MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)
Stock code: 975

ANNUAL REPORT 2022

CONTENTS

COMPANY PROFILE

Mongolian Mining Corporation ("**MMC**" or the "**Company**" and together with its subsidiaries, the "**Group**") (Stock Code: 975) is the largest producer and exporter of high-quality washed hard coking coal ("**HCC**") in Mongolia. MMC owns and operates the Ukhaa Khudag ("**UHG**") and the Baruun Naran ("**BN**") open-pit coking coal mines, both located in the Umnugobi aimag (South Gobi province), Mongolia.

I. MISSION, VISION AND VALUES

Our mission

To undertake safe and profitable mining and processing of mineral resources while promoting the development of Mongolia, through combination of modern technology and human endeavor

Our vision

We strive to become a leading mining company in the region by maximising value for our shareholders and for the communities where we operate

We recognise that people are our key asset. Therefore:	MMC places the safety of our personnel as the highest priority As a responsible employer, MMC provides equal employment opportunities within a meritocratic workplace
We believe that modern and cost-efficient technology will bring sustainable growth and prosperity. Therefore:	MMC aims to use technology and innovate in the same to produce quality products safely at the lowest cost MMC continues to contribute to the development of technical standards in the global extractive industry
We are committed to environmental sustainability in our operations. Therefore:	MMC strives to minimise the impact of our operations on the environment MMC complies with all required environmental standards, and take further measures to prevent and mitigate potential environmental impact
We are committed to socially responsible mining practices. Therefore:	MMC strives to build mutually beneficial relationships with local communities and officials MMC contributes to social development through community development initiatives and other programmes
We are committed to transparent and fair business practices. Therefore:	MMC fosters mutually beneficial relationships with our suppliers and contractors MMC develops, maintains and values long-term relationships with our customers
We believe sound corporate governance is a cornerstone of MMC's management and operations. Therefore:	MMC complies with the best international practices MMC continues to cultivate a culture of corporate governance as an integral part of its ongoing organisational development

II. CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Odjargal Jambaljamts *(Chairman)*
Battsengel Gotov *(Chief Executive Officer)*

Non-Executive Directors

Od Jambaljamts
Enkhtuvshin Gombo
Myagmarjav Ganbyamba

Independent Non-Executive Directors

Khashchuluun Chuluundorj
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road
Kowloon, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Cheung Yuet Fan

INDEPENDENT AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Cheung Yuet Fan

LEGAL ADVISERS

Davis Polk & Wardwell
10th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

Snow Hill Consultancy LLP
6th Floor, Democracy Palace
Genden Street 16
Sukhbaatar District
Ulaanbaatar 211213
Mongolia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman KY1-1100
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

COMPANY WEBSITE

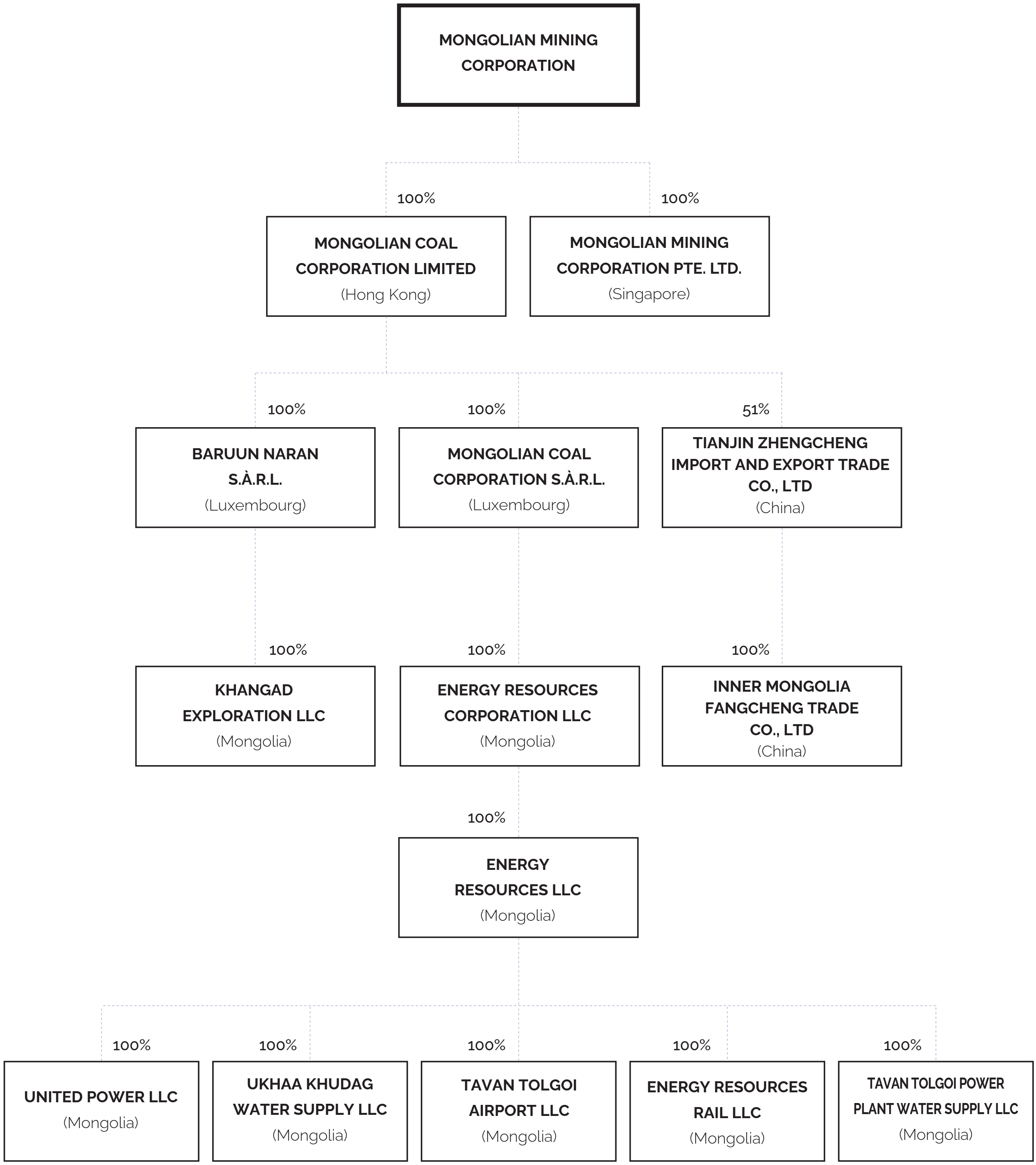
www.mmc.mn

STOCK CODE

975

III. GROUP STRUCTURE

(as at 31 December 2022)



IV. DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

ODJARGAL JAMBALJAMTS, aged 57, is an executive Director and Chairman of the board (the "**Board**") of directors (the "**Directors**") of the Company. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC and was appointed as the Chairman of MCS Mongolia LLC, a controlling shareholder of the Company, in 2017 (together with its subsidiaries, the "**MCS Group**"). Mr. Jambaljamts was a director of Starain Limited from January 2011 to August 2017, MCS Global Limited and MCS (Mongolia) Limited from 2012 to 2017, Novel International Investment Limited from March 2012 to October 2019, Novel Holdings Group Limited from March 2012 to January 2021, and MCS Mining Group Limited from July 2012 to January 2021, respectively. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and a controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

BATTSENGEL GOTOV, aged 50, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. Since 2004, Dr. Gotov has served at various managerial positions within MCS Group. He has been the Chief Executive Officer of Energy Resources LLC ("**ER**") since June 2008, Khangad Exploration LLC ("**KE**") since December 2012 and Energy Resources Corporation LLC since August 2010. Dr. Gotov was appointed as a director of Mongolian Coal Corporation Limited on 11 June 2011. He is also the category A Manager for Mongolian Coal Corporation S.à.r.l. and Baruun Naran S.à.r.l. respectively. Dr. Gotov was appointed as a member of the board of directors of Mongolian Mining Corporation Pte. Ltd. in November 2022 and the Chief Executive Officer of Energy Resources Rail LLC in February 2023. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation, and stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Since 2010, Dr. Gotov has been a board member of the Mongolian National Mining Association and was appointed as Chairman on 27 April 2022. He was appointed as a member of the Mineral Resources Policy Council on 7 October 2014. He was appointed as the chairman and board member of the Mongolian Coal Association in May 2016. He was also appointed as the Chairman of Energy 3x3 Club in January 2020, and President and Chairman of the Mongolian Basketball Association NGO on 20 April 2022. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

OD JAMBALJAMTS, aged 58, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Environmental, Social and Governance Committee of the Company. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within MCS Group, and a member of the board of MCS Mongolia LLC, a controlling shareholder of the Company. Mr. Jambaljamts was appointed as the president of Ulaanbaatar Chamber of Commerce in March 2015 and was re-designated as a member of the board of Ulaanbaatar Chamber of Commerce in January 2017. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in diverse field. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts was a director of MCS Global Limited and MCS (Mongolia) Limited from 2012 to 2017, MCS Mining Group Limited from July 2012 to January 2021, and Trimunkh Limited from July 2011 to March 2020, respectively. Mr. Jambaljamts was awarded a bachelor's degree in International Relations by the Institute of International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

ENKHTUVSHIN GOMBO, aged 51, is a non-executive Director of the Company. Ms. Gombo was appointed as a non-executive Director of the Company on 30 September 2017. She is also a member of the Audit Committee of the Company. Ms. Gombo is the vice president and a director of the Finance Department of MCS Holding LLC, and a member of the board of MCS Mongolia LLC, a controlling shareholder of the Company. Ms. Gombo joined MCS Holding LLC in 2003 as a financial analyst and was subsequently appointed as the head of the Planning Unit under the Finance Department in 2006. Ms. Gombo became the vice president and director of the Finance Department of MCS Holding LLC in 2008. Since her appointment by MCS Holding LLC, she has successfully organised the first international auditing within MCS Group and established a strong financial team, and good relationships with international financial organisations as well as with commercial banks. In addition, Ms. Gombo has previously served as a non-executive Director and a member of the Audit Committee of the Company for the period from its initial public offering on 13 October 2010 to 12 October 2014. Ms. Gombo was awarded a bachelor's degree in Banking and Finance by the Economics College of Mongolia in 1994. In 1997, she was awarded a master's degree in International Banking and Finance at Birmingham University Business School, Birmingham, United Kingdom.

MYAGMARJAV GANBYAMBA, aged 38, is a non-executive Director of the Company. Mr. Ganbyamba was appointed as a non-executive Director of the Company on 1 January 2022. He is a member of the Environmental, Social and Governance Committee of the Company. Mr. Ganbyamba joined MCS Group in 2005 as a financial analyst of Interpress LLC and Anun LLC and worked as a financial analyst at MCS Holding LLC from 2007 to 2009 and the Company from 2009 to 2010. Mr. Ganbyamba served as the deputy chief executive officer of Goyo LLC from 2012 to 2013, and subsequently served as the vice president and chief financial officer of Unitel Group from 2013 to 2020. Mr. Ganbyamba is the chief executive officer of MCS Investment LLC and MCS Ventures LLC, respectively. Mr. Ganbyamba was awarded a bachelor's degree in Financial Management from the Mongolian University of Science and Technology in 2006 and awarded a master's degree in Financial Management by the Keller Graduate School of Management, DeVry University in California, United States in 2012. Mr. Ganbyamba is also a Chartered Financial Analyst.

UNENBAT JIGJID, aged 60, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Environmental, Social and Governance Committee and a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. From 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. He was a director of Resources Investment Capital from October 2010 to November 2013. Mr. Jigjid was appointed as an executive director of the Corporate Governance Development Center in Mongolia since 2009 and was appointed as the Head of the Center on 30 March 2015. He served as a member of the supervisory board of the Bank of Mongolia from January 2004 to January 2019. From March 2011 to present, Mr. Jigjid has been serving as a member of Open Society Forum in Mongolia. Mr. Jigjid was appointed as an independent non-executive director of APU JSC on 26 April 2013, the shares of which are listed on the Mongolian Stock Exchange ("**MSE**"). He was appointed as an independent member of the board of Golomt Bank in October 2010 and has been appointed as a member of the board in 2020, the shares of which are listed on the Mongolian Stock Exchange on 23 November 2022. From April 2015 to April 2019, Mr. Jigjid served as a non-executive director of Mongolia Telecom JSC, a company listed on the Mongolian Stock Exchange. Mr. Jigjid was reappointed and served as an executive director and secretary general of the Mongolian Bankers Association from November 2015 to February 2020. Mr. Jigjid was appointed as a member of the board of the International Bank for Economic Cooperation on 15 October 2022. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

KHASHCHULUUN CHULUUNDORJ, aged 56, is an independent non-executive Director of the Company. Dr. Chuluundorj was appointed as an independent non-executive Director on 8 January 2016. He is the Chairman of the Remuneration Committee and a member of the Audit Committee, Environmental, Social and Governance Committee and Nomination Committee of the Company. Dr. Chuluundorj is a professor at the Department of Economics and a member of the Academic Council of the National University of Mongolia. He serves as an executive director of the Mongolia Oil Shale Association and is engaged in managing a number of non-governmental organisations and research consulting activities. Dr. Chuluundorj has served as a member of the working group on Long-term Development Strategy for Mongolia 2016-2030 and a member of the board of directors of Ulaanbaatar City Development Corporation from 2015 until June 2020. He joined the National University of Mongolia as a lecturer of Political Economy in 1989. From 2011 to 2012, he was a member of the board of directors of Erdenes MGL LLC, a state-owned enterprise for strategic mining deposits. From 2009 to 2012, Dr. Chuluundorj worked as the chairman of National Development and Innovation Committee of Mongolia, a government agency in charge of national development strategy and investment policy. From 2010 to 2011, he was appointed as the inaugural chairman of the board of directors to lead the establishment of Development Bank of Mongolia and was a member of the board of directors of the Central Bank of Mongolia from 2006 to 2012. Dr. Chuluundorj served as a member of the President's Economic Advisory Council from 2006 to 2008 and a member of the Policy Council of the Ministry of Trade and Industry from 2005 to 2007. He also managed government efforts on the introduction of private-public partnership concept and adoption of the Law on Concession, Law on Innovation and Law on Economic Development Planning, and revision of Law on Budget to adopt development policies, introduction of Regional Development index for fiscal transfers, private sector support policies. Dr. Chuluundorj was appointed as an independent director of MIK Holding JSC in June 2017, the shares of which are listed on the MSE. From January 2017 to June 2020, he served as an independent director of Ulaanbaatar Development Corporation JSC, the shares of which are listed on the MSE. He was re-designated as the chairman of the board of Practical Insurance LLC since May 2018. Dr. Chuluundorj was appointed as an independent member of the Monetary Policy Council of Bank of Mongolia in June 2018. He was appointed as an independent director of each of MMFG Group in January 2018 and Invescore Financial Group in November 2018 respectively. In June 2019, he was also appointed as an independent director of Invescore NBFI, the shares of which are listed on the MSE. He was also appointed as a member of the board of directors of Mongolian Investment Rating Agency on 1 December 2021. Dr. Chuluundorj was awarded a bachelor's degree in economics by the Moscow State University, Moscow, Russia in 1989, a master's degree in economics from the Graduate School of Economics, Yokohama City University, Yokohama, Japan in 1996 and a doctorate degree in international economics by the Graduate School of Economics, Keio University, Tokyo, Japan in 2003.

CHAN TZE CHING, IGNATIUS, aged 66, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and a member of the Environmental, Social and Governance Committee of the Company. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan served as a member of the board of directors of the Community Chest of Hong Kong from September 1999 to 22 June 2020 and was re-appointed for various terms. From 28 November 2012 to 20 June 2014, Mr. Chan was appointed as an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**" or "**Stock Exchange**"). From 1 March 2011 to 19 June 2016, Mr. Chan served as a member of the Sponsorship and Development Fund of The Open University of Hong Kong. From 19 October 2012 to 18 October 2018, Mr. Chan served as a member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission. From 1 April 2013 to 31 December 2015, Mr. Chan served as Deputy Chairman of the Council of the Hong Kong Polytechnic University and from 1 January 2016 to 31 December 2018, he served as Chairman of the Council. From 1 April 2013 to 31 March 2019, Mr. Chan served as a member of the Hong Kong Tourism Board. He has served as a member of the Council of Hong Kong Red Cross from 1 April 2010 to 31 August 2022, the deputy chief executive of the Bank of China (Hong Kong) Limited in 2008 and has been the senior advisor of CVC Capital Partners Limited from 1 November 2010 to 31 October 2021. Mr. Chan was appointed as the senior advisor of The Bank of East Asia Limited in March 2009 and a member of the Hospital Governing Committee of Hong Kong Red Cross Blood Transfusion Service on 1 April 2022. Mr. Chan has served as Board Adviser of Hong Kong New Territories General Chamber of Commerce since 28 May 2013. He served as an Honorary Advisory Vice President of The Hong Kong Institute of Bankers from 14 February 2011 to 31 December 2018. Mr. Chan served as a member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region from 1 January 2014 to 31 December 2019. Mr. Chan has served as a member of the Financial Reporting Council (FRC) from 1 December 2014 to 30 September 2020 and a member of the Standing Committee on Judicial Salaries and Conditions of Service from 1 January 2017 to 31 December 2022. Mr. Chan served as a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited from 11 December 2009 to 28 April 2021, and an independent non-executive director of Hong Kong Exchanges and Clearing Limited from 23 April 2009 to 28 April 2021, the shares of which are listed on the Stock Exchange. Mr. Chan served as a non-executive director of Rizal Commercial Banking Corporation (RCBC) from 28 November 2011 to 24 June 2019, the shares of which are listed on the Philippines Stock Exchange. From 6 August 2013 to 12 March 2018, he served as a non-independent non-executive director of Affin Holdings Berhad, the shares of which are listed on Bursa Malaysia. Affin Holdings Berhad's listing on the Malaysian stock exchange was replaced by Affin Bank Berhad on 2 February 2018. He has served as a non-independent non-executive director of Affin Bank Berhad since 1 December 2017, the shares of which are listed on Bursa Malaysia on 2 February 2018. He served as a chairman of PRASAC Microfinance Institution in Cambodia from 14 March 2017 to 7 April 2020. Mr. Chan was awarded the bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

Senior Management

OYUNBAT LKHAGVATSEND, aged 46, is the President, Development and Growth, and Deputy Chief Executive Officer of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013. Mr. Lkhagvatsend has over 17 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways LLC and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the Chief Executive Officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

ENKHBAT DORJPALAM, aged 41, is the President, Coal and Energy, and Deputy Chief Executive Officer of the Company. Mr. Dorjpalam joined the Group as the Deputy Chief Executive Officer in February 2023. He was appointed as the Chief Executive Officer of United Power LLC, Ukhaa Khudag Water Supply LLC, Tavan Tolgoi Airport LLC and Tavan Tolgoi Power Plant Water Supply LLC on 1 April 2023. His primary responsibility is to lead and oversee the Group's coal mining, processing, transportation, sales and marketing operations. Since 2004, Mr. Dorjpalam served in various managerial positions within the MCS Group companies, including the Chief Executive Officer of Unitel Group from 2017 to 2022. He was awarded a bachelor's degree in telecommunication engineering from the Mongolian University of Science and Technology, and holds his master's degree from the National Academy of Governance, Mongolia.

ULEMJ BASKHUU, aged 44, is an Executive Vice President and the Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company's Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

UURTSAIKH DORJGOTOV, aged 59 is an Executive Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Programme of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

BAASANDORJ TSOGOO, aged 61, is the Vice President and Chief Operating Officer of the Company. Mr. Tsogoo was appointed as the Chief Operating Officer of the Company on 1 January 2017. He has been the Chief Executive Officer of United Power LLC from 10 February 2013 to 31 March 2023 and Tavan Tolgoi Airport LLC from 1 April 2013 to 31 March 2023. Mr. Tsogoo served at various managerial positions within MCS Group and worked in highly successful projects in Mongolia since 1994, such as the Taishir Hydropower Plant project. Mr. Tsogoo holds a bachelor's degree in civil and hydropower engineering from the Agricultural Institute in Irkutsk, Russia and a master's degree in business administration from the National Academy of Governance in Mongolia.

TUVSHINBAYAR TAGARVAA, aged 49, is the Vice President and Chief Marketing Officer of the Company. Mr. Tagarvaa was appointed as the Company's Chief Marketing Officer with effect from 1 April 2017. Since 2003, Mr. Tagarvaa served at various managerial positions within MCS Group and joined the Group in 2011 as an Executive General Manager for Transportation and Logistics which was instrumental in the successful implementation of the Company's efforts to improve efficiency and cost of transportation and logistics while ensuring a stable supply of coal products exported by the Company. Mr. Tagarvaa holds a bachelor's degree and a master's degree in business administration from the Institute of Finance and Economics of Mongolia.

CHEUNG YUET FAN, aged 57, is the Company Secretary of the Company. Ms. Cheung is a director of Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional services provider specialising in integrated business, corporate and investor services. The Company has engaged Tricor as external service provider and appointed Ms. Cheung as the Company Secretary of the Company since 30 October 2017. Ms. Cheung has over 30 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Prior to joining Tricor, Ms. Cheung worked in the corporate secretarial department of Deloitte Touche Tohmatsu in Hong Kong and in various Hong Kong listed companies in the role of company secretary and corporate governance areas. She is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Chartered Governance Institute (formerly "The Hong Kong Institute of Chartered Secretaries") and The Chartered Governance Institute (formerly "The Institute of Chartered Secretaries and Administrators"). Ms. Cheung obtained a Bachelor of Arts degree in Accountancy from City Polytechnic of Hong Kong (now known as City University of Hong Kong).

V. CHAIRMAN’S STATEMENT

Dear Shareholders,

The COVID-19 virus outbreak continued to negatively impact coal export shipments from Mongolia to China due to limitations imposed by the Chinese authorities during the first half of 2022. However, the throughput saw significant improvement from the second half of 2022 with cross-border traffic reverting back to pre-COVID levels during the fourth quarter of 2022.

According to the General Administration of Customs of China, coking coal imports to China increased to 63.8 million tonnes (“**Mt**”) in 2022, representing 16.6% increase compared to 54.7 Mt imported in 2021. In 2022, coking coal imports to China from Mongolia surged by 82.9% compared to the previous year. As such, Mongolia remained as the main source for coking coal imports to China with 40.1% market share in 2022.

The Group’s total sales volume was 4.7 Mt of coal products, an increase of 194% from the previous year’s 1.6 Mt. With increased sales volume, the Group’s revenue increased significantly by 197% to USD546.2 million during the year. As such, the Group achieved a turnaround during the reporting year and recorded profit attributable to equity shareholders of approximately USD59.2 million, compared to USD55.2 million loss attributable to equity shareholders recorded in 2021.

We expect that demand for Group’s coal products will be supported by increased economic activity in China after lifting of restrictions under “Zero-COVID” policy in 2023. As a major washed coking coal exporter and producer in Mongolia, the Group shall focus on scaling up its production and sales volumes from UHG and BN coking coal mines to the levels reported before COVID-19, while remaining fully committed to safety, environment, and socially responsible operations.

On 11 January 2023, the Group successfully concluded a Strategic Alliance and Investment Agreement with Toronto Stock Exchange and MSE listed Erdene Resource Development Corporation (“**ERD**”). The Group will cooperate with ERD on advancing the Bayan Khundii (“**BKH**”) gold project from exploration to production stage. This represents a significant step towards expanding and diversifying our business portfolio and revenue sources. I strongly believe that our partnership with ERD will be important in unlocking new opportunities for the Mongolian minerals sector which will further increase the industry’s contribution to the national economy.

On behalf of the Board, I would like to express my sincere gratitude for the continuing long-term support of our shareholders. Also, I would like to convey my appreciation of all efforts made by our staff of around 2,000 hard working men and women, fully dedicated in pursuing our joint vision to become a leading mining company in the region.

Odjargal Jambaljamts
Chairman

21 March 2023


CAT

VI. MANAGEMENT DISCUSSION AND ANALYSIS

COVID-19 Pandemic and State Response

The Parliament of Mongolia ("**Parliament**"), the Government of Mongolia ("**GoM**") and the State Emergency Commission continued to take legislative, economic, and preventive measures in response to COVID-19 pandemic. The effective period of the Law on Prevention from and Fight against Coronavirus (COVID-19) Pandemic and Mitigating its Social and Economic Impact expired on 31 December 2022.

As at the date of this annual report, the color-coded alert level of "yellow" remains in effect, under which all types of public activities are permitted while the state of enhanced readiness regime continues to apply at major border checkpoints including Gashuunsukhait ("**GS**"), the Mongolian side of the Gashuunsukhait-Ganqimaoudu ("**GS-GM**") border checkpoint, to prevent spread of COVID-19 and disruption to exports and imports.

Industry Overview

Chinese Steel, Coke and Coking Coal Sectors' Performance

Crude steel production in China decreased by 2.1% from the previous year to 1,013.0 Mt in 2022, as reported by the World Steel Association.

Chinese domestic crude steel consumption decreased by 2.6% to 948.2 Mt in the reporting year compared to 973.1 Mt recorded in 2021 based on estimates made by Fenwei Digital Information Technology Co., Ltd ("**Fenwei**"). Chinese steel export increased by 0.6% from the previous year to 67.3 Mt in 2022.

According to the National Bureau of Statistics of China, China's coke production was 473.4 Mt in 2022, representing an increase of 1.9% compared to 464.5 Mt reported in 2021. Fenwei estimates show that coke consumption decreased by 0.3% to 457.2 Mt compared to 458.6 Mt reported in 2021. During the reporting year, coke exports from China reached 8.9 Mt, representing an increase of 38.8% compared to the previous year.

According to Fenwei, China's coking coal consumption was 556.2 Mt in 2022, an increase by 2.0% from the previous year. Domestic coking coal production reached 493.5 Mt, representing an increase of 0.7% as compared to that reported in 2021.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

According to the General Administration of Customs of China, coking coal imports to China increased to 63.8 Mt in 2022, representing an increase of 16.6% compared to 54.7 Mt imported in 2021. In 2022, coking coal imports to China from Mongolia surged by 82.9% compared to the previous year. As such, Mongolia remained as the main source for coking coal imports to China with 40.1% market share in 2022.

