MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

The operating environment and business performance of Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**") were largely impacted by the outbreak of the novel coronavirus ("**COVID-19**") pandemic during 2020.

The Group generated a total revenue of approximately United States Dollar ("**USD**") 417.4 million from total sales volume of 4.2 million tonnes ("**Mt**") of coal products during the year ended 31 December 2020, compared to USD626.6 million of the Group's revenue generated from 5.1 Mt of coal products sold during the year ended 31 December 2019.

The average selling price ("**ASP**") for washed hard coking coal ("**HCC**") was USD121.4 per tonne for the year ended 31 December 2020, compared to USD140.0 per tonne for the same period in 2019.

The Group's profit for the year ended 31 December 2020 was USD29.6 million. The decrease in profit was mainly due to lower ASP and sales volume.

The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD2.81 cents for the reporting year, compared to the basic and diluted earnings per share of USD9.38 cents in 2019.

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of dividend for the year ended 31 December 2020 (dividend for the year ended 31 December 2019: nil).

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

The Board is announcing the audited annual results of the Group for the year ended 31 December 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2020

	Note	**2020** *USD'000*	2019 *USD'000*
Revenue	*4*	**417,424**	626,596
Cost of revenue	*5*	**(288,848)**	(374,534)
Gross profit		**128,576**	252,062
Other costs		**(2,155)**	(1,070)
Other net income/(loss)		**2,418**	(14,968)
Selling and distribution costs	*6(c)*	**(27,645)**	(54,271)
General and administrative expenses		**(19,773)**	(21,849)
Profit from operations		**81,421**	159,904
Finance income	*6(a)*	**5,053**	1,120
Finance costs	*6(a)*	**(46,191)**	(46,783)
Net finance costs	*6(a)*	**(41,138)**	(45,663)
Gain from debt refinancing		**–**	21,101
Share of (losses)/profits of associate		**(77)**	140
Share of losses of joint venture		**(5)**	(16)
Profit before taxation	*6*	**40,201**	135,466
Income tax	*7*	**(10,596)**	(38,746)
Profit for the year		**29,605**	96,720
Attributable to:			
Equity shareholders of the Company		**28,940**	96,527
Non-controlling interests		**665**	193
Profit for the year		**29,605**	96,720
Basic earnings per share	*8*	**2.81 cents**	9.38 cents
Diluted earnings per share	*8*	**2.81 cents**	9.38 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020** **_USD'000_**	2019 *USD'000*
Profit for the year		**29,605**	96,720
Other comprehensive income for the year (after reclassification adjustments)			
Items that will not be reclassified to profit or loss:			
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)		**–**	(878)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(7,556)**	(5,503)
Other comprehensive income for the year		**(7,556)**	(6,381)
Total comprehensive income for the year		**22,049**	90,339
Attributable to:			
Equity shareholders of the Company		**21,384**	90,146
Non-controlling interests		**665**	193
Total comprehensive income for the year		**22,049**	90,339

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	**2020**	2019
		USD'000	*USD'000*
Non-current assets			
Property, plant and equipment, net	*10*	**883,050**	878,297
Construction in progress	*11*	**43,961**	33,796
Other right-of-use assets		**51**	52
Intangible assets	*12*	**498,954**	501,390
Interest in associate		**360**	454
Interest in joint venture		**24**	30
Other non-current assets		**52,369**	52,739
Deferred tax assets		**17,244**	14,193
Total non-current assets		**1,496,013**	1,480,951
Current assets			
Inventories		**106,268**	109,525
Trade and other receivables	*13*	**94,355**	101,077
Cash and cash equivalents		**38,904**	40,619
Total current assets		**239,527**	251,221
Current liabilities			
Trade and other payables	*15*	**142,981**	166,433
Contract liabilities		**25,911**	41,247
Lease liabilities		**71**	90
Current taxation		**3,323**	25,311
Total current liabilities		**172,286**	233,081
Net current assets		**67,241**	18,140
Total assets less current liabilities		**1,563,254**	1,499,091

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2020

	Note	2020 USD'000	2019 USD'000
Non-current liabilities			
Senior notes	*14*	**449,618**	448,003
Provisions		**19,458**	15,407
Deferred tax liabilities		**166,985**	168,989
Other non-current liabilities		**39,029**	713
Total non-current liabilities		**675,090**	633,112
NET ASSETS		**888,164**	865,979
CAPITAL AND RESERVES			
Share capital	*16(b)*	**102,918**	102,918
Reserves		**718,291**	696,771
Total equity attributable to equity shareholders of the Company		**821,209**	799,689
Perpetual notes	*16(c)*	**66,569**	66,569
Non-controlling interests		**386**	(279)
TOTAL EQUITY		**888,164**	865,979

NOTES

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 October 2010. The Group is principally engaged in the mining, processing, transportation and sale of coal.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), promulgated by the International Accounting Standards Board ("**IASB**"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and related interpretations. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(b) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(a) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group and the Group's interest in an associate and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Investments in debt and equity securities;

– Buildings and plants as well as machinery and equipment (see Note 10); and

– Derivative financial instruments (see Note 3(a)).

Non-current assets and disposals groups held for sale are stated at the lower of carrying amount and fair value less costs.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The COVID-19 outbreak has impacted the operating environment and business performance of the Group during the year ended 31 December 2020. The Group has been closely monitoring the impact of the 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 2020. In addition, the coal sales volume has been impacted by temporary border closure and border crossing throughput volatility during the first half of 2020. 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 31 December 2021 and the net current assets position of USD67,241,000 as at 31 December 2020, the Directors consider that it is appropriate to prepare the consolidated 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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(b) 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 3, *Definition of a Business*;

– Amendments to IFRS 9, IAS 39 and IFRS 17, *Interest Rate Benchmark Reform*; and

– Amendments to IAS 1 and IAS 8, *Definition of Material*.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are not discussed below, other than the amendment to IFRS 3, as these other developments have had no material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented:

Amendments to IFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Fair value of buildings and plants, machinery and equipment classified as property, plant and equipment and construction in progress

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and equipment and construction in progress were revalued by an external appraiser as at 31 December 2016 (see Notes 10 and 11). Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgement is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity.

(ii) Reserves

The Group estimates and reports Mineral Resources and Ore Reserves, commonly referred to as Coal Resources and Coal Reserves in the coal mining industry, meeting requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**"), and subsequently the Australian Guidelines for the Estimation and Classification of Coal Resources (2014) to which are referred.

The JORC Code is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves. The JORC Code provides a mandatory system for the classification of minerals Exploration Results, Mineral Resources and Ore Reserves according to the levels of confidence in geological knowledge and technical and economic considerations in public reports.

Responsibility for demonstrating the required transparency and materiality in the estimation of Coal Resources and/or Coal Reserves required by the JORC Code lies with the "Competent Person". A Competent Person is a minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy (the "**AusIMM**"), or of the Australian Institute of Geoscientists (the "**AIG**"), or of a Recognised Professional Organisation, as included in a list available on the JORC website. These organisations have enforceable codes of ethics, including disciplinary processes with powers to suspend or expel a member. A Competent Person must have a minimum of five years' relevant experience in the style of mineralisation or type of deposit under consideration and in the activity which that person is undertaking.

A "Coal Reserve" is the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

A "Probable Coal Reserve" is the economically mineable part of an Indicated, and in some circumstances, a Measured Coal Resource. The confidence in the Modifying Factors applying to a Probable Coal Reserve is lower than that applying to a Proved Coal Reserve. A "Proved Coal Reserve" is the economically mineable part of a Measured Mineral Resource. A Proved Coal Reserve implies a high degree of confidence in the Modifying Factors.

"Modifying Factors" are considerations used to convert Coal Resources to Coal Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors. Modifying Factors may change from one estimation to the next, where the materiality of such changes is demonstrable. Such changes may be as result of variation to any of the mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social, governmental or other factors.

Because the Modifying Factors used to estimate Coal Reserves may change from one estimate to the next, estimates of Coal Reserves may change from one period to another. Changes in reported Coal Reserves thus may affect the Group's financial results and financial position in a number of ways, including the following:

– Asset recoverable amounts may be affected due to changes in estimated future cash flows.

– Depreciation, depletion and amortisation charged to the statement of profit or loss may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change.

– Overburden removal costs recorded on the statement of financial position or charged to the statement of profit or loss may change due to changes in stripping ratios or the units of production basis of depreciation.

– Reclamation and mine closure provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

– The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(iii) Useful lives of property, plants and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Impairment of mining related assets

The Group identifies if there is any indication of impairment of mining related assets at each end of the reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would result in increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(v) Obligation for reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

(vi) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(vii) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. Stripping costs (waste removal costs) are incurred during the development and production phases at open-pit mining and they are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan. Judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and production stripping activity. These are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity assets.

Development stripping costs are capitalised as a stripping activity asset, in construction in progress and forming part of the cost of constructing the mine, when:

– It is probable that future economic benefits associated with the asset will flow to the entity; and

– The costs can be measured reliably.

Capitalisation of development stripping costs ceases and these costs are transferred to mine properties in property, plant and equipment when the ore body or component of ore body is ready for its intended use.

Production stripping can give rise to two benefits being the extraction of ore in the current period and improved access to the ore body or component of ore body in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to the ore body or component of ore body in future periods, the stripping costs are capitalised as mine properties in property, plant and equipment, if the following criteria are met:

– It is probable that the future economic benefit (improved access to ore) will flow to the Group;

– The ore body or component of ore body for which access has been improved can be identified; and

– The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventory produced and the mine properties capitalised using a life-of-component waste to ore strip ratio. When the current strip ratio is greater than the life-of-component ratio, a portion of the stripping costs is capitalised to the existing mine properties.

