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# MONGOLIAN MINING CORPORATION

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 975)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

### FINANCIAL HIGHLIGHTS

The outbreak of the novel coronavirus ("**COVID-19**") has continued to have impact on the operating environment, significantly reducing cross border throughput via Gashuunsukhait-Ganqimaodu ("**GS-GM**") checkpoint. The business performance of Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**") were significantly impacted due to lower sales volume as a result of reduced coal export shipments.

The Group generated a total revenue of approximately United States Dollar ("**USD**") 95.2 million from total sales volume of 0.8 million tonnes ("**Mt**") of coal products during the six months ended 30 June 2021, compared to USD157.5 million of the Group's total revenue generated from 1.5 Mt of coal products sold during the six months ended 30 June 2020. The average selling price ("**ASP**") for washed hard coking coal ("**HCC**") increased to USD142.7 per tonne for the six months ended 30 June 2021, compared to USD122.0 per tonne for the same period in 2020.

The Group's gross profit for the six months ended 30 June 2021 was USD24.6 million, compared to the gross profit of USD47.6 million for the six months ended 30 June 2020.

The Group's net loss attributable to the equity shareholders of the Company for the six months ended 30 June 2021 was USD13.6 million. Major contributing factor of the Group's net loss position was the lower sales volume recorded during the reporting period.

The basic and diluted loss per share attributable to the equity shareholders of the Company amounted to USD1.32 cents for the reporting period, compared to the basic and diluted earnings per share of USD0.27 cents for the same period in 2020.

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of dividend for the six months ended 30 June 2021 (dividend for the six months ended 30 June 2020: nil).

*Note: All numbers in this announcement are approximate rounded values for particular items.*

The Board is announcing the unaudited consolidated interim results of the Group for the six months ended 30 June 2021 together with the comparative figures for the corresponding period in 2020 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
*For the six months ended 30 June 2021 – unaudited*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | *Note* | **2021** | 2020 |
| | | ***USD'000*** | *USD'000* |
| Revenue | *4* | **95,153** | 157,529 |
| Cost of revenue | *5* | **(70,537)** | (109,893) |
| **Gross profit** | | **24,616** | 47,636 |
| Other net loss | | **(2,907)** | (2,245) |
| Selling and distribution costs | | **(5,310)** | (12,575) |
| General and administrative expenses | | **(6,661)** | (9,164) |
| **Profit from operations** | | **9,738** | 23,652 |
| Finance income | *6(a)* | **28** | 2,995 |
| Finance costs | *6(a)* | **(23,706)** | (23,016) |
| Net finance costs | *6(a)* | **(23,678)** | (20,021) |
| Share of profits/(losses) of associates | | **1** | (170) |
| Share of losses of joint venture | | **–** | (3) |
| **(Loss)/profit before taxation** | | **(13,939)** | 3,458 |
| Income tax | *7* | **468** | (784) |
| **(Loss)/profit for the period** | | **(13,471)** | 2,674 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(13,574)** | 2,739 |
| Non-controlling interests | | **103** | (65) |
| **(Loss)/profit for the period** | | **(13,471)** | 2,674 |
| **Basic and diluted (loss)/earnings per share** | *8* | **(1.32) cents** | 0.27 cents |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2021 – unaudited*

| | *Note* | **Six months ended 30 June** **2021** ***USD'000*** | 2020 *USD'000* |
|---|---|---|---|
| **(Loss)/profit for the period** | | **(13,471)** | 2,674 |
| **Other comprehensive income for the period** | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation | | **89** | (5,510) |
| **Total comprehensive income for the period** | | **(13,382)** | (2,836) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(13,485)** | (2,771) |
| Non-controlling interests | | **103** | (65) |
| **Total comprehensive income for the period** | | **(13,382)** | (2,836) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 30 June 2021 – unaudited*

| | *Note* | **At 30 June 2021** **USD'000** | At 31 December 2020 *USD'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment, net | *9* | **889,556** | 883,050 |
| Construction in progress | *10* | **43,122** | 43,961 |
| Other right-of-use assets | | **50** | 51 |
| Intangible assets | *11* | **497,279** | 498,954 |
| Interest in associates | | **361** | 360 |
| Interest in joint venture | | **24** | 24 |
| Other non-current assets | | **52,816** | 52,369 |
| Deferred tax assets | | **16,706** | 17,244 |
| **Total non-current assets** | | **1,499,914** | 1,496,013 |
| **Current assets** | | | |
| Inventories | | **161,093** | 106,268 |
| Trade and other receivables | *12* | **82,694** | 94,355 |
| Cash and cash equivalents | | **37,434** | 38,904 |
| **Total current assets** | | **281,221** | 239,527 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **153,388** | 142,981 |
| Contract liabilities | | **98,034** | 25,911 |
| Lease liabilities | | **–** | 71 |
| Current taxation | | **194** | 3,323 |
| **Total current liabilities** | | **251,616** | 172,286 |
| **Net current assets** | | **29,605** | 67,241 |
| **Total assets less current liabilities** | | **1,529,519** | 1,563,254 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**
*At 30 June 2021 – unaudited*

| | *Note* | **At 30 June 2021** *USD'000* | At 31 December 2020 *USD'000* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Senior notes | *14* | **450,811** | 449,618 |
| Provisions | | **18,897** | 19,458 |
| Deferred tax liabilities | | **165,643** | 166,985 |
| Other non-current liabilities | | **19,348** | 39,029 |
| **Total non-current liabilities** | | **654,699** | 675,090 |
| **NET ASSETS** | | **874,820** | 888,164 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **102,919** | 102,918 |
| Reserves | | **704,843** | 718,291 |
| **Total equity attributable to equity shareholders of the Company** | | **807,762** | 821,209 |
| **Perpetual notes** | *15(c)* | **66,569** | 66,569 |
| **Non-controlling interests** | | **489** | 386 |
| **TOTAL EQUITY** | | **874,820** | 888,164 |

# NOTES

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issuance on 16 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The COVID-19 outbreak has impacted the operating environment and business performance of the Group during the six months ended 30 June 2021. The Group has been closely monitoring the impact of COVID-19 outbreak on its business and has put in place contingency measures for cash conservation and efficiency purposes, such as temporary adjustment to levels of production during the first half of 2021. In addition, the coal sales volume has been impacted by temporary border closure and border crossing throughput volatility during the first half of 2021. However, with the subsequent improvement and stabilisation of the border crossing throughput level, and in consideration of the expected sufficient cash flows to be generated from the Group's operating activities based on the cash flow forecast of the Group for the twelve months ending 30 June 2022 and the net current assets position of USD29,605,000 as at 30 June 2021, the Directors consider that there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and it is appropriate to prepare the consolidated interim financial statements on a going concern basis. The Directors are of the opinion that the assumptions which are used in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**").

The functional currency of the Group's overseas holding entities and main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is Mongolian Togrog ("**MNT**").

The Company and the Group's presentation currency is USD.

## 2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 16, *Covid-19-related rent concessions*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority of assets and liabilities are located in Mongolia and the majority of its customers are located in the People's Republic of China ("**PRC**"). Based on information reported by the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sale of coal products. Accordingly, no additional business and geographical segment information are presented.

## 4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal products. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised for the six months ended 30 June 2021 is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2021** | 2020 |
| | ***USD'000*** | *USD'000* |
| HCC | **89,114** | 142,214 |
| Washed semi-soft coking coal ("**SSCC**") | **4,541** | 14,141 |
| Washed thermal coal | **1,333** | 1,084 |
| Raw thermal coal | **165** | 90 |
| | **95,153** | 157,529 |

## 5 COST OF REVENUE

| | **Six months ended 30 June** | |
|---|---|---|
| | **2021** | 2020 |
| | ***USD'000*** | *USD'000* |
| Mining costs | **22,610** | 38,146 |
| Processing costs | **5,712** | 14,111 |
| Transportation costs | **22,471** | 22,602 |
| Others *(Note (i))* | **17,274** | 27,401 |
| Cost of revenue during mine operations | **68,067** | 102,260 |
| Cost of revenue during idled mine period *(Note (ii))* | **2,470** | 7,633 |
| Cost of revenue | **70,537** | 109,893 |

*Notes:*

(i) Others include royalty tax on the coal sold.

(ii) For the six months ended 30 June 2021, cost of revenue during idled mine period mainly includes depreciation expense related to idled plant and equipment, staff costs and mining contractor costs.

## 6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

### (a) Net finance costs:

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***USD'000*** | *USD'000* |
| Interest income | **(28)** | (74) |
| Net change in fair value of derivative component of senior notes | **–** | (974) |
| Foreign exchange gain, net | **–** | (1,947) |
| **Finance income** | **(28)** | (2,995) |
| Interest on liability component of senior notes *(Note 14)* | **22,737** | 22,742 |
| Interest on lease liabilities | **2** | 3 |
| Unwinding interest on accrued reclamation obligations | **145** | 271 |
| Net change in fair value of derivative component of senior notes | **139** | – |
| Foreign exchange loss, net | **683** | – |
| **Finance costs** | **23,706** | 23,016 |
| **Net finance costs** | **23,678** | 20,021 |

*Note:*

No borrowing costs have been capitalised during the six months ended 30 June 2021 and the six months ended 30 June 2020.