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

Countries	2022	Market Share	2021	Change
Mongolia	**25.6**	**40.1%**	14.0	+82.9%
Russia	**21.0**	**32.9%**	10.7	+96.3%
Canada	**7.9**	**12.4%**	9.3	-15.1%
USA	**4.4**	**6.9%**	10.2	-56.9%
Australia	**2.2**	**3.4%**	6.2	-64.5%
Others	**2.8**	**4.4%**	4.2	-33.3%
Total	**63.8**	**100.0%**	54.7	+16.6%

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

Regulations related to the mineral sector

On 11 November 2022, the Parliament approved amendments to the Minerals Law and the Law on Budget along with the adoption of the Law on State Budget for 2023.

According to the amendment to the Law on Budget, donation and assistance provided by mining license holders to local administrative bodies under the local cooperation agreement entered pursuant to the Law on Minerals shall be a part of the local development fund, a fund for financing projects to promote local development. In addition, pursuant to the amendment to the Minerals Law, local cooperation agreements are to be disclosed publicly by the local administrative body for transparency purposes. The local administrative bodies are prohibited from requesting for any donation and assistance not included within the local cooperation agreement from mining license holders. The Group has complied with all requirements stated above and publicly discloses its local cooperation agreement through the webpage of the Mongolian Extractive Industry and Transparency Initiative.

On 18 October 2022, the Head of the Mineral Resources and Petroleum Authority for Mongolia issued Order No. A/121 and approved the "Guideline on Submission, Delivery and Acceptance of Plan, Report and Information on Exploration and Mining Work and Operation for Processing Plants". The order requires mining license holders to submit and deliver their annual plans, reports and information through an electronic system as specified within the guideline.

Regulations related to coal exports

On 4 July 2022, the Head of the Agency for Standardization and Metrology issued Order No. C/28 and approved MNS 6457:2022 "Coal and Coal Product Classification", the national standard defining different types of coal based on their quality specifications, replacing its previous version adopted in 2014. Six types of coal classification were added to the processed coal group. There have been no material changes made to the classification types and quality requirements related to the coal products produced by the Group.

On 8 August 2022, the Ministry of Road and Transport Development of Mongolia, the Ministry of Finance of Mongolia and the National Development and Reform Commission of the People's Republic of China ("**PRC**") finalised a memorandum of understanding on the connection of the GS-GM border points by railway and signed a long-term coal supply agreement with China. The commissioning ceremony of the Tavantolgoi-Gashuunsukhait ("**TT-GS**") railway was held on 9 September 2022. Tavantolgoi Railway LLC reported that its TT-GS railway is 233.6 km long and is equipped with two central stations and six crossings, with capacity to transport 30-50 Mt of goods on an annual basis.

On 30 August 2022, the Parliament adopted the Amendment to the Law on Composition of the Government under which a new Minister position for Border Points and Head of the National Committee on Border Point Revival was created. On 14 September 2022, the GoM issued Resolution No. 342 and approved the number of positions and charter of the National Committee on Border Point Revival.

On 5 October 2022, the GoM issued Resolution No. 362 regarding measures to be taken to increase foreign exchange reserves in view of ensuring transparency and efficiency of mineral trade. In addition to measures to be taken in relation to stated owned entities, the GoM resolved to (i) shift sales terms of coal exports from ex-works ("**EXW**") mine term to delivery-at-place ("**DAP**") border point terms as general measures applicable to coal exporting entities; (ii) transfer granting rights of border crossing transportation multi-permits of type-C ("**C permit**") to coal mining entities; and (iii) establish the legal framework for a commodities exchange.

On 14 December 2022, the GoM issued Resolution No. 466 and adopted a "Temporary Procedure on Open Electronic Trading of Coal to be Exported" to be effective until 30 June 2023, when the Law on Mining Commodity Exchange comes into effect. Under the procedure, coal to be exported via containerised coal shipment terminal at the GS border point (on 1 March 2023, the delivery term was extended to also include DAP Ganqimaodu ("**GM**") coal stock yard) can be traded by an electronic auction through the MSE whereby up to 25 batches can be traded in a single auction, with each batch consisting of 6,400 tonnes of coal. On 12 January 2023, in its efforts to support the initiative, ER, the main operating subsidiary of the Group, successfully sold 12,800 tonnes of coal through the platform as part of its trial-run. Starting from 15 February 2023, trades will be organised on a regular basis involving coal exporting state owned entities, Erdenes Tavantolgoi JSC ("**ETT**") and Tavantolgoi JSC.

On 23 December 2022, the Parliament adopted the Law on Mining Commodity Exchange under which state owned entities are required to sell its products through a commodity exchange, whereas private entities can sell their mineral products on a voluntary basis. Such law will come into force starting from 30 June 2023.

On 30 December 2022, the Head of the Border Authority of Mongolia issued Order No. A/34 and adopted a "Temporary Procedure on Regulating Transportation at Gashuunsukhait Border Point". The procedure was approved with regards to opening ordinary operation of the land ports from PRC from 8 January 2023 by lifting strict zero-Covid policy requirements, such as isolation of export-import truck drivers in segregated teams and having strict COVID-19 infection testing control; as well as transfer of right of issuance of C permits to coal mining entities.

In January 2023, a total of 7,800 C permits were allotted to ETT, ER and Tavantolgoi JSC for coal export transportation. The Group believes that such arrangement will have a positive impact on maintaining transparent and stable coal exporting operations as transporters receiving C permits from the Group will be required to transport only the Group's coal.

Regulations related to taxation

Under the GoM Resolution No. 362, dated 5 October 2022, the GoM introduced an electronic payment receipt system covering all production stages of mineral extraction, processing, and transportation to trace origin of products by registering all related contracts in the unified tax system within the fourth quarter of 2022. Unregistered products shall be restricted to be exported starting from 1 January 2023.

In this regard, based on the effective value added tax ("**VAT**") electronic system, starting from 1 January 2023, all sales agreements, including export and local sales agreements, are registered within such system and control over exporting activities, including issuance of custom declaration and royalty payment are unified under the system. The Group has fully complied with all the requirements.

On 28 December 2022, the GoM issued Resolution No. 496 and extended the effective period of the special import tax rate of "0" percent (%) on diesel fuel imported via all border ports for a period from 31 December 2022 to 31 July 2023.

Regulations related to labour relations

On 11 November 2022, the Parliament amended the Law on Minerals and requirement to employ at least 5% of the total workforce from citizens of soum and district where the mining activities are carried out. The Group has fully complied with such requirement as approximately 29% of its current employees consists of residents of Tsogttsetsii and Khankhongor soums of Umnugobi province in which the Group undertakes its coal mining, processing, and transportation activities.

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 four JORC compliant Coal Resource estimates, the most recent of which, stated as at 31 December 2021.

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 2022 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2022 to 31 December 2022 and no further exploration data was incorporated.

Resources are divided in order of increasing geological confidence, into inferred, indicated, and measured categories. The most recent resource update performed in 2021 focused on improving the details and accuracy of the 3D coal seam model. As a result, the unclassified, inferred, and indicated coal resources were moved to the measured resource category, representing higher confidence level. The updated resource report includes new information gathered from 16,935 meters ("**m**") of drilling by 89 boreholes and 6,108 samples with laboratory analysis that were completed between October to December of 2020.

Exploration activities conducted in the process of preparing the four 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 2021, included:

- 1,645 individual boreholes drilled for 208,211m, including 116,709m of HQ-3 (63.1 millimetre ("**mm**") core, 96.0mm hole diameter) and 91,502m of 122mm diameter open hole drilling;
- 43,656 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. Lkhagva-Ochir Said, employed by the Group as Executive General Manager of Mining and Processing. This peer audit confirmed 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).

Appendix I of the Group's 2021 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 2022:

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**")	7	1	3	8	**11**
BHWE to 100m	62	4	13	66	**79**
From 100m to 200m	94	9	20	103	**123**
From 200m to 300m	133	6	14	139	**153**
From 300m to 400m	88	3	4	91	**95**
Below 400m	85	7	14	92	**106**
Sub-Total above 300m	296	20	50	316	**366**
Sub-Total below 300m	173	10	18	183	**201**
Total	**469**	**30**	**68**	**499**	**567**
Total (Rounded)	**470**	**30**	**70**	**500**	**570**

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the Australasian Institute of Mining and Metallurgy (the "**AusIMM**") (Member #318198) 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. Barkhas consents to the inclusion in the release of the matters based on this information in the form and context in which it appears in this report. The estimates of the Coal Resource set out in Table 2 presented in this report are considered to be a true reflection of the UHG Coal Resource as at 31 December 2022, 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. Lkhagva-Ochir Said is employed by the Group as Executive General Manager for Mining and Processing. Mr. Said is a member of the AusIMM (Member #316005) and has over 15 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).

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.

In 2021, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 31 December 2021 for the BN and THG mining licenses. The last update stated for BN and THG as at 31 December 2022 was made only the basis of revised surface topography, to account for depletion as a result of mining activity between 1 October 2022 to 31 December 2022, and no further exploration data was incorporated.

The new resource update in 2021 was done based on 8,335.4m of drilling data on the BN deposit. The drilling focused on the H pit mining boundary. 3,766 samples were collected and tested, confirming the coal quality and coal seam structure. As a result, the inferred and indicated coal resources were moved to the measured resource category, and the geological model was updated with improved accuracy. Moreover, based on 2018 exploration drilling result, the technical team improved the interpretation of the seam correlation between the BN and Tsaikhar Khudag ("**THG**") deposits and classified an indicated resource in THG resource estimation.

The Coal Resource stated as at 31 December 2021 incorporated additional exploration data gained from the exploration drilling program conducted in 2018. 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 2022:

- total of 135 exploration boreholes at BN, with a total of 36,875m drilled, of which 16,102m were HQ-3, 9,640m were PQ-3 (83.0 mm core, 122.6mm hole diameter) and 11,133m were 122 mm diameter open boreholes;

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

- total of 12,502 (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. Lkhagva-Ochir Said, the Group's Executive General Manager of Mining and Processing. 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 2022 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 2022:

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	**Total (M+I+I)**
Subcrop to BHWE	7	1	1	8	**9**
BHWE to 100m	61	9	5	70	**75**
From 100m to 200m	88	12	8	100	**108**
From 200m to 300m	89	13	8	102	**110**
From 300m to 400m	87	16	9	103	**112**
Sub-Total above 300m	245	35	22	280	**302**
Sub-Total below 300m	87	16	9	103	**112**
Total	**332**	**51**	**31**	**383**	**414**
Total (Rounded)	**330**	**50**	**30**	**380**	**410**

Table 4. THG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2022:

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	**Total(M+I+I)**
Subcrop to BHWE	–	1	0	1	**1**
BHWE to 100m	–	13	4	13	**17**
From 100m to 200m	–	18	4	18	**22**
From 200m to 300m	–	19	5	19	**24**
From 300m to 400m	–	16	9	16	**25**
Sub-Total above 300m	–	51	13	51	**64**
Sub-Total below 300m	–	16	9	16	**25**
Total	**–**	**67**	**22**	**67**	**89**
Total (Rounded)	**–**	**70**	**20**	**70**	**90**

Notes:

(i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the AusIMM (Member #318198) 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. Barkhas consents to the inclusion in the release of the matters based on this information in the form and context in which it appears in this report. The estimates of the Coal Resource set out in Table 3 and Table 4 presented in this report are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2022, 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. Lkhagva-Ochir Said is employed by the Group as Executive General Manager for Mining and Processing. Mr. Said is a member of the AusIMM (Member #316005) and has over 15 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).

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 2023 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 2022 to 1 January 2023.

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

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

- washability curves on seam ply basis, as prepared by the Group's processing team 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 Run-of-Mine ("**ROM**") raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2023 based upon an as-received basis total moisture with 3.64% for coking and 2.68% for thermal coal types, are shown in Table 5.

Table 5. UHG mining license JORC (2012) Coal Reserve estimate, as at 1 January 2023:

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	Proved	Probable	Total
Coking	336	10	346
Thermal	19	–	19
Total	**355**	**10**	**365**

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 AusIMM (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 22 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion in the release of the matters based on this information in the form and context in which it appears in this report.

(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 2023. 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 last reserve statement was made on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 October 2022 to 1 January 2023.

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

- limitation of open pit depth to 360m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla of AMC;
- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest Corporation;
- 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 total moisture with 1.8% for coking coal and 2.62% for thermal coal types.

Table 6. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2023:

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	Proved	Probable	Total
Coking	246	23	269
Thermal	10	1	11
Total	**256**	**24**	**280**

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 AusIMM (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 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 21 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion in the release of the matters based on this information in the form and context in which it appears in this report.

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

Production and Transportation

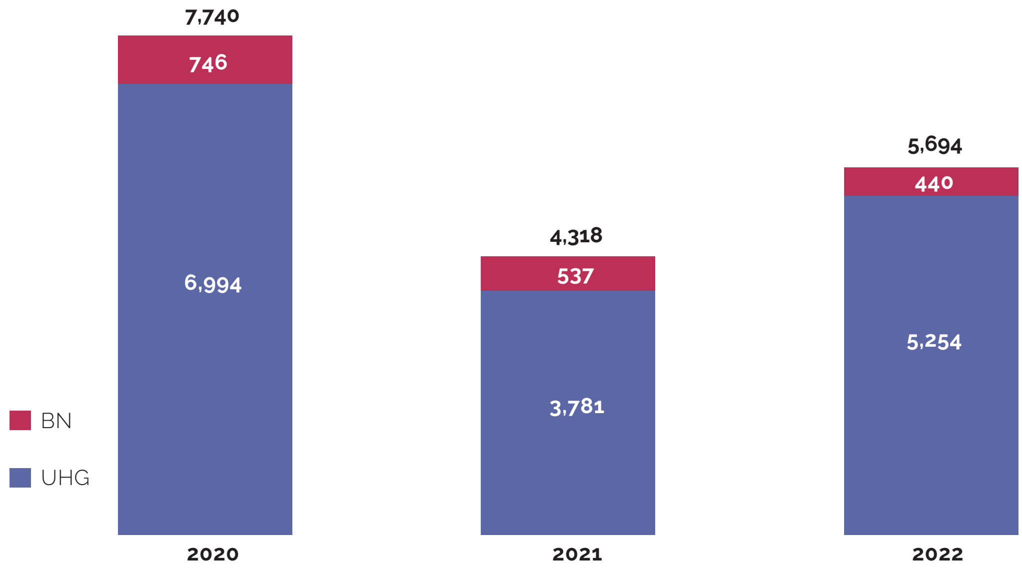
Coal Mining

The Group's total ROM coal production was 5.7 Mt in 2022, of which 5.3 Mt and 0.4 Mt of ROM coal was produced from UHG mine and BN mine, respectively.

A total of 27.9 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 5.3 bcm per ROM tonne for the reporting year at UHG mine. At BN mine, a total of 3.6 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 8.1 bcm per ROM coal tonne for the reporting year. The BN mine was suspended throughout most of the reporting year and started operations from October 2022, attributable to improved conditions of cross-border logistics from the second half of 2022.

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 2020-2022:

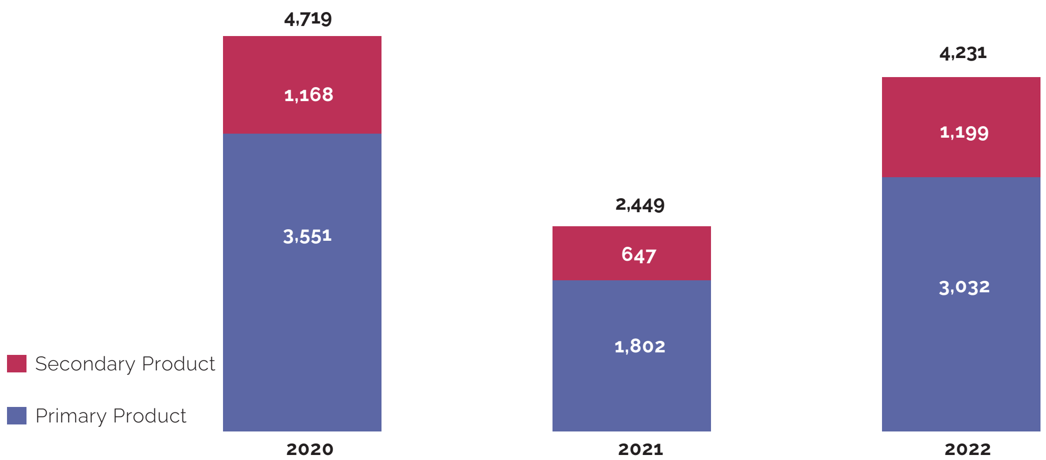


Coal Processing

The Group has processed a total of 6.6 Mt ROM coking coal in 2022, of which 6.0 Mt and 0.6 Mt was sourced from UHG and BN mines, respectively. The coal handling and preparation plant ("**CHPP**") has produced 3.0 Mt of washed coking coal as a primary product at 46% yield, and 1.2 Mt of washed thermal coal ("**middlings**") as a secondary product at 18% yield.

The Group's washed coal production in 2022 was adjusted to coal transportation and sales profile impacted by the COVID-19 related restrictions for the cross-border logistics during the first half of 2022. The comparative figures for the Group's processed coal production for the last three years are shown in Figure 2.

Figure 2. The Group's annual processed coal production volumes (in thousand tonnes) for 2020-2022:



Logistics Infrastructure

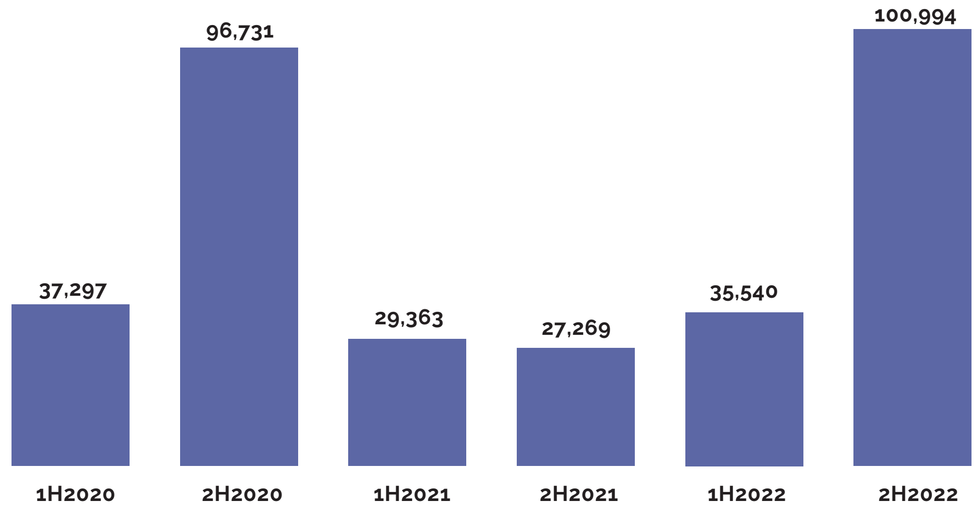
Tavantolgoi Railway LLC is undertaking the construction of the loop connecting the TT-GS railway to the UHG with commissioning expected in the first half of 2023. Simultaneously, the Group has built and completed a designated stockyard at UHG. This stockyard has capacity of containing 52 thousand tonnes ("**Kt**") of coal products made available for loading to wagons for shipment by railway.

Transportation and Logistics

During the first half of 2022, coal transportation and logistics operations via GS-GM were heavily impacted by limitations imposed by the Chinese authorities due to COVID-19. The throughput saw significant improvement from the second half of 2022 with cross-border traffic reverting back to pre-COVID levels during the fourth quarter of 2022.

According to the data compiled by the Group and its customers, 136,534 coal-loaded trucks passed from Mongolia to China via GS-GM border in 2022, which represents an increase of 141% compared to 56,632 coal-loaded trucks passed in 2021.

Figure 3. Total number of coal-loaded trucks crossing via GS-GM for 2020-2022:



The Group shipped its coal products for exports to China utilising trans-shipping facility at Tsagaan Khad ("**TKH**") and GS Terminal ("**GST**"). 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 Mongolian Customs, it was shipped further by trucks from TKH to GM. Concurrently, containerised coal was transported from TKH to GST by the Group's own trucking fleet and then shipped from GST to GM stockyards by third party contractors upon export clearance made by Mongolian Customs.

The Group's coal exports via various ports from Mongolia to China was 4.2 Mt in 2022, of which 3.5 Mt was transported via GS-GM (2.1 Mt shipped from TKH and 1.4 Mt shipped from GST), while the remaining coal was sold under EXW UHG terms whereby the purchasers were responsible for managing further transportation and logistics.

Occupational Health, Safety and Environment

During the reporting year, approximately 6.9 million man-hours were recorded as worked by employees, contractors, and sub-contractors of the Group. In 2022, three occurrences of Lost Time Injury ("**LTI**") was recorded, resulting in a lost time injury frequency rate of 0.43 LTIs per million man-hours worked equivalent being recorded as compared to 0.00 LTIs per million man-hours worked equivalent being recorded during 2021.

The Group is committed to creating and maintaining a culture of "Vision Zero" in which fatalities and incidents shall be fully preventable.

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 year 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 year, 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 12,434 training sessions to individuals, totaling 61,847 man-hours in 2022.

In 2022, Umnugobi aimag's Specialised Inspection Agency conducted their periodical review for the Group's operations and issued official evaluation report at "low risk" level, a check list score of 100 out of 100 (2021: 93 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 procedures. 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 2022, 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 on environmental management was conducted by the Environment and Tourism Department of Umnugobi aimag at the Group's mine site in December 2022 with the results in the areas of environmental management and legal compliance rated at 96.5% out of 100.0% (2021: 92.2% out of 100.0%).

The Group provides all employees with health insurance and with the health insurance coverage also including COVID-19 diagnosis and treatment package.

Sales and Marketing

In 2022, due to continued disruptions in export logistics via GS-GM, the Group continued to sell coal products under flexible approach by applying alternative delivery terms such as (i) EXW UHG; (ii) free carrier ("**FCA**") TKH; (iii) DAP GM; and (iv) FOT GM, while remaining committed to maintaining its relations with key end-user customers. The Group's coal products were consumed mainly in Inner Mongolia, Gansu, Hebei, and Jilin.

The Group sold a total of 4.7 Mt of coal products in 2022, split by coal product type as follows: (i) 3.5 Mt of HCC; (ii) 0.3 Mt of semi-soft coking coal ("**SSCC**"); (iii) 0.9 Mt of middlings and (iv) 54 Kt of raw thermal coal.

Under EXW UHG term, the Group sold its product at the UHG coal stockyard. FCA TKH terms refer to coal to TKH and sold after export clearance by customers. DAP GM terms refer to coal further delivered to GM without China side import declaration processed. When the Group's products are dispatched from GM after import customs clearance and quality inspections are completed by relevant authorities at GM, it is sold under FOT GM terms.

During 2022, the Group supplied free-of-charge 0.5 Mt of middlings under EXW UHG term through ER to Tavan Tolgoi Tulsh LLC ("**TTT**") as part of its commitment to socially responsible operations. 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.

Outlook and Business Strategies in 2023

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

The COVID-19 virus outbreak negatively impacted the Group's financial results in the first half of 2022, but with continuous improvements observed throughout the second half of 2022, the Board continues to believe that the Group remains well positioned to pursue its strategic objectives and operational targets, as the COVID-19 situation is under control and business activities have begun to return to normal.

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

Financial Review

Revenue

The Group's revenue during the reporting year increased by 197%, compared to 2021. The Group sold approximately 4.7 Mt of coal products and generated a total revenue of USD546.2 million during the reporting year, of which USD106.5 million was generated during the first half of 2022 and USD439.7 million was generated during the second half of 2022. During the year ended 31 December 2021, the Group sold approximately 1.6 Mt of coal products and generated a total revenue of USD184.1 million. Total sales volume during the reporting year included approximately 3.5 Mt of HCC, 0.9 Mt of middlings and 0.3 Mt of SSCC, compared to 1.2 Mt of HCC, 0.4 Mt of middlings and 66.0 Kt of SSCC sold during 2021.

The Group's average selling price ("**ASP**"), which represents the price exclusive of applicable VAT in China, for HCC under FOT GM, DAP GM, FCA TKH and EXW UHG terms were USD169.1, USD144.9, USD156.8 and USD127.0 per tonne, respectively, during 2022. The Group's ASP of HCC under FOT GM, DAP GM and EXW UHG terms were USD146.2, USD168.9 and USD141.4 per tonne during 2021. Historically, delivery period from signing of sales contracts to revenue recognition upon delivery averaged around 1-2 weeks with minimal difference between the ASP and market price. Due to reduced border throughput, the delivery period prolonged to 239-256 days in the first half of 2022 and shortened to 150 days towards the end of 2022 following the border throughput recovery. This created a difference between the realised ASP from the presale contracts upon delivery and the market price.

During the reporting year, the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD81.2 million and USD79.6 million. For the year ended 31 December 2021, the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD30.2 million and USD23.3 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.

In response to the COVID-19 pandemic and its impact on the border throughput, the Group temporarily made downward adjustments to production levels and suspended its operation from early 2022 until mid-May 2022. As a result, idling cost of USD24.4 million was recorded during 2022, of which USD10.6 million was attributable to depreciation and amortisation. During the year ended 31 December 2021, idling cost of USD20.0 million was recorded, from which USD8.2 million was attributable to depreciation and amortisation.

During the year ended 31 December 2022, the total cost of revenue was USD451.1 million, including idling cost, compared to USD161.5 million during the year ended 31 December 2021. Increase in cost of revenue was mainly due to higher sales volume, higher cost of supplies and consumables and increased royalty fees.

From the total cost of revenue, USD415.1 million was attributable to coal products produced from the UHG mine and USD36.0 million was attributable to coal products produced from the BN mine.