The development and production stripping assets are depreciated using the units of production method based on the proven and probable mineral reserves of the relevant ore body or component of ore body.

(viii) Taxation

The Group is subject to various taxes and levies in the jurisdictions where it has operations. The Group makes payments and determines the provision for tax and levy liabilities primarily based on the computations as prepared by the Group. Nevertheless, judgement is required in determining the provision for taxes and levies as there are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business, there are possible cases of disagreements with the relevant authorities on treatment of certain items included in the computations and certain non-routine transactions. The Group uses its best judgement to determine the probability although it is typically very difficult to determine the timing and ultimate outcome of each case. If the Group considers it probable that these judgement will result in different positions, the most likely amounts of the outcome will be estimated and adjustments to the liabilities will be made in the period in which such determination is made. Due to the inherent uncertainties related to the eventual outcome of each case, it is probable that certain matters may be resolved for amounts materially different from any estimated provisions or previous disclosures.

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to certain Group's accounting policies. Respective information and assumptions and their risk factors are disclosed accordingly in Notes 3(a) (i), (iii), (iv), (v), (vi) and (vii).

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 in revenue during the year is as follows:

	2020	2019
	USD'000	*USD'000*
HCC	**378,594**	564,064
Washed semi-soft coking coal ("**SSCC**")	**30,627**	59,150
Washed thermal coal	**7,892**	3,111
Raw thermal coal	**311**	271
	417,424	626,596

During the year ended 31 December 2020, the Group had three customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD127,532,000, USD65,333,000 and USD45,432,000. During the year ended 31 December 2019, the Group had three customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD305,636,000, USD82,370,000 and USD67,015,000.

Revenue during the year ended 31 December 2020 includes approximately USD307,918,000 (2019: USD449,317,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

5 COST OF REVENUE

	2020	2019
	USD'000	*USD'000*
Mining costs	**108,333**	136,026
Processing costs	**35,430**	48,548
Transportation costs	**67,587**	103,470
Others *(Note (i))*	**69,865**	86,490
Cost of revenue during mine operations	**281,215**	374,534
Cost of revenue during idled mine period *(Note (ii))*	**7,633**	–
Cost of revenue	**288,848**	374,534

Notes:

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

(ii) For the year ended 31 December 2020, cost of revenue during idled mine period mainly includes depreciation expense related to idled plant and equipment, staff costs and mining contractor costs.

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2020	2019
	USD'000	*USD'000*
Interest income	**(110)**	(269)
Net change in fair value of derivative component of senior notes	**(548)**	–
Foreign exchange gain, net	**(4,395)**	(851)
Finance income	**(5,053)**	(1,120)
Interest on bank and other borrowings	**–**	761
Interest on liability component of senior notes *(Note 14)*	**45,745**	44,467
Interest on lease liabilities	**6**	15
Unwinding interest on		
– Accrued reclamation obligations	**440**	714
Net interest expense	**46,191**	45,957
Net change in fair value of derivative component of senior notes	**–**	826
Finance costs	**46,191**	46,783
Net finance costs	**41,138**	45,663

No borrowing costs have been capitalised for the years ended 31 December 2020 and 2019.

(b) Staff costs:

	2020	2019
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**26,850**	26,648
Retirement scheme contributions	**3,726**	3,832
Equity-settled share-based payment expenses	**136**	278
	30,712	30,758

Pursuant to the relevant labour rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the Government of Mongolia ("**GoM**") whereby the Group is required to make contributions to the Schemes at a rate of 8.5% of the eligible employees' salaries. Contributions to the Schemes vest immediately. As part of the fiscal measures taken by the GoM in response to the COVID-19 pandemic, the contributions of the Group to the Schemes were fully exempted and contributed by the GoM from 1 April 2020 until 30 September 2020 and reduced to 5% with the remaining contributed by the GoM from 1 October 2020 to 1 January 2021 pursuant to the Law on Exemption from Social Insurance Premiums and Support from the Unemployment Insurance Fund of Mongolia.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) Other items:

	2020 *USD'000*	2019 *USD'000*
Selling and distribution costs *(Note (i))*	**27,645**	54,271
Depreciation and amortisation	**61,199**	64,389
Net gain/(loss) on disposals of property, plant and equipment	**1**	(90)
Auditors' remuneration		
– audit services	**608**	590
– other assurance services	**–**	190
– tax and other services	**56**	64
	664	844
Cost of inventories *(Note (ii))*	**281,215**	374,534

Notes:

(i) Selling and distribution costs represent fees and charges incurred for importing coal into the People's Republic of China ("**PRC**"), logistics and transportation costs, governmental fees and charges and fixed agent fees associated with sales activities in inland PRC.

(ii) Cost of inventories includes USD82,805,000 (2019: USD90,404,000) relating to personnel expenses, and depreciation and amortisation which are also included in the respective amounts disclosed separately above for each of these types of expenses. Cost of inventories also includes transportation and stockpile losses amounted to USD8,293,000 (2019 transportation and stockpile losses: USD8,013,000).

7 INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	2020 *USD'000*	2019 *USD'000*
Current tax		
Provision for the year	**17,004**	26,802
Deferred tax		
Origination and reversal of temporary difference	**(6,408)**	11,944
	10,596	38,746

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

	2020	2019
	USD'000	*USD'000*
Profit before taxation	**40,201**	135,466
Notional tax on profit before taxation	**8,301**	24,463
Tax effect of non-deductible items *(Note (iii))*	**4,052**	14,096
Tax effect of non-taxable items *(Note (iii))*	**(2,040)**	182
Tax losses not recognised	**283**	5
Actual tax expenses	**10,596**	38,746

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% of the first MNT6 billion taxable income, and 25% of the remaining taxable income for the year ended 31 December 2020 (2019: a rate of 10% for first MNT3 billion taxable income and a rate of 25% for remaining taxable income). 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 years ended 31 December 2020 and 2019.

(iii) Non-deductible and non-taxable items mainly include net unrealised exchange gain or 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 year ended 31 December 2020. Non-deductible and non-taxable items during the year ended 31 December 2019 mainly include reversal of deferred taxes upon redemption of the senior notes issued on 4 May 2017 ("**Senior Notes due 2022**") and long-term borrowing, which have been previously recognised on fair value accounting of the related derivative components and other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of USD28,940,000 (2019: USD96,527,000) and the weighted average of 1,029,176,786 ordinary shares (2019: 1,029,176,786 ordinary shares, adjusted for the impact of share consolidation (see Note 16(b)) in issue during the year.

(b) Diluted earnings per share

For the years ended 31 December 2020 and 2019, basic and diluted earnings per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted earnings per share for the years ended 31 December 2020 and 2019.

9 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority assets and liabilities are located in Mongolia and the majority of its customers are located in China. 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 sales of coal products. Accordingly, no additional business and geographical segment information is presented.

10 PROPERTY, PLANT AND EQUIPMENT, NET

Mining properties as at 31 December 2020 include stripping activity assets with the carrying amount of USD386,376,000 (2019: USD346,111,000) and application fee for the mining rights of USD858,000 (2019: USD817,000) in relation to the Group's mine deposits.

Fair value measurement of property, plant and machinery

(i) Fair value hierarchy

The following table presents the fair value of the Group's property, plant and machinery measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value as at 31 December 2020	**Fair value measurements as at 31 December 2020 categorised into**		
		Level 1	**Level 2**	**Level 3**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Recurring fair value measurement				
Buildings and plants	**326,651**	**–**	**–**	**326,651**
Machinery and equipment	**132,406**	**–**	**–**	**132,406**
Buildings and plants, machinery and equipment under construction *(Note 11)*	**43,961**	**–**	**–**	**43,961**
Total	**503,018**	**–**	**–**	**503,018**

	Fair value as at 31 December 2019 *USD'000*	Fair value measurements as at 31 December 2019 categorised into Level 1 *USD'000*	Level 2 *USD'000*	Level 3 *USD'000*
Recurring fair value measurement				
Buildings and plants	343,032	–	–	343,032
Machinery and equipment	150,201	–	–	150,201
Buildings and plants, machinery and equipment under construction *(Note 11)*	33,796	–	–	33,796
Total	527,029	–	–	527,029

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

As at 31 December 2016, buildings and plants as well as machinery and equipment were revalued and such valuation was carried out by a firm of external appraisers, Duff and Phelps Corporation, who has among their staff fellows of the American Society of Appraisers, Royal Institute of Charted Surveyors, Chartered Certified Accountant, Chartered Financial Analyst and Financial Risk Manager with recent experience in the mining property valuation worldwide including valuation of coal mines. The Group's property manager and the chief financial officer had discussion with the appraisers on the valuation assumptions and valuation results when the valuation was performed. At each following interim and annual reporting date, the management reviewed the key indicators adopted in the revaluation assessment as at 31 December 2016 and concluded there was no significant change.

The subject properties are purpose-built industrial facilities including buildings and plants, machinery and equipment and construction in progress located in South Gobi of Mongolia. They are operated according to their highest and best use for coal mining and processing. There is no other alternative use of the subject properties. Upon consideration of all relevant facts, it was concluded that the properties subject to valuations are specialised properties.