### (b) Other items:

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***USD'000*** | *USD'000* |
| Depreciation and amortisation | **28,573** | 25,455 |
| Gain on disposal of property, plant and equipment | **(29)** | (10) |

## 7 INCOME TAX

### (a) Income tax in the consolidated statement of profit and loss and other comprehensive income represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***USD'000*** | *USD'000* |
| Current tax | **187** | 3,263 |
| Deferred taxation | **(655)** | (2,479) |
| | **(468)** | 784 |

### (b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***USD'000*** | *USD'000* |
| (Loss)/profit before taxation | **(13,939)** | 3,458 |
| Notional tax on profit before taxation | **(2,512)** | 558 |
| Tax effect of non-deductible items *(Note (iii))* | **2,661** | 132 |
| Tax effect of non-taxable items *(Note (iii))* | **(742)** | (259) |
| Tax losses not recognised | **125** | 353 |
| Actual tax expenses | **(468)** | 784 |

*Notes:*

(i) Pursuant to the income tax rules and regulations of Mongolia, the subsidiaries of the Group located in Mongolia are liable to Mongolian Corporate Income Tax at a rate of 10% for the first MNT6 billion taxable income, and 25% for the remaining taxable income for the six months ended 30 June 2021 and 2020. According to the Corporate Income Tax Law of the PRC, the Company's subsidiary in the PRC is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the six months ended 30 June 2021 and 2020.

(iii) Non-deductible and non-taxable items mainly includes net unrealised exchange loss, other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the six months ended 30 June 2021 and 2020.

## 8 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of USD13,574,000 (basic earnings per share for the six months ended 30 June 2020: USD2,739,000) and the weighted average of 1,029,186,786 ordinary shares (six months ended 30 June 2020: weighted average of 1,029,176,786 ordinary shares) in issue during the interim period.

### (b) Diluted (loss)/earnings per share

For the six months ended 30 June 2021 and 2020, basic and diluted (loss)/earnings per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted (loss)/earnings per share for the six months ended 30 June 2021 and 2020.

## 9 PROPERTY, PLANT AND EQUIPMENT, NET

### (a) Right-of-use assets

During the six months ended 30 June 2021 and 2020, the Group did not enter into any new lease agreements, and therefore recognised no additions to right-of-use assets.

### (b) Acquisitions and disposals of owned assets

Mining properties of the Group at 30 June 2021 include stripping activity assets with carrying amount of USD411,250,000 (31 December 2020: USD386,376,000).

During the six months ended 30 June 2021, the additions of property, plant and equipment of the Group, representing mainly various mining structures, amounted to USD34,036,000 (six months ended 30 June 2020: USD32,211,000). Items of property, plant and equipment with a net book value of USD637,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: USD632,000).

## 10 CONSTRUCTION IN PROGRESS

The construction in progress is mainly related to machinery and equipment.

## 11 INTANGIBLE ASSETS

Intangible assets represent the mining right acquired during the acquisition of Baruun Naran ("**BN**") mine.

## 12 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

| | **At 30 June 2021** *USD'000* | At 31 December 2020 *USD'000* |
|---|---|---|
| Within 3 months | **1,048** | 7,378 |
| 3 to 12 months | **–** | 3,715 |
| Over 12 months | **–** | – |
| Trade receivables net of allowance for doubtful debts | **1,048** | 11,093 |
| Amounts due from related parties | **400** | 381 |
| Other debtors | **140** | 378 |
| Financial assets measured at amortised cost | **1,588** | 11,852 |
| Prepayments and deposits *(Note (i))* | **50,883** | 51,095 |
| VAT and other tax receivables *(Note (ii))* | **30,223** | 31,408 |
| | **82,694** | 94,355 |

*Notes:*

(i) At 30 June 2021 and 31 December 2020, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(ii) Value-added tax ("**VAT**") and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Tax Authority of Mongolia. Based on current available information, the Group anticipates full recoverability of such amounts.

## 13 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

| | **At 30 June 2021** *USD'000* | At 31 December 2020 *USD'000* |
|---|---|---|
| Within 3 months | **37,724** | 47,828 |
| 3 to 6 months | **37,534** | 8,222 |
| 6 to 12 months | **1,103** | 9,159 |
| Over 12 months | **50,079** | 30,398 |
| Total creditors payable | **126,440** | 95,607 |
| Payables for purchase of equipment | **2,854** | 4,301 |
| Interest payables | **8,816** | 8,777 |
| Other taxes payables | **5,348** | 20,734 |
| Others | **4,104** | 8,543 |
| Amounts due to related parties | **5,826** | 5,019 |
| Financial liabilities measured at amortised cost | **153,388** | 142,981 |

## 14 SENIOR NOTES

| | **At 30 June 2021** *USD'000* | At 31 December 2020 *USD'000* |
|---|---|---|
| Senior Notes due 2022 *(Note (i))* | **17,286** | 16,882 |
| Senior Notes due 2024 *(Note (ii))* | **433,525** | 432,736 |
| | **450,811** | 449,618 |

*Notes:*

(i) The outstanding principal amount of the Senior Notes due 2022 was USD14,912,012 as at 30 June 2021 (31 December 2020: USD14,764,368). The Senior Notes due 2022 bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually, and due on 30 September 2022 ("**Senior Notes due 2022**"). Interest rate of 5% per annum comprises of cash interest rate and paid-in-kind ("**PIK**") interest rate components. During the six months ended 30 June 2021, PIK notes of USD147,644 were issued as PIK interest and added onto the outstanding principal amount of the Senior Notes due 2022.

The Senior Notes due 2022 have been accounted for as a hybrid financial instrument containing derivative components and a liability component. The fair value of the derivative component of interest rate linked to the benchmark coal price index, the derivative component of cash sweep premium and the derivative component of early redemption option as at 30 June 2021 was USD430,000, USD2,269,000 and nil respectively (31 December 2020 was USD114,000, USD2,446,000 and nil, respectively). The liability component was initially recognised at its fair value and is accounted on amortised cost subsequently. As at 30 June 2021, the carrying amount of the liability component was USD14,587,000 (31 December 2020: USD14,322,000).

Fair value of the derivative components of the Senior Notes due 2022 was estimated by the Directors based on the discounted cash flow method.

(ii) On 15 April 2019, the Group issued the Senior Notes due 2024 with a principal amount of USD440,000,000 ("**Senior Notes due 2024**") which were listed on the Singapore Exchange Securities Trading Limited. The Senior Notes due 2024 bear interest at 9.25% per annum fixed rate, payable semi-annually, and due on 15 April 2024.

The Senior Notes due 2024 have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of early redemption option was initially recognised at its fair value of nil. The fair value of the derivative component of early redemption option as at 30 June 2021 was nil (31 December 2020: nil). The liability component was initially recognised at amortised cost of USD429,795,446, after taking into account attributable transaction costs of USD10,204,554 and is accounted on amortised cost subsequently. As at 30 June 2021, the carrying amount of the liability component was USD433,525,000 (31 December 2020: USD432,736,000).

Fair value of the derivative component was estimated by the Directors based on the Binomial model.

## 15 CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

The Board does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

### (b) Equity settled share-based transactions

There were no share options granted to employees of the Company under the Company's employee share option scheme during the six months ended 30 June 2021 (No share options were granted during the six months ended 30 June 2020).

10,000 options were exercised during the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

### (c) Perpetual notes

The Company issued perpetual notes which were listed on the Singapore Exchange Securities Trading Limited on 4 May 2017, with a principal amount of USD195,000,000 ("**Perpetual Notes**") and with a fair value of USD75,897,000. On 15 April 2019, the Company redeemed principal amount of USD23,972,000 with a fair value of USD9,328,000 through the debt refinancing. After the debt refinancing, the outstanding principal amount of Perpetual Notes was USD171,028,000 with a fair value of USD66,569,000. There was no change both in outstanding principal amount and fair value during the six months ended 30 June 2021.

The Perpetual Notes have no fixed maturity and are redeemable at the Company's option. The distribution payments can be deferred at the discretion of the Company. So long as the Perpetual Notes are outstanding, the Company shall not declare or pay any dividend or make any distribution on or with respect to its capital shares; or redeem, reduce, cancel, buy-back or acquire for any consideration any of its capital shares.

Fair value of the Perpetual Notes was valued by the management with the reference to a valuation report issued by an independent valuer based on the discounted cash flow method.

## 16 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought certain uncertainties in the Group's operating environment, the reduction in the cross border throughput via GS-GM checkpoint has continuedly impacted the Group's operations and financial position. The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures such as temporary adjustment to levels of production. In order to secure export shipments by minimising COVID-19 impact, on 2 July 2021, the Government of Mongolia ("**GoM**") issued Resolution No. 185, to establish a custom bonded terminals for containerised shipments at key border checkpoints for coal exports, and the terminal is expected to be commissioned for operations in September 2021. This new terminal will allow Mongolian truck drivers to unload containerised coal without crossing the border and picked up by Chinese truck drivers also without leaving restricted area, as such lessening human contact and lowering the risk of cross-border infection transmission, thus allowing to increase coal exports.

The Group regularly performs assessment on the liquidity risks, where appropriate, to assess the potential impact of business conditions on the Group's capital adequacy and liquidity. The results based on the Group's latest financial position showed that both capital and liquidity levels are sufficient to cope with the impact of the outbreak. Whenever necessary, prompt actions will be undertaken to mitigate potential impacts.

The Group has assessed the accounting estimates and other matters that require the use of forecasted financial information for the impact of the COVID-19 pandemic. The assessment included estimates of the unknown future impacts of the pandemic using information that is reasonably available at this time. Accounting estimates and other matters assessed mainly include the allowance for expected credit losses of receivables from customers, inventory valuation, impairment assessment of mining related assets, valuation of financial assets and liabilities, and the recoverability of tax assets. Based on the current assessment, there was no material impact to these interim financial statements. As additional information becomes available, the future assessment of these estimates, including expectations about the severity, duration and scope of the pandemic, could differ materially in the future reporting periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### COVID-19 Pandemic and State Response

The Parliament of Mongolia ("**Parliament**"), the GoM and the State Emergency Commission ("**SEC**") continued to take legislative, economic, and preventive measures in response to the outbreak of COVID-19.