Table 7. Total and individual costs of revenue:

	Year ended 31 December	
	2022	2021
	(USD'000)	(USD'000)
Cost of revenue	**451,131**	161,490
Idling cost	**24,445**	20,021
Cost of revenue excluding idling cost	**426,686**	141,469
Mining cost	**147,846**	42,475
Variable cost	**74,045**	20,700
Fixed cost	**46,707**	12,771
Depreciation and amortisation	**27,094**	9,004
Processing cost	**43,734**	11,950
Variable cost	**16,182**	3,464
Fixed cost	**7,172**	1,703
Depreciation and amortisation	**20,380**	6,783
Handling cost	**9,960**	4,734
Transportation cost	**100,942**	43,138
Logistic cost	**9,589**	3,129
Variable cost	**5,633**	1,596
Fixed cost	**2,326**	1,166
Depreciation and amortisation	**1,630**	367
Site administration cost	**26,373**	10,837
Transportation and stockpile loss	**479**	2,269
Royalties and fees	**87,763**	22,937
Royalty	**84,047**	21,293
Air pollution fee	**1,833**	984
Customs fee	**1,883**	660

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

The Group identifies components of the mine in accordance with the mine plan. Accounting of the unit mining cost is based on the accounting stripping ratio applicable to each component of the mine, which was mined during the respective reporting periods. The average accounting stripping ratio for components mined was 4.7 bcm per tonne for the year ended 31 December 2022 (2021: 3.7 bcm per tonne).

Unit mining cost, excluding idling cost, was USD17.8 per ROM tonne for the reporting year, compared to USD16.7 per ROM tonne during 2021. Increase in unit mining cost is mainly due to increase in fuel cost, blasting cost and higher accounting stripping ratio.

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

	Year ended 31 December	
	2022	2021
	(USD/ROM tonne)	(USD/ROM tonne)
Mining cost	**17.8**	16.7
Blasting	**1.0**	0.9
Plant cost	**5.0**	5.0
Fuel	**2.9**	2.2
National staff cost	**1.3**	1.1
Expatriate staff cost	**0.3**	0.4
Contractor fee	**3.9**	3.5
Ancillary and support cost	**0.1**	0.1
Depreciation and amortisation	**3.3**	3.5

Mining costs are not only recorded in the statement of profit or loss 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 statement of financial position 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 2022, the Group's processing costs were approximately USD43.7 million (2021: USD11.9 million), of which approximately USD20.4 million was related to the depreciation and amortisation of the CHPP, USD5.2 million was costs related to power generation and distribution, and USD1.8 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 USD5.2 per ROM tonne for the year ended 31 December 2022 compared to USD4.8 per ROM tonne during 2021.

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

	Year ended 31 December	
	2022	2021
	(USD/ROM tonne)	(USD/ROM tonne)
Unit processing cost	**5.2**	4.8
Consumables	**0.4**	0.3
Maintenance and spares	**0.7**	0.6
Power	**0.6**	0.3
Water	**0.2**	0.2
Staff	**0.3**	0.4
Ancillary and support	**0.5**	0.3
Depreciation and amortisation	**2.5**	2.7

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. Due to increase in sales volume, the Group's total handling costs increased to approximately USD10.0 million compared to USD4.7 million recorded during 2021.

During the year ended 31 December 2022, the Group's transportation costs were USD100.9 million (2021: USD43.1 million) including fees paid for the usage of the UHG-GS paved road.

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 USD7.2 per tonne during the year ended 31 December 2022 compared to USD9.9 per tonne during the year ended 31 December 2021. As a result of higher sales volume achieved during the reporting year, fixed cost component per unit decreased on the long-haul section.

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, third party contractors fleet, as well as the containerised coal shipments from GST. The improvement of border throughput in the second half of 2022 has allowed third party contractors' tariff to decline. As a result, the transportation cost on the short-haul section reduced to USD22.5 per tonne in the second half of 2022, compared to USD44.4 per tonne recorded during the first half of 2022 (2021: USD27.7 per tonne). The overall unit transportation cost decreased to USD26.9 per tonne in 2022 compared to USD37.8 per tonne recorded in 2021.

For the year ended 31 December 2022, the Group recorded a total transportation loss of around USD1.1 million (2021: USD0.3 million), and unrealised inventory gain of USD0.6 million for ROM coal and washed coal product stockpiles (2021: unrealised inventory loss of USD1.9 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 2022, the site administration costs were USD26.4 million compared to USD10.8 million during 2021. Increase in site administration costs was mainly due to increased sales volume.

Logistics costs are associated with loading and unloading of coal products at UHG, TKH and GST. The Group's logistics costs were USD9.6 million during the reporting year, compared to USD3.1 million during 2021. Main factor for the increase in logistics costs was the higher sales volume.

Governmental royalties and fees are related to royalties, air pollution fees and customs fees paid in accordance with the applicable laws and regulations of Mongolia. The progressive royalty rate is applied in the range of 5% to 8% for exported processed coal products and 5% to 10% for exported raw coal products based on monthly reference price determined by the relevant governmental authorities of Mongolia. Historically, the Group's ASP and reference prices were more closely aligned and effective royalty rates have been stable between 5% to 6%. However, due to the prolonged delivery period and irrelevant source of references prices set by the authorities, the difference between ASP and the reference prices have widened substantially compared to historical levels. Following the border throughput recovery in the second half of 2022, such difference started to narrow. The Group's effective royalty rate dropped to 13.8% in the second half of 2022, compared to 21.7% recorded in the first half of 2022 for coal exported from Mongolia based on customs clearance documentation (2021: 11.6%).

Gross Profit

The Group's gross profit for the year ended 31 December 2022 was approximately USD95.1 million, compared to gross profit of approximately USD22.6 million recorded for the year ended 31 December 2021. Increase in gross profit is mainly attributable to higher sales volume recorded during the reporting year.

Non-IFRS Measure

Certain parts of financial reporting and disclosure may contain non-IFRS financial measures and ratios, such as EBITDA/LBITDA, adjusted EBITDA/LBITDA, 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 2022 was approximately USD133.8 million (adjusted LBITDA of approximately USD8.7 million was recorded for the first half of 2022), compared to the adjusted EBITDA of approximately USD38.1 million recorded for the year ended 31 December 2021.

Selling and Distribution Costs

The Group's selling and distribution costs were USD2.4 million for the year ended 31 December 2022 (2021: USD9.6 million) which was associated with inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and agent fees. The selling and distribution costs are associated with the sales volume realised under FOT GM term for inland China sales activities. Decrease in selling and distribution costs was mainly attributable to lower sales volume under FOT GM term compared to the prior reporting year.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, consultancy and professional fees, donations, depreciation and amortisation of office equipment and other expenses. For the year ended 31 December 2022, the Group's general and administrative expenses were approximately USD24.8 million (2021: USD24.2 million).

Net Finance Costs

Net finance costs for the year ended 31 December 2022 were approximately USD40.8 million (2021: USD48.9 million). Net finance costs comprised (i) accrued interest expense of 9.25% per annum on the Senior Notes due 2024 with initial principal amount of USD440,000,000, of which USD63,591,000 was repurchased by the Group during 2022, (ii) accrued interest expense of 5% to 8% per annum based on benchmark coal price on the Senior Notes due 2022, which was fully repaid on 30 September 2022, (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 during the reporting year was mainly due to foreign exchange net gain recorded in relation to Renminbi ("**RMB**") and MNT depreciation against USD during the reporting year and change in fair value of the derivative component of the Senior Notes due 2022. Breakdown of the net finance costs is set out in note 6 to the consolidated financial statements.

Repurchase of Senior Notes due 2024

On 7 November 2022, the Company announced an invitation to tender for cash in relation to the Senior Notes due 2024 (the "**Tender Offer**"). On 9 December 2022, upon completion of the Tender Offer, a principal amount of USD42,591,000 of the Senior Notes due 2024 was repurchased for a total consideration of USD26,832,330, with the purchase price being USD630 per USD1,000 principal amount.

In addition, during the year ended 31 December 2022, the Company repurchased a total principal amount of USD21,000,000 of the Senior Notes due 2024 from the open market for a total consideration of USD12,839,000.

The excess of derecognised carrying value of the Senior Notes due 2024 over the consideration to settle the financial liabilities, amounting to approximately USD23,144,000 has been recognised as a gain and credited to profit or loss during the year ended 31 December 2022.

Income Tax Expenses

As a result of recognised deferred tax asset, the Group incurred income tax credit of USD4.2 million during the year ended 31 December 2022 (2021: income tax credit of USD5.0 million).

Profit for the Year

The profit attributable to equity shareholders of the Company for the year ended 31 December 2022 increased to approximately USD59.2 million due to higher sales volume, compared to USD55.2 million loss attributable to equity shareholders recorded in 2021.

Liquidity and Capital Resources

For the year ended 31 December 2022, the Group's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

	Year ended 31 December	
	2022	2021
	(USD'000)	(USD'000)
Net cash generated from operating activities	**233,779**	84,911
Net cash used in investing activities	**(87,916)**	(56,763)
Net cash used in financing activities	**(103,874)**	(41,664)
Net increase in cash and cash equivalents	**41,989**	(13,516)
Cash and cash equivalents at the beginning of the year	**25,937**	38,904
Effect of foreign exchange rate changes	**(3,231)**	549
Cash and cash equivalents at the end of the year	**64,695**	25,937

Note: USD87.9 million used in investing activities comprises (i) USD76.7 million incurred for payments of deferred stripping activity, of which USD30.0 million were payables incurred in previous years, (ii) USD11.3 million used for acquisition of property, plant and equipment and other assets, and (iii) USD0.1 million generated from interest income.

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 2022 divided by total assets) of the Group as at 31 December 2022 was 20.5% (31 December 2021: 24.1%). Borrowings are denominated in USD. Cash and cash equivalents are mainly held in USD, RMB and MNT.

Indebtedness

As at 31 December 2022, the Group had USD376.4 million outstanding principal payment of 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 2022, the Group had approximately USD4.4 million in trade receivables and USD87.7 million in other receivables. As at 31 December 2021, the Group had approximately USD14.0 million in trade receivables and USD85.5 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 USD87.7 million, this amount is mainly related to USD33.0 million VAT receivables and USD53.8 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 2022 and 31 December 2021 amounted to USD21.5 million and USD22.7 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 2022 and 31 December 2021.

Contingent Liabilities

As at 31 December 2022, 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.), 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 8 May 2017, the Company granted 40,000,000 and 100,000,000 Share Options to a director and employees, respectively, at the exercise price of HKD0.2392. The outstanding number of the Share Options was adjusted to 13,740,000 Share Options and the exercise price was adjusted to HKD2.392 due to the share consolidation in August 2019. On 8 May 2022, the Share Options granted on 8 May 2017 lapsed after 5 years since the allocation and a total number of 10,900,000 Share Options were exercised during the year ended 31 December 2022.

On 16 June 2021, the Company adopted a new share option scheme ("**New Share Option Scheme**"), in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. No Share Options had been granted under the New Share Option Scheme during the year ended 31 December 2022.

Capital Commitments and Capital Expenditures

As at 31 December 2022 and 2021, the capital commitments outstanding were as follows:

Table 11. Capital commitments:

	As at 31 December 2022 (USD'000)	As at 31 December 2021 (USD'000)
Contracted for	**–**	763

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

	Year ended 31 December	
	2022	2021
	(USD'000)	(USD'000)
CHPP	**155**	795
Investment in associate company	**6,951**	785
Others	**4,189**	10,764
Total	**11,295**	12,344

Significant Investments Held

As at 31 December 2022, the Company did not hold any significant investments.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

In the course of 2022, the Company did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures. Subsequent to the end of the reporting year, the Company entered into an investment agreement with Erdene Mongol LLC ("**EM**") and Erdene Resource Development Corporation to subscribe for 50% of the share capital of EM, a company engaged in the exploration of gold and other precious metals for a total consideration of USD40.0 million (the "**Investment Agreement**"). Pursuant to the Investment Agreement, the Company has paid USD5.0 million to EM in January 2023 and the remaining USD35.0 million is expected to be made during the course of 2023 subject to the completion of a series of milestones. Following the third closing under the Investment Agreement, EM will become a subsidiary of the Company and its financial results will be consolidated into that of the Group. For further details on the terms and conditions of the Investment Agreement, and other information related to, inter alia, EM, please refer to the announcement of the Company dated 11 January 2023.

Other and Subsequent Events

Save as disclosed in this annual report, there have been no events subsequent to 31 December 2022 which require adjustment to or disclosure in this annual report.

Employees

As at 31 December 2022, the number of employees of the Group was 1,979, compared with 1,880 employees as at 31 December 2021.

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 Share Option Scheme expired on 12 October 2020. On 16 June 2021, at the annual general meeting ("**AGM**") of the Company for that year, the New Share Option Scheme was adopted and would be effective for a period of 10 years.

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 2022, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2022, a total of 5,932 employees attended different professional trainings, out of which 4,925 employees attended occupational, health, and safety training, 218 employees attended professional development training and 789 employees attended general skills development training.

During the reporting year, the Group continued online safety training for all office workers, a new series of specific theoretical and practical trainings were provided to 80 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 2022, the Group's staff cost was USD30.2 million, compared to USD23.3 million in 2021.

Non-exempt Continuing Connected Transaction

The Company has entered into the following continuing connected transactions (the "**CCTs**") in the ordinary course of business with certain of its connected persons. Set out below is a summary of the CCTs entered by the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") recorded for the year ended 31 December 2022 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules.

(1) Service Agreement

Principle Terms

On 20 December 2019, ER entered into a Service Agreement with Uniservice Solution LLC ("**USS**"), a subsidiary of MCS Holding LLC, pursuant to which USS agreed to provide office and camp supporting services to the Group for a term of three years commencing from 1 January 2020 to 31 December 2022.

Connected Person

As at the date of this annual report, USS is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, USS is a connected person of the Company.

Consideration

The aggregate amount of consideration payable by the Group to USS under this agreement is MNT36,012,151,287 (then equivalent to approximately USD13,190,539) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by USS. The consideration was determined after arm's length negotiation between the Company and USS taking into account the size of the location where services are to be provided and the number of employees utilising the camp site, the temporary ger camp located at the operational sites and the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by USS. Invoices are issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of a valid invoice from USS.

Annual cap for this agreement for the year ended 31 December 2022 is MNT12,004,050,429 (then equivalent to approximately USD4,396,846). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2022 under this agreement was approximately USD3,301,172.

(2) Security Service Agreement

Principle Terms

On 20 December 2019, ER entered into a Security Service Agreement with M-Armor LLC (previously MCS Armor LLC), a wholly-owned subsidiary of MCS Holding LLC, pursuant to which M-Armor LLC agreed to provide security services, safeguarding and services for prevention of unlawful conducts and violations at the Ulaanbaatar office, UHG mine site, BN mine site, TKH site and other premises of the Group and vehicle inspection and safety assurance services for the Ulaanbaatar office of the Company on a day-to-day basis. The agreement is for a term of three years commencing from 1 January 2020 to 31 December 2022.

Connected Person

As at the date of this annual report, M-Armor LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, M-Armor LLC is a connected person of the Company.

Consideration

The aggregate amount of consideration payable by the Group to M-Armor LLC under this agreement is MNT26,901,809,829 (then equivalent to approximately USD9,853,601) inclusive of VAT, other applicable taxes and all other costs undertaken by M-Armor LLC and payable on a monthly basis within 60 days upon receipt of valid invoice from M-Armor LLC. The consideration was determined on an arm's length basis between the Company and M-Armor LLC based on the bid submitted by M-Armor LLC, estimated number of security guards required and labour costs.

Annual cap for this agreement for the year ended 31 December 2022 is MNT8,967,269,943 (then equivalent to approximately USD3,284,534). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2022 under this agreement was approximately USD2,587,758.

(3) Power System Operation and Maintenance Agreement

Principle Terms

On 27 January 2021, ER entered into a Power System Operation and Maintenance Agreement with MCS International LLC, a wholly-owned subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including: (i) UHG Power Plant and electricity distribution facilities operation and maintenance; (ii) heating facilities operation and maintenance; (iii) diesel generators operation and maintenance; and (iv) supply of electricity and heating to end customers and billing for the consumption to the Group. This agreement was for a term of three years commencing from 1 April 2021 to 31 March 2024.

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by the Group to MCS International LLC under this agreement, which equals to the sum of the annual caps for the three years ended 31 March 2024, is MNT81,501,588,305 (then equivalent to approximately USD28,601,565), including VAT, other applicable taxes and all other costs incurred by MCS International LLC in providing the services as set out in the agreement. The monthly fee consists of variable and fixed charges where fixed charge is determined taking into account fixed costs to be incurred by MCS International LLC such as machineries, equipment, tools and consumables used for maintenance and servicing of facilities, labour costs including salary, transportation, insurance, safety, accommodation and catering for personnel of MCS International LLC, other work related direct expenses, overheads to cover indirect expenses, and a profit margin; whereas variable portion of the monthly fee is determined based on agreed electricity tariff applicable for the electricity produced and covers variable costs related to the production of the electricity such as consumables, chemicals, diesel for internal usage of the power plant, costs of running machineries and equipment, etc. The costs, electricity tariff and profit margin applicable to the services were determined on an arm's length basis between the Group and MCS International LLC, taking into account fixed and variable costs to be incurred by MCS International LLC and the historical transaction amounts for the transactions under the 2018 Power System Operation and Maintenance Agreement. Invoices are issued on monthly basis, payable within 60 days upon receipt of a valid invoice from MCS International LLC.

The Group shall be responsible for the costs of the supplies of fuel, water, coal, spare parts, machineries, materials, lubricants and equipment mechanism and other supplies required for the operation and overhaul of the facilities including the UHG Power Plant, electricity distribution network, boiler houses, heating distribution network, and diesel generators owned by ER in relation to the performance of services to be provided by MCS International LLC under the agreement as well as property insurance, immovable property taxes and depreciation.

Annual cap for this agreement for the year ended 31 December 2022 is MNT27,167,196,102 (then equivalent to approximately USD9,533,855).

The actual transactions (excluding VAT) made by the Group under this agreement for the year ended 31 December 2022 was approximately USD7,746,021.

(4) Power Distribution Facilities Operation and Maintenance Agreement

Principle Terms

On 27 January 2021, KE entered into a Power Distribution Facilities Operation and Maintenance Agreement with MCS International LLC, a wholly-owned subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide power distribution facilities operation and maintenance services to the Group with regards to the 35 kilovolts ("**kV**") of electricity distribution overhead line and 35/0.4 kV of four substations which connects the Company's BN mine site to the UHG mine site continuing approximately 39.3 km. This agreement is for a term of three years commencing from 1 April 2021 to 31 March 2024.

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by the Group to MCS International LLC under this agreement, which equals to the sum of the annual caps for the three years ended 31 March 2024, is MNT4,813,739,647 (then equivalent to approximately USD1,689,298), including VAT, other applicable taxes and all other costs incurred by MCS International LLC in providing the services as set out in the agreement. The monthly fee consists of fixed charges where fixed charge is determined taking into account fixed costs to be incurred by MCS International LLC such as machineries, equipment, tools and consumables used for maintenance and servicing of facilities, labour costs including salary, transportation, insurance, safety, accommodation and catering for personnel of MCS International LLC, other work related direct expenses, overheads to cover indirect expenses, and a profit margin. The costs and profit margin applicable to the services were determined on an arm's length basis between the Group and MCS International LLC, taking into account fixed and variable costs to be incurred by MCS International LLC and the historical transaction amounts for the transactions under the 2018 Power System Operation and Maintenance Agreement. Invoices are issued on monthly basis, payable within 60 days upon receipt of a valid invoice from MCS International LLC.

The Group shall be responsible for the costs of the supplies of fuel for diesel generators, spare parts, machineries, materials, lubricants and equipment mechanism and other supplies required for the operation and overhaul of the power and electricity network and substations owned by KE in relation to the performance of services to be provided by MCS International LLC under the agreement as well as property insurance, immovable property taxes and depreciation.

Annual cap for this agreement for the year ended 31 December 2022 is MNT1,604,579,882 (then equivalent to approximately USD563,099). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2022 under this agreement was approximately USD198,350.

The independent non-executive Directors reviewed the CCTs of the Group set out in items (1) to (4) above pursuant to Rule 14A.55 of the Listing Rules.

In the opinion of the independent non-executive Directors, the CCTs set out in items (1) to (4) above were entered into by the Group:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditor of the Company confirming the matters set out in Rule 14A.56 of the Listing Rules that in respect of the disclosed CCTs as set out in items (1) to (4) above:

(a) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have not been approved by the Board;

(b) for the transactions involving the provision of goods and services by the Group, nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (4) above, nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the annual cap as set by the Company in respect of each of the disclosed CCTs.

In respect of the aforesaid CCTs, the Company has complied with the disclosure requirements under the Listing Rules.

Internal Control Measures

The Company has comprehensive internal control system to ensure that the terms of the CCTs are fair and reasonable, and the CCTs are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include strict measures for evaluation and selection of suppliers and the tendering process; regular monitoring of actual amounts incurred for the CCTs to ensure the relevant annual caps are not exceeded; regular internal control tests to evaluate completeness and effectiveness of internal control measures; and regular review by the internal audit department, the audit committee of the Board, the Board, and the independent non-executive Directors.

Non-exempt Connected Transaction

(1) Coal Sales Agreement

Principal terms

On 16 October 2021, Tianjin Zhengcheng Import and Export Trade Co., Ltd ("**TZJV**"), an indirect non wholly-owned subsidiary of the Company, entered into a Coal Sales Agreement with Risun Supply Management Co., Ltd (formerly known as Risun Mining Co., Ltd) ("**Risun**"), whereby TZJV agreed to supply a total of approximately 92 kt of HCC. The agreement term is from 16 October 2021 to 31 March 2022. The details of the Coal Sales Agreement were disclosed in the announcement of the Company dated 20 April 2022.

Connected Person

As at the date of this annual report, Risun is a substantial shareholder of TZJV, holding 49% shareholding interest in TZJV and therefore Risun is a connected person of the Company at the subsidiary level.

Consideration

The aggregate amount of consideration payable by Risun to TZJV under the Coal Sales Agreement is RMB100,970,100 (then equivalent to approximately USD15,689,306) inclusive of VAT. Under the Coal Sales Agreement, the price of HCC per tonne was RMB1,100, which was determined with reference to the ASP charged by the Group for trading similar quality coal products with its other customers, and the terms were determined on an arm's length basis.

During the year ended 31 December 2022, TZJV has supplied a total of approximately 42 kt of HCC to Risun under the Coal Sales Agreement. The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2022 under this agreement was approximately USD6,107,380.

VII. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

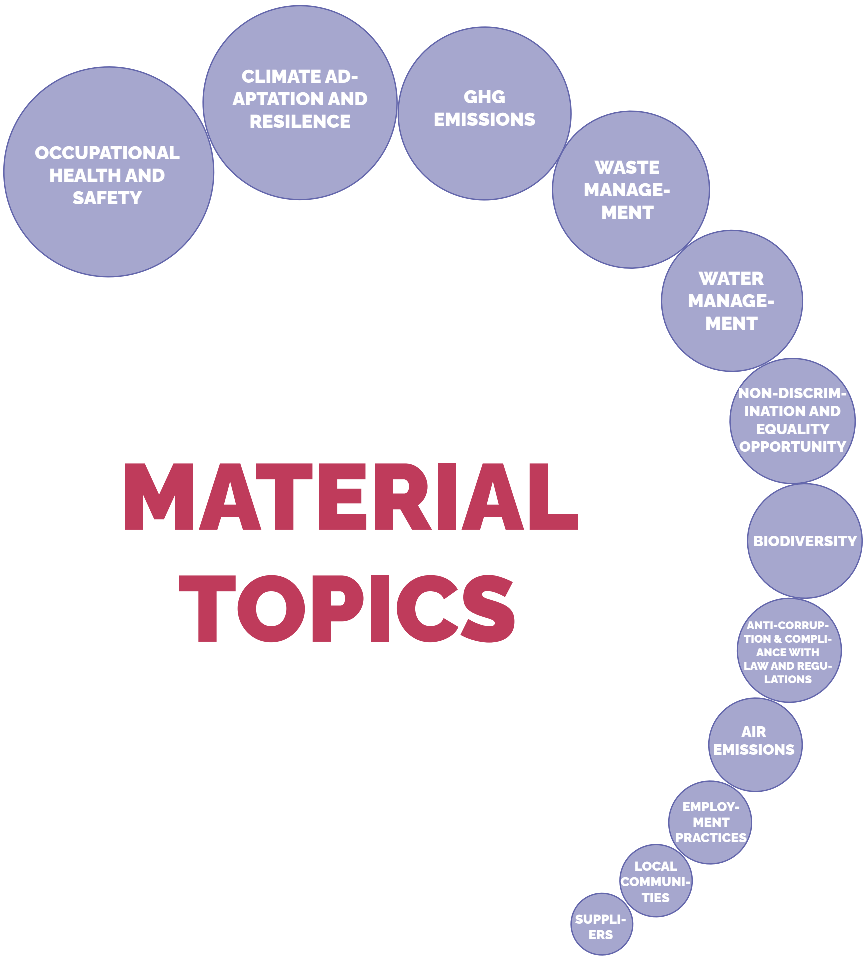
Introduction

The report presented here provides an overview of the Environmental, Social and Governance ("**ESG**") performance of the Group for the period from 1 January to 31 December 2022. It offers a detailed account of the Group's efforts and achievements in addressing the ESG concerns during the said period. The report demonstrates the Group's commitment to sustainability and social responsibility and provides stakeholders with valuable insights into the Group's operations and future direction. The report was prepared in reference to the Global Reporting Initiative's ("**GRI**") reporting principles.