Depreciated replacement cost is defined by International Valuation Standards ("**IVS**") as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". Depreciated replacement cost application for major assets classes is briefly described below:

– Buildings and plants, and such items under construction status:

  - Reproduction cost new ("**RCN**") estimations for the buildings and structures were calculated using indexing method;

  - Indices were applied to the historical cost. The indices were obtained from recognised sources such as: Chinese indices (Rider Levett Buckhall), FM Global, BMT Construction costs, Bureau of Labor Statistics of the Department of Labor, AUS Consultants, etc.;

  - Physical depreciation was applied using straight line method based on the economic useful life of production, auxiliary, administrative facilities, land improvements and transfer devices;

  - No functional obsolescence was revealed.

– Machinery and equipment:

- Machinery RCN was estimated based on the actual machinery quotations received from the purchase department of the Company. These estimates were adjusted with installation expenses, engineering expenses and interest during construction. Estimated RCN was compared to indexed historical cost and considered to be relevant. Additionally, unitary reproduction cost (USD/kg of equipment weight) of major and most expensive equipment appraised such as crushers, screens, spirals and flotation cells was compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Processing plant modules unitary cost parameter (USD/ton of processing capacity) is in the middle of the range of recently constructed coal processing plants;

- Engineering and general administrative expenses estimated as average of several recently constructed coal mines and equal to 7% of RCN; and

- Interest during Construction estimated to be equal to 7.8% of RCN based on the actual interest paid during Processing Plant module 1 construction.

(ii) Information about Level 3 fair value measurements

IVS requires that for a private sector entity with specialised assets, a valuation assessed by depreciated replacement cost must be subject to a test of profitability in relation to the whole of the assets held by the entity or the cash generating unit ("**CGU**"). For the purpose of the profitability test, the Company was considered as a single CGU.

In testing profitability, the impact that current economic conditions may potentially have on the Company's operations, financial performance, expectations of financial performance of or financial conditions is considered. Such impact was assessed with the use of financial models, which make use of projections of operating activities and financial performance of the Company provided by the management. No economic obsolescence for the Group was indicated by the profitability test.

(iii) Depreciated cost of properties held for own use carried at fair value

Had the revalued properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	2020	2019
	USD'000	*USD'000*
Buildings and plants	**119,617**	130,236
Machinery and equipment	**21,941**	29,303
Buildings and plants, machinery and equipment under construction *(Note 11)*	**5,573**	5,810
	147,131	165,349

Impairment of mining related assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2020, according to IAS 36, *Impairment of assets*, the management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets related to the Ukhaa Khudag ("**UHG**") mine and Baruun Naran ("**BN**") mine operations (collectively referred to as "**UHG and BN Assets**"). For the purpose of this, the UHG and BN Assets are treated as a CGU.

The recoverable amount of the CGU was based on value in use, determined by discounting the future cash flows to be generated from the continuing use of the UHG and BN Assets. The key assumptions used in the estimation of value in use were as follows:

– Recoverable reserves and resources

  Economically recoverable reserves and resources represent management's expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified persons.

– Growth rate

  The growth rate is estimated based on coal product price consensus and life-of-mine ("**LOM**") production plan.

– Coal prices

  The coal price assumptions are management's best estimate of the future price of coal in China. Coal price assumptions for the next five years are built on past experience of the industry and consistent with external sources. These prices are adjusted to arrive at appropriately consistent price assumptions for the different qualities and type of coal.

  Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2020 is consistent with that at the year end of 2019, which was also updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate.

– Sales quantity/production profile

  Sales quantity is in line with production profile. Estimated production volumes are based on detailed LOM plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as the recoverable quantities, the production profile, the cost of the development of the infrastructure necessary to extract the reserves, the production costs, and the contractual duration of mining rights and the selling price of the coal extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves.

– Operating costs

  Operating cost assumptions are based on management's best estimation of the costs to be incurred at the date of impairment testing. Costs are determined after considering current operating costs, future cost expectations, as well as the nature and location of the operation. The estimation also takes future mining contractor arrangements into consideration; and the Directors are of the opinion that such mining contractor arrangements are in line with the Group's business plan.

– Capital expenditure

Future capital expenditure is based on management's best estimate of required future capital requirements. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

– Discount rate

This discount rate is derived from the Group's weighted average cost of capital ("**WACC**"), with appropriate adjustments made to reflect the risks specific to the CGU. The WACC takes into account both debt and equity, weighted based on the Group and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

Post-tax discount rate of 18% and pre-tax discount rate of 23% were applied to the future cash flows projection at the year end of 2020 (2019: post-tax discount rate of 18% and pre-tax discount rate of 22%). The Directors believe that the post-tax discount rate was matching with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2020, and has not resulted in the identification of an impairment loss for the year ended 31 December 2020. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2020 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard.

The Directors believe that the estimates and assumptions incorporated in the impairment assessment are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgements. The Directors consider that a reasonable changes in assumptions will not result in an impairment of mining related assets.

11 CONSTRUCTION IN PROGRESS

	2020	2019
	USD'000	*USD'000*
At 1 January	**33,796**	23,365
Additions *(Note (ii))*	**10,151**	10,557
Exchange adjustments	**14**	(126)
At 31 December	**43,961**	33,796

Notes:

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

(ii) On 15 September 2020, the Group entered into a sale and purchase agreement to acquire 100% equity interest in Tavan Tolgoi Power Plant Water Supply LLC at a total consideration of USD8,320,000. The principal activity of Tavan Tolgoi Power Plant Water Supply LLC is power supply and water exploration, and its identifiable assets are mainly construction in progress. The transaction was completed in September 2020 and recognised as an acquisition of assets, rather than a business combination, given that substantially all of the fair value of the gross assets is concentrated in a group of similar identifiable assets.

12 INTANGIBLE ASSETS

	Acquired mining right *USD'000*	Software *USD'000*	Total *USD'000*
Cost:			
At 1 January 2019	701,557	3,676	705,233
At 31 December 2019	701,557	3,676	705,233
At 1 January 2020	701,557	3,676	705,233
At 31 December 2020	701,557	3,676	705,233
Accumulated amortisation and impairment loss:			
At 1 January 2019	199,370	1,471	200,841
Amortisation charge for the year	2,634	368	3,002
At 31 December 2019	202,004	1,839	203,843
At 1 January 2020	202,004	1,839	203,843
Amortisation charge for the year	2,069	367	2,436
At 31 December 2020	204,073	2,206	206,279
Carrying amount:			
At 31 December 2020	497,484	1,470	498,954
At 31 December 2019	499,553	1,837	501,390

Acquired mining right represents the mining right acquired during the acquisition of BN mine.

13 TRADE AND OTHER RECEIVABLES

	2020 ***USD'000***	2019 *USD'000*
Trade receivables *(Note (a))*	**11,093**	16,858
Other receivables *(Note (c))*	**83,262**	84,219
	94,355	101,077
Less: allowance for credit losses *(Note (b))*	**–**	–
	94,355	101,077

Notes:

(a) Ageing analysis

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

	2020	2019
	USD'000	*USD'000*
Within 90 days	**7,378**	16,482
90 to 180 days	**3,715**	376
	11,093	16,858

(b) Loss allowance for trade receivables

Credit losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the credit losses are written off against trade receivables directly.

As at 31 December 2020, the Group evaluated the loss allowance for ECL and no loss allowance of trade receivables (2019: nil) was made based on the assessment.

(c) Other receivables

	2020	2019
	USD'000	*USD'000*
Amounts due from related parties *(Note (i))*	**381**	1
Prepayments and deposits *(Note (ii))*	**51,095**	50,821
VAT and other tax receivables *(Note (iii))*	**31,408**	32,813
Others	**378**	584
	83,262	84,219

Notes:

(i) Amounts due from related parties are unsecured, interest-free and have no fixed repayment terms.

(ii) At 31 December 2020 and 2019, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Mongolian Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.

All other receivables were aged within one year and expected to be recovered or expensed off within one year.

14 SENIOR NOTES

	2020	2019
	USD'000	*USD'000*
Senior Notes due 2022 *(Note (i))*	**16,882**	17,050
Senior Notes due 2024 *(Note (ii))*	**432,736**	430,953
	449,618	448,003

Notes:

(i) The outstanding principal amount of the Senior Notes due 2022 was USD14,764,368 as at 31 December 2020 (31 December 2019: USD14,618,186). The Senior Notes due 2022 bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually. Interest rate of 5% per annum comprises of cash interest rate and paid-in-kind ("**PIK**") interest rate components. During the year ended 31 December 2020, PIK notes of USD146,182 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 31 December 2020 was USD114,000, USD2,446,000 and nil, respectively (31 December 2019: USD1,175,000, USD1,933,000 and nil, respectively). The liability component was initially recognised at its fair value and is accounted on amortised cost subsequently. As at 31 December 2020, the carrying amount of the liability component was USD14,322,000 (31 December 2019: USD13,942,000).

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 31 December 2020 was nil (31 December 2019: 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 31 December 2020, the carrying amount of the liability component was USD432,736,000 (31 December 2019: USD430,953,000).

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

15 TRADE AND OTHER PAYABLES

	2020	2019
	USD'000	*USD'000*
Trade payables *(Note (i))*	**95,607**	127,444
Amounts due to related parties *(Note (ii))*	**5,019**	5,904
Payables for purchase of equipment	**4,301**	3,310
Interest payable *(Note (iii))*	**8,777**	8,848
Other taxes payables	**20,734**	14,679
Others *(Note (iv))*	**8,543**	6,248
	142,981	166,433

Notes:

(i) As of the end of the reporting period, the ageing analysis of trade creditors based on the invoice date is as follows:

	2020	2019
	USD'000	*USD'000*
Within 90 days	**47,828**	85,091
90 to 180 days	**8,222**	42,258
180 to 365 days	**9,159**	–
Over 365 days	**30,398**	95
	95,607	127,444

(ii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments.

