31 March 2013

Spread of holdings	Holders	Securities	% of issued capital
NIL holding			
1 - 1,000			.00 %
1,001 - 5,000	39	189,000	1.74 %
5,001 - 10,000	37	287,500	2.65 %
10,001 - 100,000	94	3,108,615	28.60 %
100,001 -	24	7,282,529	67.01 %
Total on register	194	10,867,644	100.00 %
Total overseas holders	4	750,500	6.91 %

4. Marketable Parcel

There are two (2) shareholders with less than a marketable parcel (basis price $0.17).

5. Twenty largest holders of each class of quoted equity security.

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 23 September 2011) is as follows:

a) Ordinary shares top 20 holders and percentage held

	Holder name	Designation	Units	% of issued
1	CAP AHEAD LTD		55,000,000	44.44%
2	CHINGGIS METALS PL		21,000,000	16.97%
3	JP MORGAN NOM AUST LTD	CASH INCOME A/C	4,110,000	3.32%
4	CITICORP NOM PL		3,633,632	2.94%
5	BEAURAMA PL	PHILLIPS INV A/C	3,000,000	2.42%
6	RBC DEXIA INVESTOR SVCS		2,799,960	2.26%
7 *	GUND-YONDON GANBAATAR		1,812,000	1.46%
8 *	QUINCY NOM PL	S/F ACCOUNT	1,452,951	1.17%
9	PAN AUST NOM PL		1,270,000	1.03%
10	AJAVA HLDGS PL		1,000,000	.81%
11 *	WORTH ANTONY WILLIAM		980,000	.79%
12	REDWOOD CAP INC		935,000	.76%
13	SUNSHORE HLDGS PL		800,000	.65%
14 *	PLATINUM INV CORP PL		800,000	.65%
15 *	VIRTUAL GENIUS PL	HAMPDEN ESTATE A/C	750,000	.61%
16 *	MONEMVASIA PL		750,000	.61%
17 *	NORUP JOHN + KARIN	JOHN NORUP FAM A/C	541,666	.44%
18	BEAURAMA PL		533,334	.43%
19	MCELROY BRAD		500,000	.40%
20 *	TORO NEGRO PL		500,000	.40%
	*** Top 20 total ***		102,168,543	82.56%

** All holders included * - Denotes merged holder

ADDITIONAL SHAREHOLDER INFORMATION (continued)

Twenty largest holders of each class of quoted equity security (continued)

b) Listed Options exercisable at $0.20 on or before 31 March 2013

MONGOLIAN RESOURCE CORPORATION LTD — Spread & Top 20 Listing
MONGOLIAN RESOURCE CORPORATION LTD OPTIONS 31/03/13 @ $0.20
Page - 1

		Holder name	Designation	Units	% of issued
1	*	AUST SPORT & RECREATION L	DAVIS-ORTIZ A/C	1,036,479	9.54%
2	*	WEE SHANE HOEHOCK	WEE FAM A/C	1,000,050	9.20%
3	*	QUINCY NOM PL	S/F ACCOUNT	539,500	4.96%
4	*	BUTTON GRANT MICHAEL	WILBERFORCE A/C	475,000	4.37%
5	*	VIRTUAL GENIUS PL	HAMPDEN ESTATE A/C	375,000	3.45%
6		MONEMVASIA PL		374,000	3.44%
7	*	PLATINUM INV CORP PL		360,000	3.31%
8		SMITH CAREY PIETER		332,500	3.06%
9		HENDERSON CAP PL	HENDERSON INVST A/	280,000	2.58%
10	*	LEE CHEE SOON		275,000	2.53%
11	*	TORO NEGRO PL		250,000	2.30%
12	*	FORTY TRADERS LTD		250,000	2.30%
13	*	DAVIS STOCKLEY ROY		212,500	1.96%
14	*	CARTWRIGHT MICHAEL JOHN		175,000	1.61%
15	*	YARANDI INV PL	GRIFFITH FAM NO 2	175,000	1.61%
16	*	AUST SPORT & RECREATION L		173,500	1.60%
17	*	SMITH CAREY PIETER		150,000	1.38%
18	*	SHANNON NOM PL		131,500	1.21%
19		JOSEPH JOE GEORGE		125,000	1.15%
20	*	HAWT CHILLI PL		125,000	1.15%
		*** Top 20 total ***		6,815,029	62.71%

** All holders included — * - Denotes merged holder

ASX ADDITIONAL INFORMATION

1. Company Secretary

The name of the company secretary is John Lee.

2. Address and telephone details of the entity's registered administrative office and principle place of business:

Suite 9, 1200 Hay Street
WEST PERTH WA 6005

Telephone: (08) 6460 4960
Fax: (08) 9324 3045

3. Address and telephone details of the office at which a registry of securities is kept:

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

Telephone: (08) 9315 2333
Fax: (08) 9315 2233

4. Stock exchange on which the Group's securities are quoted:

The Group's listed equity securities are quoted on the Australian Stock Exchange Code MUB.