Materiality Assessment

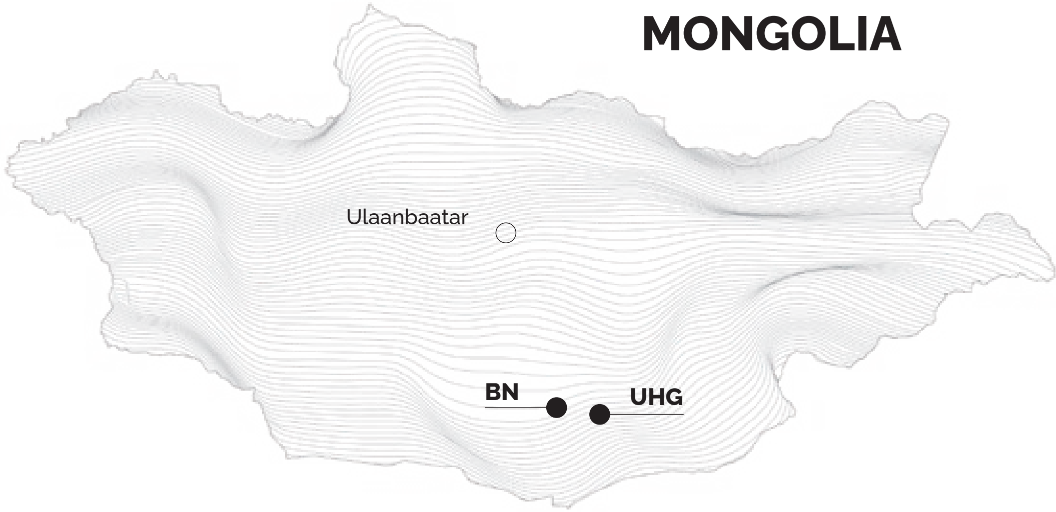
A material assessment is a process of evaluating the importance and impact of various factors that may affect an organisation's operations. It involves identifying and analysing the most critical factors that could potentially impact an organisation's performance, reputation, and long-term sustainability.

We have performed a light-touch materiality assessment as a useful first step to determine our material topics and factors.



ESG performance highlights

WHERE WE OPERATE



TOTAL GHG EMISSIONS
(CO_2e tonnes)

13,224,959

(2021: 266,647)

INTENSITY
(CO_2e tonnes per ROMt)

3.10

(2021: 0.08)

SCOPE 1 EMISSIONS
(CO_2e tonnes)

631,679

(2021: 179,496)

SCOPE 2 EMISSIONS
LOCATION BASED

(CO_2e tonnes)

2,753

(2021: 80,613)

Note: Calculation adjustments were made to Scope 2 emissions compared to 2021

SCOPE 3 EMISSIONS
(CO_2e tonnes)

12,590,527

(2021: 260,647)

**since 2022 the Company started to measure additional 9 categories withing scope 3 bringing total to 15.*

Leadership Statement

At MMC, we understand that climate change is not just an environmental issue, but a critical business concern. We have decided to make climate considerations a core part of our decision-making process, from our investment strategy to our capital planning. By integrating climate risk and opportunity into our financial analyses, we can make more informed decisions that ensure long-term value creation for our shareholders while also contributing to a sustainable future.

Enhanced Disclosures

To align with GRI reporting and proposed ISSB standard structure and core content, we have improved our disclosures as a part of our sustainability efforts and commitments.

Board Commitment

To improve our Board's oversight of climate and sustainability approaches, management systems, and performance, we have formed an ESG Management Committee under our Board ESG Committee.

ESG efforts

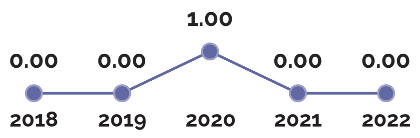
We conducted a materiality assessment that involved prioritising topics on a matrix. Based on the results, we plan to revisit our ESG strategy and establish new targets to address the identified material topics.

Decarbonisation

After we have verified our GHG emissions accounting, we will explore options to establish SBTi targets, which will guide us in developing a decarbonisation roadmap.

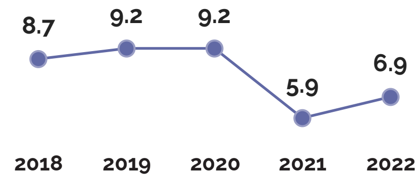
FATALITIES

All loss of life is unacceptable and we are determined to eliminate fatalities across our business.



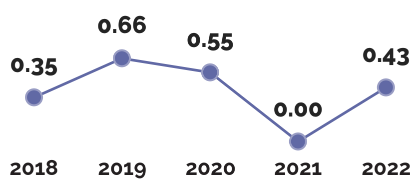
MAN-HOURS WORKED

(million hours worked)



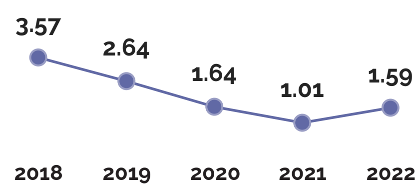
LTIFR

(per million hours worked)



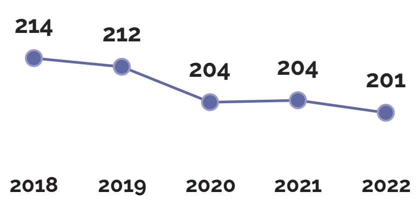
TRIFR

(per million hours worked)



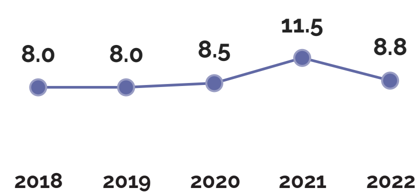
WATER USAGE RATE

(L/ROMt)



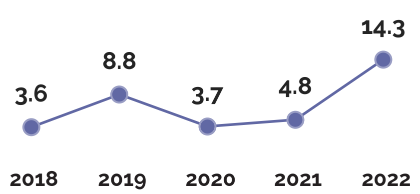
POWER USAGE RATE

(kWh/ROMt)



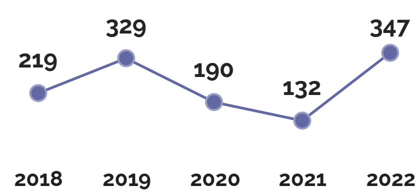
LOCAL PROCUREMENT

(billion tugriks)



TAXES & FEES

(billion tugriks)



SDG alignment

Our efforts and strategies towards sustainability are based on the United Nations' Sustainable Development Goals ("**SDGs**"). To ensure that we make a meaningful contribution to the SDGs, we have identified the most relevant and critical SDGs across our sustainability platform and mapped them out. This helps us to determine our impact on each individual SDG.

Moving forward, we plan to redefine all our sustainability targets to align with the SDGs. This will enable us to further integrate the SDGs into our sustainability framework and ensure that we make a significant and positive contribution towards achieving the global goals.

COMMUNITY

ENVIRONMENT

EMPLOYMENT

GOVERNANCE

Awards and recognition

We have been recognised and included in the list of the Top 5 enterprises of Mongolia, awarded by the GoM and the Mongolian National Chamber of Commerce and Industry. This marks the eleventh consecutive year that the Group has been included in the list. The Group is recognised for their socio-economic contributions and remains committed to advancing sustainable development and social responsibility.

Socio-Economic Contribution

Our company contributes significantly to the economy of our communities and the country by generating employment opportunities for local residents, paying taxes and royalties to the government, purchasing goods and services from local businesses, and investing in infrastructure development. Additionally, we are committed to voluntary social and community projects, which further support the well-being of our communities. Our contribution to the economy goes beyond financial gains, as we strive to create a positive and sustainable impact on the communities in which we operate.

Throughout the reporting period, we remained one of the highest taxpayers in the country and ensured job security for our employees. In addition, we procured goods and services valued at MNT14.3 billion from the local Umnugobi communities, provided local employee benefits and wages exceeding MNT98 billion, paid taxes and fees amounting to approximately MNT347 billion, and continued our community development initiatives.

Throughout the reporting period, we prioritised retaining our status as a significant local employer by retaining our current employees, as well as hiring and training locals wherever possible. As of the end of 2022, MMC directly employed 1,989 individuals, with 39% of these being locally hired. Additionally, our major contractors and sub-contractors employed approximately 3,000 people, both directly and indirectly, through the UHG and BN projects.

As a significant employer and tax contributor in Mongolia, we are committed to working with local authorities, communities, and stakeholders to improve access to healthcare, provide quality education, create employment opportunities, and enhance living standards.

Furthermore, in addition to our long-term community development programs, we continued to participate in large-scale social projects throughout 2022, with the aim of providing significant socio-economic benefits on a broader scale.

Long-term Support for 3x3 Basketball Teams

The growing popularity of 3x3 basketball in Mongolia has led to a surge in players and spectators, and MMC has recognised the need to support this trend. To this end, the company has launched a long-term collaboration program with the 3x3 basketball national teams to provide them with resources and opportunities for development. The program aims to improve practices and training, build teams, and promote national and international competition. Aspiring young athletes will also be supported in their efforts to join professional teams and begin a career in team sports. The Energy 3x3 club, which was established in 2020, currently supports over 12 athletes in three professional teams (two male teams and one female team) by providing them with professional guidance, facilities, equipment, and access to high-rank 3x3 tournaments internationally.

Efforts Against Air Pollution

Air pollution has become a pressing issue in Mongolia, particularly in the capital city Ulaanbaatar and rural provincial centers, due to the harsh winter season and the widespread use of raw thermal coal for heating. To combat this problem, the Mongolian government has banned the burning of raw coal in Ulaanbaatar and mandated the use of refined smokeless fuel/briquettes starting in 2019. As part of this initiative, our company is providing washed thermal coal to TTT, a state-owned company responsible for producing and distributing briquettes to residents of Ulaanbaatar, at no cost. In the reporting period, we provided more than 536 kt of middlings, valued at over MNT23 billion. The government has granted us an exemption from the air pollution fee, as long as we continue to supply 70% or more of the total coal used for manufacturing smokeless fuel.

Governance and Strategy

Board and leadership oversight

SDGs

The Board of the Company has a dedicated ESG Committee that is fully committed to the long-term sustainability strategy of the Company. The ESG Committee plays a critical role in ensuring that the company operates in a socially responsible, environmentally sustainable, and financially viable manner. The committee is responsible for overseeing the integration of ESG considerations into the Company's overall strategy, decision-making processes, and operations.

The committee's responsibilities include monitoring and evaluating the Company's performance against key ESG metrics and targets, identifying emerging ESG risks and opportunities, and recommending actions to mitigate risks.

During the reporting period, an ESG Management Committee was formed, headed by the Chief Executive Officer of the Company, and comprising of nine representatives from the Company's operations and head office. The committee members bring a diverse range of expertise and perspectives to the table, including environmental management, social responsibility, and finance. They work collaboratively to develop and implement ESG policies and practices, monitor and evaluate the Company's ESG performance, and identify emerging ESG risks and opportunities. The establishment of the ESG Management Committee demonstrates the Company's commitment to integrating ESG considerations into its governance structure and decision-making processes.

The purpose of the ESG Management Committee is to recommend, assist and implement the directives of the ESG Committee of the Board by reviewing and managing matters relating to environment, social and governance considerations and implementing the ESG strategy, sustainability initiatives and practices as directed. The ESG Committee would provide the overall direction and the ESG Management Committee would oversee integrating the directives to the Company's operations and provide information, initiatives, and updates to the Board and ESG Committee.

ESG Committee updates

The Company recognises the importance of measuring and reporting its ESG performance and is committed to upholding high standards of transparency and accountability. To this end, the Company has contracted external third-party services to assess the Company's current performance and derived benefits from ESG-related efforts, identify areas for improvement, and provide support in communicating its performance to external stakeholders.

The key gap areas were identified included: (i) climate action; (ii) climate risk management; and (iii) supply chain engagement. The Group has been able to make significant strides around the key gap areas identified during the reporting period. Details can be found throughout this report.

The HKEx has released an ESG Reporting Guide incorporating key elements of the Task Force on Climate-related Financial Disclosures ("**TCFD**") recommendations on climate-related financial disclosures, such as requiring board's oversight on ESG matters, targets for certain environmental key performance indicators ("**KPIs**") and disclosure of impact of significant climate-related issues. The HKEx has also required mandatory TCFD-aligned climate related disclosures by 2025 and issuers are encouraged to start reporting in accordance with TCFD recommendations at their earliest. In this regard, we have prepared a TCFD disclosure report, which is presented in the "Environment" section of this ESG report.

Anti-corruption & compliance with laws and regulations

Our Code and other guidelines clearly prohibit bribery and corruption in all forms of business dealings and to the best of our knowledge, our employees, subsidiaries, agents and contractors have been free of any notice or actions from relevant regulators with regards to anti-money laundering and/or anti-bribery or corruption issues. We strive to implement socially responsible supply chain practices and anti-corruption practices by working closely with our suppliers, host communities and the relevant government agencies. A system is in place to ensure that our procurement and operational practices are free from unfair business dealings, suspicious payments and financings related to terrorism or money laundering. All of our Codes, systems and policies are in full conformity with the applicable legislation relating to the area including the Mongolian Law on Combating Money Laundering and Terrorism Financing enacted in 2013, the Law on Combating Terrorism enacted in 2004, the Law on Anti-corruption enacted in 2006, as well as the Criminal Code of Mongolia effective since 2002.

ENVIRONMENT

CLIMATE ADAPTATION AND RESILIENCE

As the global fight against climate change and carbon emissions gains momentum, mining companies are increasingly focused on finding various methods and technologies to reduce such emissions. In consistent with our overarching sustainability policy, we are taking an integrated approach to managing our climate-related risks and utilising site-specific targets to more effectively track our progress in the relevant areas.

We regularly evaluate our emissions and enforce stringent air quality control measures throughout our operations in compliance with Mongolia's regulatory requirements. We conduct routine stationary source monitoring of chimney fumes from our on-site power plant, adhering to the national standard MNS 5919:2008 for permissible levels of air pollutants in exhaust gases. Additionally, we measure other types of air emissions such as sulphur dioxide and nitrogen dioxide in ambient air via mobile equipment in line with the national air quality standard MNS 4585:2016. For gases such as sulphur dioxide, nitrogen dioxide, and carbon monoxide at the UHG power plant, we conduct measurements against the national air quality standard MNS 5919:2008. We also carry out daily checks on stockpile management to prevent air pollution from self-combustion of coal stockpiles, following our internal procedures and applying cooling and separation to heated areas of coal stockpiles, where required.

Verification exercises

SDGs

Our efforts to address climate change have focused on refining our carbon accounting procedures to better understand and manage our greenhouse gas ("**GHG**") emissions. Since 2017, we have been tracking and reporting our Scope 1 and Scope 2 emissions, and in 2019 we began tracking six categories of Scope 3 emissions, as defined by the GHG Protocol. Through this exercise, we would be reporting on all 15 categories of Scope 3 emissions to gain a more comprehensive understanding of our carbon footprint.

To ensure the accuracy and reliability of our carbon accounting, we have decided to engage the services of a reputable third-party provider to verify our calculations next year. The verification process will be conducted in accordance with ISO 14064 standards and increase our credibility in the marketplace while demonstrating our commitment to operating in a more environmentally responsible manner.

The table below provides estimates of the emissions of pollutant gases from both mobile and non-mobile sources employed in our operations, and any increase from the previous year is due to the rise in manufactured product volume.

Table 13. Emissions

Emissions	**2022**	2021
NOx	**85.6 tn**	50.1 tn
SOx	**1.2 tn**	0.7 tn
PM	**6.2 tn**	4.6 tn

TCFD

Overview

Environmental protection has always been at the heart of our business strategy and operations. Our proactive management of emissions, water and energy usage since 2017 bear testament to this steadfast commitment.

As the global community pivots towards a low carbon economy, our focus on environmental protection and efficient management similarly pivots. In response, we plan to do more to support the urgently needed transition to a low-carbon world, across our operations and strategic growth plans.

Our strategic investment in the Bayan Khundii Gold project, in partnership with Erdene Resource Development Corporation, is our first milestone. The gold mine will contribute to the diversification of Mongolia's mining-focused economy and provide more resilience to mining sector jobs. We expect to continue in this direction, bringing our workforce, investors and community to a position where they can thrive in a changing world.

In addition, we will continuously enhance our climate risk management posture in alignment with the Sustainable Stock Exchanges' guidance on recommendations from the TCFD over the coming years. This marks our first TCFD-aligned disclosure on climate-specific matters.

TCFD Summary

TCFD Pillars	2022 Accomplishments	Future Plans
Governance	• **Enhanced climate awareness.** This year, we invested in building climate awareness amongst our Board and Management through several educational workshops on climate risk and climate action. • **Established Climate-specific oversight from Board and Management committees.** We have identified climate-related as a key item for update and discussion at our ESG Board and Management Committee meetings. • **Established Climate Resilience Working Group.** Comprising of middle management directly involved in climate-specific matters such as operational emission reduction studies and physical risk mitigation plans, the Group reports progress on climate risk management to the ESG Management Committee.	• **Continuous training and capability development.** We recognise the complexities involved in the transition to a low-carbon world, and intend to ensure our Board and Management executives are kept apprised so that they may be better equipped to maintain oversight of our plans. • **Executive sponsorship of climate-specific matters.** We will also nominate a Board member and a C-level executive to lead the oversight and management of all climate-specific matters, and build integration of climate matters into decision-making.
Strategy	• **Developed a view on climate-specific risks and opportunities relevant to us.** We engaged external experts to scan for climate-related matters that will impact our business. This view expanded beyond the 5-year business planning horizon, considering the longer-term impacts of climate change. We now have a view on the climate risks and opportunities that we will face in the medium (5 to 10 years) and long term (beyond 10 years).	• **Climate-integrated decision making.** We plan to integrate climate-related matters into strategy. For example, we will consider transition risks and opportunities in our diversification plans more systematically. • **Deepen understanding of potential impact.** We will quantify the potential financial impact of priority climate-related issues, considering multiple climate scenarios, including a high-transition scenario.

TCFD Pillars	2022 Accomplishments	Future Plans
Risk Management	• **Developed climate risk register to guide the management of climate risks.** We have assessed the risks we identified in alignment with our ERM framework, and developed risk management measures accordingly. Currently, we monitor developments regularly to ensure we are able to maintain these risks. • **Built internal awareness of climate risks.** We also socialised the risk register with Management and Board to facilitate longer-term integration of climate risks into existing risk management processes. • **Screened for potential physical risks emerging from a high-warming scenario.** We screened both mine sites and the border transportation route for all climate perils, and have started exploring mitigation measures.	• **Continuous risk monitoring.** We will regularly monitor climate-related developments, including evolving regulatory requirements globally, and incorporate these developments into production planning and forecasts. • **Physical risk resilience.** We will also assess and prepare for the potential physical risks that the upcoming gold mine site is exposed to. The risk assessment will be used to inform the construction and operational design of the mine.
Metrics and Targets	• **Develop capability for robust emission performance tracking and management.** We invested in upskilling our Environment and Investor Relations team in decarbonisation concepts and technologies. We also started exploring potential emission reduction levers such as methane capture and equipment upgrades.	• **Set long-term emission reduction target.** We have started studying the potential impact of identified emission reduction levers with technical partners. • **Expand the set of climate-related matters that we monitor.** We intend to develop metrics relating to priority risks and opportunities such as portfolio diversification and water supply.

Governance

ESG Board Committee

Established to review and implement ESG strategy and initiatives, the ESG Board Committee comprises of five board-level members appointed by the Chief Executive Officer for their understanding of MMC's long-term business strategy and exposure to international best practices in governance and strategy.

The ESG Board Committee has completed training on climate risks, and will be regularly updated on progress of climate risk management measures in future.

ESG Management Committee

Set up to oversee the execution of ESG strategy and initiatives endorsed by the Board, the ESG Management Committee comprises of nine management-level representatives from business units relating to MMC's ESG strategy and initiatives.

Led by the CEO, the ESG Management Committee provides direct guidance to the Climate Resilience Working Group that coordinates climate-related matters.

Climate Resilience Working Group

Enhancing climate visibility across middle management groups, the Climate Resilience Working Group develops capability and mindset to integrate climate-related matters within all business units involved. The Group provides quarterly progress updates to the ESG Management Committee.

MMC will enhance climate governance capacity in the coming years, with plans to invest in Board and Management training on climate-related matters. We will also identify Management-level accountability on the management of key climate risks.

Strategy

Global demand for coking coal will decline as the world moves toward lower-emission materials and technologies. MMC has started to explore new mining opportunities so that we will prepare our workforce and community for a low-carbon future. The Bayan Khundii Gold Project bolsters our readiness for that scenario. In the long term, we intend to diversify beyond coal and expect to eventually diversify our revenue sources from non-coal products by mid-century.

We plan to build capacity to systematically integrate climate-related risks and opportunities into strategy development and capital allocation. As an immediate next step, we seek to understand the potential financial impact of key climate risks considering multiple climate scenarios including a high-transition scenario.

Risk Management

During the reporting year, MMC set out to identify climate risks and opportunities that are relevant to our business, and developed a view of potential impact over a longer term.

We developed a view of key issues across physical risk and transition risk categories:

	Risk Type	Risk	Description
Transition Risk	Market	Increased climate-related restrictions to gain capital	Banks and other financial institutions are starting to reduce financed emissions, and taking actions such as discontinuing work with companies involved in fossil fuels.
	Policy & Legal	Uncertainty over China's future demand for coking coal	The Chinese government could encourage purchase of greener materials (vs. coal-based steel) as it moves toward its carbon goals.
		Uncertainty over China's future demand for coal imports	The Chinese government could also prefer domestic coal as it consolidates the local mining sector to encourage greener and modern mining practices.
		Increasing regulatory stringency	The Mongolian government may impose tighter requirements in response to global pressure. For example, limiting energy and water consumption, introducing required purchasing of renewable energy, clean fuel standards, etc.
		Challenges in obtaining mining licenses or permits	The Mongolian government is attracting foreign investments to grow the mining sector; consequently, licenses/permits could become more competitive and potentially costlier.
	Reputational	Inability to reach sustainability goals	Inability to reach sustainability goals/failure of decarbonisation plan

	Risk Type	Risk	Description
	Technology	Technology leapfrogs to greener steel production methods	Uncertainty about the pace at which greener steel production technologies mature and reach industrial scale.
Physical Risk	Chronic	Water supply	Operational disruption as water is needed to wash coal
		Extreme temperatures (heatwaves)	Operational disruptions due to safety concerns and/or destruction of road infrastructure (surface asphalt can be severely degraded)
		Dust storm	Operational disruption due to lack of visibility especially on the road; Equipment damage from corrosion; Allergies or respiratory diseases could also potentially result from the airborne pollutants, contaminants and bacteria carried by dust storms
		Floods	Operational disruption due to high water levels. Potentially over a prolonged period if infrastructure or equipment is damaged by water
	Acute	Earthquake	Property damage and production disruption

We identify these four risks to be most material to our business in the next five years:

- **Increased climate-related restrictions to gain capital** – As more investors make plans to exit thermal coal to accelerate a green energy transition, the coking coal sector will likely experience less positive interest even as coal-based basic furnace steel continues to be the predominant steelmaking technology around the world for the coming decade.

  We expect this to be the primary risk to our business in the next five years, and will proactively manage it. We will more proactively communicate our climate and sustainability commitments and bolster investor confidence in our long-term business viability.

- **Inability to meet sustainability goals** – Stakeholders are placing more scrutiny on the credibility of corporate sustainability disclosures. Companies that fail to meet goals would experience significant reputational damage. To avoid experiencing this risk, we will carefully examine the feasibility of our goals and plans before disclosing them.

- **Water supply** – Disrupted water supply would impact our coal washing operations, and climate models show that our mine sites could potentially face increased water scarcity especially toward mid-century. We are proactively looking into measures to enhance our water reserves.

- **Flood risks** – Extreme precipitation could become more frequent especially toward mid-century, resulting in higher likelihood of floods along the road we use to transport coal from mine site to the border crossing point into China. This risk could potentially be mitigated once the Tavan Tolgoi railway becomes the main transportation pathway for our coal business.

We plan to regularly monitor and manage developments relating to these material risks.

Targets & Metrics

We continue to monitor the impacts of our operations to the environment and climate.

Table 14. Environmental Performance Indicators

Category	Metric	Unit	**2022 Progress and Status**
Emissions	Scope 1 emissions	MT CO2e	**631,679.48**
	Scope 2 emissions	MT CO2e	**2,782.80**
	Scope 3 emissions	MT CO2e	**12,590,526.94**
	Emission intensity – Scope 1 and 2 emissions per metric ton of product	MT CO2e/tonnes	**0.15**
Energy consumption	Energy consumption	kWh	**58,501,357**
	Intensity	kWh/tonnes	**13.72**
Waste generation	Waste generated from operations	m^3	**9,253**
Water consumption	Water consumption	m^3	**1,338,052**
	Intensity	m^3/tonnes	**0.31**

We also started to build our climate risk management capabilities and advance toward longer-term climate ambitions.

Emission Reduction

This year, we invested in the capabilities and data necessary to set a long-term emission reduction target. We upskilled our Environment and Investor Relations team in decarbonisation concepts and technologies. From that exercise, we identified potential emission reduction levers. We have since engaged external experts to conduct technical studies on the feasibility and potential impact of these levers. These efforts will provide the data and capabilities necessary to facilitate our decarbonisation target-setting ambition.

Climate risk management

We also committed to monitoring and managing our exposure to climate risks. Starting from 2023, we will measure and manage the growth of a priority metric that reflects the long-term climate resilience of the business:

- Revenue contribution from non-coal products. Growth in this metric reflects reduced risks from the global low-carbon transition, which results in tighter climate-related capital restrictions for coal, and potentially a smaller addressable market in the future.

Waste management

Implementing effective waste management practices is crucial in minimising the environmental impact of mining operations and mitigating operational liabilities and long-term risks. At our mine sites, we have established a comprehensive waste management system that encompasses the handling and management of both day-to-day and industrial waste streams. We adhere to the Law of Mongolia on Waste, along with relevant regulations and procedures on the disposal and landfill of hazardous wastes, and the requirements on waste containers and disposal sites, which have been approved by the Mongolian Ministry of Environment and Tourism.

By following these guidelines, we ensure that all waste generated at our mine sites is handled in an environmentally responsible manner. Our waste management system is designed to minimise the amount of waste generated and to properly segregate, store, and dispose of waste in accordance with applicable laws and regulations. Through these efforts, we aim to mitigate our impact on the environment and reduce our operational liabilities and long-term risks.