The state of enhanced readiness status, which was in effect throughout the first half of 2021, has been extended until 31 August 2021 under the GoM Resolution No. 176, dated 30 June 2021. Cross border passenger movements are restricted, except for passengers travelling through Zamiin-Uud and Altanbulag's auto vehicle border points and Chinggis Khaan International Airport for air travel from 1 June 2021, subject to specific entry requirements imposed by authorities such as proof of full vaccination, negative COVID-19 test results and post-arrival quarantine, where applicable.

On 17 February 2021, the GoM issued Resolution No. 42 and adopted the "Comprehensive Plan of MNT 10 trillion for Citizens' Health Protection and Economic Recovery" to be undertaken until 2023. Accordingly, several stimulus measures have been taken to enhance economic activities, including (i) low interest rate loans for small and medium enterprises through commercial banks; (ii) implementing a plan to support youth employment and housing programs; (iii) resuming large scale projects and programs that are of strategic significance; and (iv) granting loans to support agricultural production, herder's income and livelihood.

On 21 February 2021, the GoM issued Resolution No. 45 and adopted the "Temporary Procedure to Determine the Level of COVID-19 spread and Regulate the Activities of State Organizations, Legal Entities and Individuals". Pursuant to this procedure, COVID-19 alert levels were categorised into four color-coded levels, with each color representing different restrictions and measures to be taken to control COVID-19 spread. During the first half of 2021, red and orange levels were applied, and relevant restrictions and measures were implemented in relation to the state of enhanced readiness and the state of public emergency readiness declared in Mongolia. The Group's head office workers were under work-from-home arrangement throughout the first half of 2021 and the Group's mine sites were under strict disinfection and hygiene rules as required in the procedure.

Mongolia started its vaccination program in the first half of 2021 and it was reported by officials that more than 84% of its population aged 12 and above was inoculated with two doses of COVID-19 vaccine as at 31 July 2021. According to data compiled by the Group, more than 98% of its staff, not restricted by pre-existing and other health conditions, have been fully administered with two doses of COVID-19 vaccines as at 30 June 2021.

On 29 June 2021, the Parliament amended the Law on Prevention from and Fight Against Coronavirus (COVID-19) Pandemic and Mitigating its Social and Economic Impact and extended its effective period until 31 December 2021. This amendment also determined the establishment and operation of Special Authorities at border crossing points to increase efficiency of imports and exports of mining and petroleum products. The Special Authorities will be responsible for, overseeing the efficiency of and managing the local administrative units, as well as making decisions and enforcing the relevant law in relation to cross border transportation and other related matters. The Group expects that such measures will have positive impact on cross border throughput efficiency.

## INDUSTRY OVERVIEW

### Chinese Steel, Coke and Coking Coal Sectors' Performance

Global industrial production has been on a recovery track since the middle of 2020, driving increase in prices for key raw materials, such as copper, iron ore and lumber, reaching record levels in the second quarter of 2021. Improvement in global growth is primarily driven by recoveries in China and the United States of America ("**USA**"), which together accounts for close to 40% of the world output. Chinese economy grew by 12.7% year-on-year in the first half of 2021 and sharply recovered from last year's slowdown triggered by COVID-19.

Strong international demand and increased prices for key raw materials led to regulatory actions undertaken by Chinese authorities such as (i) cancelling VAT rebates for exported steel products; (ii) releasing copper, aluminium, and other industrial metals from state reserves; and (iii) initiating build-up of state and commercial coal reserves up to 400.0 Mt.

China's crude steel production reached 563.3 Mt in the first half of the year, representing an increase of 11.8% from the same period in 2020 according to data released by the World Steel Association. It was estimated by Fenwei Digital Information Technology Co., Ltd ("**Fenwei**") that the domestic apparent crude steel consumption increased by 27.1%, to 609.4 Mt in the first half of 2021, from 479.3 Mt in the first half of 2020. In addition to the robust domestic consumption, Chinese steel export reached 37.4 Mt, representing an increase of 30.3% in the first half of 2021 as compared to 28.7 Mt recorded in the corresponding period in 2020.

The National Bureau of Statistics ("**NBS**") of China reported that production of coke in China increased by 3.7% to 237.1 Mt in the first half of 2021. Similarly, coke consumption increased by 4.1% to 239.7 Mt on year-on-year basis, according to Fenwei estimates. Coke exports from China increased to 3.4 Mt in the first half of 2021 compared to 1.8 Mt exported in the first half of 2020.

China's coking coal consumption was 273.9 Mt in the first half of 2021, according to Fenwei, representing a 2.8% increase from the same period in the previous year. Domestic coking coal production increased to 241.3 Mt, representing a year-on-year increase of 5.2%. According to NBS, the profit of coal mining and washing industry in China increased to RMB206.9 billion in the first half of 2021, up by a 113.8% year-on-year.

Chinese coking coal imports decreased by 41.5% year-on-year to 22.3 Mt. The main factors in the decline in import of coking coal was attributable to the sharp decline of supply from Australia as compared to 24.1 Mt supplied by Australia in the same period in 2020. China's coking coal imports from Mongolia reached 8.3 Mt, representing a 13.7% year-on-year increase. However, supply from Mongolia was also disrupted in the second quarter of 2021 after Chinese authorities strengthened preventive measures due to increased COVID-19 cases in Mongolia. In the first half of 2021, decrease in coking coal imports from Australia and inadequate import volume from Mongolia to China led to higher supply from other countries with countries such as USA, Russia and Canada stepping up to fill the void of lack of imports. Coking coal export from USA significantly increased to 3.9 Mt from the last year's 0.7 Mt during the reporting period, followed by Canada and Russia by respective year-on-year increases of 53.8% and 51.7%.

According to the data reported by the National Statistics Office of Mongolia, in the first half of 2021, Mongolia has exported 9.6 Mt of coal to China compared to 8.7 Mt exported during the same period in 2020, representing a 10.3% year-on-year increase.

## OPERATING ENVIRONMENT

### *Labour related legislation*

On 11 June 2021, the Law on Social Insurance was amended to lower social insurance contributions rate attributable to pension insurance from a rate of 9.5% to 8.5% for the portion borne by legal entities starting from 1 July 2021. Prior to this amendment, the adjusted rate of 8.5% was set temporarily for a period from 1 January 2021 to 1 July 2021 under the amendment dated 8 April 2021.

### *Regulations related to coal exports*

Domestic infection rate of COVID-19 in Mongolia surged in the first of half of 2021, leading to stricter rules for infection prevention and control measures at the GS-GM border crossing checkpoint. The authorities of Mongolia and China worked closely to keep cross-border transmission rate low. However, cross border trade faced disruptions due to temporary border closures imposed due to elevated level of infections cases reported in Mongolia during the second quarter of 2021.

In order to secure export shipments while minimising COVID-19 impact, on 2 July 2021, the GoM issued Resolution No. 185, to establish a customs bonded terminal for containerised shipments at key border checkpoints for coal exports under public-private-partnership principles. Accordingly, on 5 July 2021, Mongolian Customs General Administration and Border Protection General Administration have allotted 30-hectare area at the GS border checkpoint for the terminal construction. The Group is involved in the construction works and the terminal is expected to be commissioned for operations in September 2021. This new terminal will allow Mongolian truck drivers to unload containerised coal without crossing the border and Chinese truck drivers to pick up without leaving the restricted area, as such lessening human contact and lowering the risk of cross-border infection transmission, thus allowing to increase coal exports.

### *Political Environment*

On 21 January 2021, the Prime Minister of Mongolia, Khurelsukh Ukhnaa from the ruling Mongolian People's Party ("**MPP**") resigned with his Cabinet in response to the public discontent to the mismanagement of a case involving transportation of a mother and her newborn under harsh winter conditions to a quarantine facility as reported by the media. On 27 January 2021, Oyun-Erdene Luvsannamsrai was nominated by the MPP and appointed by the Parliament as Prime Minister of Mongolia.

On 9 June 2021, the sixth presidential election was held in Mongolia, Khurelsukh Ukhnaa as a nominee from the MPP, Erdene Sodnomzundui as a nominee from the Democratic Party and Enkhbat Dangaasuren as a nominee from the Right Person Electorate Coalition. Khurelsukh Ukhnaa won the election by receiving 72.02% of the votes casted, and he became the Mongolian President to serve one-time 6-year presidency term, pursuant to the Amendment in Article 30.2 of the Constitution of Mongolia dated 14 November 2019. The inauguration of the newly elected President was held on 25 June 2021.

## BUSINESS OVERVIEW

### Coal Resources and Exploration Activities

#### *Ukhaa Khudag (UHG) deposit*

The UHG deposit sits within the 2,960 hectares Mining License MV-011952 ("**UHG mining license**"), granted to the Group effective for 30 years from 29 August 2006, extendable twice by 20-year periods. Since the UHG mining license was granted, the Group has prepared three JORC compliant Coal Resource estimates, the most recent of which, stated as at 31 December 2014 and five Coal Resource updates.

The most recent Coal Resource estimate has been made in accordance with the requirement of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). The last update stated as at 31 December 2020 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2020 to 31 December 2020 and no further exploration data was incorporated.

Exploration activities conducted in the process of preparing the three preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2020, included:

- 1,556 individual boreholes drilled for 191,275 metres ("**m**"), including 104,369m of HQ-3 (63.1 millimetre ("**mm**") core, 96.0mm hole diameter) and 86,906m of 122mm diameter open hole drilling;

- 37,548 individual analytical samples collected and analysed;

- 71 kilometres ("**km**") of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International Ltd ("**Polaris**") and analysed by Velseis Processing Pty Ltd ("**Velseis**"); and

- results from large-diameter, bulk-sample drilling samples analysed at the ALS Group laboratories in Ulaanbaatar.