(iii) As at 31 December 2020, interest payables related to Senior Notes due 2022 and Senior Notes due 2024 are amounting to USD185,000 and USD8,592,000, respectively. (31 December 2019: USD256,000 and USD8,592,000, respectively).

(iv) Others represent accrued expenses, payables for staff related costs and other deposits, and residual consideration for acquisition of subsidiary.

All of the other payables are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2020 (dividend for the year ended 31 December 2019: nil).

(b) Share capital

	2020		2019	
	No of shares'000	***USD'000***	*No of shares'000*	*USD'000*
Ordinary shares, authorised				
At 1 January	**1,500,000**	**150,000**	15,000,000	150,000
Impact of share consolidation	**–**	**–**	(13,500,000)	–
At 31 December	**1,500,000**	**150,000**	1,500,000	150,000

	2020		2019	
	No of shares'000	***USD'000***	*No of shares'000*	*USD'000*
Ordinary shares, issued and fully paid				
At 1 January	**1,029,177**	**102,918**	10,291,768	102,918
Impact of share consolidation	**–**	**–**	(9,262,591)	–
At 31 December	**1,029,177**	**102,918**	1,029,177	102,918

On 26 August 2019, the Company implemented the share consolidation on the basis that every ten issued and unissued existing shares were consolidated into one consolidated share. The authorised share capital of the Company became USD150,000,000.00 divided into 1,500,000,000 consolidated shares of par value of USD0.10 each, of which 1,029,176,786 consolidated shares were in issue.

(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 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 during the year ended 31 December 2020.

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 reference to a valuation report issued by an independent valuer based on the discounted cash flow method.

17 IMPACTS OF THE COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought certain uncertainties in the Group's operating environment and has 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. The Group will keep the contingency measures under review as the situation evolves.

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 annual 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

Since the outbreak of COVID-19 in January 2020, the Parliament of Mongolia ("**Parliament**"), the GoM and the State Emergency Commission ("**SEC**") have taken a number of measures in response to COVID-19, including legislative and economic measures, in a timely manner in the interest of public health.

As disclosed in the 2020 Interim Report of the Company, from 1 February 2020, all passenger movements incoming from China by all methods, including air and land transports, were restricted temporarily and on 12 February 2020, the GoM issued Resolution No. 62 under which it declared a state of enhanced emergency readiness, the highest level of state of emergency in the country. According to the Law on Disaster Protection, the state of public emergency readiness is the highest degree of disaster protection, and state organisations are authorised to take all reasonable measures to protect citizens' health and safety to the extent permitted by the law. These restrictions and the state of enhanced emergency readiness were extended several times throughout 2020, subject to the risk assessments and threat level of COVID-19. The last extension was made on 30 December 2020, the GoM issued Resolutions No. 238 and No. 239 under which it resolved to extend a state of enhanced readiness in the country until 31 March 2021 and passenger movements across the border to and from any country remain restricted, including air and land transports.

Due to the first local transmission case of COVID-19 recorded on 11 November 2020 in Ulaanbaatar, the capital city of the country, the GoM issued Resolution No. 178 declaring a state of public emergency readiness across the country commencing from 11 November to 17 November 2020. The state of public emergency was later extended until 1 December 2020 through Resolution No. 181 dated 15 November 2020 effectuating a national lockdown that was lifted in different parts of the country based on whether there were active cases, with the lockdown being lifted on 11 January 2021 in Ulaanbaatar.

On 18 November 2020, the GoM adopted Resolution No. 183 regarding certain measures to be taken towards stimulating the economy. As stipulated in the resolution, the GoM resolved to establish infection-free "Green Zone" covering Tavan Tolgoi, Nariin Sukhait and Oyu Tolgoi coal and copper deposit areas and Gashuunsukhait and Shiveekhuren border checkpoints located in Umnugobi aimag (province). The GoM placed emphasis on ensuring border checkpoints to be operated at full capacity under strict infection prevention regime and all truck drivers transporting coal and minerals through Gashuunsukhait and Shiveekhuren border checkpoints to be tested for COVID-19 if they pass through border checkpoints between Mongolia and China. Since the outbreak of the local transmission case in November, there have not been any cases recorded in Umnugobi aimag.

The Group's head office located in Ulaanbaatar was fully shifted to work-from-home arrangements with very limited access to office premises only in essential cases. The Group's coal mining, processing and transportation operations in Umnugobi aimag continued according to emergency plan approved by regulators, while implementing preventive procedures, including social distancing rules such as suspended group meetings and gatherings, limited interaction with outsiders, work-place sanitation and hygiene measures, staff testing and screening on regular basis.

On 13 December 2020, the GoM issued Resolution No. 211 to subsidise the following household and legal entity expenses from 1 December 2020 to 1 July 2021: (i) electricity, (ii) thermal energy, (iii) thermal steam, (iv) clean water supply and (v) wastewater services, excluding certain entities such as mining and processing plants.

On 31 December 2020, the Parliament made amendments to the Law on Prevention from and Fight Against Coronavirus (COVID-19) Pandemic and Mitigating its Social and Economic Impact and extended its effectiveness until 30 June 2021. Under this Law, the Government and relevant state authorities are authorised to undertake appropriate actions to prevent the spread of the pandemic and mitigate its social and economic impacts in an effective manner.

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

Crude steel production in China increased by 5.2% from the previous year and reached 1,053.0 Mt in 2020, as reported by The World Steel Association. The record high production was supported by 9.9% annual growth in steel consumption domestically, which has reached 1,028.6 Mt in 2020, according to the estimates reported by Fenwei Digital Information Technology Co., Ltd ("**Fenwei**"). During the same period, steel exports from China dropped by 16.5% to 53.7 Mt in 2020, however China still maintained its position as the biggest steel exporter in the world.

Coke production stood at 471.2 Mt in 2020 and remained virtually flat year-on-year ("**y-o-y**") basis compared to 471.3 Mt reported for 2019, as shown by the data compiled by the National Bureau of Statistics. However, estimates made by Fenwei suggested that previously cumulated inventories were depleted by increased crude steel production resulting in higher coke consumption, which has increased by 4.7% on y-o-y basis and reached 475.7 Mt in 2020 as compared to 454.5 Mt in 2019. In 2020, coke exports from China decreased by 46.2% to 3.5 Mt.

China's coking coal consumption was 557.7 Mt in 2020, representing a 1.0% increase from the previous year. Domestic coking coal production in 2020 increased by 0.9% to 485.1 Mt from 480.6 Mt reported in 2019.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

Coking coal imports to China declined to 72.6 Mt in 2020, representing a 2.8% y-o-y decrease compared to 74.7 Mt imported in 2019, according to Fenwei. Australia led the Chinese coking coal import market with 48.8% market share, increasing their imports to 35.4 Mt in 2020. Mongolia followed as the second largest coking coal supplier to China, with a market share of 32.8% in 2020. The y-o-y decline in coking coal supply from Mongolia was mainly attributable to the COVID-19 outbreak, impacting the cross-border coal export shipments in the first half of 2020. However, Mongolia reclaimed its position as a leading coking coal supplier accounting for almost half of the total coking coal imports to China during the second half of 2020, primarily due to informal ban imposed by Chinese authorities on Australian coal imports as well as eased bottlenecks for cross-border coal shipments from Mongolia to China.

Table 1. China's annual coking coal import volume (Mt) (Notes):

Countries	2020	2019	Change	Market Share
Mongolia	**23.8**	33.8	-29.6%	32.8%
Australia	**35.4**	30.9	+14.6%	48.8%
Canada	**4.7**	3.0	+56.7%	6.5%
Russia	**6.7**	5.4	+24.1%	9.2%
USA	**1.0**	1.1	-9.1%	1.4%
Others	**1.1**	0.3	+266.7%	1.5%
Total	**72.6**	74.7	-2.8%	100.0%

Source: Fenwei

Notes:

(i) Imports from Mongolia include raw unprocessed, dry and wet processed coking coal.

(ii) Due to rounding, discrepancy may exist between summary of volumes of individual countries with total volume, year-on-year percentage changes and market share.

OPERATING ENVIRONMENT

Taxation related legislation

On 25 December 2020, the Parliament adopted another Law on Waiver from Tax Penalties and Fines and resolved to waive penalties once again for taxpayers who fail to pay reported taxes due during the period from 1 February 2020 to 1 July 2021. As previously disclosed in the 2020 Interim Report, the initial measures were taken for the period from 1 February 2020 to 1 September 2020.

According to the Law on Exemption from Social Insurance Contributions and Support from the Unemployment Fund adopted on 9 April 2020 ("**Social Insurance Measure Law**"), legal entities whose operations were impacted by COVID-19, but preserved their job positions and reported social insurance contributions to relevant authorities, were exempted from social insurance contributions from 1 April 2020 to 1 October 2020, except for the portion attributable for health insurance levied at a rate of 2% of the salary income.

On 28 August 2020 and 13 November 2020, the Social Insurance Measure Law was amended for social insurance contributions for the portion attributable to pension insurance to be levied at a rate of 5% of the salary income for the period from 1 October 2020 to 1 January 2021 and at a rate of 8.5% of the salary income for the period from 1 January 2021 to 1 July 2021. In addition, both legal entities and the insured are to be exempt from the social insurance contributions attributable to insurance contributions for social welfare, unemployment, industrial accident, and occupational disease allowances. During the aforementioned periods, the state will bear all expenses of the unpaid social insurance contributions and the insured shall be deemed to have paid the previously mentioned four types of insurance contributions.