Our Waste Management Policy aims to minimise waste generation and ensure the safe handling, treatment, and disposal of all waste generated. To achieve this goal, we take several steps including waste reduction and avoidance at the source, waste segregation applied from the point of generation, and waste recycling, re-use, storage, treatment, and disposal to international standards. By adopting these measures, we strive to minimise our impact on the environment and protect the health and safety of our employees and the surrounding communities.

Mining operations generated a total of 9,253.8m^3 of waste in 2022, with the amount of recyclable waste decreasing by 12.9% from the previous year.

Employees' habit of waste segregation at source is gradually forming to a full extent, due to ongoing efforts to encourage such habits, which include convenient ways to separate waste and placement of additional trash bins.

Our goal is to achieve waste reduction through various measures, including implementing purchase restrictions to ensure that waste generated from suppliers is minimised, and converting waste into useful materials. To support this, we collaborate with a small-scale waste recycling facility that uses scrap materials to produce products such as garbage bins, metal fences, sliding doors, wooden benches, and blocks. For instance, we were able to recycle 484 oil filters from our operations and use them to create 120 road poles, which were then put back into use within our mine sites. Our commitment to waste reduction and recycling demonstrates our dedication to responsible and sustainable practices.

Designated presser equipment is used to compress plastic bottles of drinking water before sending them to recycling factories. During the reporting period in 2022, we sent a total of 302 m^3 of plastic, 74.6 m^3 of plastic bags, 287.4 m^3 of carton paper, and 8.5 m^3 of HDPE plastic for recycling. In addition, 54.5 m^3 of waste iron and 45 m^3 of wood were sent for storage. Waste treatment and disposal are carried out at a designated on-site area that is managed by a company specialising in waste handling. During the reporting period, a total of 6,953.1 m^3 of waste were landfilled, fully in compliance with applicable standards.

We continued to organise awareness campaigns on waste management for our employees and community members to encourage their active participation in waste recycling and waste segregation at source.

Table 15. Waste disposal

	Total Waste (m^3)	
Landfill	6,953	75.14%
Recycling	403	4.3%
Burn	830	9.06%
Storage	1,066	11.5%
Total	9,253	100%

Hazardous Waste

We are committed to implementing a Hazardous Waste Management Policy that aims to identify and evaluate the characteristics and potential risks associated with all forms of hazardous waste. We have implemented a range of preventative measures to manage hazardous materials effectively throughout their lifecycle, from transportation, storage, use, transfer, to disposal. During the reporting period, approximately 18.1% of hazardous waste was recycled, which is similar to the previous year.

Depending on the type of hazardous waste, we work with suppliers to either re-use or dispose of it appropriately. For example, printer cartridges are refilled and re-used, while used oil is collected and sent to a recycling facility to produce fuel and other raw materials. Waste oil filters, printer toners, and accumulators are also handled, stored and re-used in an appropriate manner.

In accordance with relevant procedures and applicable standards, we incinerated about 730 m^3 of hazardous waste, sent 357 m^3 of hazardous waste for recycling, and stored 82.6 m^3 of hazardous waste during the reporting period. Additionally, we sent 593.5 m^3 of hazardous waste to a designated landfill.

As part of our hazardous waste management procedures, we returned 432 used batteries of heavy machinery and 618 of IBC oil container back to the suppliers, and 1,310 small batteries were segregated and sent to authorised waste handling companies during the reporting year.

Water and effluents

We recognise the importance of responsible water management in the arid Gobi region where we operate and has implemented a comprehensive Water Management Plan to guide our management, employees, and contractors in the responsible use and re-use of water. We comply with Mongolian regulations such as the Mongolian Law on Water and national standard MNS 4943:2015 to ensure effective management of groundwater while also considering the needs of local herders. Our commitment to responsible water management extends beyond compliance, as we have cooperated with international organisations and signed a Voluntary Code of Practice on Responsible Water Management with other major mining companies operating in the South Gobi region.

We use a combination of both groundwater and recycled water at the mine sites. As part of our water use and management, we provide filtered drinking water for the local communities, and welcome their participation in our periodic water monitoring activities.

At our operations, water is sourced from groundwater boreholes and stored in two water reservoirs with a total storage volume of 56,000m3, covered by synthetic membrane to prevent evaporation.

In 2022, the total amount of ground water withdrawal was increased by approximately 51% to 1,338 million litres ("**ML**") and around 663ML of water was recovered by our BFP facility for re-use in coal processing. While continuously supplying the CHPP with recycled water, the BFP facility enables us to experiment various options for optimisation of water saving technologies.

Efforts aimed at preventing and reducing potential impacts on groundwater continued in the reporting period. These include:

With a dry-cooling system specifically designed for the arid Gobi climate, our on-site power plant uses at least twice as less water compared to regular power plants in Mongolia;

- Around 33ML of surface run-off water was collected in a designated pond and was used for various purposes at the mine-site;
- Over 134ML of domestic wastewater was treated out of which 1ML was used for road and tree watering; and 30ML of condensed water from our on-site power plant was used for mine dust suppression and various purposes; and
- Monitoring of the water level at herder wells and observation of boreholes around the mine and water extraction areas continued on a monthly basis.

Biodiversity, land and resource rights, and rehabilitation

Biodiversity

According to the botanic-geographical zones, both of our UHG and BN mines belong to the Alashan Gobi Desert in the Central Gobi region of the Central Asian geomorphologic zone. The region provides habitat for a diversity of wildlife species, livestock, and a scarce human population.

External large-scale studies found that 121 species of vertebrate animals belonging to three classes of mammals, birds and reptiles are likely to be found within our mine site area. These include 47 mammal species, 64 bird species, and 10 reptiles. The associated field surveys in the area also recorded 126 plant species that belong to 79 genera and 29 families. Out of these, there are 16 species of fauna that can potentially occur in our mining and transportation related areas Within the Umnugobi province, State Special Protected Areas cover over 3.0 million hectares of total area. These consist of Small Gobi Strictly Protected Areas, Gobi Gurvan Saikhan National Park and Zagiin Us Nature Reserve. The closest one to our operations is Gobi Gurvan Saikhan National Park which was established as a National Park in 1993 for the purpose of conserving the sensitive and unique Gobi ecosystem. The area is located to the west of the UHG mine site over a 100 km in distance.

As mining activities have potential impact on the surrounding flora and fauna throughout the mine life cycle, we find it crucial to understand the biodiversity elements of the region in which we operate and plan our actions accordingly. Our aim is to minimise and manage the potential environmental impacts based on our project Biodiversity Action Plan ("**BAP**"). It is a regulatory requirement under the relevant Mongolian law to have in place active management plans which are reviewed annually and inclusive of a set of budgets for planned activities. As part of the BAP, we have been conducting regular flora and fauna monitoring on an annual basis, since 2011. Based on the results of monitoring and assessments, we continue to organise targeted wild animal conservation activities on a regular basis. For example, as part of our biodiversity offset program activities, we place salt marsh and hay at designated places in the Gobi Mountains as an extra food support for hoofed mountain animals in the region every year. In 2022, we handed over 200 bales of hay in the Gobi Gurvan Saikhan National Park as an extra food support for hoofed mountain animals in the region. Our employees participated in this wildlife protection activities on a voluntary basis, which we consider as an important way to raise awareness about the Company's environment protection work internally. A solar powered well for wild animals equipped with automatic sensors and surveillance camera was placed in the Ikh Mountain area in 2020 and continue to serve as one of our wildlife monitoring tools. The observation camera captured animals being fed, including yaks, foxes, rabbits, and birds.

During the reporting period, we carried out a fauna study in Khanginakh and Tugiin Tsokhio mountain area in Umnugobi province jointly with a specialised third-party company. These and other studies help us observe the species composition, population and movement of the Gobi fauna and enable us to plan our wildlife conservation activities for the coming years. Within the framework of our wildlife protection activities, more than 700 poles supporting the 60 km power line in the Naimant and Naimdai valleys of the water supply system were installed with designated insulators. The insulators are a bird protecting device, specifically designed to prevent birds from getting injured or killed by getting in contact with the power lines. According to our studies, the insulators are far more effective than visual repellent devices that prevent birds from sitting on the poles. There were no bird deaths observed along the protected line route in 2022.

Land and resource rights

Securing access to land and managing it responsibly are essential components of our commitment to sustainable development and our ability to maintain social license to operate. Therefore, we support sustainable development of land resources through effective planning and cooperation with respective stakeholders. We want to ensure that in the future, disturbed land becomes available for other uses such as grazing and housing. Our Land Management Plan provides a sound framework for rehabilitation and other land management activities which involve leveling and contouring, reshaping, adding topsoil and land re-vegetating to restore the land for future use. Our policies and activities relating to land management activities are in full compliance with applicable legislation and regulations including the Law of Mongolia on Land and the Law of Mongolia on Subsoil. Specifically, sewage water discharge into land and related aspects are regulated by the Mongolian Law on Water and a national standard MNS 4943:2015. The Company's land management activities fully comply with the above regulations and standards.

Topsoil that will be disturbed by the expansion of mine pit excavation and waste dump is stripped and stored fully in accordance with the Mongolian standard (MNS "Stripping and storage of fertile soil during earthworks") MNS 5916:2008. Each topsoil stockpile is numbered and recorded, including the date of stockpiling and soil volume. During the reporting period, 69,471 m^3 of topsoil was stripped and stockpiled as per above procedures.

Our 2.5 hectares nursery field continues to serve as a good source of our environmental protection and reclamation activities. By continuously nurturing the field, we determine the most suitable trees and plants for re-vegetation in the Gobi region and use for reclamation and other landscaping projects around the project site and the soum centre. We have around 30,000 shrubs, trees and perennial plants of over 26 different endemic and non-endemic species growing in the nursery field. In 2022, approximately 11,100 seedlings were harvested from the nursery field for use in various tree planting, landscaping and gardening projects. Tree planting and collective activities towards development of green areas in Gobi continued to take place. On the National Tree Planting Day, the Company employees planted over 1,000 trees in and around the Tsogttsetsii soum centre and the UHG project mine-site and 2,000 seedlings were donated to local organisations.

As part of the "Tooroi tree", our project with a long-term vision to conserve endangered and rare tree species native to South Gobi region and restore Gobi lands through Tooroi tree forest, another 1,800 seedlings were planted by its seeds in designated containers. Additionally, 500 Tooroi seedlings which were propagated at our tree nursery were successfully transplanted at mining area in October 2022. Historically, the project is becoming one of the very few attempts to cultivate the endangered Gobi tree in its native habitat and as the propagation work requires special care and attention, the success rate of the planting will only be perceptible in the coming spring.

"Populus diversifolia Schrenk", or more commonly known as Tooroi tree is a very rare, native Gobi plant listed in the Red Data Book of Mongolia. Considered to be the largest tree in the Gobi region, Tooroi is hugely important in the conservation of the Gobi eco system. Unfortunately, due to human-led activities, land degradation and climate change related factors, the population of Tooroi trees has been in decline for the past decades and are threatened with extinction. We started the "Tooroi tree" project in 2019

In October 2021, Khurelsukh Ukhnaa, the President of Mongolia, initiated the "One Billion Trees" national campaign to increase Mongolia's contribution to the fight against global climate change and urged businesses, state entities, non-governmental organisations ("NGOs") and citizens to join the tree planting efforts. The Group joined the initiative with a commitment to plant up to 40 million trees until 2030 at its UHG and BN mine site areas.

In 2022, 93,000 trees were planted on 42 hectares as part of the "Billion Trees" campaign initiative, with 5,000 trees planted in the Baruun Naran (BN) mine and 87,000 trees planted near the Ukhaa Khudag (UHG) well forest strip, and irrigation maintenance work is continuing.

Case study

As part of the GoM's 2020-2024 action plan to rehabilitate abandoned mining areas throughout Mongolia, we completed technical rehabilitation of 7 hectares of damaged areas in the "Bayan Tsagaan Nuruu" of Bayandalai Soum, Umnugobi province. This area was previously used for artisanal gold mining. The restoration work has been entrusted to a local task group.

Rehabilitation progress

As part of the GoM's 2020-2024 initiative to restore abandoned mining areas across the country, we have been focusing on rehabilitating areas impacted by artisanal gold mining in the Bayan Tsagaan Nuruu of Bayandalai Soum, Naimdain Khundii of Tsogttsetsii Soum, and Tuimertiin Enger of Khankhongor Soum since 2021. We have successfully conducted technical remediation on 20 hectares of damaged areas, including slopes, in compliance with relevant standards. This project is being undertaken by mining firms as part of a biodiversity protection strategy. Since 2018, the Group has also been carrying out conservation work in the Naimday Khundii and Gobi 3 Saikhan areas.

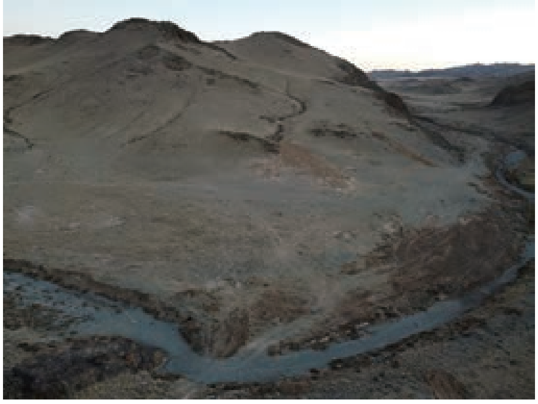
The technical rehabilitation process involved completing the following tasks:

- Proper disposal of waste materials in designated landfills;
- Reinforcing the bank of the dry riverbed;
- Creating gullies to facilitate the free flow of floodwater and prevent overflow; and
- Trampling and combing the topsoil in the transverse direction of the prevailing wind, resulting in the formation of small furrows.

By adhering to Mongolia's existing norms and standards, the technical rehabilitation efforts have significantly reduced the risk of accidents and falls for individuals, animals, and wildlife in the area.

Before rehabilitation

After rehabilitation



Air emissions

We acknowledge the impacts produced by our operations, including noise, dust, and traffic, and we constantly strive to reduce them. Our mining activities generate various noise sources, such as dump trucks, excavators, and coal transport trucks. Additionally, blasting, which is a crucial part of our mining operations, creates ground vibration and overpressure, which can sometimes be noticeable to nearby communities. To manage noise and vibration, we have implemented a Noise Management Plan that involves regular identification and evaluation of noise and vibration sources.

For the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the Dust Management Plan of our comprehensive Environmental and Social Management Plan. The measures include:

- Regular control on spontaneous coal combustion in mine-site areas;
- Regular spraying of mine haulage roads with water;
- Application of various technologies in reducing dust generation around the mine haul roads;
- Special fencing of major coal stockpiles; and
- Management of vehicle speed etc.

The installation of three new dust separators in the CHPP the previous year has been successful in ensuring normal operation. Measurements of fine particle concentration revealed that the dust concentration was reduced by approximately 50% when the dust separators were operational in the workplace.

We conducted noise level measurements at 10 monitoring points around the UHG mine site, and the results were found to be fully compliant with national standards. To minimise noise and vibration, we implement several practical steps, including:

- Regular maintenance of machinery to ensure it operates with minimal noise;
- Cooperation with suppliers to provide machinery that is designed to work with minimal noise;
- Keep operation and storage of heavy equipment as far as possible from the residential areas;
- Provision of a community hotline service which residents can report concerns on noise and vibration; and
- Blasting only when weather conditions are deemed favorable.

Throughout the reporting period, we conducted monitoring and measurement of PM2.5 dust levels at 15 different sites in and around the UHG mine, TKH area, and BN mine. The measurements were carried out over 150 times against the national MNS 4585:2016 standard at specific locations at the UHG mine site, Tsogttsetsii soum, TKH area, and BN mine site. Most of the measuring points showed that the average level of PM2.5 throughout the year was below the acceptable value of the national air quality standard (0.05 mg/m^3).

Social

NON-DISCRIMINATION AND EQUAL OPPORTUNITY

Management approach

As an integral part of our Integrated Management System (IMS), we have established comprehensive environmental management systems and practices that enable us to assess and identify potential environmental risks, conduct routine monitoring, and report performance results to minimise the adverse impact of our operations on the environment. We aim to promote efficient resource use, prevent pollution, and protect biodiversity at every stage of our operations as a responsible mining company. Our environmental performance targets not only comply with but exceed regulatory requirements set by over 30 environmental laws and 200 regulations currently in force in Mongolia. The main applicable laws are the Law on Environmental Protection, the Law on Environmental Impact Assessment, and the Minerals Law. We submit a complete environmental management plan followed by an implementation report to the GoM on an annual basis in accordance with these legislations.

To further streamline our HSE activities and existing systems on environmental protection and management, we adopted the IMS in 2018. The IMS enables us to develop an annual action plan, and its implementation is regularly reviewed to ensure compliance with regulatory requirements and continuous improvement. Internal audit and management review processes are conducted according to the International Standard Environmental Management System ISO 14001:2015. These processes cover all aspects of our environmental management and control system. In 2022, an audit was conducted in accordance with ISO 14001:2015, and no discrepancies were found in the audit results.

Based on the results of our Environmental and Social Impact Assessment, we have developed individual management plans to ensure accountability for our environmental impact. These plans include the Dust Management Plan, Erosion and Sediment Control Plan, Waste Management Plan, Hazardous Waste Management Plan, Tailings Storage Facility Management Plan, Mining Closure and Reclamation Plan, and Monitoring Plan. Each of these plans is reviewed annually against a set of key performance indicators, and any necessary corrective actions are taken to ensure continuous improvement.

SDGs

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Our Human Resources ("**HR**") activities are in full compliance with all relevant laws and legislations in Mongolia including but not limited to the Law of Mongolia on Labour ("**Labour Law**"), the Law on Gender Equality, the Law on Social Insurance, the Law on Employment Support and many others. Overall, there are more than 60 laws, legislations and state procedures that we strictly follow in carrying out our HR activities.

In addition to the above, there are many areas where we exceed HR legal requirements and provide various voluntary offers and conditions for the employees. For instance, we offer more benefits and alternatives to our contract-based employees than required by the local legislation, in order to improve and maintain our total employee job satisfaction.

As the Labour Law was amended in July 2021, to be effective from 1 January 2022, we took all required measures and preparations to comply with the new requirements, including changes in roster schedules for the mining industry staff. Under the new requirements, the rosters were changed to 14-14 days' work and vacation regime and a single roster duration shall not exceed 14 days. All applicable policies and guidelines were updated, and some new policies were adopted to safely adjust our employee relations to the new requirements.

Our contractors, subcontractors and their employees are required to follow all of our HR policies, rules, standards and guidelines, and the requirements are stipulated in written agreements between the Company and the contractors.

As a responsible miner and one of the largest private sector employers at both Umnugobi province and national level, we remain committed to:

- Provide equal employment opportunities, equal pay systems and respect the rights of our people. Recruit based on skills and support local employment.
- Offer compensation and benefit schemes competitive within the Mongolian mining industry and support employees through housing projects and other social benefits.
- Ensure challenging yet exciting work environment where employees can realise their full potential and develop their skills.
- Ensure awareness of ethical working standards and other internal procedures of the Company through The Code.
- Provide distance learning and remote access opportunities as much as possible, in order to promote productivity, reduce unnecessary workload and adjust to new ways of work.

We believe that employees are the most important asset and foundation of our business. Therefore, the well-being of our people and provision of safe, healthy, balanced and inclusive work environment has always been vital in conducting successful business operations. Through continuous support to their personal and professional development, we strive to maintain and retain our top talent and maximise their value.

We offer competitive compensation packages and welfare benefits to all of our employees, which are consistent with the Labour Law and other relevant legislation. Our Remuneration and compensation policy is designed to attract and retain skilled employees and motivates them to achieve maximum results while supporting high-performance culture which fosters teamwork and collaboration. Our policies relating to parental and other types of paid leave are in full compliance with applicable legislation and regulations including the Labour Law and the Law of Mongolia on Social Insurance. Salary reviews are conducted on an annual basis as part of the performance review and account for the individual's role, performance, and prevailing salary trends in the local market.

LOCAL EMPLOYEE SALARY, EMUNERATION, BONUS AND BENEFITS

MNT 96 BLN

(2021: MNT 68 bln)

In 2022, we spent over MNT 96 billion in employee salary, remuneration, bonus, and benefits. The benefits are offered to all employees irrespective of their position and length of employment with the Company. In total, there are 10-20 different benefits and allowances offered for the employees, which range from performance bonus and incentive schemes to parental and other types of paid leaves and various insurance packages. We also provide all types of one-off allowances in full conformity with the local legislations. Our bonus and incentives plan are tied to the Company's financial performance and individual employee and team performances and is aimed at retaining top performing employees.

All of our employees enter into written employment contracts with the Company which detail, among other things, their duties and responsibilities, remuneration, as well as the grounds for termination of employment. We employ people on the basis of job requirements and matching skills but seek to provide preferential employment to local people of Umnugobi province where possible, in order to make tangible economic contributions to the communities in which we operate.

Lack and shortage of skilled professional workers in the local market, especially in the isolated Gobi region with small population, and demand for more specialised skills pose one of the critical challenges for us and there is a growing concern on keeping the employee turnover rate at minimum. In 2022, the Group-wide employee turnover rate was at 33%. Our turnover rate by gender was 21% for female employees as compared to 36% for their male counterparts. By age group, the turnover rate was low at 10% for employees aged 30 or below and at 21% for the age group of 30-50. Location wise, the rate was lowest for our head office employees at 0.6%, compared to 33% for our on-site employees at UHG & BN. As a result of our long-term employee retention policies, nearly half of our employees have been with the Company for over 5 years and over 95% of our employees are hired on a permanent basis, signifying our stable employee engagement. Regardless, we take active measures to overcome the challenges, such as to expand our HR eligibility list, update our training policies for the existing employees to better match the lacking skills and cooperate with leading universities and educational facilities.

As of the year ending 2022, we had 1,979 permanent employees.

DIVERSITY AND EQUAL OPPORTUNITY

Our Company's commitment to Equal Opportunity is evident in all our policies and documents, including our Code of Conduct, Recruitment Policy, Benefits Policy, Training and Development Policy, promotion and compensation schemes, and other relevant areas. We strictly prohibit discrimination on the grounds of race, gender, nationality, age, religion, social origin, political views, union affiliation, pregnancy, disability, or any other factor, and comply with all relevant labor laws and regulations concerning non-discrimination. Furthermore, we endeavor to exceed legal requirements by implementing best practices that promote fairness and equality in all our HR activities. Our internal regulations and guidelines clearly state our commitment to conducting all HR activities without discrimination.

Since 2019, we have been implementing a preferential employment program aimed at providing employment opportunities and flexible work arrangements for individuals with disabilities. This initiative is part of our commitment to promoting diversity and equal employment practices. Through cooperation with the governor's offices of Umnugobi province and Tsogttsetsii soum, we have been able to maintain a workforce in which individuals with physical disabilities make up approximately 4% of our total employees. In addition to advancing our internal diversity and inclusion goals, this program also addresses important social issues in the isolated Gobi region.

As part of our efforts to attract and retain skilled employees on a long-term basis, the average age of our total workforce is gradually going up and currently almost half of our direct employees have been with the Company for 5 years or more.

Table 16. Inclusivity

	2022	2021	2020
Employees aged 30 or below	**31%**	27%	30%
Employees between 30-50 years of age	**62%**	67%	64%
Employees aged 50 or above	**7%**	7%	6%
Female employees in total workforce	**15%**	14%	13%
Female employees in management	**31%**	33%	32%
Female representation in Board	**12%**	12%	12%
People with disabilities in total workforce	**4%**	4%	4%

We follow the principles of equal pay, equal work in all relevant fields of employee relations. Accordingly, we pay equal base salary for all employees in the same work position and under the same establishment or working conditions, and do not tolerate wage discrimination between men and women or local and non-local employees etc. The salary variation is therefore due to formally set criteria, including but not limited to employees' competency, seniority, grade system, workload and level of expertise.

As of 31 December 2022, we had a total of 1,979 employees. The percentage of our local employees were 39%. Although the small number of populations in rural Gobi area and the overall limit of skilled workforce available pose considerable challenges, we strongly enforce our local employment policy and take supporting measures. These include provision of training and professional courses where necessary and reflection of demographic challenges in our employment and training policies.

In 2022, the proportion of female employees in our workforce was approximately 15%, which is higher than the national industry average of 10% (Source: Mineral Resources and Petroleum Authority of Mongolia). Although the mining industry remains male-dominated and faces a shortage of skilled female employees, particularly in rural Gobi areas, we continue to prioritise increasing female representation in our workforce through improved systems and training programs. We provide specialised job training for newly recruited female employees, particularly those from isolated rural regions. Furthermore, the participation of women in specialist and managerial positions at our company has remained relatively stable at around 31%. As of 2022, the percentage of female employees in senior management positions was also 31%.

In addition to free-of-charge housing provisions for our female employees working on roster arrangements, we continue with our four office-day week working arrangements for our female employees with children aged 0-6. While increasing their overall job satisfaction, the new arrangement promotes work-life balance of our female employees and helps maximise their productivity.

All our female employees are entitled to maternity/parental leave, return to work from the maternity leave and full allowances, as stipulated in the Labour Law of Mongolia. According to our internal statistics, in any given year, approximately 30% of total employees who took maternity leave has returned to their work with the Company.

In full accordance with the Law of Mongolia and other relevant legislations, all our direct and indirect employees are free to be represented by trade unions, work councils and/or similar bodies and get covered by collective bargaining agreements. As a responsible employer, we continuously seek to enhance relations with our employee representative bodies and understand/reflect their concerns to the maximum.

During the reporting period, we recorded no cases of discrimination or labour disputes at our mine sites and offices.

Employment practices

Code of Conduct and Fair Operating Practices

Integrity and accountability are core values at MMC and are central to our reputation as a responsible mining company. Our Code of Conduct (the "**Code**") guides our approach in doing business and reinforces our commitment to responsible action. A set of desirable behaviours are embedded in the Code which promote positive and responsible professional attitude among employees and managers. Employees at all levels, including executives and contractors must strictly follow the Code and act with responsibility, honesty, trust, respect, and loyalty, complying with all laws and regulations in effect.