JORC compliant Coal Resource estimate figures reported are based upon an in-situ density, at an as-received moisture basis, are summarised in Table 1.

Internal peer audit of these latest structural and coal quality models was conducted by Mr. Gary Ballantine, employed by the Group at that time as Executive General Manager of Exploration and Geology. This peer audit confirmed that the Group's work to update the UHG geological model, and thus the Coal Resource estimate for the UHG mining license area, was in compliance with requirements of the JORC Code (2012).

With updated surface topography being the only new information in preparation of the updated JORC Coal Resource estimate, and all other information and methodology remaining consistent with the previous JORC Coal Resource estimate, Appendix I of the Group's 2015 Annual Report can be referred to for the detailed information required to be presented under the JORC Code (2012) upon release of a JORC (2012) Coal Resource estimate.

Table 1. UHG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2020 (Notes):

| **Total Coal Resource** | **Resource Category (Mt)** | | | | |
|---|---|---|---|---|---|
| **Depth limit from topographic surface** | **Measured** | **Indicated** | **Inferred** | **Total (M+I)** | **Total (M+I+I)** |
| Subcrop to Base Horizon of Weathering Elevation ("**BHWE**") | 1 | 3 | 5 | 4 | 9 |
| BHWE to 100m | 53 | 22 | 17 | 75 | 92 |
| From 100m to 200m | 74 | 47 | 25 | 121 | 146 |
| From 200m to 300m | 89 | 64 | 21 | 153 | 174 |
| From 300m to 400m | 57 | 35 | 15 | 92 | 107 |
| Below 400m | 40 | 44 | 30 | 84 | 114 |
| Sub-Total above 300m | 217 | 136 | 68 | 353 | 421 |
| Sub-Total below 300m | 97 | 79 | 45 | 176 | 221 |
| **Total** | **314** | **215** | **113** | **529** | **642** |
| **Total (Rounded)** | **310** | **220** | **110** | **530** | **640** |

*Notes:*

*(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, Executive General Manager and Head of Mining and Processing, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 13 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 1 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2020, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

*(ii) Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 30 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

*(iii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 of the JORC Code (2012).*

The Group has conducted drilling work at 49 boreholes with total depth of 15,847.5m in 2020, the findings and outcomes will be summarised in the next report to update geological model, which is expected to be finalised during 2021.

***Baruun Naran (BN) deposit***

The BN deposit is covered by two mining licenses. Mining License MV-014493 ("**BN mining license**") of 4,482 hectares area was obtained through the acquisition of Baruun Naran Limited, formerly known as QGX Coal Limited, on 1 June 2011, and is effective for 30 years from 1 December 2008. Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013, effective for 30 years. Both licenses are extendable twice, by 20-year periods.

During 2015, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 30 June 2015 for the BN and THG mining licenses. The estimation process applied more stringent requirements under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014), as compared to the previous JORC (2012) Coal Resource estimates prepared by McElroy Bryan Geological Services Pty Ltd, stated as at 30 June 2012 and 30 April 2013 for the BN mining license and the THG mining license respectively. The last update stated for BN and Tsaikhar Khudag ("**THG**") as at 31 December 2020 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 October 2017 to 31 December 2020, and no further exploration data was incorporated.

The Coal Resource stated as at 30 June 2015 incorporated additional exploration data gained from the exploration drilling program conducted in 2014. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated Coal Resource statement as at 31 December 2020:

- total of 92 exploration boreholes at BN, with a total of 28,540m drilled, of which 14,780m were HQ-3, 9,640m were PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122 mm diameter open boreholes;

- total of 32 exploration boreholes at THG, with a total of 9,970m drilling at THG, of which 5,900m were HQ-3, 3,610m were PQ-3 and 460m were 122mm open boreholes;

- total of 8,720 (BN) and 3,824 (THG) coal samples collected and analysed; and

- total of 75 km of 2D seismic survey captured by Polaris over the BN mining license, and analysed by Velseis.

Internal peer review was conducted by Mr. Gary Ballantine, the then Executive General Manager of Exploration and Geology. External peer review was provided by Mr. Todd Sercombe of GasCoal Pty Ltd. Mr. Brett Larkin from Geocheck Pty Ltd was also involved in external peer review, specifically with regard to the geostatistical analysis required to be prepared under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014). These peer reviews confirmed compliance of the Group's work to update the Coal Resource estimations in compliance with requirements of the JORC Code (2012).

Summary of the updated Coal Resources statement as at 31 December 2020 for BN and THG mining license areas are shown in Table 2 and Table 3. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 2. BN mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2020 (Notes):

| Total Coal Resource Depth limit from topographic surface | Resource Category (Mt) Measured | Indicated | Inferred | Total (M+I) | Total (M+I+I) |
|---|---|---|---|---|---|
| Subcrop to BHWE | 9 | 2 | 1 | 11 | 12 |
| BHWE to 100m | 40 | 9 | 3 | 50 | 52 |
| From 100m to 200m | 62 | 11 | 5 | 73 | 78 |
| From 200m to 300m | 67 | 13 | 7 | 80 | 87 |
| From 300m to 400m | 70 | 16 | 9 | 86 | 95 |
| Sub-Total above 300m | 178 | 35 | 16 | 213 | 229 |
| Sub-Total below 300m | 70 | 16 | 9 | 86 | 95 |
| **Total** | **248** | **51** | **25** | **299** | **324** |
| **Total (Rounded)** | **250** | **50** | **30** | **300** | **320** |

Table 3. THG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2020 (Notes):

| Total Coal Resource Depth limit from topographic surface | Resource Category (Mt) Measured | Indicated | Inferred | Total (M+I) | Total (M+I+I) |
|---|---|---|---|---|---|
| Subcrop to BHWE | – | – | 2 | – | 2 |
| BHWE to 100m | – | – | 14 | – | 14 |
| From 100m to 200m | – | – | 19 | – | 19 |
| From 200m to 300m | – | – | 19 | – | 19 |
| From 300m to 400m | – | – | 19 | – | 19 |
| Sub-Total above 300m | – | – | 54 | – | 54 |
| Sub-Total below 300m | – | – | 19 | – | 19 |
| **Total** | **–** | **–** | **73** | **–** | **73** |
| **Total (Rounded)** | **–** | **–** | **70** | **–** | **70** |

*Notes:*

(i) *Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, Executive General Manager and Head of Mining and Processing, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 13 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 2 and Table 3 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2020, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

(ii) *Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 30 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

(iii) *Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 of the JORC Code (2012)*

During 2018, 8,335.4m depth infill drilling was conducted at the BN deposit. The drilling focused on H pit mining boundary. A total of 3,766 samples were collected and tested, confirming the quality and coal seam structure. The findings and outcomes from this drilling work have not been used for resource update purposes, however, these will be summarised in the next report to update geological model, which is expected to be finalised during 2021.

## Coal Reserves

### *Ukhaa Khudag (UHG) deposit*

The Group engaged Glogex Consulting LLC ("**Glogex**") to prepare an updated JORC (2012) Coal Reserve statement as at 1 January 2021 for the UHG deposit. The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods. The last reserve statement was made on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2020 to 1 January 2021.

Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by mining cost or coal price variance. The pit algorithms used included for incorporation of:

- geotechnical constraints, including limitation of overall slope angles within the pit by sector, ex-pit dump offset from life-of-mine ("**LOM**") pit shell crest and maximum pit depth, with updates on basis of research and analyses made since timing of the previous JORC (2012) Coal Reserve estimate, as provided by Mr. John Latilla of AMC Consultants Pty Ltd ("**AMC**");

- washability curves on seam ply basis, as prepared previously by Mr. John Trygstad of Norwest Corporation ("**Norwest**") for inclusion in the previous JORC (2012) Coal Reserve estimate, to individual coal seams based upon propensity for processing into coking and/or thermal products, with update made to reassign portion of Seam 0B and 0AU from thermal to coking coal production, based upon results observed during production trials in 2017;

- updated cost input assumptions, derived from recent historical operating performance at UHG mine on the basis of sustainable cost reductions made in response to difficult market conditions, and as forecast based upon negotiated reductions in cost for mining and blasting contractor services; and

- updated revenue input assumptions, derived from an updated market study prepared by Fenwei, which provided for medium to long term forecasting of expected Free-on-Transport ("**FOT**") pricing at UHG mine for hard coking, semi-soft coking and thermal coal products planned for production.

The ROM raw coal tonnages, resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2021 based upon an as-received basis with 2.97% total moisture, are shown in Table 4.

Table 4. UHG mining license JORC (2012) Coal Reserve estimate, as at 1 January 2021 (Notes):

| **ROM Coal Reserve** | **Reserve Category (Mt)** | | |
|---|---|---|---|
| **Coal Type** | **Proved** | **Probable** | **Total** |
| Coking | 176 | 116 | 292 |
| Thermal | 11 | 2 | 13 |
| **Total** | **187** | **118** | **305** |

*Notes:*

*(i) The estimate of Coal Reserve presented in Table 4 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 19 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement.*

*(ii) Due to rounding, discrepancy may exist between sub-totals and totals.*

### ***Baruun Naran (BN) deposit***

Coal Reserve statement for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2021. The LOM mining plan prepared to underpin the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by operating cost and coal revenue variance.

The pit optimisation algorithms used included for implementation of the following:

- limitation of open pit depth to 360m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla of AMC;
- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest;
- cost input assumptions based on stripping and blasting estimates derived from the current mining contractors; and
- revenue input assumptions derived from an updated market study of the principal coking and thermal coal markets in China, completed by Fenwei.