5. Restricted Securities

The Group has no restricted securities.

6. Review of Operations

A review of operations is contained in the Directors' Report.

7. Consistency with business objectives - ASX Listing Rule 4.10.19

In accordance with Listing Rule 4.10.19, the Group states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objective is primarily exploration for natural resources and acquisition of resource based projects.

The Group believes it has used its cash in a consistent manner to which was disclosed under the prospectus dated 11 June 2008.

ASX ADDITIONAL INFORMATION (continued)

8. Schedule of Tenements

Granted Tenement schedule as at 27th September 2011

Australia

Tenement ID	PROJECT	% Ownership	Expiry Date		Tenement ID	PROJECT	% Ownership	Expiry Date
E29/0734	LAKE BARLEE	100%	21-Jun-15		P37/7888	WOOLSHED WELL	100%	22-Dec-14
E36/0723	YELEERIE	100%	20-May-15		P37/7889	WOOLSHED WELL	100%	22-Dec-14
E36/0742	YEELIRRIE	100%	26-Oct-15		P53/1243	MAITLAND JV	51%	12-Mar-15
E36/0743	YANDAL	100%	26-Oct-15		P53/1244	MAITLAND JV	51%	12-Mar-15
E38/2260	LAKE THROSSELL	100%	12-Apr-15		P53/1245	MAITLAND JV	51%	24-Oct-11
E38/2261	LAVERTON DOWNS	100%	25-Mar-15		P53/1247	MAITLAND JV	51%	12-Mar-15
E38/2262	LAKE WELLS	100%	25-Mar-15		P53/1248	MAITLAND JV	51%	12-Mar-15
E38/2424	BANJAWARN	100%	26-Oct-15		P53/1249	MAITLAND JV	51%	22-May-15
E53/1202	MAITLAND JV	51%	23-Jul-11		P53/1250	MAITLAND JV	51%	24-Oct-11
E53/1237	MAITLAND JV	51%	18-Apr-12		P53/1276	MANDILLA WELL	100%	04-Jul-15
E53/1257	MANDILLA WELL	100%	13-May-12		P53/1277	MANDILLA WELL	100%	04-Jul-15
E53/1355	MAITLAND JV	51%	07-Jul-14		P53/1278	MANDILLA WELL	100%	04-Jul-15
E53/1409	CORBOYS	100%	16-Feb-14		P53/1279	MANDILLA WELL	100%	04-Jul-15
E53/1431	MANDILLA WELL	100%	04-Jun-14		P53/1280	MANDILLA WELL	100%	04-Jul-15
E53/1474	LAKE VIOLET	100%	29-May-16		P53/1281	MANDILLA WELL	100%	04-Jul-15
E53/1487	CORBOYS	100%	29-Mar-15		P53/1282	MANDILLA WELL	100%	04-Jul-15
E59/1628	CARLAMINDA	100%	12-May-16		P53/1468	MAITLAND JV	51%	11-Jun-12
P37/7884	WOOLSHED WELL	100%	05-Oct-14		P53/1469	MAITLAND JV	51%	11-Jun-12
P37/7885	WOOLSHED WELL	100%	22-Dec-14		P53/1511	CORBOYS	100%	25-Aug-13
P37/7886	WOOLSHED WELL	100%	22-Dec-14		P53/1512	CORBOYS	100%	25-Aug-13
P37/7887	WOOLSHED WELL	100%	22-Dec-14					

Mongolia

Tenement ID	TENEMENT	% Ownership	Expiry Date		Tenement ID	TENEMENT	% Ownership	Expiry Date
12512A	Shiir am	100%	26-Jun-37		13140X	Sudut	100%	07-Jan-17
6868X	Baishint	100%	30-Jan-13		13393X	Zest	100%	20-Mar-17
6980X	Ugtaal	100%	19-Feb-13		13394X	Bogd	100%	20-Mar-17
9340X	Bor	100%	23-Feb-14		11987X	Doshin	100%	09-May-15
9432X	Baga Ajir	100%	14-Mar-14		5707A	Kargana (BE)	85%	05-May-33
9433X	Baga Ajir	100%	14-Mar-14		11329X	Kargana (BE)	85%	09-Feb-16
9434X	Altadiin	100%	14-Mar-14		13826X	Kargana (BE)	85%	20-Jun-17
9681X	Khuurai	100%	02-May-14		109A	Sujigtei	90%	20-Jan-37
10226X	Khongor	100%	01-Aug-14		13901X	Barglit	100%	12-Aug-17
12970X	Ilrel	100%	20-Nov-16					