The Code strictly prohibits engaging in unethical behaviour and contains explicit guidelines on the receipt of gifts, donations, travel offers or hand-outs. MMC discourages the acceptance of gifts or donations on the Company's behalf and all gifts that were received have to be disclosed. It is also the Company's policy to not make any in-kind contributions to political parties or politicians. We avoid all actions that are anti-competitive or otherwise contrary to the laws that govern anti-competitive practices both domestically and internationally. Any individual, regardless of his or her relationship with our Company, can report incidents of unethical behaviour, bribery, corruption, or fraud. Employees' rights to report such incidents are also emphasised in applicable training and induction programmes, together with their responsibility to do so. Violations of the Code are taken seriously and can result in disciplinary actions.

We have an independent Internal audit function as well as a Donation/Sponsorship Committee which strives to prevent all kinds of unfair dealings or making of payments in kind (gifts or favours) to influence individuals and/or business decisions. The Company's management, under the oversight of the Board, through the Audit Committee, is responsible for designing, implementing, and monitoring the risk management and internal control systems and such systems are reviewed by the management and the Board at least annually.

The Company's Risk Management Policy, Internal Control Procedure and other policies, procedures and work instructions establish the Company's risk management and internal control frameworks.

We are committed to cooperative, respectful, and positive dialogue with policymakers and government agencies. We believe this should be based on genuine consultation and accountability. We engage with the government and other stakeholders on a variety of issues, including workers' health and safety, environmental protection, trade, economic development, infrastructure, transparency, rule of law, and other areas of public policy that are important for our operations. This engagement is in strict accordance with all applicable laws, Extractive Industry Transparency Initiative ("**EITI**") requirements, the Code, and standards on ethical conduct.

We recorded no cases of bribery, corruption, extortion, fraud, or money laundering during the reporting period.

Human Rights

Recognising and respecting the importance of human rights is an integral part of our sustainable development approach. As such, we aim to address human right risks and potential impacts in respect of local communities and/or stakeholders in an integrated manner. In addition to complying with all applicable laws of Mongolia, we uphold the United Nations Universal Declaration of Human Rights, The International Labour Organization Declaration on Fundamental Principles and Rights at Work as well as the United Nations Guiding Principles for Business and Human Rights.

We provide fair, transparent and equal employment opportunities at all levels of our business activity and operations, irrespective of race, gender, nationality, age, religious belief, social origin, political views, union affiliation, pregnancy, disability or any other basis. We respect freedom of association and freedom of speech; therefore, designated feedback boxes are operated at our mine sites to allow employees to express their opinions and report any breaches of ethical conduct and behavior. Where our employees wish to be represented by trade unions or work councils, we cooperate in good faith with the bodies that our employees collectively choose to represent within the appropriate national legal frameworks.

We respect the rights of people in communities where we operate and seek to identify adverse human rights impacts and take appropriate steps to address and remedy them. Moreover, we maintain continuous engagement based on dialogues and mutual trust for their rights to access land, access to water, freedom of movement and freedom of expression. Our community grievance handling platform allows the host community members to freely submit their complaints and grievances to the Company's management and respective departments or units. In the value chain, we seek to establish relationships with suppliers and contractors which share our principles and values while promoting awareness of human rights protection.

As part of our Human Rights Program, we provide regular training on Voluntary Principles on Security and Human Rights to our security service providers and relevant staff. No human rights violations were recorded at our sites and offices during the reporting period.

Forced Labour and Child Labour

The Company maintains a strict policy against the use of child or forced labor, and the exploitation of children in its operations and facilities. As per the Recruitment Policy, we only employ individuals who have reached the legal age of employment, which is 18 in Mongolia. We are committed to complying with all relevant legislation, including the Mongolian Law on Child Protection, the Convention on the Rights of the Child, the Minimum Age Convention, and the Worst Forms of Child Labour Convention, which have been ratified by Mongolia. Furthermore, we uphold the rights of our employees to leave the work premises after completing the standard workday and to terminate employment after providing reasonable notice.

Our recruitment officers are trained to ensure that no person under the age of 18 is employed at any of our sites and facilities. During the year, we did not employ any individual below the legal age of employment.

Transparency

We report our financial, operational, and sustainable development performances in accordance with all applicable legislation in a timely manner. We are also one of the active supporters of the EITI in Mongolia and have been disclosing our payments to the EITI office in Mongolia since the commencement of our mining operations in 2009 annually.

We believe that direct and two-way communication is essential in ensuring that our information reaches various stakeholders in a transparent manner. Our project-related information is disclosed to our host communities every year as part of our Public Consultation and Disclosure Plan and during regular meetings and communications through our Community Development Advisory Councils.

We joined International Financial Corporation's ("**IFC**") voluntary code of practice for common water management and reporting for the mining industry in the South Gobi region in 2013. Accordingly, we voluntarily report our water usage, reservation and re-usage information to IFC Mongolia on a regular basis.

In 2019, we signed a voluntary codex on responsible mining with the Mongolian National Mining Association together with 8 other mining and extractive industry companies in Mongolia. The voluntary codex aims to promote accountability and responsible mining practices in the country and encourages other mining companies to join the Codex by adhering to responsible mining practices and standards. As one of the leading mining companies in Mongolia, MMC's corporate social responsibility programs and responsible mining practices are highly evaluated by the peers, and all participating companies agreed to meet at least once a year to share experience in the mentioned fields. Also, the participants voluntarily commit to report their ESG achievements and areas of concern to the Mongolian National Mining Association on an annual basis.

Product Responsibility and Quality Assurance

We see product responsibility as a way to ensure our reliable access to the market. Therefore, we seek to obtain a preferred supplier status from our customers and recognition for our commitment to the safe and responsible production and use of products. Our product handling, sales, and shipment as well as relationship with buyers and customers are guided by the International Commercial Terms published by the International Chamber of Commerce as well as our internal regulations on product sales distribution and its supervision. In ensuring product quality and requirements, we work strictly in compliance with both local and international standards such as the national standard on coal classification MNS 6456:2014, the national standard on coal and coal product classification MNS 6457:2014 and People's Republic of China standard on commercial sales quality evaluation and technology control GB/T 31356:2014.

We also have a nationally accredited coal quality laboratory at our mine sites to ensure reliable and regular control on safety and quality of our products. The Company pays visits to customers, their subsidiaries and trading company representatives on a regular basis to maintain the outreach and reliability of our services and to strengthen the existing relationships with customers. No products sold or shipped were subjected to recalls for safety and health reasons.

We have designated officers who receive and handle customer feedbacks and inquiries via e-mail, telephone, and other means. All inquiries and correspondences are reviewed and acted upon immediately, involving our existing sales channels where necessary. The Company did not receive any significant complaint or inquiry on coal supply and quality over the reporting period, while minor inquiries were handled through mutual discussion and understanding in accordance with our contract terms. We also work to ensure that all our contracts with customers and partners have a "confidentiality and non-disclosure" clause that regulates privacy matters including protection of customer information and data. All such conditions are strictly in accordance with the International Commercial Terms and applicable domestic legislations.

To streamline our operation at all levels, increase productivity and further ensure safety and environmental protection, the Company successfully implemented and adopted IMS in 2018 for the first time in Mongolia. The IMS covers international standards ISO 9001:2015 (Quality management), ISO 14001:2015 (Environmental management) and OHSAS 18001:2007 (Occupational health and safety management) and was certified by Afnor Group, an international standardisation body based in France. Accordingly, we have a Complete Quality Management System and process improvement as part of the IMS.

The IMS implementation and follow-up measures are validated by internal audit on a regular basis and all required preparation works were done for a new round of surveillance audit in 2021.

Training and Education

As employees are the most precious asset in the Company, trainings and skills development are vital to the advances of our business and sustainability as a whole.

We are continuing to invest in the training of mining professionals to build a capable and effective work force in the remote Gobi region. Due to the lack of suitably skilled personnel both at the local and national level, job specific trainings form a big part of our overall training platform. The Company mainly focuses on conducting in-house trainings rather than outsourcing, with an aim to reduce costs and improve operational efficiency.

Additionally, the pandemic related restrictions and lockdowns resulted in a significant increase in online learning methods. In recent years, we have utilised a remote HR access application to engage with newly hired employees, and most of our training sessions were conducted online as as result of pandemic related measures. We have transitioned back to a combination of in-person and online training methods in 2022.

Based on individual work performance and assessment on level of skills, training needs matrixes and plans are devised for each employee, to help them have clear prospect on their jobs and potential career opportunities.

In general, we adhere to the following general principles in conducting all kinds of trainings for employees:

- The Training Policy is reviewed at least every 2 years and in the event of any changes in relevant legislation or mandatory training needs;
- Training needs matrix is provided to each operational area to assist the line managers/supervisors in identifying appropriate training needs;
- All newly hired employees must receive a safety induction on the first day of their job;
- All staff must undergo regular and mandatory health and safety training sessions relevant to their job role and work activities;
- Refresher training courses are provided every 6 months;
- All completed trainings are recorded in the training register system and reported in the annual safety report; and
- COVID-19 prevention and work process change related trainings have become mandatory.

We have a dedicated Training unit under our Operational Department, and internal and external trainings are generally classified as below:

- Safety inductions and workplace safety related trainings
- Corporate and management skills training
- Vocational training courses (heavy machinery equipment maintenance, heavy machinery operator etc)

Due to the nature and needs of the mining industry, safety inductions and related training form a big part of our overall training platform. In the reporting period, a total of 5,932 employees attended different professional trainings, out of which 4,925 employees attended occupational, health, and safety training, 218 employees attended professional development training and 789 employees attended general skills development training.

As we operate in the isolated rural region with scarce population and lack of skills, our internal vocational trainings are becoming more and more important in sourcing and building capable workforce from the local communities.

Our heavy machinery training center in Tsogttsetsii soum runs regular training courses for the local community members and individuals who wish to work for mining companies. Based on the demand from the job seekers, one full training course was conducted with the enrollment of 18 participants. All graduates of our heavy machinery repair and maintenance training course were provided with job opportunities upon successful completion of the courses.

The frequency and coverage of our trainings are also tied to the IMS across our entire operations. We organised a series of specific trainings on the update of our operational procedures and involved all employees of our site-based contractors in addition to our own.

As the mining industry is still male dominant, we pay major attention to offering training and career opportunities to women, especially those in Umnugobi province. In the reporting period, we continued to provide refresher trainings for our heavy machinery operators. The percentage of female operator trainees in refresher trainings was 13% in 2022.

Table 17. Female enrollment in vocational trainings

	Number of female trainees	Percentage of female trainees
Operator refresher trainings	174	13%
Operator certification courses	18	23%

To better adjust to the COVID-19 situations, we continued to develop new types of online training programs and distance learning methodologies in the reporting period and training materials were mostly distributed through our internal online platforms and e-training blog spots.

Local communities

Small and medium sized enterprises support program

In 2022, we organised a one-on-one meeting and project presentation for 26 citisens of Tsogttsetsii soum who were interested in participating in our Sustainable Livelihood Support Program. Following the meeting, 23 individuals who met Khas Bank's requirements were granted reduced loans totaling 216 million MNT to help them establish and grow their businesses. In 2022, we had 25 individuals with active loans, with all borrowers making timely repayment of their loans.

Case Study:

T.Tsogtbayar, who relocated to Tsogttsesii soum with his family in 2021, opened a grocery store in a rented building at the 28th kilometer along the coal road. In 2022, he participated in the Company's Sustainable Livelihood Support Program aimed at supporting local businesses, and received a project loan of 10 million MNT through Xac Bank. With the loan, he expanded the store and increased the variety of goods, which led to an increase in his income and benefit for his family. The store, located near a road for coal transportation, does not sell alcohol and is popular among transporters.

The agriculture programme in the forest strip started in 2011 as part of a long-term policy to support agriculture. There are currently seven hectares of land planted and five hectares of land where households and institutions are growing potatoes and vegetables.

- In 2022, a total of 57 households and 1 organisation participated in the crop growing program, resulting in a successful harvest of over 76 tons of various crops, including potatoes, beets, tomatoes, cucumbers, sweet peppers, garlic, parsley, and corn for animal feed. The program provided water and support to the participating households, including hiring field workers for assistance. The green field was irrigated with a total of 17,000 m^3 of water.

- To support growers' sales, we collaborated with the Tsogttsetsii Soum Governor's Office to organise the "Golden Autumn-2022" harvest festival and trade fair in September of that year. The trade show included over 70 individuals and businesses across 8 categories, providing support for producers who have been continuously growing vegetables since 2011.

Local Education Support Program

In 2022, the "Suraad.mn" online mathematics training program of 70,000 questions and exercises, has been utilised for the fourth year at the "2nd Secondary School" in Tsogttsetsii soum as part of the local education support program. In 2022, 555 students from fourth to 12th grade in Tsogttsetsii soum participated in the program for five months.

To improve access to kindergarten, 520 sqm of space on the first floor of Tsetsii District's first building was made available for free, enabling more than 120 students to participate in pre-school in four groups at the seventh kindergarten. At the request of the kindergarten, a set of toys necessary for all groups was identified and provided. Additionally, apartments were provided to the principals of the sixth and seventh schools for families living in the Tsetsii district.

“Good Neighbour” Program

The Company’s social responsibility includes an annual event before the New Year to honor elderly seniors from the four subdistricts of the impact zone: Tsogtsetsii, Khanbogd, Bayan-Ovoo, and Khanhongor. This event specifically recognises seniors who are over 70 years old. In 2022, food packages were distributed to 250 senior citisens above the age of 70 in the Tsogttsetsii and Khanhongor soum as part of the Company’s social responsibility efforts.

Since 2008, the Good Neighbour Program has been providing grass and fodder to local herdsmen and to the fund of Umnogobi Province every year to help them get through winter and spring. In the last reporting year, a total of 10,100 hay bales and 45 tons of fodder were distributed among 455 households in Tsogtsetsii Soum. Additionally, 2,500 bales of grass were distributed among the Bayan-Ovoo, Tsogt-Ovoo, Nomgon, Khanhongor, and Manlai soum funds, and 230 bales of grass were provided to the Environmental Team. Grass was also given to an environmental preservation project.

The Company has been continuously engaging with local governmental and non-governmental organisations and stakeholders within the framework of the “Good Neighbour” Program. One of the traditional obligations within this program is to provide coal for the winter. Since 2009, middlings have been distributed free of charge to more than 10 districts of Umnogobi province to assist with winter sustenance.

Since 2012, the Company has been responding to requests from Tsogtsetsii soum herders and local authorities by releasing water taps from wells 6 and 10 of the water supply system every year. The goal is to improve the water supply to pastures during the summer season, making it easier for herders to care for their animals. This year, the installation of taps has provided drinking water to an average of 4,000-5,000 animals and significantly facilitated the work of herders.

In the year under review, the Company received and addressed a total of 44 applications, requests, and one complaint from representatives of local citisens and stakeholders across eight areas. Among these, 39 applications were approved or deemed possible, while six were rejected. All 44 applications and requests were received and resolved within 30 days, except for one application that was resolved beyond the set timeline. As of the end of the reporting year, there were no pending applications.

The sole complaint received was regarding the relocation of bus stations along a route. The complainant had requested that the bus stop no longer be located outside their yard, which was subsequently done.

Suppliers

As part of the Group's ESG initiatives, within the governance portion, we have been working on a supplier code of conduct to (i) develop a list of ESG issues that are material to the Company (including environment, human rights, labour, anti-corruption) based on industry standards; (ii) establish a baseline requirements suppliers must meet; and (iii) develop a high-level supplier code of conduct with which we can start engaging suppliers on sustainability.

A "Supplier Code of Conduct" was presented to the ESG Committee. The Supplier Code of Conduct has been reviewed by the ESG Committee and recommended for approval by the Board and was subsequently approved and adopted by the Board. The Supplier Code of Conduct included references to already existing relevant policies and procedures to support sustainable and responsible management of resources, minimise environmental impacts and promote human rights and ethical labor practices throughout the supply chain.

Procurement

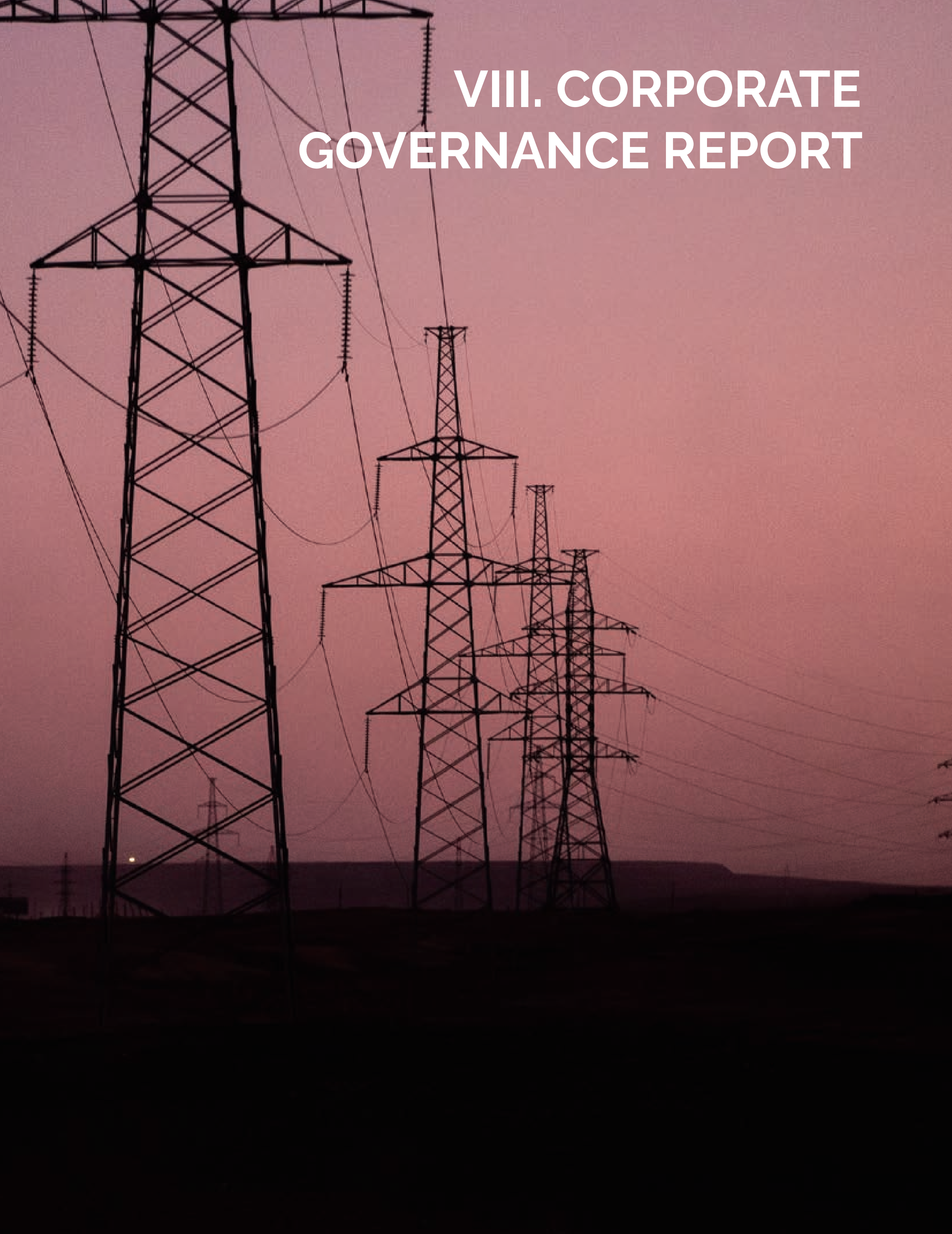
Our priority is to support local businesses and to maximise our economic contribution to the country's economy and the communities where we operate. We strive to conduct our procurement practices in a responsible and accountable manner, while also encouraging and developing partnerships with local businesses at all levels of our operations. We give priority to businesses from Mongolia and Umnugobi aimag, and work closely with them to promote economic growth and sustainable development.

We uphold ethical business practices in our purchasing and supply management, and we expect our suppliers to comply with our social and business procedures at all levels of operation. Our procurement activities follow various policies and procedures, including the Procurement Policy, Procurement Procedure, Procurement Committee Procedure, Inbound Logistics Procedure, and Procurement Contract Management Procedure, among others. These documents cover all aspects of client-supplier relations, including the proper identification of requirements, hazard assessment, risk management, ethical business conduct, and performance monitoring.

We require our suppliers to acknowledge our Code of Conduct and adhere to safety, environmental, and quality standards, such as the OHSAS 18001:2007 International standards for Occupational Health and Safety. We outline these requirements in our agreements with suppliers and conduct regular audits to ensure that their practices align with our policies and procedures. We also have an internal procedure for monitoring the health, safety, and environmental practices of our contractors and suppliers. They are required to adopt environmentally friendly practices in their production and supply operations. We do not partner with or select suppliers who fail to meet our criteria or engage in unethical or environmentally harmful practices.

During the year 2022, our company sourced goods and services from more than 20 local businesses in the Umnugobi aimag, with a total procurement amount of approximately MNT14.3 billion. Among foreign suppliers, Chinese entities accounted for the largest share, followed by Australian suppliers, and then those from the USA, Korea, and Japan. Additionally, we support SMEs and local start-up businesses through our Sustainable Livelihood Support Program.

VIII. CORPORATE GOVERNANCE REPORT



The Board is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and strengthen its transparency and accountability.

In December 2021, the Stock Exchange has announced amendments to the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules. The requirements under the new CG Code will apply to corporate governance reports of listed issuers for financial year commencing on or after 1 January 2022. The Company has adopted the principles of code provisions contained in Appendix 14 of the Listing Rules as basis of the Company' s corporate governance practices.

In the opinion of the Directors, throughout the year ended 31 December 2022, the Company has complied with all the code provisions as set out in the CG Code applicable for the financial year under review, except for code provisions C.5.1 which states that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. The relevant details of which are discussed under "Board and Board Committee Meetings and Attendance Records of Directors" below.

The Company will continue to review and enhance its corporate governance practices to ensure that it will continue to meet the requirements of the CG Code and the rising expectations of the shareholders and investors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2022.

The Company has also established written guidelines (the "**Employees Written Guidelines**") of no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was recorded by the Company for the year ended 31 December 2022.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director and whether the Director is allocating sufficient time to perform his/her duties effectively to the Company.

The Board is currently comprised eight Directors, consisting of two executive Directors, three non-executive Directors and three independent non-executive Directors.

EXECUTIVE DIRECTORS:
Mr. Odjargal Jambaljamts, *Chairman of the Board, Chairman of the Nomination Committee and member of the Remuneration Committee*
Dr. Battsengel Gotov, *Chief Executive Officer*

NON-EXECUTIVE DIRECTORS:
Mr. Od Jambaljamts, *member of the Environmental, Social and Governance Committee*
Ms. Enkhtuvshin Gombo, *member of the Audit Committee*
Mr. Myagmarjav Ganbyamba, *member of the Environmental, Social and Governance Committee*

INDEPENDENT NON-EXECUTIVE DIRECTORS:
Dr. Khashchuluun Chuluundorj, *Chairman of the Remuneration Committee and member of the Audit Committee, the Environmental, Social and Governance Committee and the Nomination Committee*
Mr. Unenbat Jigjid, *Chairman of the Environmental, Social and Governance Committee and member of the Audit Committee, the Nomination Committee and the Remuneration Committee*
Mr. Chan Tze Ching, Ignatius, *Chairman of the Audit Committee and member of the Environmental, Social and Governance Committee*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 8 of the annual report for the year ended 31 December 2022 and there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between the Board save as disclosed therein.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer of the Company are held by Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-Executive Directors

During the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing the adequate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in character and judgement.

Board Independence Evaluation

The Company recognises the importance of board independence to corporate governance. In particular, the following mechanisms are in place in order to ensure that there is a strong independent element on the Board which is key to the Board's effectiveness:

In assessing whether a potential candidate is qualified to become an independent director of the Company, the Nomination Committee, Environmental, Social and Governance Committee and the Board will consider, among others, whether the candidate is able to devote sufficient time on performing his/her duties as an independent director of the Company, and the background and qualification of the candidate, in order to assess whether such candidates are able to bring independent views to the Board.

In considering whether an independent director should be proposed for re-election, the Nomination Committee, Environmental, Social and Governance Committee and the Board will assess and evaluate the independent director's contribution to the Board during the term, in particular, whether the independent director was able to bring independent views to the Board.

The Company will ensure that there are channels (in addition to independent directors) where independent views are available, including but not limited to availability of access by directors of the Company to external independent professional advice to assist their performance of duties.

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then-current term.

All the Directors of the Company are subject to retirement by rotation and eligible for re-election at the AGM. Under the Articles of Association of the Company (the "**Articles**"), at each AGM, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Articles also provides that all Directors appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first annual general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the overall management of the Company's business. The Board provides leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. All Directors take decisions objectively in the interests of the Company.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing, and coordinating the daily operation and management of the Company are delegated to the management.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company, providing a balance in the Board by exercising effective independent judgement and impartial advices on issues of strategy, policy, performance, accountability, standard of conducts etc., and taking the lead where potential conflicts of interests arise.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to perform their responsibilities effectively and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should commit with appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where applicable. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The Directors have participated in the following trainings during the year ended 31 December 2022:

	Types of training
Executive Directors	
Mr. Odjargal Jambaljamts	A, B
Dr. Battsengel Gotov	A, B
Non-executive Directors	
Mr. Od Jambaljamts	A, B
Ms. Enkhtuvshin Gombo	A, B
Mr. Myagmarjav Ganbyamba	A, B
Independent Non-executive Directors	
Dr. Khashchuluun Chuluundorj	A, B
Mr. Unenbat Jigjid	A, B
Mr. Chan Tze Ching, Ignatius	A

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Environmental, Social and Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius (who possesses the appropriate professional qualifications or accounting or related financial management expertise), Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, and one non-executive Director, namely Ms. Enkhtuvshin Gombo. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Audit Committee include the following:

- To review the financial statements and reports and to consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, the internal auditor or the external auditor before submission to the Board;
- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and to make recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- To review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures and the work of the internal audit function; and
- To review arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, risk management and internal controls or other matters of the Company.

During the year ended 31 December 2022, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor, engagement of non-audit services and relevant scope of work, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met with the external auditor twice during the year ended 31 December 2022.