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 5, with tonnage estimation based on an as-received basis with 4.5% total moisture. The last reserve statement was made on the basis of surface topography depletion due to mining activity between 1 January 2020 to 1 January 2021.

Table 5. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2021 (Notes):

| **ROM Coal Reserve** | **Reserve Category (Mt)** | | |
|---|---|---|---|
| **Coal Type** | **Proved** | **Probable** | **Total** |
| Coking | 161 | 12 | 173 |
| Thermal | 0 | 0 | 0 |
| **Total** | **161** | **12** | **173** |

*Notes:*

*(i)* *The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 19 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion in the release of the matters based on this information in the form and context in which it appears in this announcement.*

*(ii)* *Due to rounding, discrepancy may exist between sub-totals and totals.*

## Production and Transportation

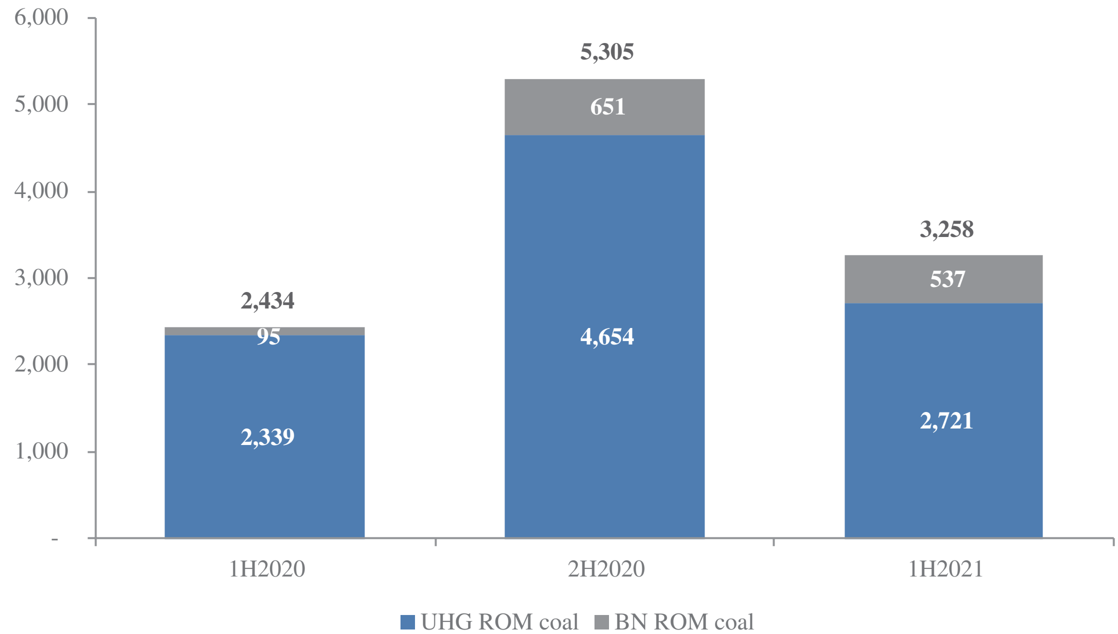
### *Coal Mining*

The Group has adjusted its coal mining operations at UHG and BN mines according to COVID-19 situation during the first half of 2021.

The UHG mine has produced 2.7 Mt of ROM coal in the first half of 2021 and 17.6 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 6.5 bcm per ROM tonne for the period. The BN mine has produced 0.5 Mt ROM coal in the period and 4.3 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 8.0 bcm per ROM tonne for the period.

The Group's combined semi-annual mine production from UHG and BN mines for the last three semi-annual periods is shown in Figure 1.

Figure 1. The Group's semi-annual ROM coal production volumes in thousand tonnes for 2020-2021:



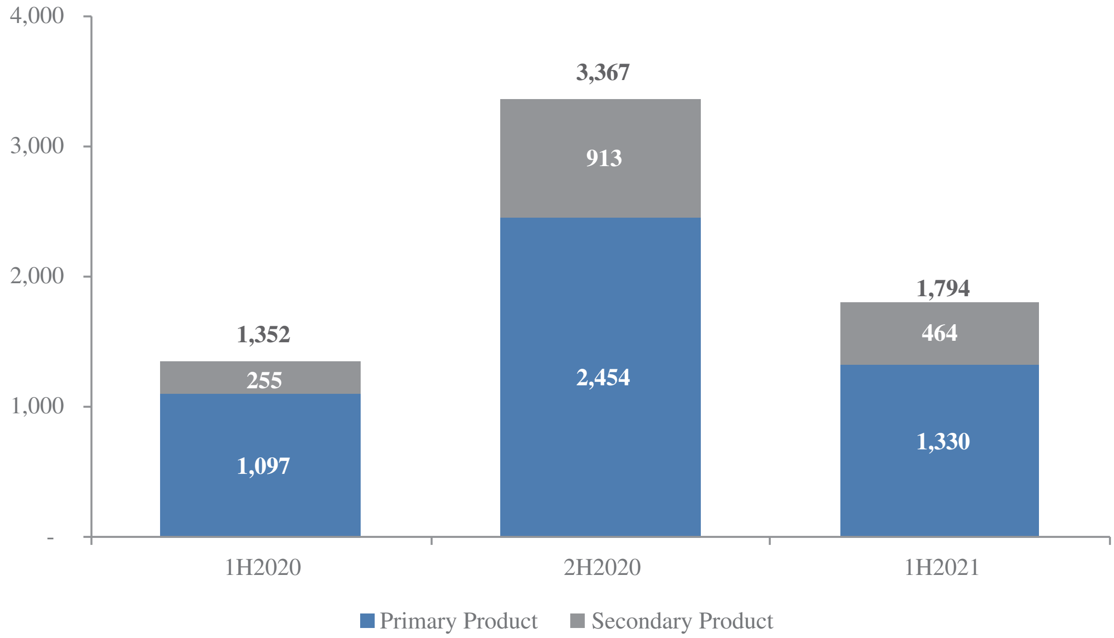

### *Coal Processing*

The Group has adjusted its coal processing activities due to the ongoing COVID-19 situation in the first half of 2021.

In the first half of 2021, total feed of 2.7 Mt ROM coking coal was processed by Group's coal handling and preparation plant ("**CHPP**"), resulting in the production of 1.3 Mt washed coking coal as a primary product at 49.0% yield, and 0.5 Mt of washed thermal coal as a secondary product at 16.6% yield.

In the first half of 2021, 2.4 Mt and 0.3 Mt of ROM coking coal processed was sourced from the UHG and BN mines, respectively. The Group's washed coal production for last three semi-annual periods are shown in Figure 2.

Figure 2. The Group's semi-annual processed coal production volumes in thousand tonnes for 2020-2021:

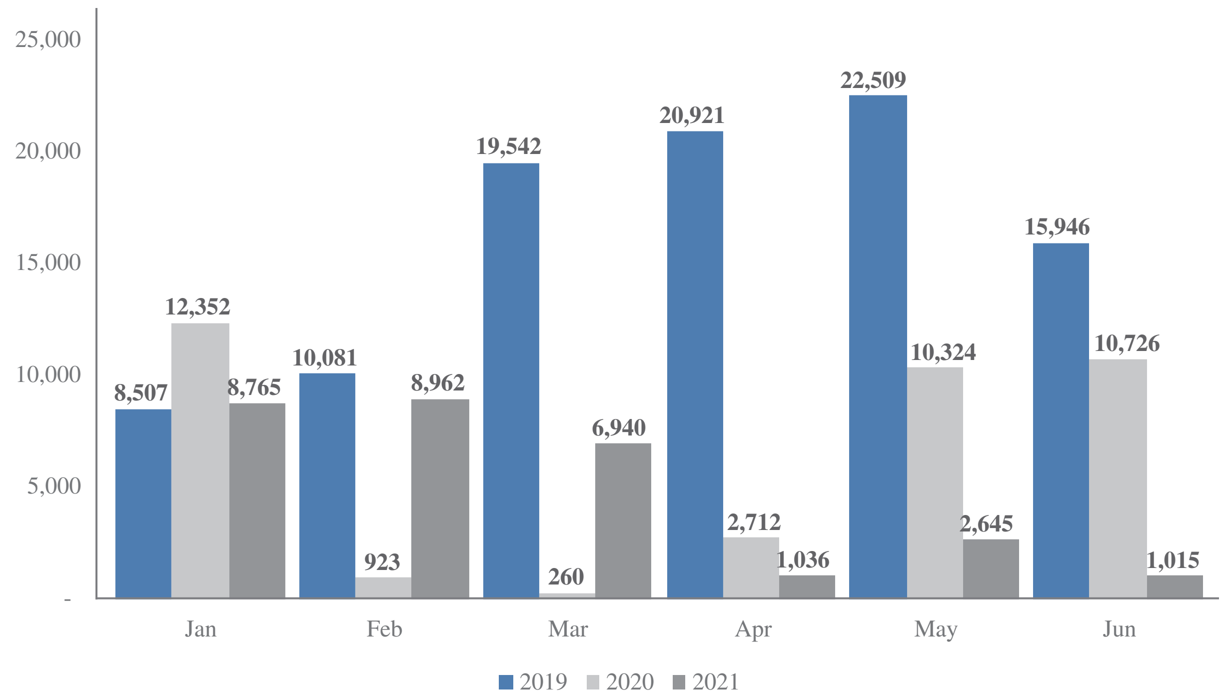



***Transportation and Logistics***

As a result of increase in domestic infection cases in Mongolia, coal export transportation remained subject to stringent procedures and requirements set by Chinese authorities during the first half of 2021. The coal export shipments of the Group in the second quarter of 2021 were significantly impacted by reduced cross border throughput via GS-GM checkpoint.