According to the Law on Waiver from Penalties and Fines on Employer Social Insurance Contribution adopted on 9 April 2020 and 31 December 2020, for the periods from 1 February 2020 to 1 April 2020 and from 1 October 2020 to 31 December 2020, legal entities, except state-owned entities, shall be waived from penalties and fines to be imposed on overdue social insurance contribution payments, as if they have duly reported.

On 12 December 2019, the Parliament adopted the Law on Ratification of Asia-Pacific Trade Agreement ("**APTA**"). Consequently, on 29 September 2020, Mongolia acceded to the APTA as its seventh member. According to the APTA, which entered into force on 1 January 2021, Mongolia may benefit from reduced tax tariffs on certain types of export items. Under APTA, as per Chinese general concession list, China will discount its tariffs by 30% on 'coal nes, not agglomerated, whether or not pulverized' and by 50% on 'coke and semi-coke, whether or not agglomerated'. However, coal products produced and exported by the Group are not included in the list of products, which are subject to lower tariffs.

Regulations related to coal exports

Coal export shipments from Mongolia to China, including flow through Gashuunsukhait – Ganqimaodu ("**GS-GM**") border crossing checkpoint, were halted at the beginning of 2020 due to the COVID-19 outbreak. On 28 July 2020, it was announced that Mongolia and China reached a bilateral agreement to adopt a "Green Channel" arrangement at the Sino-Mongolian border crossing points, including GS-GM, commencing from 1 August 2020. The aim was to enhance bilateral trade flows in a safe manner, thus all staff involved in cross-border transportation are required to undergo COVID-19 testing on a regular basis.

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 2.

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 2. UHG 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 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 2 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 of 49 boreholes with the 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 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 3 and Table 4. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 3. 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 4. 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 3 and Table 4 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 coal 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 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 5.

Table 5. 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 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 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 360 m 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 6, 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 6. 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 6 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 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.*

Production and Transportation

Coal Mining

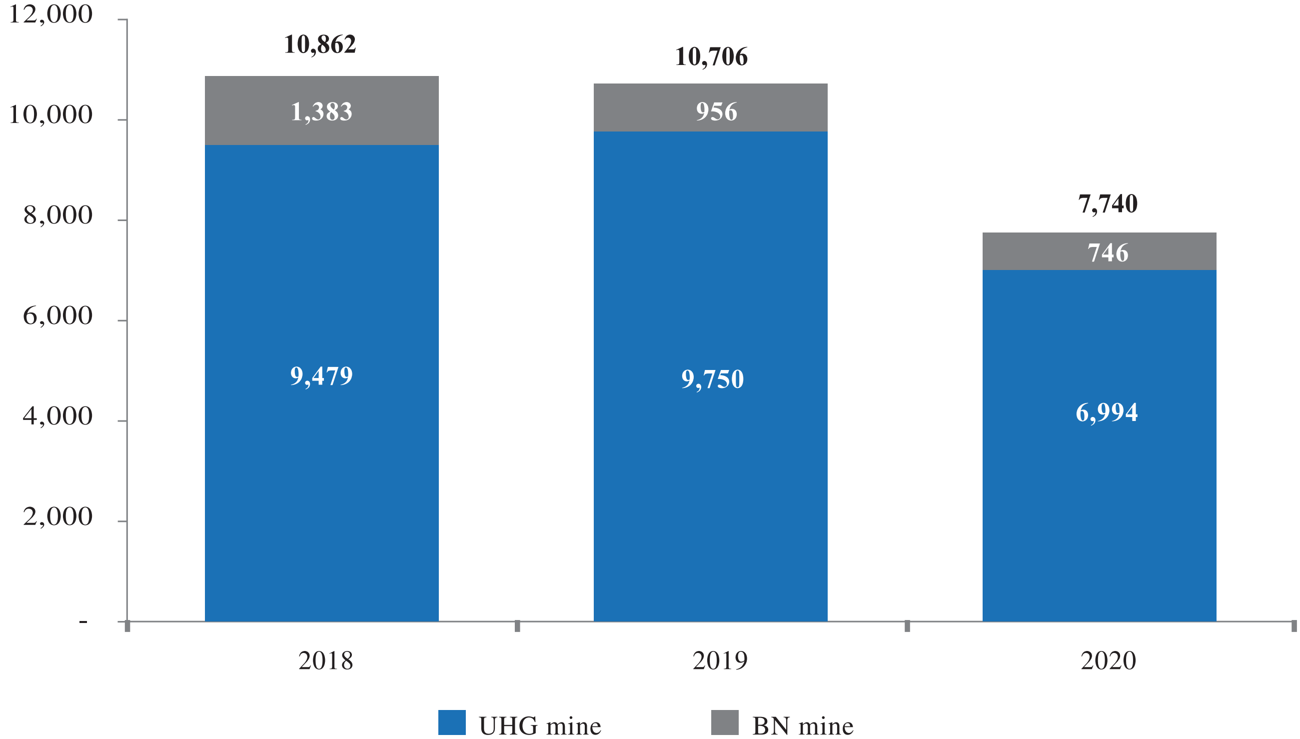
The Group's total ROM coal production was 7.7 Mt in 2020, of which 7.0 Mt and 0.7 Mt of ROM coal was produced from UHG mine and BN mine, respectively. Coal mining output in 2020 was adjusted to tailor to the coal transportation and sales progress which have been impacted by restricted cross-border movements due to the COVID-19 outbreak.

To access coal, a total of 39.4 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 5.6 bcm per ROM tonne for the year at UHG mine. The stripping ratio remained the same y-o-y, due to continuous adjustments undertaken by the management to the mining schedules by targeting coal mining in higher stripping ratio areas in order to smoothen mid and long-term production profile.

At BN mine, to access coal, a total of 5.0 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 6.7 bcm per ROM coal tonne for the year.

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

Figure 1. The Group's annual ROM coal production volumes (in thousand tonnes) for 2018-2020:

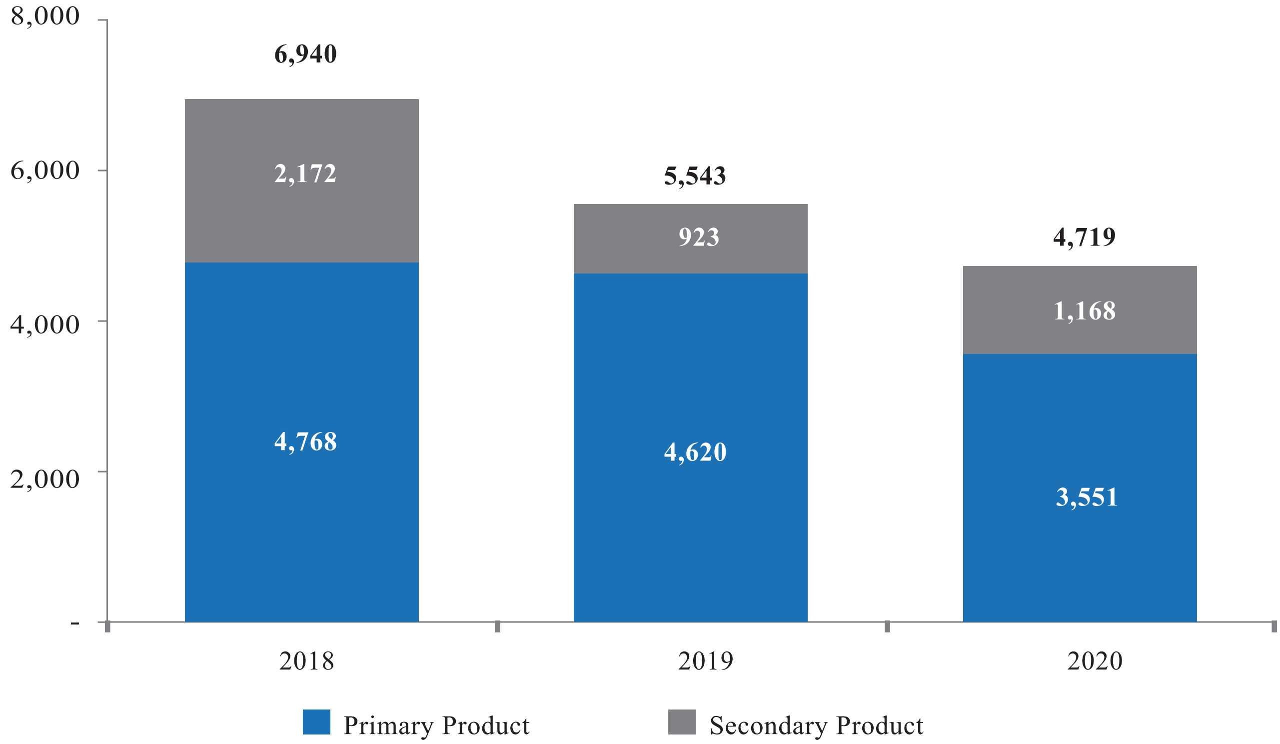


__Coal Processing__

The Group has processed a total of 7.7 Mt ROM coking coal in 2020, of which 7.0 Mt and 0.7 Mt was sourced from UHG and BN mines, respectively. The coal handling and preparation plant ("**CHPP**") has produced 3.5 Mt of washed coking coal as a primary product at 48% yield, and 1.2 Mt of washed thermal coal as a secondary product at 16% yield. The secondary product yield is function of product target at 14-16% ash content at dry basis with typical gross calorific value as at received basis at around 6,500 kcal/kg.

The Group's washed coal production in 2020 was adjusted to coal transportation and sales profile impacted by the COVID-19 outbreak and comparative figures for the last three years are shown in Figure 2.