Remuneration Committee

The Remuneration Committee consists of three members, namely Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, being independent non-executive Directors, and Mr. Odjargal Jambaljamts, being executive Director. Dr. Khashchuluun Chuluundorj is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include the following:

- To determine the remuneration packages of individual executive Directors and senior management;
- To make recommendation on the remuneration policy and structure for all Directors and senior management;
- To assess performance of executive Directors and approve the terms of executive Directors' service contracts;
- To establish transparent procedures for developing the remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; and
- To review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules.

During the year ended 31 December 2022, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management, and share schemes under Chapter 17 of the Listing Rules, and other related matters.

Table 18. Remuneration by band of the senior management:

	2022
HKD Nil to HKD1,000,000	**2**
HKD1,000,001 to HKD1,500,000	**1**
HKD1,500,001 to HKD2,000,000	**–**
HKD2,000,001 to HKD2,500,000	**–**
HKD2,500,001 to HKD3,000,000	**3**

Details of the remuneration of each of the Directors for the year ended 31 December 2022 are set out in note 10 to the consolidated financial statements.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Odjargal Jambaljamts, being executive Director, Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, being independent non-executive Directors. Mr. Odjargal Jambaljamts is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and to make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and the succession planning of Directors; and
- To assess the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and consider agreeing on and setting measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's Director Nomination Procedures that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The Director Nomination Procedures as adopted by the Board sets out the procedures and criteria in the nomination and appointment of Directors.

During the year ended 31 December 2022, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors to consider the qualifications of the retiring directors standing for re-election at the AGM. The Nomination Committee reviewed and discussed the measurable objectives for implementing diversity of the Board and considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Company has adopted a Board Diversity Policy on 27 August 2013 which was subsequently revised by a Board resolution passed on 17 October 2022 which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to, professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives. The Board currently has seven male Directors and one female Director. Currently, the Board has not established a specific target number or date by which to achieve a specific number of women on the Board. However, in recognising the particular importance of gender diversity so as to further improve our gender diversity at the Board level and workforce, we will endeavour to ensure there is gender diversity when recruiting staff at a mid to senior level so that we will have a pipeline of female employees (including senior management) and potential successors to our Board and engage more resources in training female staff who have extensive and relevant experience in our business, with the aim of promoting them to the senior management or directorship of our Group. For details of the gender ratio of the Group in the workforce, please refer to the Environmental, Social and Governance Report section on pages 60 to 61 of this annual report.

Our Directors have a balanced mix of knowledge and skills. They obtained degrees in various majors including business administration, organic chemistry, foreign affairs, banking and finance and economics. We have three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of our Board. Furthermore, our Board has a diverse age and gender representation. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

The Nomination Committee will review the Board Diversity Policy on an annual basis and as appropriate to ensure its effectiveness.

Gender Diversity

The Board will ensure that an appropriate balance of gender diversity is achieved with reference to stakeholders' expectations and international and local recommended best practices with the ultimate goal of bringing the Board to gender parity.

Details on the gender ratio of the Group in the workforce together with relevant data can be found in the Environmental, Social and Governance Report on pages 60 to 61 of this Annual Report.

Director Nomination Procedures

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Board has adopted the Director Nomination Procedures on 27 August 2013 which shall guide the Nomination Committee in selecting and nominating the suitable candidates for directorships. The Director Nomination Procedures sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following before moving onto the nomination process:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experiences that are relevant to the Company's business and corporate strategy;
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and other directorships and significant commitments;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Diversity aspects under the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and industry and regional experience.

Where there is more than one candidate, the Nomination Committee shall rank the candidates by order of preferences based on the needs of the Company and where appropriate, to make recommendations to the Board. The Director Nomination Procedures also set out the procedures for re-election of Directors at the general meeting. The Nomination Committee shall also review the overall contribution and service to the Company of the retiring directors including their participation and performance before making recommendations to the shareholders in respect of the proposed re-election of directors at the general meeting.

During the year ended 31 December 2022, there was no change in the composition of the Board:

The Nomination Committee will review the Director Nomination Procedures, as appropriate, to ensure its effectiveness.

Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee consists of five members with a majority of independent non–executive Directors, namely Mr. Unenbat Jigjid, Dr. Khashchuluun Chuluundorj and Mr. Chan Tze Ching, Ignatius, being independent non-executive Directors, and Mr. Od Jambaljamts and Mr. Myagmarjav Ganbyamba, being non-executive Directors. Mr. Unenbat Jigjid is the chairman of the Environmental, Social and Governance Committee.

The Environmental, Social and Governance Committee was established by the Board on 23 August 2019 in replacement of the Corporate Governance Committee for performing the functions set out in the code provision A.2.1 and for overseeing the environmental, social and governance matters of the Company. The principal duties of the Environmental, Social and Governance Committee include the following:

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- To review the Company's compliance with the code and disclosure in the Corporate Governance Report;
- To oversee the development of the Company's environmental, social and governance vision, strategy and policies; and
- To oversee the implementation of the Company's environmental, social and governance vision, strategy and policies.

During the year ended 31 December 2022, the Environmental, Social and Governance Committee held one meeting to review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2022 is set out in the table below:

Table 19. Attendance records:

	Attendance/Number of Meetings					
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Environmental, Social and Governance Committee	Annual General Meeting
Odjargal Jambaljamts	2/3	1/1	1/1	N/A	N/A	1/1
Battsengel Gotov	3/3	N/A	N/A	N/A	N/A	1/1
Od Jambaljamts	3/3	N/A	N/A	N/A	1/1	1/1
Enkhtuvshin Gombo	3/3	N/A	N/A	2/2	N/A	1/1
Myagmarjav Ganbyamba	3/3	N/A	N/A	N/A	1/1	1/1
Khashchuluun Chuluundorj	3/3	1/1	1/1	2/2	1/1	1/1
Unenbat Jigjid	3/3	1/1	1/1	2/2	1/1	1/1
Chan Tze Ching, Ignatius	3/3	N/A	N/A	2/2	1/1	1/1

According to CG Code Provision C.5.1 the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 31 December 2022, the Board only held three regular board meetings. In view of the Group's business nature, the executive management of the Group actively manages and supervises the business operations by way of express delegation by the Board and under clear instructions and frameworks which were set and approved by the Board. However, the Board was kept well informed of all developments relating to the Group's operations in a timely manner. The Company will make appropriate arrangement for holding at least four Board meetings in the forthcoming year.

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of other Directors during the year ended 31 December 2022.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and establishing and maintaining appropriate and effective risk management and internal control systems.

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the connected transactions, inside information handling, material risks and controls and provides its findings and recommendations for improvement to the Management and the Board through the Audit Committee.

The Audit Committee is delegated by the Board in leading the management and overseeing their design, implementation, and monitoring of the risk management and internal control systems.

The Company's management, under the oversight of the Board, through the Audit Committee, is responsible for designing, implementing, and monitoring the risk management and internal control systems and such systems are reviewed by the management and the Board at least annually.

The Company's "Risk Management Policy", "Internal Control Procedure" and other policies, procedures and work instructions establish the Company's risk management and internal control frameworks. The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including sales, financial reporting, HR, and information technology ("**IT**").

Key risks and uncertainties relating to the Company's business and industry are categorised into (i) routine operational and technical risks; (ii) corporate risks; and (iii) external risks. Specific risks are identified via executives', management, and tool-box meetings and other communication channels, and included into risk registers, which are maintained for each risk category and contain specific risk rating by evaluating (i) occurrence possibility; and (ii) impact significance with the controls and mitigation measures defined.

Routine operational and technical risks are those arising within the organisation that are controllable and ought to be minimised with its consequences mitigated. Routine operational and technical risks include, but are not limited to, risks related to mining, processing, transportation activities, technical compliances; HSE risks; project-related risks; and procurement and contract management risks. The Company's approach to managing these risks is to avoid or minimise occurrence through a compliance-based approach and active prevention by monitoring operational processes and guiding people's behaviours and decisions towards desired norms by managers in charge. Through extensive training of personnel and establishment of policies, standard operating procedures, work instructions, standard compliance tools, and internal controls, the management aims to have zero defects in operational and technical level processes. The internal control procedures are implemented to monitor these risks by verifying if policies, procedures, and work instructions are being followed without exception and by highlighting defects and deviations in compliance and routine operating processes.

Corporate risks are those that arise within the organisation. Risks under this category include:

- Legal compliance risks;
- Financial compliance risks;
- Financial risks such as liquidity, credit risks, financial planning and reporting risks;
- Investor relations risks;
- IT-related risks;
- HR related risks;
- Sales and trading risks, such as customer, brand, reputation, and supply chain risks;
- Public relations and communications risks; and
- ESG (Environment, Social and Governance) related risks.

The management's approach in managing these risks is to reduce the likelihood and impact of such risks, through the implementation of appropriate processes and internal control procedures that protect the Company from fraud, negligence, legal and other potential regulatory liabilities, including segregation of duties and dual authorisations. Moreover, the management identifies the major plausible risks inherent in the decision-making process, attempts to mitigate and manage those risks, and then continuously monitors the acceptable risk exposures.

External risks arising from events outside the Company and are beyond our influence and control include, but are not limited to:

- Natural disaster and pandemics risks;
- Political and government-related risks;
- Industry and market-related risks; and
- Macroeconomic risks such as foreign currency, inflation, economical shifts.

The Company implements different risk management techniques, such as risk avoidance, risk minimisation, risk mitigation, and risk transfer, and places different internal controls to address these risks.

The Group has insured its major assets such as all modules and support facilities of the CHPP, the Power Plant and its relevant assets, Water Supply System, and other support infrastructure assets and properties at the mine site with a panel of 15 international reinsurers. Mining fleets, used in our operations, heavy haul trucks, and light vehicles are sufficiently covered by local and international insurance policies, ensuring the uninterrupted continuation of the Group's operations. Health and personal accident insurance coverage are provided, ensuring the health and safety of all employees. All the local and international policies are made that our risks are adequately covered to the fullest extent possible. The international insurers arrange an annual risk review of insured properties and assets and based on the recommendations; the Group performs ongoing improvements.

The COVID-19 pandemic continued to have a substantial impact on the Company's operations. Although in February 2022, the GoM downgraded the color-coded alert level to "yellow", under which all types of public activities were permitted, an enhanced readiness regime continued to apply at major border checkpoints including Gashuunsukhait, to prevent spread of the COVID-19 and disruption to export and imports. The Company's Operations division has updated the COVID-19 related risk assessments, identified the internal control measures, and made required updates to the Company's operations procedures and instructions. COVID-19 prevention and emergency response teams that were established in 2020 worked throughout the reporting period implementing the COVID-19 Emergency Response Plan. Further, the coal transportation and export procedures for the pandemic situation was implemented under the guidance provided by the State and local government authorities.

The internal control system of the Company is based on the "Three Lines of Defense" model.

As the first "line of defense", the Company implements various internal controls built into day-to-day operations.

The functional departments' reviews and controls make the second "line of defense". In addition to the continuous controls, the Compliance unit of the UHG branch conducts compliance reviews annually to identify compliance risks that may potentially impact the business of the Group in various aspects. In 2022, compliances reviews were conducted using 72 checklists consisting of 2,300 control questions covering Mongolian laws, regulations, technical standards, and rules pertinent to the main operational areas of the Company, including the subcontractors' operations. The compliance rate was assessed as good and having a low level of risk.

As the third "line of defense", the Internal Audit Department performs an independent review of the adequacy and effectiveness of the risk management and internal control systems of the Company. During the year 2022, the Internal Audit Department reviewed the effectiveness of the risk management and internal control systems of the Sales and Marketing Department covering coal market research, customer relationship management, signing contracts with agents, and end customers, and arranging the logistics and transportation of coal products processes in detail. The review was made using the "Enterprise Risk Management-Integrated Framework" and the "Internal Controls Integrated Framework", both developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The audit review concluded that the key risks in the sales and marketing operations were being managed effectively amidst the continuing COVID-19 pandemic.

Further, the Internal Audit Department conducted several audit reviews, including (i) a review of connected transactions for the year 2022; (ii) IT governance and general controls; (iii) coal hauling fleet management; (iv) safety of employees' transportation; (v) use of and internal controls over nuclear sources; (vi) asset maintenance management at CHPP and UHG power plant; and (vii) thermal coal loading at UHG product stockpile; and respective recommendations for improvement were made. Reports of all audit reviews and recommendations were submitted to the Audit Committee and the executive management on a quarterly basis and the closing of the identified non-compliances was tracked and reported to the management and the Audit Committee.

The Company had three external and third-party audits during the reporting period by regulatory bodies such as the Emergency Management Agency of Umnugobi aimag, the Umnugobi governor's office, and the Mineral Resources and Petroleum Authority of Mongolia. The audits covered areas such as disaster and emergency preparedness, fire protection, sub-contractors' operations, and open-pit mining. The Company's compliance risk exposure level within these audited areas was assessed as low. The Company implemented follow-up actions over the non-compliances identified by the external audits and reported back to the regulatory bodies concerned.

The management has confirmed to the Board and the Audit Committee the effectiveness of the risk management and internal control systems for the year ended 31 December 2022.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2022. The review was undertaken (i) based on the ongoing communications and discussions with the management about the Company's principal risks and the management's responses to the risks including the control mechanisms; and (ii) through the internal and external audits' reviews. The Board has considered that risk management and internal control systems within the Group were effective and adequate. The annual review also covered the financial reporting, internal audit functions, and those relating to the Group's ESG performance and reporting, their resources, staff qualifications, experiences, training programs, and budget of these functions and the Board considered them adequate. During the year under review, there was no material weakness in the Group's risk management and internal controls and the Company considers its risk management and internal control systems effective and adequate.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control, fraud, or other matters of the Company. The Company's whistleblower policy sets out the procedures for employees and other stakeholders to raise concerns, in confidence and anonymity, with the Audit Committee, executive management, or the respective direct management about possible improprieties.

The Procedures and Internal Controls for Handling and Dissemination of Inside Information

The general principle for the handling of inside information is to limit access to confidential information to a minimum number of employees on a "need to know" basis, prohibit employees from disclosing any confidential information that the Company considers private and is not generally available outside the Company to third parties or other employees who do not have a valid business reason for receiving such information, prohibit employees from using the information for personal gain; and to ensure that the Directors and relevant employees refrain at all times from dealing in any securities of the Company when they are in possession of unpublished inside information. The Company conducts its affairs in strict compliance with the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited. With respect to procedures and internal controls for the handling and dissemination of inside information, the Company has:

- approved the "Written Guideline for Securities Transactions by Relevant Employees" for securities transactions by employees;
- adopted the "Model Code" for securities transactions by Directors; and
- approved the Relevant employees list and updates it annually.

All of the above policies require that the Directors and the relevant employees not to deal in the securities of the Group when they are in possession of inside information and must ensure that the strictest security of the information is observed within the Company as well as by its advisers.

Further, the Company has:

- implemented "Disclosure Policy" that guides the Directors, officers, senior management and relevant employees of the Company in handling confidential and inside information and ensures material information is promptly identified, assessed, and escalated to the Board or its delegate for a decision on disclosure and preservation of confidentiality of the information;
- established procedures for responding to external inquiries about the Company's affairs. Senior managers of the Company are identified and authorised to act as the Company's spokespersons and respond to inquiries in allocated areas of issues; and
- implemented "Communication Strategy Policy" that (i) ensures the Company's commitment to comply with the Listing Rules; (ii) ensures disclosure of timely and accurate information equally to all shareholders and market participants; (iii) identifies channels for disseminating information to stakeholders in a fair, timely and cost-efficient manner.

There are also several internal policies and procedures that further regulate and clarify processes of and controls over handling of inside information. These include:

- Corporate internal labor rules;
- Procedures for employment contract closure and off-boarding;
- IT policy and information security procedures;
- Confidentiality procedure;
- Standard employment agreement; and
- Standard non-disclosure agreement.

The Internal Audit Department reviewed current policies, procedures and practices for the handling and dissemination of inside information within the Group and the Board concluded that the Group's policies and procedures extensively cover matters related to inside information and are adequate and effective that meet the requirements specified in Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**") and the Listing Rules.

The Internal Audit Department conducts periodic reviews of policies, procedures, and the implementation practices, including those for the handling of inside information. In 2017, the department carried out a comprehensive review of the policies, procedures, and practices for the handling and dissemination of inside information within the Group. Also in 2019, a review of the effectiveness and implementation of the policies and procedures which included among others, policies and procedures for the handling and dissemination of inside information was conducted. Both review reports were submitted to and considered by the Audit Committee of the Board.

In addition, the Internal Audit Department annually reviews the (i) updates made to the policies and procedures related to the handling of inside information, if any; (ii) disclosable events that occurred during the year and the announcements made; (iii) black-out period notices sent to the directors and relevant employees; (iv) directors' and employees' written confirmations about their compliance with the policies and procedures on inside information; and (v) updated list of relevant employees, signed confidentiality agreements, working documents and communications on a sample basis. Any non-conformances, if identified, are reported to the Audit Committee.

Whistleblower Policy and Anti-Corruption and Anti-Bribery Policy

The Company has in place the Whistleblower Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Company.

The Company has also in place the Anti-Corruption and Anti-Bribery Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organises anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

The Directors consider that there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, which is set out in note 2(b) to the consolidated financial statements. The Directors are in the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 98 to 101.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2022 is set out below:

Service Category	Fees Paid/Payable
Audit Services	USD639,000
Non-audit Services including the fees for tax advisory services	USD7,338
	USD646,338

COMPANY SECRETARY

Ms. Cheung Yuet Fan has been appointed by the Board as the Company's Company Secretary. Ms. Cheung is a director of Tricor, a global professional services provider specialising in integrated business, corporate and investor services. All Directors have access to the advice and services of the Company Secretary on corporate governance and board practices and matters. Dr. Battsengel Gotov, executive Director and Chief Executive Officer and Ms. Uurtsaikh Dorjgotov, Executive Vice President and Chief Legal Counsel of the Company are the primary contact persons at the Company who would work and communicate with Ms. Cheung on the Company's corporate governance and secretarial and administrative matters.

During the year ended 31 December 2022, Ms. Cheung Yuet Fan has complied with the professional training requirement of taking no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles, any one or more members of the Company holding on the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business or resolution specified in such requisition. If within 21 days of such deposit the Board does not proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

Pursuant to Article 85 of the Articles, any member duly qualified to attend and vote at a general meeting who wish to propose a person other than a retiring director at the meeting for election as Director of the Company may lodge a notice signed by the member (other than the person to be proposed) of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected at the Company's head office at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia or at the Registration Office at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, provided that the minimum length of the period, during which such notice(s) are given, shall be at least 7 days, and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Shareholders who wish to put forward other proposals at general meetings may follow the procedures set out in the previous paragraph to request the Company to convene an extraordinary general meeting for business specified in the written requisition.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia
(For the attention of the Board of Directors/Chief Financial Officer)

Email: contact@mmc.mn

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address apart from other specified address, if any, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. With the objective of ensuring that the shareholders and potential investors are provided with timely access to information about the Company, the Company has established several channels to communicate and disseminate information with the shareholders and solicit and understand the views of Shareholders. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. At the AGM, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries. The Company will from time to time conduct briefings to its institutional investors, brokers and analysts. Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website.

The Company's Shareholders' Communication Policy is regularly reviewed to ensure its effectiveness.

The Company reviewed the implementation and effectiveness of the Shareholders' Communication Policy and considered the policy to be effective for the year ended 31 December 2022 after reviewing the shareholder and investor communication activities conducted during the year.

The CG Code provision F.2.2 stipulates that the chairman of the board should attend the AGM. Mr. Odjargal Jambaljamts, the chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2022 AGM of the Company. Mr. Odjargal Jambaljamts joined the 2022 AGM via webcast.

During the year under review, the Company has amended its Memorandum and Articles of Association. Details of the amendments are set out in the circular of the Company dated 27 April 2022. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the Company's website and the Stock Exchange's website.

POLICIES RELATING TO SHAREHOLDERS

Dividend Policy Summary

The Company has adopted a dividend policy (the "**Dividend Policy**") on payment of dividends pursuant to code provision F.1.1, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to the shareholders of the Company. The Company do not have any pre-determined dividend payout ratio. According to the Dividend Policy, the Board has the discretion to declare and distribute dividends to the shareholders subject to the Articles and all applicable laws and regulations and taking into account the relevant factors of the Company and its subsidiaries, including but not limited to financial results, cash flow situation, business conditions and strategies, interests of shareholders and any other factors that the Board may consider relevant. The Board may propose and/or declare interim, final or special dividends and any distribution of net profits that the Board may deem appropriate, and while doing so, the Board should ensure that the Company maintains adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. Any final dividend for a financial year will be subject to the shareholders' approval.

IX. DIRECTORS' REPORT

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its headquarters and principal place of business in Mongolia is located at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia, and its principal place of business in Hong Kong is located at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining, processing, transportation and sale of coking coal products. The principal activities and other particulars of the subsidiaries and associates are set out in note 18 and note 19 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the consolidated financial statements.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial KPIs is provided in the Management Discussion and Analysis section on pages 13 to 39 and Financial Summary section on pages 172 to 173 of this annual report.

The Group generated a revenue of approximately USD546.2 million during the year ended 31 December 2022, compared to USD184.1 million of revenue generated during the year ended 31 December 2021.

The Group's adjusted EBITDA for the year ended 31 December 2022 was approximately USD133.8 million, compared to the adjusted EBITDA of approximately USD38.1 million recorded for the year ended 31 December 2021.

The profit attributable to the equity shareholders of the Company for the year ended 31 December 2022 was USD59.2 million, compared to USD55.2 million of net loss attributable to the equity shareholders of the Company recorded for the year ended 31 December 2021.

The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD5.68 cents for the year ended 31 December 2022, compared to the basic and diluted loss per share of USD5.35 cents for the year ended 31 December 2021.

Environmental Policies and Performance

We are committed to complying with Mongolian environmental laws, regulations and applicable international standards as part of our effort to minimise the adverse impact of our operations on the environment. Our integrated HSE Management System ("**MS**") helps to achieve the targets set out in our HSE policy. These systems and processes provide our employees and contractors the necessary directions to practice safe work behaviors and make them accountable for the implementation of the HSE MS. Our environmental team continually upgrades the HSE MS and its accompanying elements and procedures and ensures that our activities in relevant fields comply with national legislations and international standards. The HSE MS has been developed to align with requirements under the international management system standards ISO 14001:2015 (Environmental management system standard) and ISO 45001:2018 (Occupational health and safety management system standard) which we are in the process of adopting.

We are required to comply with applicable national legislations including the Law on Environmental Protection (1995), Law on Environmental Impact Assessment (2012), Law on Natural Resources Use Fee (2012), Law on Water and Water Pollution Fee (2012), Law on Air (2012) and Law on Air Pollution Fee (2010), Law on Land (2002), Law on Land Fee (1997), Law on Soil Protection and Desertification Prevention (2012) and Law on Toxic and Hazardous Chemicals (2006). In line with these legislations and pursuant to the Law on Environmental Protection and Law on Environmental Impact Assessment, we submit an environmental management plan followed by an implementation report to the Ministry of Environment and Tourism on an annual basis. We get comprehensive inspections on environmental and occupational health activities by local, provincial and state inspection agencies on a regular basis and our compliance rate has been assessed to be satisfactory since the start of our mining operations. The details on our environmental management activities, compliance with relevant legislations and environmental impact mitigation measures can be found in the subsection headed "Environment" set out in the Environmental, Social and Governance Report section on pages 47 to 58 of this annual report.

Compliance with relevant Laws and Regulations

Discussions on compliance with relevant laws and regulations which have a significant impact on the Group are set out in the subsection headed "OPERATING ENVIRONMENT" under the Management Discussion and Analysis section on pages 15 to 16 of this annual report.

The Group has complied with all the relevant laws and regulations that have a significant impact on their businesses.

Key Relationships with Stakeholders

In relation to the Company's key relationships with its employees, customers and suppliers, discussions on the Company's policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibility are provided in Management Discussion and Analysis section on page 35 and the Environmental, Social and Governance Report section on pages 40 to 67 of this annual report.

Risk Management, Key Risks and Uncertainties

A description of possible risks and uncertainties that the Group may be facing is provided in the Management Discussion and Analysis section on pages 33 to 34 of this annual report.

The Group's management is responsible for establishing and maintaining an effective risk management system. The management team aims at efficient and effective operations, reliable financial reporting and compliance with regulations. The Group's operations, financial condition and prospects may be affected by a number of risks and uncertainties. Key risks and uncertainties relating to our business and industry are categorised into (i) routine operational and technical risks; (ii) corporate risks; and (iii) external risks.

The Risk Management Committee comprising of the executive management report directly to the Audit Committee of the Board. The committee oversees the Group's overall risk management framework and assesses the effectiveness of risk controls and its mitigation tools.

Operational risks are risks arising within the organisation, that are controllable and ought to be minimised with its consequences mitigated. Operational risks include, but not limited to, risks related to mining, processing, transportation activities; technical compliance risks; health, safety and environmental risks; project related risks; and procurement and contract management risks. The objective of our risk management is to avoid or minimise occurrence through a compliance based approach and active prevention by monitoring operational processes and guiding people's behaviors and decisions toward desired norms. This is implemented through the establishment of standard operating procedures and internal controls, and extensive training of personnel.

Corporate risks that arise within the organisation mainly include legal compliance risks; financial compliance risks; financial risks such as liquidity, credit risks, financial planning and reporting risks; sales and trading related risks, such as customer, brand, reputation and supply chain risk; and public relations and communication risks. Our risk management's objective is to reduce the likelihood and impact of such risks, through implementation of appropriate procedures and internal control processes that protect the Company from fraud, negligence, legal and other potential regulatory liabilities. Moreover, the management shall identify the major plausible risks inherent in the decision making process, and will endeavor to mitigate and manage those risks, with the subsequent continuous monitoring of the accepted risk exposures.

External risks arising from events outside the Company and are beyond our influence and control, include, but not limited to, industry related risks; and macroeconomic risks, such as foreign currency exposure risks, inflation, economical shifts; political risks; natural disaster risks and others. These types of risks can be the most devastating should they occur and ought to be projected through risk assessment, stress testing and scenario planning tools.