Despite a relatively strong start in the first quarter of 2021, the number of coal-loaded trucks throughput via GS-GM declined by 81% quarter-on-quarter during the second quarter of 2021. According to the data compiled by the Group and its customers, the GS-GM throughput was substantially impacted during the period from April to June 2021, as shown below in Figure 3.

Figure 3. All coal-loaded trucks monthly throughput via GS-GM during January to June in 2019-2021:




The Group shipped 0.6 Mt of coal products for export from Mongolia to China in the first half of 2021, which consisted of: (i) 0.6 Mt of HCC; and (ii) 39 kt of SSCC.

The Group shipped all its coal products for exports to China by utilising its trans-shipping facility at Tsagaan Khad ("**TKH**"). Coal was transported from UHG to TKH exclusively by the Group's own trucking fleet. Coal was stockpiled at TKH and shipped further by trucks from TKH to GM after export clearance by Mongolian Customs. The transportation of coal from TKH to GM was performed by the Group's own trucking fleet and by third party contractors.

40.0% of the Group's coal export transportation from TKH to GM was carried by utilising own double trailer trucking fleet during the first half of the year as compared to 47.1% achieved in the same period of the previous year.

On 9 April 2021, Energy Resources LLC ("**ER**"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with CHN Energy Coal Coking Co., Ltd ("**CECC**", formerly known as Shenhua Inner Mongolia Coal and Coking Co., Ltd), an independent third party, and one of the Group's largest customer. Pursuant to the joint venture agreement, ER and CECC agreed to establish a joint venture company in Inner Mongolia Autonomous Region of the PRC which will own and operate Chiheng enclosed warehouse facility for coal storage and handling customs bonded stockyard located at the GM port in the PRC. The construction work for Chiheng stockyard, with annual coal storage and handling capacity of up to 15 Mt, was completed in July 2020. The facility has been commissioned by the relevant state authorities and is currently operational with additional capacity expansion plans currently in the development stage. ER and CECC will respectively hold 10% and 90% of equity interest in "Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd". The Group believes that this investment will support its initiatives to improve logistics infrastructure providing access to the Chinese railway network to reach its customers in the PRC and beyond. By maximising transportation and logistics efficiency through a strategic cooperation, the Group will be able to further expand long-term relationship with its current end-user customer base and further diversify its revenue sources.

### *Occupational Health, Safety and Environment*

Continuing the measures taken to protect the health, safety and well-being of its employees and their families, work from home arrangements were adopted from 11 November 2020 and has continued during the first half of 2021 for employees with job position requirements allowing such arrangements. Preventive measures which were implemented organisation wide has also remained in effect throughout the first half of 2021: (i) limiting face-to-face meetings and interactions to the maximum extent possible, (ii) regular temperature checks and records; (iii) frequent sanitation and cleaning; (iv) providing personal protective gear, equipment and tools in line with job requirements; and (v) other recommendations issued by the relevant health authorities in relation to workplace hygiene.

During the reporting period, approximately 3.5 million man-hours were recorded as worked by employees, contractors, and sub-contractors of the Group, as compared to 3.2 million man-hours worked during the same period in 2020. During the first half of 2021, no occurrence of Lost Time Injury ("**LTI**") was recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.0 LTIs per million man-hours worked equivalent being recorded as compared to 0.62 LTIs per million man-hours worked recorded during the same period in 2020. This represents the third semi-annual period of zero LTI being recorded by the Group since the commencement of the Company's public reporting and resulted in a low 12-month rolling average LTIFR of 0.33 LTIs per million man-hours worked equivalent being realised.

The Total Recordable Injury Frequency Rate ("**TRIFR**") for the period was 1.42 Total Recordable Injuries ("**TRI**"), resulting in a 12-month rolling average TRIFR of 1.44 TRIs per million man-hours worked equivalent being realised, as compared to 2.17 TRIs per million man-hours worked during the same period in 2020.

Risk assessment and safety analysis were conducted during the reporting period to minimise or eliminate work-related hazards and to enhance awareness of daily safety routines among the Group's employees. Routine working condition inspections and checks were performed, including heat, noise, lighting, vibration, dust, and toxic gases monitoring.

The Group continued to deliver Occupational Health, Safety and Environment specific training to employees, contractors, sub-contractors and visitors, with 5,242 training sessions to individuals, totaling 32,210 man-hours in the first half of 2021.

The Group has an internal rating scale for environmental incidents based on their severity, which was last updated in July 2019. Accordingly, the risk rating scale uses five classifications which are low, minor, moderate, high, and extreme. More specific classifications were developed for each environmental risk subjects including oil spills, waste disposal, land disturbance, air emissions and others.

In the first half of 2021, the Group has recorded no environmental incidents.

## Sales and Marketing

The Group's sales and distribution activities in China were impacted by measures undertaken by PRC authorities as a response to COVID-19 pandemic during the first half of 2021. In particular, sales and distribution activities were significantly reduced during the second quarter of 2021. The Group was able to partially mitigate the adverse impact of the border closure through pre-sale of its existing washed coking coal inventory cumulated at the Sino-Mongolian border and collected cash proceeds as advance payments from its customers.

The disruptions in export transportation have restrained the sales of the Group leading to a 42.5% year-on-year decrease in sales volume to a total sale of 0.8 Mt of self-produced coal in the first half of 2021. Sold coal split by product type as follows: (i) 0.6 Mt of HCC; (ii) 48 kt of SSCC; and (iii) 153 kt of washed thermal coal.

Washed coking coal products are exported from Mongolia to designated customs bonded yards at GM. Once import customs clearance and quality inspections are completed by relevant authorities in PRC, washed coking coal products are delivered to ultimate customers under FOT GM terms or further transported within China for delivery to the customers' locations under Cost-and-Freight ("**C&F**") terms. Washed thermal coal is exported and sold under Delivery-at-Place ("**DAP**") GM terms. In addition, coal products are also supplied and sold to local customers located in Mongolia.

## OUTLOOK AND BUSINESS STRATEGIES IN 2021

The global impact of the COVID-19 virus outbreak since early 2020 has brought uncertainties to the Group's operating environment. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures, such as temporary adjustment to levels of production. The Group will keep contingency measures under review as the situation evolves.

Although COVID-19 virus outbreak has impacted the Group's financial results for the six months ended 30 June 2021, the Board continues to believe that the Group remains well positioned to pursue its strategic objectives and operational targets, once the COVID-19 situation is under control and business activities return to normal.

The Company remains committed to pursuing its key strategies in order to maintain and enhance its competitive position as a major washed coking coal producer in Mongolia by: (i) maintaining an adequate capital structure by implementing prudent financial policy; (ii) scaling up production and sales volumes by maximising assets utilisation; (iii) supporting initiatives to improve logistics infrastructure by providing access to its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint venture arrangements, and also identifying possible investment targets in Mongolia; and (v) remaining fully committed to safety, environment and socially responsible operations.

## FINANCIAL REVIEW

### Revenue

The Group's operating environment and business performance during the first six months of 2021 was significantly impacted by the reduced cross border throughput of the GS-GM checkpoint due to temporary limitations imposed by the Chinese authorities in response to the increase of COVID-19 infection cases in Mongolia.

The Group sold approximately 0.8 Mt of coal products and generated a total revenue of USD95.2 million during the six months ended 30 June 2021, compared to 1.5 Mt of coal products sold and USD157.5 million of total revenue generated during the six months ended 30 June 2020. Total sales volume during the reporting period includes approximately 0.6 Mt of HCC, 0.2 Mt of thermal coal and 48.2 Kt of SSCC, and the majority of this was sold during the first quarter of 2021.

During the reporting period, coal price and market demand have been strong. The Group's ASP, which represents the price exclusive of applicable VAT in China, for HCC increased to USD142.7 per tonne for the six months ended 30 June 2021 compared to USD122.0 per tonne for the same period in 2020.

The ASP for HCC under FOT GM term was USD142.7 per tonne during the reporting period compared to USD120.3 per tonne during the first half of 2020. The ASP for SSCC under FOT GM term was USD98.6 per tonne during the six months ended 30 June 2021 compared to USD81.2 per tonne during the same period in 2020. There was no sales activity for HCC and SSCC under C&F term during the reporting period.

During the reporting period, the Group derived individually more than 10.0% of its revenue from three customers, with purchase amounts of approximately USD27.0 million, USD15.6 million and USD12.6 million. For the six months ended 30 June 2020, the Group derived individually more than 10.0% of its revenue from four customers, with purchase amounts of approximately USD56.4 million, USD23.9 million, USD23.4 million and USD18.7 million.

### Cost of Revenue

The Group's cost of revenue consists primarily of mining costs, processing and handling costs, transportation and logistics costs, and costs related to site administration, stockpile and transportation loss, and governmental royalties and fees.

The Group has been closely monitoring the evolving situation caused by the COVID-19 outbreak and has put in place contingency measures to minimise the negative impact on its performance which included temporary adjustments to levels of production from mid-June 2021. As a result, idling cost of USD2.5 million was recorded during the reporting period, of which USD0.9 million is attributable to depreciation and amortisation. During the six months ended 30 June 2020, idling cost of USD7.6 million was recorded, from which USD5.0 million was attributable to depreciation and amortisation.

During the six months ended 30 June 2021, the total cost of revenue decreased to USD70.5 million, including idling cost, compared to USD109.9 million during the six months ended 30 June 2020 due to lower volume.