Figure 2. The Group's annual processed coal production volumes (in thousand tonnes) for 2018-2020:

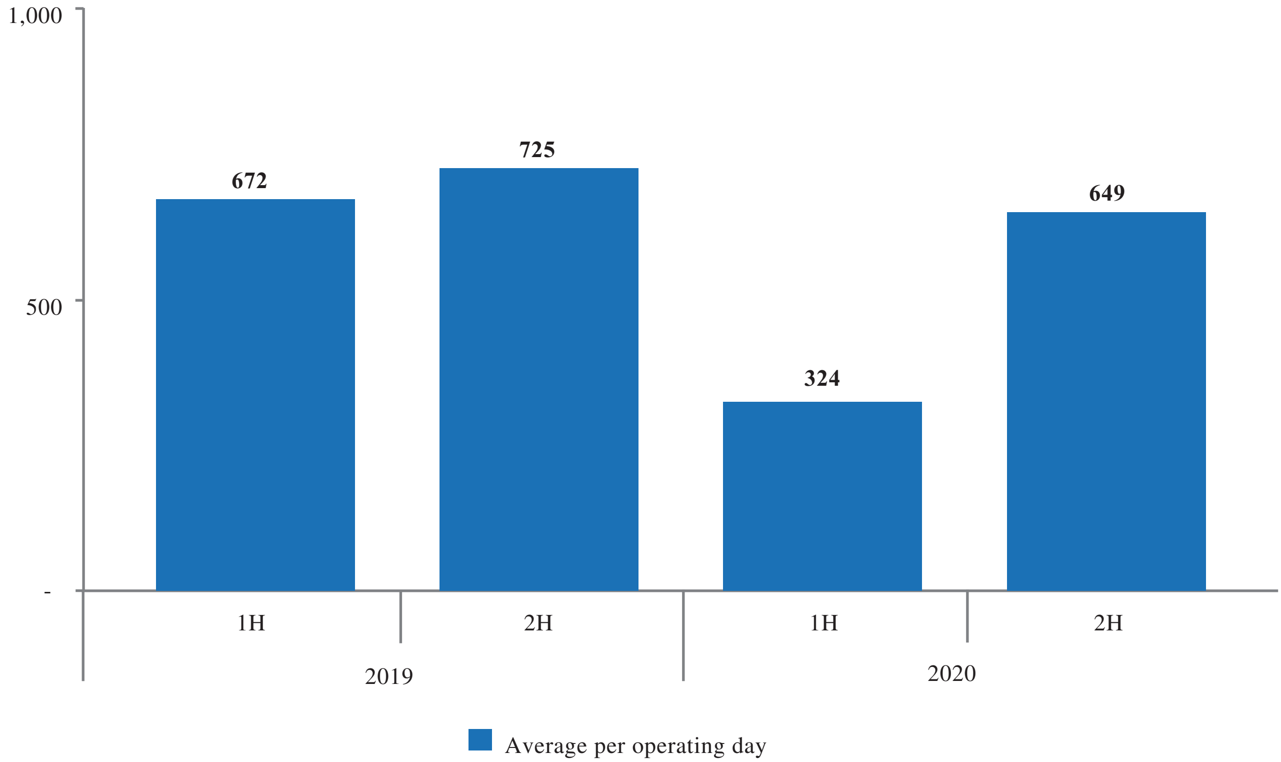


Transportation and Logistics

The suspension of coal export shipments from early February to late March 2020 had a large impact on the coal export transportation from Mongolia to China. More stringent procedures and requirements enforced by authorities at the Sino-Mongolian border during the first half of 2020 led to a decrease in total cross-border traffic in 2020 as compared to the same period in 2019. However, the situation improved during the second half of 2020 as shown below in Figure 3.

According to the data compiled by the Group and its customers, there was a 34% decline in the total number of coal-loaded trucks crossing via GS-GM border in 2020 as compared to 2019. As such, a total of 134,028 coal-loaded trucks passed from Mongolia to China via GS-GM during 264 operating days in 2020 as compared to 204,130 coal-loaded trucks passing during 292 operating days in the previous year.

Figure 3. Average cross border throughput via GS-GM in trucks per operating day for 2019-2020:



The Group shipped all its coal products for exports to China utilising 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 after export clearance by Mongolia Customs shipped further by trucks from TKH to GM. Coal transportation from TKH to GM was performed by the Group's own trucking fleet and by third party contractors as well.

In 2020, the Group's coal export transportation from Mongolia to China via GS-GM border crossing point was 3.8 Mt, of which around 45% was carried by utilising the Group's own trucking fleet and remaining 55% by third party contractors. As such, the Group has substantially increased utilisation rate of its own trucking fleet in 2020 compared to 33% reported in 2019.

Occupational Health, Safety and Environment

In July 2020, the Group passed the periodical surveillance audit performed by AFNOR Group, an international standardisation and accreditation institution and a member of the International Organization for Standardization ("**ISO**"), for continued implementation of an Integrated Management System ("**IMS**"), which also includes international standards ISO 14001:2015 (Environmental management) and OHSAS 18001:2007 (Occupational Health and Safety management).

During the reporting period, approximately 9.2 million man-hours were recorded as worked by employees, contractors, and sub-contractors of the Group. During 2020, three occurrences of Lost Time Injury ("**LTI**") were recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.55 LTIs per million man-hours worked equivalent being recorded as compared to 0.66 LTIs per million man-hours worked equivalent being recorded during the same period in 2019, a 12% y-o-y decline.

Unfortunately, two fatal traffic accidents involving the Group's staff occurred outside its premises in 2020. The Group has fully cooperated with relevant authorities conducting the investigation process. Applicable insurance coverage and financial assistance were provided to the families in line with applicable law and internal regulations.

The Group identified and remedied 17 situations that may pose risks classified as class 1, risks that could result in fatality or permanent disabling injury, throughout our operational areas. Additional training and safety inductions were conducted as part of the countermeasure for the situations identified for all employees and contractors.

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 monitoring heat, noise, lighting, vibration, dust and toxic gases. During the reporting period, the Group engaged a third-party to perform Occupational Health Risk Assessment and Workplace Condition Monitoring.

The Group continued to deliver Occupational Health, Safety and Environment specific training to employees, contractors, sub-contractors and visitors, with 12,865 training sessions to individuals, totaling 101,943 man-hours in 2020.

During 2020, the following three authorised agencies conducted periodical review of the Group's operations and issued official evaluation report at "low risk" level: (i) Umnugobi Province's Specialized Inspection Agency, a check list score of 91 out of 100; (ii) Ulaanbaatar City Specialized Inspection Agency, a check list score of 95 out of 100; and (iii) National Human Rights Commission, a check list score of 100 out of 100.

The Group's "Incident Investigation and Reporting Procedures" were updated in July 2019 and environmental incidents, classifications and reporting were included within the updated procedure. 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, fatal injury and others.

In 2020, the Group recorded no environmental incidents with "high" or above classifications. One incident occurred with "low" classification which were related to oil spillage. For all incidents, full investigations were carried out to identify the root causes, and corrective and preventive actions were taken to prevent re-occurrences.

In accordance with the Law on Environmental Protection, an external audit by the Environmental, Tourism Department of Umnugobi Province on environmental management was conducted at the Group's mine site in December 2020 with the results in the areas of environmental management and legal compliance rated at 94% out of 100%.

As part of broader preventive measures taken after local transmission cases were reported in Mongolia, the Group's medical staff in collaboration with local authorities performed bulk testing using rapid test kits for over 2,500 people covering all employees, including contractors and sub-contractors, deployed at that time in Umnugobi aimag at UHG, BN and TKH during two days on 30 November 2020 and 1 December 2020 as shown in Photo 1.

The Group continues to perform regular weekly or biweekly testing by using rapid test kits for all deployed employees, including contractors and sub-contractors, and testing frequency is linked to specific risk profile.

Moreover, truck drivers deployed for cross-border transportation have been tested via polymerase chain reaction ("**PCR**") testing on regular basis as requested by authorities. The Group has also developed various contingency and preventive plans, risk assessments, and has set temporary procedures and instructions in place.

Photo 1. Staff bulk testing progress at UHG mine:

Sales and Marketing

In 2020, the Group sold a total of 4.2 Mt of coal products to its customers located in China and Mongolia. Split by coal product type as follows: (i) 3.1 Mt of HCC; (ii) 0.4 Mt of SSCC; and (iii) 0.7 Mt of thermal coal.

The Group sold the majority of its products to its customers located in China. The Group maintained its coal sales through its existing sales channels mainly in Inner Mongolia, Gansu, Hebei and Tianjin by further strengthening its relationship with its existing customers' base.

For local sales, the Group sold 50 kt of SSCC, 218 kt of washed thermal coal and 47 kt of raw thermal coal to customers located in Mongolia during 2020. As a continuation of the Group's social contribution efforts, 0.3 Mt of washed thermal coal was supplied free of charge under ex-mine terms by Energy Resources LLC ("**ER**") to Tavan Tolgoi Tulsh LLC ("**TTT**"). TTT is a state-owned entity, designated for manufacturing and distributing coal briquettes to Ulaanbaatar residents under the GoM's program to reduce air pollution and improve air quality during the winter heating season.

Washed coking coal products are dispatched from Mongolia after export customs clearance to designated customs bonded yards at GM. Once import customs clearance and quality inspections are completed by relevant authorities at GM, washed coking coal products are delivered to ultimate customers under FOT GM terms or further transported within China for delivery to the customers' location under Cost-and-Freight ("**C&F**") terms. Middlings are exported and sold under Delivery-at-Place ("**DAP**") GM terms. Local sales to customers located in Mongolia are performed under mine-gate basis by loading to customers' designated trucks.