From the total cost of revenue, USD66.5 million was attributable to coal products sold from the UHG mine and USD4.0 million was attributable to coal products sold from the BN mine.

Table 6. Total and individual costs of revenue:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2021** | 2020 |
| | ***(USD'000)*** | *(USD'000)* |
| **Cost of revenue** | **70,537** | 109,893 |
| **Idling cost** | **2,470** | 7,633 |
| **Cost of revenue excluding idling cost** | **68,067** | 102,260 |
| | | |
| **Mining cost** | **22,610** | 38,146 |
| Variable cost | **11,194** | 20,516 |
| Fixed cost | **6,528** | 10,945 |
| Depreciation and amortisation | **4,888** | 6,685 |
| | | |
| **Processing cost** | **5,712** | 14,111 |
| Variable cost | **1,804** | 5,582 |
| Fixed cost | **1,037** | 2,284 |
| Depreciation and amortisation | **2,871** | 6,245 |
| | | |
| **Handling cost** | **2,362** | 4,044 |
| | | |
| **Transportation cost** | **22,471** | 22,602 |
| | | |
| **Logistic cost** | **1,519** | 2,321 |
| Variable cost | **878** | 1,460 |
| Fixed cost | **510** | 686 |
| Depreciation and amortisation | **131** | 175 |
| | | |
| **Site administration cost** | **5,255** | 8,484 |
| | | |
| **Transportation and stockpile loss** | **1,557** | 2,120 |
| | | |
| **Royalties and fees** | **6,582** | 10,432 |
| Royalty | **5,683** | 8,689 |
| Air pollution fee | **523** | 984 |
| Customs fee | **376** | 759 |

The mining costs consist of costs associated with overburden and topsoil removal and ROM coal extraction, including costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and fuel costs. The mining contractor's base fee is indexed to the market coal price and is charged based on the total number of fleets utilised under the mining contract.

The Group identifies components of the mine in accordance with the mine plan. Accounting of the unit mining cost is based on the accounting stripping ratio applicable to each component of the mine, which was mined during the respective reporting periods. The average accounting stripping ratio for components mined during the six months ended 30 June 2021 was 3.9 bcm per tonne, compared to 3.6 bcm per tonne for the six months ended 30 June 2020.

Unit mining cost, excluding idling cost, was USD16.4 per ROM tonne for the reporting period, compared to USD14.0 per ROM tonne during the same period in 2020. The increase is mainly due to lower sales volume during the reporting period.

Mining costs are not only recorded in the income statement but also cost of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, is capitalised in the balance sheet as mining structure and subsequently amortised once the attributable ROM coal is extracted according to the mining operations progress.

Table 7. Unit mining cost per ROM tonne, excluding idling cost:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2021** | 2020 |
| | ***(USD/ROM tonne)*** | *(USD/ROM tonne)* |
| **Mining cost** | **16.4** | 14.0 |
| Blasting | **0.9** | 0.8 |
| Plant cost | **5.1** | 4.6 |
| Fuel | **2.1** | 2.1 |
| National staff cost | **1.0** | 0.9 |
| Expatriate staff cost | **0.2** | 0.2 |
| Contractor fee | **3.3** | 2.9 |
| Ancillary and support cost | **0.2** | 0.1 |
| Depreciation and amortisation | **3.6** | 2.4 |

Processing costs primarily include costs associated with operations of the CHPP including power generation and water extraction costs. During the six months ended 30 June 2021, the Group's processing costs were approximately USD5.7 million (first half of 2020: USD14.1 million), of which approximately USD2.9 million was related to the depreciation and amortisation of the CHPP, USD0.4 million was costs related to power generation and distribution, and USD0.1 million was costs incurred for water extraction and distribution related to the washed coal sold during the reporting period.

Unit processing cost, excluding idling cost, calculated per ROM coal in-feed tonne was USD4.2 for the six months ended 30 June 2021 compared to USD5.2 per ROM tonne for the six months ended 30 June 2020. The decrease in unit processing cost is mainly due to reduction in maintenance work performed during the reporting period.

Table 8. Unit processing cost per ROM tonne, excluding idling cost:

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***(USD/ROM tonne)*** | *(USD/ROM tonne)* |
| **Unit processing cost** | **4.2** | 5.2 |
| Consumables | **0.3** | 0.4 |
| Maintenance and spares | **0.6** | 1.0 |
| Power | **0.3** | 0.4 |
| Water | **0.1** | 0.3 |
| Staff | **0.4** | 0.3 |
| Ancillary and support | **0.4** | 0.5 |
| Depreciation and amortisation | **2.1** | 2.3 |

The handling costs are related to feeding ROM coal from ROM coal stockpiles to the CHPP, raw and thermal coal handling, and the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the reporting period, the Group's handling costs were approximately USD2.4 million (first half of 2020: USD4.0 million). The handling cost decrease was mainly due to lower volume during the reporting period.

During the six months ended 30 June 2021, the Group's transportation costs were USD22.5 million (first half of 2020: USD22.6 million) including fees paid for the usage of the Ukhaa Khudag-Gashuunsukhait paved road.

The Group used two-step shipment for coal export transportation from the mine area to GM during the reporting period. The first step is around 240 km long-haul section from UHG to TKH, the transshipment yard on the Mongolian side of the border. The Group used solely its own double-trailer trucking fleet on the long-haul section with transportation cost of USD8.0 per tonne during the six months ended 30 June 2021 compared to USD6.7 per tonne during the six months ended 30 June 2020. Increase in unit transportation cost on the long-haul section was mainly attributable to lower sales volume.

The second step is around 20 km cross border short-haul shipment between TKH and GM, the Chinese side of the Sino-Mongolian border crossing. During the reporting period, on this short-haul section the Group utilised a combination of its own trucking fleet and third party contractors fleet. Due to high volatility of the border throughput level prolonging the roundtrip of each truck during the second quarter of the reporting period, as well as the increased staff costs incurred in relation to quarantine and other preventive health measures, overall transportation cost has increased to USD33.8 per tonne (first half of 2020: USD16.5 per tonne).

For the six months ended 30 June 2021, the Group recorded a total transportation loss of around USD0.3 million (first half of 2020: USD0.5 million), and unrealised inventory loss of USD1.3 million for ROM coal and washed coal product stockpiles (first half of 2020: USD1.6 million). The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the mine sites and product coal stockpile inventories at UHG, TKH and inland China. Survey of coal quantity is a measurement of volume, and as for every bulk commodity, the conversion to tonnage requires the application of density assumption, which involves natural variance. Hence, the measurement of stockpile quantities is an estimation in which errors are inherent.

Site administration costs are primarily associated with the site support facilities, such as overall supervision and management of the Group's mining, processing, transportation, and laboratory activities. During the six months ended 30 June 2021, the site administration costs were USD5.3 million compared to USD8.5 million during the first half of 2020. Decrease in site administration costs was mainly due to lower sales volume during the reporting period.

Logistics costs are associated with loading and unloading of coal products at UHG and TKH. The Group's logistics costs were USD1.5 million during the reporting period, compared to USD2.3 million during the first half of 2020. Decrease in logistics costs was due to lower sales volume.

Governmental royalties and fees are related to royalties, air pollution fees and customs fees paid in accordance with the applicable laws and regulations of Mongolia. The progressive royalty rate is applied in the range of 5% to 8% for exported processed coal products and 5% to 10% for exported raw coal products based on monthly reference price determined by the relevant governmental authorities of Mongolia. The Group's effective royalty rate for the six months ended 30 June 2021 was approximately 6.5% for coal exported from Mongolia based on customs clearance documentation (first half of 2020: 6.0%).

**Gross Profit**

The Group's gross profit for the six months ended 30 June 2021 was approximately USD24.6 million, decreased from USD47.6 million during the six months ended 30 June 2020 due to lower sales volume.

**Selling and Distribution Costs**

The Group's selling and distribution costs were USD5.3 million for the six months ended 30 June 2021 (first half of 2020: USD12.6 million) which was associated with inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and agent fees. The selling and distribution costs are associated with the sales volume realised under FOT GM term for inland China sales activities. Decrease in selling and distribution costs is mainly attributable to lower sales volume compared to the prior reporting period and higher sales volume under C&F term during the prior reporting period, as associated selling and distribution costs for C&F term are higher.

### General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, donations, depreciation and amortisation of office equipment and other expenses. For the six months ended 30 June 2021, the Group's general and administrative expenses were approximately USD6.7 million (first half of 2020: USD9.2 million).

### Net Finance Costs

Net finance costs for the six months ended 30 June 2021 were approximately USD23.7 million (first half of 2020: USD20.0 million). Net finance costs are comprised of (i) accrued interest expense of 9.25% per annum on the Senior Notes due 2024 with outstanding principal amount of USD440,000,000, (ii) accrued interest expense of 5% to 8% per annum based on benchmark coal price on the Senior Notes due 2022 with outstanding principal amount of USD14,912,012, (iii) change in fair value of the derivative component of the Senior Notes due 2022, including the interest rates linked to the benchmark coal price index and cash sweep premium, (iv) amortisation of the difference between the fair value and the principal amounts due on the Senior Notes due 2022 and the Senior Notes due 2024 using the effective interest rate method, and (v) foreign exchange net loss.

Increase in net finance costs during the reporting period was mainly due to foreign exchange net loss recorded in relation to MNT and RMB appreciation against USD, compared to the prior reporting period. Breakdown of the net finance costs is set out in note 6 to the unaudited consolidated interim results.

### Income Tax Expenses

The Group did not have income tax expense for the six months ended 30 June 2021 due to net loss incurred, but had income tax credit of USD0.5 million as a result of recognised deferred tax asset (first half of 2020: income tax expense of USD0.8 million).

### Loss for the Period

The loss attributable to equity shareholders of the Company for the six months ended 30 June 2021 amounted to approximately USD13.6 million (first half of 2020: profit attributable to equity shareholders of USD2.7 million). Major contributing factor of the Group's net loss position was the lower sales volume recorded during the reporting period due to limited border throughput impacted by the increased COVID-19 spread in Mongolia.

**Liquidity and Capital Resources**

For the six months ended 30 June 2021, the Group's cash needs were primarily related to working capital requirements. The Group placed high priority on its liquidity position during the reporting period and took several measurements to enhance the Group's liquidity position in addition to the temporary adjustment to its level of production. The Group has managed to presell certain portion of its existing washed coking coal inventory cumulated at the Sino-Mongolian border and collected cash proceeds as advance payment from its customers.

Cash balance of USD37.4 million as at 30 June 2021 stated in Table 9 below consists of (i) consolidated cash balance of USD24.7 million at ER, an indirect wholly-owned subsidiary of the Company, which includes ER and Energy Resources Corporation LLC and their respective subsidiaries ("**ER Group**"), (ii) cash balance of USD4.5 million at Khangad Exploration LLC, an indirect wholly-owned subsidiary of the Company, and (iii) cash balance of USD8.2 million at the remaining investment holding and trading subsidiaries of the Company. Cash and cash equivalents are mainly held in USD, RMB and MNT.

The gearing ratio (calculated based on the fair value of total bank and other borrowings as stated in the consolidated financial statements of the Group as at 30 June 2021 divided by total assets) of the Group as at 30 June 2021 was 25.3% (30 June 2020: 26.1%). All borrowings are denominated in USD.

Table 9. Combined cash flows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2021** | 2020 |
| | ***(USD'000)*** | *(USD'000)* |
| Net cash generated from operating activities | **53,112** | 36,610 |
| Net cash used for investing activities | **(34,290)** | (35,381) |
| Net cash used in financing activities | **(20,644)** | (21,009) |
| Net decrease in cash and cash equivalents | **(1,822)** | (19,780) |
| Cash and cash equivalents at the beginning of the period | **38,904** | 40,619 |
| Effect of foreign exchange rate changes | **352** | (39) |
| Cash and cash equivalents at the end of the period | **37,434** | 20,800 |

*Note: USD34.3 million used for investing activities comprises of USD27.1 million incurred for payments of deferred stripping activity, USD7.2 million used for payment of payable of property, plant and equipment, and USD0.04 million generated from interest income and property, plant and equipment sale.*

**Indebtedness**

As at 30 June 2021, the Group had USD454.9 million outstanding principal payments consisting of (i) USD14.9 million Senior Notes due 2022 and (ii) USD440.0 million Senior Notes due 2024.

**Credit Risk**

The Group closely monitors its credit exposure. Credit risk is primarily attributable to trade and other receivables.

As at 30 June 2021, the Group had approximately USD1.0 million in trade receivables and USD81.6 million in other receivables. As at 31 December 2020, the Group had approximately USD11.1 million in trade receivables and USD83.3 million in other receivables.

According to the Group's internal credit policy (the "**Credit Policy**"), the Group holds periodic Credit Committee meetings to review, assess and evaluate the Group's overall credit quality and the recoverable amount of each individual trade credit based on quantitative and qualitative analysis. The purpose of the Credit Policy is to set limits for and monitor the unsecured credit provided to customers at an aggregated Group level and to a single customer, and the maximum contractual term for unsecured limit. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to, the current ability to pay, and takes into account information specific to the customer and pertaining to the economic environment in which the customer operates.

With regards to other receivables of USD81.6 million, this amount is mainly related to USD50.9 million of other deposits and prepayments, and USD30.2 million of VAT receivables. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

**Foreign Exchange Risk**

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 30 June 2021 and 31 December 2020 amounted to USD24.1 million and USD29.5 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate amounted to nil as at 30 June 2021 and 31 December 2020.

**Pledge of Assets of the Group**

As at 30 June 2021, the Group had no pledge of assets. The Group's pledge of 4,306,791 common shares in International Medical Centre LLC ("**IMC**") to secure loan repayment obligation of IMC in proportion to the Group's equity interest in IMC was released on 17 May 2021 upon IMC's full repayment of its loan.

**Contingent Liabilities**

As at 30 June 2021, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd. and Kerry Mining (Mongolia) Limited on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December, in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves.

Under the royalty provision for excessive coal production at the BN mine pursuant to the Share Purchase Agreement and the Settlement Agreement dated 27 November 2012 entered into by the same parties as the Share Purchase Agreement, the specified semi-annual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

**Financial Instruments**

The Company's share option scheme, adopted on 17 September 2010 ("**Share Option Scheme**"), became effective on the Listing Date on 13 October 2010, in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**" or "**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. Although the Share Option Scheme expired on 12 October 2020, the provisions of the Share Option Scheme remain in force to the extent necessary to give effect to any Options granted or exercised thereto or otherwise as may be required.

On 8 May 2017, the Company granted 40,000,000 and 100,000,000 Share Options to a director and employees, respectively, at the exercise price of HKD0.2392. The outstanding number of the Share Options was adjusted to 13,740,000 Share Options and the exercise price was adjusted to HKD2.392 due to the share consolidation in August 2019.

On 16 June 2021, the Company has adopted a new share option scheme ("**New Share Option Scheme**"), in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. There is no Share Options granted under the New Share Option Scheme during the six months ended 30 June 2021.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the six months ended 30 June 2021, USD0.03 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

**Capital Commitments and Capital Expenditures**

As at 30 June 2021, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 10. Capital commitments:

| | **As at 30 June 2021** *(USD'000)* | As at 31 December 2020 *(USD'000)* |
|---|---|---|
| Contracted for | **9,283** | 1,626 |

Table 11. The Group's historical capital expenditure for the periods indicated:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2021** *(USD'000)* | 2020 *(USD'000)* |
| CHPP | **237** | 1,279 |
| Others | **6,977** | 950 |
| **Total** | **7,214** | 2,229 |

**Significant Investments Held**

As at 30 June 2021, the Company did not hold any significant investments. Save as disclosed in this interim results announcement, the Company has no future plans for material investment or capital assets in the coming year.

**Material Acquisitions and Disposals of Subsidiaries and Associated Companies**

For the six months ended 30 June 2021, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

**Other and Subsequent Events**

Save as disclosed in this interim results announcement, there have been no post balance sheet events subsequent to 30 June 2021 which require adjustment to or disclosure in this interim results announcement.

**Employees**

As at 30 June 2021, the number of employees of the Group was 1,964, compared with 2,071 employees as at 30 June 2020.

The Group's employees are remunerated with reference to the individual performance, experience, qualification and the prevailing salary trends in the local market, which is subject to review from time to time. With reference to the Group's financial and operational performance, employees may also enjoy other benefits such as discretionary bonus and Share Options pursuant to the Company's Share Option Scheme.

The Group believes that the foundation of its progress is to build employee capabilities. Hence, having a sound training and development mechanism is an important part of developing its employee capabilities. Employees have the opportunity to further develop their skills and competencies through ongoing training and development based on business needs of the Company and job specifications.

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice and share the newly gained experience with co-workers. The immediate management shall be responsible for the support and supervision of the process.

As at 30 June 2021, a total of 8,690 employees attended different professional trainings, out of which 5,242 employees attended occupational, health, and safety training, 3,448 employees attended professional development training. Considering the development of the global pandemic, the Group implemented precautionary measures and requirements with respect to physical distancing when providing all trainings.

The Group utilised the online safety training, launched in 2019, for all employees and contractors. The Group was able to increase the number of total employees attending trainings by utilising online training methods during the year. In order to improve the skills and methods of the training instructors, they were enrolled in different ISO module trainings as well as given first aid training and additional general skills training.

For the six months ended 30 June 2021, the Group's staff costs were USD12.7 million, compared to USD14.0 million for the six months ended 30 June 2020.

**Purchase, Sale or Redemption of the Company's Listed Securities**

For the six months ended 30 June 2021, neither the Company or any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

**Dividend**

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2021 (dividend for the six months ended 30 June 2020: nil).

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2021.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by relevant employees (the "**Employees Written Guidelines**") who are likely to possess inside information of the Company. No incident of non-compliance with the Employees Written Guidelines by the employees was noted by the Company during the reporting period.

## Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting of the Company. Mr. Chan Tze Ching, Ignatius, independent non-executive Director, attended as Chairman of the 2021 annual general meeting of the Company held on 16 June 2021 (the "**2021 AGM**"), as Mr. Odjargal Jambaljamts, Chairman of the Board, was unable to attend the 2021 AGM physically due to international travel restrictions caused by COVID-19 outbreak. Mr. Odjargal Jambaljamts joined the 2021 AGM via webcast. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code during the six months ended 30 June 2021.

## Review by Audit Committee

The Audit Committee of the Company currently comprises one non-executive Director, Ms. Enkhtuvshin Gombo, and three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius, Mr. Unenbat Jigjid, and Dr. Khashchuluun Chuluundorj. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The Audit Committee of the Company, together with the management, have reviewed the accounting principles and practice adopted by the Group, and also discussed issues related to financial reporting, including the review of the Group's unaudited interim results for the period under review. The Audit Committee is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

**Publication of the 2021 Unaudited Consolidated Interim Results and 2021 Interim Report**

This interim results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the 2021 Interim Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above-mentioned websites in due course.

For and on behalf of the Board
**Mongolian Mining Corporation**
**Odjargal Jambaljamts**
*Chairman*

Hong Kong, 16 August 2021

*As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo and Mr. Enkhtuvshin Dashtseren, being the non-executive Directors, and Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.*