OUTLOOK AND BUSINESS STRATEGIES IN 2021

The Group will aim to maximise its production and sales volumes in 2021 by meeting elevated demand from our customers, subject to overcoming challenges faced due to the COVID-19 outbreak. The ultimate intention is to ramp up production output in a safe manner to the levels recorded before the COVID-19 outbreak, whilst protecting the health and well-being of our employees and their families, managing working capital requirements, and continuing to focus on cost control. Reducing environmental footprint from our operations shall also remain as the main priority, including minimising power and water usage rates. The management shall continue to maximise transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume shall be achieved by expanding mutually beneficial long-term strategic cooperation with our customers' base.

The Group intends to pursue the following key strategies in order to maintain and enhance its competitive position as a major washed coking coal producer in Mongolia: (i) adjusting the capital structure and its debt to adequate and sustainable levels; (ii) maximising assets utilisation to lower unit fixed costs; (iii) supporting initiatives to improve logistics infrastructure providing access to Chinese railway network to reach its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures arrangements by creating future alternative revenue sources; and (v) maintaining its strong commitment to safety, environment and socially responsible operations.

FINANCIAL REVIEW

Revenue

The Group's operating environment and business performance during the first half of the reporting year was largely impacted by the initial outbreak of the COVID-19 pandemic, with temporary border closures followed by newly enforced requirements in relation to coal export activities, stringent health checks, sanitation and preventive measures taken by the GoM. Starting from mid-August 2020, the border throughput had substantially improved upon China and Mongolia adopting the "Green Channel" arrangement at the Sino-Mongolian border crossing points to enhance bilateral trade flow between the two countries in a safe and efficient manner. Under such arrangement, truck drivers undertaking coal export transportation were allowed to stay overnight on China side of the border with requirement of regular COVID-19 testing. On 11 November 2020, Mongolia confirmed it first locally transmitted case of COVID-19 leading to more stringent precautionary measures, including shortening the period of PCR testing requirements for export truck drivers. This resulted in prolonged border throughput and decrease in number of trucks crossing the border from mid-November 2020 until early January 2021.

The Group sold approximately 4.2 Mt of coal products and generated a total revenue of USD417.4 million during the year ended 31 December 2020, compared to 5.1 Mt of coal products sold and USD626.6 million of total revenue generated during the year ended 31 December 2019. Total sales volume during the reporting year includes approximately 3.1 Mt of HCC, 0.4 Mt of SSCC and 0.7 Mt of thermal coal, compared to 4.0 Mt of HCC, 0.6 Mt of SSCC and 0.5 Mt of thermal coal sold during 2019. As a result of the improved border throughput during the third quarter of 2020, 1.9 Mt of HCC was sold during the second half of 2020 as compared to 1.2 Mt of HCC sold during the first half of 2020.

The Group's ASP, which represents the price exclusive of applicable VAT in China, for HCC was USD121.4 per tonne for the year ended 31 December 2020, compared to USD140.0 per tonne in 2019. Although ASP was lower compared to 2019, prices began to recover with the positive market trend seen in the fourth quarter of the year.

The ASP for HCC under FOT GM and C&F terms were USD120.6 per tonne and USD154.8 per tonne, respectively, for the year ended 31 December 2020 (USD136.4 and USD172.7 per tonne in 2019). The ASP for SSCC under FOT GM term was USD81.9 per tonne during the reporting year, compared to USD96.2 per tonne in 2019. There was no sales activity for SSCC under C&F term during the reporting year.

During the reporting year, the Group derived individually more than 10.0% of its revenue from three customers, with purchase amounts of approximately USD127.5 million, USD65.3 million and USD45.4 million. For the year ended 31 December 2019, the Group derived individually more than 10.0% of its revenue from three customers, with purchase amounts of approximately USD305.6 million, USD82.4 million and USD67.0 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.

Contingency measures were put in place during the year to minimise negative impacts from the COVID-19 outbreak and temporary downward adjustments were made to production levels during 2020. As a result, idling cost of USD7.6 million was recorded, from which USD5.0 million is attributable to depreciation and amortisation.

During the year ended 31 December 2020, the total cost of revenue was USD288.8 million, including idling cost, compared to USD374.5 million during the year ended 31 December 2019. Decrease in cost of revenue was due to lower sales volume and cost savings achieved by the Group during the reporting year.

From the total cost of revenue, USD264.5 million was attributable to coal products sold from the UHG mine and USD24.3 million was attributable to coal products sold from the BN mine.

Table 7. Total and individual costs of revenue:

	Year ended 31 December	
	2020	2019
	(USD'000)	*(USD'000)*
Cost of revenue	**288,848**	374,534
Idling cost	**7,633**	–
Cost of revenue excluding idling cost	**281,215**	374,534
Mining costs	**108,333**	136,026
Variable costs	**55,734**	74,690
Fixed costs	**32,765**	38,627
Depreciation and amortisation	**19,834**	22,709
Processing costs	**35,430**	48,548
Variable costs	**12,302**	15,944
Fixed costs	**4,233**	7,716
Depreciation and amortisation	**18,895**	24,888
Handling costs	**9,862**	13,519
Transportation costs	**67,587**	103,470
Logistic costs	**5,572**	6,438
Variable costs	**3,331**	4,320
Fixed costs	**1,868**	1,790
Depreciation and amortisation	**373**	328
Site administration costs	**19,461**	21,323
Transportation and stockpile loss	**8,293**	8,013
Royalties and fees	**26,677**	37,197
Royalty	**21,849**	30,627
Air pollution fee	**2,669**	3,727
Customs fee	**2,159**	2,843

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 fleet 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 year ended 31 December 2020 was 3.7 bcm per tonne, compared to 3.5 bcm per tonne for the year ended 31 December 2019. The increase was mainly due to higher depreciation component of stripping activity assets capitalised during prior reporting periods.

Unit mining cost, excluding idling cost, was USD14.6 per ROM tonne for the reporting year, compared to USD14.7 per ROM tonne during 2019.

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

	Year ended 31 December	
	2020	2019
	(USD/ROM tonne)	*(USD/ROM tonne)*
Total	**14.6**	14.7
Blasting	**0.8**	1.0
Plant cost	**4.6**	4.5
Fuel	**2.1**	2.6
National staff cost	**1.0**	0.9
Expatriate staff cost	**0.2**	0.2
Contractor fee	**3.2**	3.1
Ancillary and support cost	**0.02**	0.02
Depreciation and amortisation	**2.7**	2.4

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.

Processing costs primarily include costs associated with operations of the CHPP including power generation and water extraction costs. During the year ended 31 December 2020, the Group's processing costs were approximately USD35.4 million (2019: USD48.5 million), of which approximately USD18.9 million was related to the depreciation and amortisation of the CHPP, USD3.5 million was costs related to power generation and distribution, and USD1.9 million was costs incurred for water extraction and distribution related to the washed coal sold during the reporting year.

Unit processing cost, excluding idling cost, calculated per ROM coal in-feed tonne was USD4.8 per ROM tonne for the years ended 31 December 2020 and 2019.

Table 9. Unit processing cost per ROM tonne, excluding idling cost:

	Year ended 31 December	
	2020	2019
	(USD/ROM tonne)	*(USD/ROM tonne)*
Total	**4.8**	4.8
Consumables	**0.3**	0.3
Maintenance and spares	**0.5**	0.6
Power	**0.5**	0.6
Water	**0.3**	0.2
Staff	**0.3**	0.3
Ancillary and support	**0.3**	0.1
Depreciation and amortisation	**2.6**	2.7

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 year, the Group's handling costs were approximately USD9.9 million (2019: USD13.5 million). The handling cost decrease was mainly due to lower sales volume during the reporting year.

During the year ended 31 December 2020, the Group's transportation costs were USD67.6 million (2019: USD103.5 million) including fees paid for the usage of the UHG-GS paved road. The total unit transportation cost from UHG to GM decreased to USD17.2 per tonne for the year ended 31 December 2020 from USD21.6 per tonne for the year ended 31 December 2019.

The Group used two-step shipment for coal export transportation from the mine area to GM during the reporting year. 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 USD6.2 per tonne during the year ended 31 December 2020 compared to USD7.1 per tonne during the year ended 31 December 2019. Decrease in unit transportation cost on the long-haul section was mainly attributable to decrease in fuel price.

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 year, on this short-haul section the Group utilised a combination of its own trucking fleet with cost of USD4.7 per tonne (2019: USD4.7 per tonne) and third party contractors fleet with an average cost of USD15.9 per tonne (2019: USD19.3 per tonne). The Group achieved reductions on the unit transportation cost on the short-haul section as a result of continued focus on utilisation of own trucking fleet and savings from the decrease of third party contractors fees, compared to 2019. Unit transportation cost was comparably low on an average basis in 2020 as compared to 2019, however, overall transportation cost has been on an increasing trend since November 2020 due to border throughput limitations.

For the year ended 31 December 2020, the Group recorded a total transportation loss of around USD0.8 million (2019: USD3.0 million), and unrealised inventory loss of USD7.5 million for ROM coal and washed coal product stockpiles (2019: USD5.0 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 year ended 31 December 2020, the site administration costs were USD19.5 million compared to USD21.3 million during 2019. Decrease in site administration costs was mainly due to temporary production idling during the reporting year.

Logistics costs are associated with loading and unloading of coal products at UHG and TKH. The Group's logistics costs were USD5.6 million during the reporting year, compared to USD6.4 million during 2019. Decrease in logistics costs was mainly 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 processed coal products and 5% to 10% for raw coal products based on monthly reference price determined by the relevant governmental authorities of Mongolia. The Group's effective royalty rate for the year ended 31 December 2020 was approximately 6.0% for coal exported from Mongolia based on customs clearance documentation (2019: 6.0%).

Gross Profit

The Group's gross profit for the year ended 31 December 2020 was approximately USD128.6 million, compared to gross profit of approximately USD252.1 million recorded for the year ended 31 December 2019. Decrease in gross profit was driven by lower sales volume and ASP during the reporting year, compared to the previous year.

Non-IFRS Measure

Certain parts of financial reporting and disclosure may contain non-IFRS financial measures and ratios, such as EBITDA, adjusted EBITDA, free cash flow and net debt, which are not recognised measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by the management to monitor the underlying performance of the business and operations and are presented because they are considered important supplemental measures of performance, and the Group believes that these and similar measures are widely used in the industry in which the Group operates as a way to evaluate operating performance and liquidity. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures and ratios may not be comparable to the measures used by other companies under the same or similar names.

The Group's adjusted EBITDA for the year ended 31 December 2020 was approximately USD142.4 million, compared to the adjusted EBITDA of approximately USD241.6 million recorded for the year ended 31 December 2019.

Selling and Distribution Costs

The Group's selling and distribution costs were USD27.6 million for the year ended 31 December 2020 (2019: USD54.3 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 and C&F terms for inland China sales activities. Decrease in selling and distribution costs is mainly attributable to lower sales volume, reductions in coal import taxes paid in China due to decrease in coal price and decrease of sales volume under C&F term compared to the prior reporting year, 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 year ended 31 December 2020, the Group's general and administrative expenses were approximately USD19.8 million (2019: USD21.8 million).

Net Finance Costs

Net finance costs for the year ended 31 December 2020 were approximately USD41.1 million (2019: USD45.7 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 USD14,764,368, (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 gain.

Decrease in net finance costs was mainly due to (i) foreign exchange net gain recorded in relation to MNT denominated payables resulting from MNT depreciation against USD and Renminbi ("**RMB**") denominated cash at bank resulting from RMB appreciation against USD and (ii) net change in fair value estimate of derivative components of the Senior Notes due 2022, which resulted in reversal of the fair value expense recorded in prior reporting periods. Breakdown of the net finance costs is set out in note 6 to the consolidated financial statements.

Income Tax Expenses

The Group's income tax expenses for the year ended 31 December 2020 were approximately USD10.6 million, compared to approximately USD38.7 million for the year ended 31 December 2019. Decrease in income tax expense during the report year was mainly attributable to the decrease in taxable income due to lower sales revenue. The income tax expense during the year ended 31 December 2019 was relatively higher compared to the reporting year due to the reversal of deferred taxes upon redemption of the Senior Notes due 2022 and the long-term borrowings accounted in 2019, which have been previously recognised on fair value accounting of the related derivative components.

Profit for the Year

The profit attributable to equity shareholders of the Company for the year ended 31 December 2020 amounted to approximately USD28.9 million (2019: USD96.5 million). Decrease in profit attributable to equity shareholders was mainly due to lower ASP and sales volume recorded during the reporting year, as a result of the decline in GS-GM border throughput resulting from the numerous measures taken by the authorities in response to the COVID-19 outbreak.

Liquidity and Capital Resources

For the year ended 31 December 2020, the Group's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

	Year ended 31 December	
	2020	2019
	USD'000	*USD'000*
Net cash generated from operating activities	**108,687**	169,341
Net cash used in investing activities	**(70,794)**	(97,242)
Net cash used in financing activities	**(41,650)**	(63,894)
Net (decrease)/increase in cash and cash equivalents	**(3,757)**	8,205
Cash and cash equivalents at beginning of the year	**40,619**	33,035
Effect of foreign exchange rate changes	**2,042**	(621)
Cash and cash equivalents at end of the year	**38,904**	40,619

Note: USD70.8 million used in investing activities comprises of USD63.2 million incurred for payments of deferred stripping activity, USD8.0 million used for payments of payables for purchase of property, plant and equipment, USD0.3 million generated from property, plant and equipment sale and USD0.1 million generated from interest income.

Cash balance of USD38.9 million as at 31 December 2020 stated in Table 10 above consists of (i) consolidated cash balance of USD24.8 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 USD5.4 million at Khangad Exploration LLC, an indirect wholly-owned subsidiary of the Company, and (iii) cash balance of USD8.7 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 31 December 2020 divided by total assets) of the Group as at 31 December 2020 was 25.9% (31 December 2019: 25.9%). All borrowings are denominated in USD.

Indebtedness

As at 31 December 2020, the Group had USD454.8 million outstanding principal payments consisting of (i) USD14.8 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 31 December 2020, the Group had approximately USD11.1 million in trade receivables and USD83.3 million in other receivables. As at 31 December 2019, the Group had approximately USD16.9 million in trade receivables and USD84.2 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 USD83.3 million, this amount is mainly related to USD31.4 million VAT receivables and USD51.1 million of other deposits and prepayments. 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 31 December 2020 and 31 December 2019 amounted to USD29.5 million and USD24.5 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 31 December 2020 and 31 December 2019.

Pledge of Assets of the Group

As at 31 December 2020, ER pledged its 4,306,791 common shares, being 4.87% common shares held by it in International Medical Centre LLC ("**IMC**") to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

Contingent Liabilities

As at 31 December 2020, 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. The Share Option Scheme expired on 12 October 2020, however, 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 28 November 2012, the Company granted 5,000,000 and 17,750,000 Share Options to a director and employees, respectively, at the exercise price of Hong Kong Dollar ("**HKD**") 3.92. The outstanding number of the Share Options was adjusted to 31,985,294 Share Options due to the rights issue in December 2014, and further adjusted to 3,198,529 Share Options due to the share consolidation in August 2019. Concurrently, the exercise price of the Share Options was adjusted to HKD2.67 due to the rights issue and further adjusted to HKD26.7 due to the share consolidation. On 28 November 2020, the Share Options granted on 28 November 2012 lapsed after 8 years since the allocation and no Share Options were exercised during the period.

On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a director and employees, respectively, at the exercise price of HKD0.445. The outstanding number of the Share Options was adjusted to 14,650,000 Share Options and the exercise price was adjusted to HKD4.45 due to the share consolidation in August 2019. On 10 June 2020, the Share Options granted on 10 June 2015 lapsed after 5 years since the allocation and no Share Options were exercised during the period.

On 8 May 2017, the Company granted another 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.

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 year ended 31 December 2020, USD0.1 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 31 December 2020, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 11. Capital commitments:

	As at 31 December 2020	As at 31 December 2019
	USD'000	*USD'000*
Contracted for	**1,626**	2,461

Table 12. The Group's historical capital expenditure for the periods indicated:

	Year ended 31 December	
	2020	2019
	USD'000	*USD'000*
CHPP	**2,232**	6,273
Others	**5,748**	3,408
Total	**7,980**	9,681

Significant Investments Held

As at 31 December 2020, the Company did not hold any significant investments. Save as disclosed in this annual 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 year ended 31 December 2020, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

Save as disclosed in this annual results announcement, there have been no post balance sheet events subsequent to 31 December 2020 which require adjustment to or disclosure in this annual results announcement.

Employees

As at 31 December 2020, the number of employees of the Group was 2,094, compared with 2,096 employees as at 31 December 2019.

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. During the year ended 31 December 2020, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2020, a total of 13,640 employees attended different professional trainings, out of which 10,440 employees attended occupational, health, and safety training, 1,928 employees attended professional development training and 1,272 employees attended general skills development training.

During the reporting period, the Group started online safety training for all office workers, a new series of specific theoretical and practical trainings were provided to 38 mining heavy equipment operators. 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 year ended 31 December 2020, staff cost was USD30.7 million, compared to USD30.8 million in 2019.

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

For the year ended 31 December 2020, neither the Company nor 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 a dividend for the year ended 31 December 2020 (dividend for the year ended 31 December 2019: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by the 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 year ended 31 December 2020.

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 Guideline**") who are likely to possess inside information of the Company. No incident of non-compliance of 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. The CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("**AGM**") of the Company. Mr. Odjargal Jambaljamts, chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2020 AGM of the Company held on 9 June 2020, as Mr. Odjargal Jambaljamts was unable to physically attend the 2020 AGM due to international travel restrictions imposed caused by the COVID-19 pandemic, Mr. Odjargal Jambaljamts joined the 2020 AGM via webcast. According to CG Code provision A.1.1, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. As a result of strict requirements set for in person gathering during the year due to the COVID-19 pandemic, as well as for safety reasons, during the year ended 31 December 2020, the Board only held two regular board meetings. However, the Board was kept well informed of all developments relating to the Group's operations in a timely manner. The Board will endeavour to comply with CG Code provision A.1.1. going forward. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code for the year ended 31 December 2020.

Review of Annual Results

The financial figures in respect of the Group's consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income for the year then ended and the related notes thereto as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Closure of the Register of Members

The register of members of the Company will be closed from Thursday, 10 June 2021 to Wednesday, 16 June 2021, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the forthcoming AGM of the Company to be held on Wednesday, 16 June 2021, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 9 June 2021.

Review by the Audit Committee

The Audit Committee of the Company currently comprises of 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 has reviewed the annual results of the Company for the year ended 31 December 2020.

Publication of Annual Results and Annual Report

The annual results announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2020 will be despatched to 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 March 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.