Corporate and external risks require distinct risk management processes that encourage the management to identify, openly discuss and find cost effective ways to reduce the likelihood of occurrence of such risk events and to mitigate the consequences should they occur.

Prospects

A description of the likely future development in the Company's business is provided in the subsection headed "OUTLOOK AND BUSINESS STRATEGIES IN 2023" under the Management Discussion and Analysis section on page 27 of this annual report.

Subsequent Events

A description of particulars of important events affecting the Company that have occurred since the end of the financial period can be found in the paragraph headed "Other and Subsequent Events" under the Management Discussion and Analysis section on page 35 of this annual report. Save as disclosed above, there have been no post balance sheet events subsequent to 31 December 2022 and up to the date of this annual report which require adjustment to or disclosure in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 20.

Table 20. Sales and purchases attributable to the major customers and suppliers:

	Percentage of the Group's total Revenue from sales of goods and rendering of services	**Purchases**
The largest customer	14.9%	
Five largest customers in aggregate	48.1%	
The largest supplier		26.9%
Five largest suppliers in aggregate		53.4%

To the best knowledge of the Directors, none of the Directors nor any of their close associates nor any shareholder who holds more than 5% of the Shares has any interests in the customers or suppliers disclosed above.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2022 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 102 to 171.

TRANSFER TO RESERVES

Profit attributable to equity shareholders, before dividend, of USD59.2 million (2021: loss of USD55.2 million) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 105.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2022. The Board does not recommend the payment of a dividend for the year ended 31 December 2022 (dividend for the year ended 31 December 2021: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2022 amounted to USD8,113,923 (2021: USD8,539,593).

PROPERTY, PLANT AND EQUIPMENT

Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

There was no outstanding principal amount of borrowing as at 31 December 2022 (2021: nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 172 to 173.

DIRECTORS

The Directors during the financial year and up to the date of this annual report are:

Executive Directors

Mr. Odjargal Jambaljamts *(Chairman of the Board)*
Dr. Battsengel Gotov *(Chief Executive Officer)*

Non-executive Directors

Mr. Od Jambaljamts
Ms. Enkhtuvshin Gombo
Mr. Myagmarjav Ganbyamba

Independent Non-executive Directors

Dr. Khashchuluun Chuluundorj
Mr. Unenbat Jigjid
Mr. Chan Tze Ching, Ignatius

In accordance with the Articles, Mr. Od Jambaljamts and Ms. Enkhtuvshin Gombo, being non-executive Directors, and Mr. Unenbat Jigjid, being an independent non-executive Director will retire from directorship by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 10.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent in accordance with the guidelines set out under the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years. Each of the non-executive Directors and independent non-executive Directors is engaged on a letter of appointment with the Company for a term of three years.

None of the Directors proposed for re-election at the forthcoming AGM has entered into any service agreement with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in this annual report, as at 31 December 2022 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the Company's Articles, every Director or other officer of the Company acting in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to the Director or other officer. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, or any other person engaged in the full-time employment of the Company, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

NON-COMPETITION UNDERTAKING

Pursuant to a deed of non-competition dated 20 September 2010, and as amended on 3 April 2012, 4 July 2012 and 31 March 2021 (the "**Deed of Non-competition**") executed by Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, MCS Mining Group LLC and MCS Mongolia LLC (collectively the "**Undertakers**") in favour of the Company (for itself and on behalf of the Group), the Undertakers undertake, among other things, that at any time when the shares of the Company are listed on the SEHK and for so long as the Undertakers and its associates together hold, whether individually or taken together, 30% or more of the issued share capital or are otherwise regarded as a controlling shareholder of the Company under the Listing Rules, the Undertakers will not, and will procure that its associates (excluding the Group) will not, directly or indirectly, either on its own account or with each other or in conjunction with or on behalf of any person, firm or company, except through a member of the Group, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business (except for their aggregate 10% interest in Quincunx (BVI) Ltd) which is or may be in competition with the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) of any member of the Group from time to time. In the event that a business opportunity in relation to the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) is made available to the Undertakers and/or any of their associates, the Undertakers shall promptly notify the Company in writing and refer such business opportunity for the Company's consideration and the Undertakers shall not and procure his/their associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity has been rejected by the Company and the principal terms on which the Undertakers or his/their associates invest or participate are no more favourable than those made available to the Company.

Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2022, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition. Each of the Undertakers has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2022.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2022, the interest and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Table 21. Interests in Shares:

	Ordinary shares of USD0.10 each		
Name of Director	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
Mr. Odjargal Jambaljamts (Note 1)	Beneficial Owner	46,164,754 (L)	4.43%
	Interest of controlled corporation	323,492,188 (L)	31.03%
Mr. Od Jambaljamts (Note 2)	Beneficial Owner	26,576,226 (L)	2.55%
	Interest of controlled corporation	323,492,188 (L)	31.03%
Mr. Myagmarjav Ganbyamba	Beneficial Owner	12,000 (L)	0.0012%
Mr. Chan Tze Ching, Ignatius	Beneficial Owner	249,000 (L)	0.02%

(L) – Long position

Notes:

(1) Mr. Odjargal Jambaljamts is directly interested in approximately 57.28% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Mining Group LLC which in turn holds 323,492,188 shares in the Company.

(2) Mr. Od Jambaljamts is directly interested in approximately 30.19% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Mining Group LLC which in turn holds 323,492,188 shares in the Company.

Save as disclosed above, as at 31 December 2022, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date on 13 October 2010 (the "**Adoption Date**"). The Share Option Scheme expired on 12 October 2020. No further Share Options could be granted under the Share Option Scheme, however, the provisions of the Share Option Scheme remain in force to the extent necessary to give effect to any Share Options granted or exercised thereunder or otherwise as may be required.

The New Share Option Scheme was approved by the shareholders of the Company in the AGM held on 16 June 2021. The purpose of the New Share Option Scheme is to provide incentive and/or reward to eligible persons under the New Share Option Scheme for their contribution to, and continuing efforts to promote the interests of the Group. The New Share Option Scheme shall be valid for a period of 10 years from the date of adoption. The New Share Option Scheme which was adopted on 16 June 2021 will expire on 15 June 2031. As at 31 December 2022, the remaining life of the New Share Option Scheme was approximately 8 years and 6 months.

SHARE OPTION SCHEME

Under the Share Option Scheme, the Company granted four batches of Share Options to its Director and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66 (adjusted to HKD4.53 after rights issue) and 3,000,000 and 32,200,000 Share Options were accepted by a Director and employees respectively. The Share Options granted on 12 October 2011 have lapsed at the end of 8 years after the date of grant.

On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a Director and employees respectively at the exercise price of HKD3.92 (adjusted to HKD2.67 after rights issue). The Share Options granted on 28 November 2012 have lapsed at the end of 8 years after the date of grant.

As a result of the rights issue completed on 29 December 2014, adjustments were made to the exercise prices and the number of shares falling to be issued upon the exercise of the Share Options in accordance with the terms of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the adjustment of share options under Rule 17.03(13) of the Listing Rules.

A total of 4,810,000 Options were outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise prices and the number of shares falling to be issued under the outstanding Share Options were adjusted pursuant to Clause 11 of the Share Option Scheme (the "**Option Adjustments**") with effect from 1 January 2015, and such adjustments have been reviewed and confirmed by the independent financial adviser of the Company, Somerley Capital Limited. Please refer to the 2014 Annual Report of the Company for details.

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 Share Options granted on 10 June 2015 have lapsed at the end of 5 years after the date of grant.

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. As of 31 December 2022, all the outstanding 10,900,000 Share Options granted under the Share Option Scheme on 8 May 2017 have been exercised. The weighted average closing price immediately before the dates on which all such Share Options were exercised by a Director and employees for the relevant period was HKD3.100 and HKD3.206 respectively.

As a result of the share consolidation which became effective on 26 August 2019, adjustments were made to the exercise price and the number of shares falling to be issued upon the exercise of the Share Options in accordance with the terms of the Share Option Scheme, the provisions of Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005. The exercise price of HKD4.53 for the Share Options granted on 12 October 2011 was adjusted to HKD45.3; the exercise price of HKD2.67 for the Share Options granted on 28 November 2012 was adjusted to HKD26.7; the exercise price of HKD0.445 for the Share Options granted on 10 June 2015 was adjusted to HKD4.45; and the exercise price of HKD0.2392 for the Share Options granted on 8 May 2017 was adjusted to HKD2.392. Please refer to the announcement of the Company dated 22 August 2019 for details.

As of 31 December 2022, there were no outstanding Share Options under the Share Option Scheme.

Details of the movements in the number of Share Options granted under the Share Option Scheme during the year ended 31 December 2022 were as follows:

Table 22. Director:

				Number of Share Options					
Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2022	Granted during the year ended 31 December 2022	Lapsed during the year ended 31 December 2022	Cancelled during the year ended 31 December 2022	Exercised during the year ended 31 December 2022	Balance as at 31 December 2022
Dr. Battsengel Gotov	8 May 2017	(Note)	HKD2.392	4,000,000	–	–	–	4,000,000	–
Total				**4,000,000**	**–**	**–**	**–**	**4,000,000**	**–**

Table 23. Employees of the Group other than Directors:

			Number of Share Options					
Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2022	Granted during the year ended 31 December 2022	Lapsed during the year ended 31 December 2022	Cancelled during the year ended 31 December 2022	Exercised during the year ended 31 December 2022	Balance as at 31 December 2022
8 May 2017	(Note)	HKD2.392	6,900,000	–	–	–	6,900,000	–
Total			**6,900,000**	**–**	**–**	**–**	**6,900,000**	**–**

Note:

The Share Options were subject to vesting scale in five tranches of 20% each. The exercise periods were as follows:

(1) first 20% of the Share Options granted – 1 July 2017 to 8 May 2022
(2) second 20% of the Share Options granted – 8 May 2018 to 8 May 2022
(3) third 20% of the Share Options granted – 8 May 2019 to 8 May 2022
(4) fourth 20% of the Share Options granted – 8 May 2020 to 8 May 2022
(5) fifth 20% of the Share Options granted – 8 May 2021 to 8 May 2022

Treatment of Lapse of the Share Options

Pursuant to the Share Option Scheme, in the event that an employee ceases to be an employee of the Company before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine.

NEW SHARE OPTION SCHEME

Eligibility

Under the New Share Option Scheme, the Directors may invite any person belonging to any of the following classes of participants to take up options to subscribe for Shares:

a. any employee or proposed employee (whether full time or part-time and including any executive Director), business partners, consultants or advisers of or to the Company or any of its subsidiaries;

b. any non-executive Directors (including independent non-executive Directors) of the Company or any of its subsidiaries;

c. any supplier of goods or services to any member of the Group;

d. any customer of the Group;

e. any person or entity that provides research, development or other technological support to the Group; and

f. any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.

And for the purposes of the New Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants.

The basis of eligibility of any of the classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Group.

Grant of Options

Unless terminated by a resolution adopted at general meeting, the Directors shall be entitled at any time within a period of 10 years commencing on the adoption date of the New Share Option Scheme to make an offer to such participant as the Directors may select to subscribe for such number of Shares at the subscription price as the Directors shall determine.

An option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period as the Directors may determine which shall not exceed 10 years from the date of grant ("**Offer Date**") subject to the provisions of early termination thereof.

The option period of an option within which the Shares must be taken up may not end later than 10 years from the Offer Date, while the Directors may fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the option can be exercised upon the grant of an option to participant. HKD1.00 is payable on acceptance of the option within 28 days from the Offer Date.

Subscription Price

The subscription price in respect of any option must be at least the highest of:

a. the closing price of the Shares as stated in the SEHK's daily quotations sheet on the Offer Date;

b. the average closing price of the Shares as stated in the SEHK's daily quotations sheet for the five business days immediately preceding the Offer Date; and

c. the nominal value of the Shares.

Exercise of Options

An option shall be exercisable in whole or in part by giving notice in writing to the Company accompanied by a payment for the full amount of the subscription price for the Shares. An option shall be personal to the grantee and shall not be transferable or assignable.

Maximum Number of Shares Available for Subscription

The total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue as at the adoption date of the New Share Option Scheme, i.e. up to 102,918,678 Shares. The total number of Shares available for issue under the New Share Option Scheme is 102,918,678 Shares, representing 9.87% of the issued Shares of the Company as at the date of this annual report.

The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital from time to time. No option may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded.

The number of share options available for grant under the New Share Option Scheme at the beginning and the end of the financial year ended 2022 was 102,918,678, respectively. No share options have been granted under the New Share Option Scheme during the year ended 31 December 2022. Accordingly, the total number of shares available for issue under the New Share Option Scheme was 102,918,678 as at 31 December 2022 which represent approximately 9.87% of the total issued shares of the Company as at the date of this annual report. On 3 April 2023, the Company granted 33,250,000 share option to a Director and certain employees under the New Share Option Scheme which represent approximately 3.19% of the total issued shares of the Company as at the date of this annual report.

Maximum Entitlement of Each Participant

Unless approved by the Shareholders of the Company, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the New Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue. Each grant of options to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, for the year ended 31 December 2022, the Company has not entered into any equity-linked agreement.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2022 had the Company or any of its subsidiaries or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, so far as was known to the Directors and chief executive of the Company and based on the information publicly available, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 24. Interests in the Shares and underlying Shares:

	Ordinary shares of USD0.10 each		
Name of substantial shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
MCS Mining Group LLC (Note 1)	Beneficial owner	323,492,188 (L)	31.03%
MCS Mongolia LLC (Note 1)	Interest of controlled corporation	323,492,188 (L)	31.03%
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	369,656,942 (L)	35.46%
Ms. Munkhsuren Surenkhuu (Note 1)	Interest of spouse	350,068,414 (L)	33.58%
Kerry Mining (UHG) Limited ("**KMUHG**") (Note 2)	Beneficial owner	75,000,000 (L)	7.19%
Kerry Mining (Mongolia) Limited ("**KMM**") (Note 2)	Interest of controlled corporation	75,000,000 (L)	7.19%
Fexos Limited ("**Fexos**") (Note 2)	Interest of controlled corporation	75,000,000 (L)	7.19%
Kerry Holdings Limited ("**KHL**") (Note 2)	Interest of controlled corporation	75,000,000 (L)	7.19%
Kerry Group Limited ("**KGL**") (Note 2)	Interest of controlled corporation	82,821,187 (L)	7.94%

(L) – Long position

Notes:

(1) MCS Mining Group LLC is wholly-owned by MCS Mongolia LLC. MCS Mongolia LLC is owned as to approximately 57.28% by Mr. Odjargal Jambaljamts, and approximately 30.19% by Mr. Od Jambaljamts. MCS Mining Group LLC holds 323,492,188 shares in the Company. Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts directly hold 46,164,754 shares and 26,576,226 shares, respectively, in the Company. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.

(2) (a) KMUHG is a direct wholly-owned subsidiary of KMM which in turn is approximately 59.04% owned by Fexos. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL were deemed to be interested in the 75,000,000 shares of the Company that KMUHG was interested.

(b) Alpha Model Limited ("**AML**") holds 7,821,187 shares in the Company and AML is a direct wholly-owned subsidiary of KGL. Accordingly, KGL was deemed to be interested in the 7,821,187 shares of the Company that AML was interested.

Save as disclosed above, as at 31 December 2022, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2022, the non-exempt CCTs of the Group were USD13.8 million. The details of non-exempt CCTs for the year ended 31 December 2022 are set out on pages 36 to 38 of this annual report.

CONNECTED TRANSACTIONS

For the year ended 31 December 2022, the non-exempt connected transaction of the Group was USD6.1 million. The details of the non-exempt connected transaction for the year ended 31 December 2022 are set out on page 39 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2022, the Group had no pledge of assets.

EMOLUMENT POLICY

The emolument policy of the Group is set to (i) recruit, retain and motivate qualified and experienced staff, including directors and senior management; (ii) apply a responsible and sustainable remuneration practice that is determined by reference to the performance of the individual, the operational and financial results of the Group, and is in line with the market practice and conditions; (iii) ensure that no individual participates in deciding his/her own remuneration; and (iv) ensure that the base salary levels and annual incentives are competitive in the market and comparable to the similar jobs in the peer companies.

The emolument of executive directors and senior management of the Group is determined by the remuneration committee of the Board, the emolument of non-executive directors and independent non-executive directors is recommended by the remuneration committee of the Board and determined by the Board and the emolument of staff is determined by the group management.

In addition to a base salary, the emolument of staff and directors and senior management is structured to include bonuses (such as a discretionary bonus) and benefits.

The Company has a Share Option Scheme and a New Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company.

The required competencies, skills and performance of the individual concerned and the specific role and responsibilities of the relevant position are considered in determining the emolument of an individual director or member of senior management.

None of the Directors waived or agreed to waive any emoluments during the year ended 31 December 2022.

RETIREMENT SCHEME

The Group duly contributes to retirement benefit schemes pursuant to the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 8.5% of the eligible employees' salaries, which is applicable for both legal entities and insureds, effective from 1 January 2021. Such rate was set by an amendment made to the Law on Exemption of Social Insurance Contributions and Support from the Unemployment Fund on 13 November 2020 and an amendment made to the Law on Social Insurance on 11 June 2021.

Based on Collective (Tariff) Agreement of the Geology, Mining and Heavy Industry Sector for 2021 to 2022, entered into force on 1 July 2021, each employee who retires from the mining industry shall receive payment equal to double of the minimum wage of the industry multiplied by the number of years worked in the mining industry.

The Group has no other retirement schemes beyond the retirement contributions described above. Particulars of the retirement scheme are set out in note 6 to the consolidated financial statements.

Pursuant to the Social Security Legislation of Mongolia, retirement scheme contributions are mandatory to be paid to the State Pension Fund and such fund is managed by respective public authorities. Thus, employers have no access nor right to use any contributions that are paid to the State Pension Fund, irrespective of employee's change of employers. As such, during the year ended 31 December 2022, no forfeited contributions had been used by the Company to reduce the existing level of contributions.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

There were no charge of shares of the Company by the controlling shareholder during the year ended 31 December 2022.

ISSUE OF EQUITY SECURITIES

Save for the issue of shares as a result of the exercise of share options, no additional shares were issued during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 32 to the consolidated financial statements. In respect of those related party transactions that constitute CCTs under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules. Save as disclosed in this annual report on pages 36 to 39, the related party transactions set out in note 32(a) of the consolidated financial statements, which constitute connected transactions are exempted connected transactions of the Company under Chapter 14A of the Listing Rules and none of them constituted a non-exempt connected transaction of the Company (including CCT) as defined under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the SEHK) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, and must have an expected market capitalisation at the time of listing of not less than HKD50 million.

At the time of listing, the Group applied to the SEHK to request the SEHK to exercise, and the SEHK exercised its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of the Company of 20% or such higher percentage of the issued share capital as would be held by the public in the event that the whole or a part of the over-allotment option is exercised (which discretion may be exercised in respect of issuers with an expected market capitalisation at the time of listing of over HKD10,000 million) on the basis that the SEHK was satisfied that the number of the shares concerned and the extent of their distribution would enable the market to operate properly with the lower percentage, and on the condition that the Company would make appropriate disclosure of the lower prescribed percentage of public float in the prospectus of the Company dated 28 September 2010 and confirm sufficiency of public float in the successive annual reports after listing. At the time of the listing of the Company on 13 October 2010, the market capitalisation exceeded HKD10,000 million.

The over-allotment option was fully exercised on 18 October 2010 in respect of an aggregate of 10,791,400 shares and accordingly the lower public float percentage of the Company accepted by the SEHK is approximately 22.3%. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules.

CHANGES IN DIRECTORS' INFORMATION

Changes of information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2022 Interim Report are set out below:

Mr. Unenbat Jigjid was appointed as a member of the board of International Bank for Economic Cooperation on 15 October 2022.

Mr. Chan Tze Ching, Ignatius has ceased to be a member of the Standing Committee on Judicial Salaries and Conditions of Service on 31 December 2022.

Dr. Battsengel Gotov was appointed as the chief executive officer of Energy Resources Rail LLC on 6 February 2023 and a member of the board of directors of Mongolian Mining Corporation Pte. Ltd. on 11 November 2022.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2022. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 20 June 2022.

Messrs. KPMG will retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of Messrs. KPMG as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Odjargal Jambaljamts
Chairman

Hong Kong, 21 March 2023

X. INDEPENDENT AUDITORS' REPORT

KPMG

Independent Auditor's Report to the Shareholders of Mongolian Mining Corporation

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 102 to 171 which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Assessing impairment of mining related assets	
Refer to notes 2(h), 2(i), 3(a), 14, 15 and 17 to the consolidated financial statements and the accounting policies.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's mining related assets are the most quantitatively significant items in the consolidated statement of financial position and mainly comprise property, plant and equipment, construction in progress, and intangible assets relating to the Group's mining operations located in Mongolia, which are considered by management to represent a single separately identifiable cash generating unit ("**CGU**"). The Group recognised impairment of its mining rights in the amount of USD190 million which reflected downward pressures on the prices of certain coking coal products in 2014 and concluded that no further impairment or reversal of previously recognised impairment was necessary subsequent to 2014. As at 31 December 2022, the carrying amount of net assets of the Group exceeded the Company's market capitalisation. Management considered this indicated that the Group's mining related assets may be impaired and performed an impairment assessment of the mining related assets to determine the recoverable amount.	Our audit procedures to assess impairment of mining related assets included the following: • evaluating the design and implementation of key internal controls over the estimations of the recoverable amounts of mining related assets; • assessing the allocation of assets and liabilities by management to the mining CGU and the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards; • challenging the key assumptions and estimates used in the discounted cash flow forecast as at 31 December 2022, including those relating to future commodity prices, future sales, future operating costs and the discount rates applied, which included involving our internal valuation specialists to assist us in comparing these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and in considering the key assumptions and estimates based on our knowledge of the Group and the industry in which it operates;

Assessing impairment of mining related assets (continued)

Refer to notes 2(h), 2(i), 3(a), 14, 15 and 17 to the consolidated financial statements and the accounting policies.

The Key Audit Matter	How the matter was addressed in our audit
Management determines the recoverable amount of mining related assets based on the value in use of the CGU to which the assets have been allocated by using discounted cash flow techniques. The preparation of a discounted cash flow forecast involves the exercise of significant management judgement in the selection of assumptions, in particular in estimating future commodity prices and the discount rate applied as well as in determining internal assumptions relating to future sales and future operating costs. We identified assessing impairment of mining related assets as a key audit matter because of its significance to the consolidated financial statements and the inherent uncertainty involved in forecasting and discounting future cash flows which involves significant management judgement and could be subject to management bias.	• assessing the reliability of management's forecasting process and whether there is any indication of management bias by comparing the key assumptions and estimates included in the discounted cash flow forecast prepared in the prior year with the current year's performance and those adopted in current year's forecast, and making enquiries of management as to the reasons for any significant variances or changes identified; • performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions and estimates and whether there were any indication of management bias; and • assessing the reasonableness of disclosures in the consolidated financial statements in respect of the impairment of mining related assets with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Man Siu Kei.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2022
(Expressed in United States dollars)

	Note	**2022** USD'000	2021 USD'000
Revenue	4	**546,248**	184,069
Cost of revenue	5	**(451,131)**	(161,490)
Gross profit		**95,117**	22,579
Other costs		**(1,328)**	(3,422)
Other net income		**5,509**	3,382
Selling and distribution costs	6(c)	**(2,434)**	(9,625)
General and administrative expenses		**(24,775)**	(24,242)
Profit/(loss) from operations		**72,089**	(11,328)
Finance income	6(a)	**6,286**	54
Finance costs	6(a)	**(47,081)**	(48,980)
Net finance costs	6(a)	**(40,795)**	(48,926)
Gain from repurchase of Senior Notes due 2024	7	**23,144**	–
Share of profits/(losses) of associates		**286**	(196)
Share of losses of joint ventures		**(16)**	(1)
Profit/(loss) before taxation	6	**54,708**	(60,451)
Income tax	8	**4,183**	5,013
Profit/(loss) for the year		**58,891**	(55,438)
Attributable to:			
Equity shareholders of the Company		**59,177**	(55,238)
Non-controlling interests		**(286)**	(200)
Profit/(loss) for the year		**58,891**	(55,438)
Basic earnings/(loss) per share	9	**5.68 cents**	(5.35) cents
Diluted earnings/(loss) per share	9	**5.68 cents**	(5.35) cents

The notes on pages 107 to 171 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 29(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2022
(Expressed in United States dollars)

	Note	**2022** USD'000	2021 USD'000
Profit/(loss) for the year		**58,891**	(55,438)
Other comprehensive income for the year (after tax and reclassification adjustments)	12		
Item that will not be reclassified to profit or loss:			
Surplus on revaluation of plants, buildings, and machinery and equipment	14,15,26	**–**	62,895
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(21,726)**	184
Other comprehensive income for the year		**(21,726)**	63,079
Total comprehensive income for the year		**37,165**	7,641
Attributable to:			
Equity shareholders of the Company		**38,306**	7,841
Non-controlling interests		**(1,141)**	(200)
Total comprehensive income for the year		**37,165**	7,641

The notes on pages 107 to 171 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022

(Expressed in United States dollars)

	Note	**2022 USD'000**	2021 USD'000
Non-current assets			
Property, plant and equipment, net	14	**919,688**	968,681
Construction in progress	15	**47,387**	46,828
Other right-of-use assets	16	**49**	50
Intangible assets	17	**498,035**	500,086
Interests in associates	19	**7,657**	949
Interest in joint venture		**4**	23
Other non-current assets	20	**59,537**	55,634
Deferred tax assets	26(b)	**28,505**	21,767
Total non-current assets		**1,560,862**	1,594,018
Current assets			
Inventories	21	**102,794**	159,663
Trade and other receivables	22	**92,157**	99,520
Cash and cash equivalents	23	**64,695**	25,937
Total current assets		**259,646**	285,120
Current liabilities			
Trade and other payables	25	**136,369**	175,598
Contract liabilities		**182,246**	141,498
Senior Notes	24	**–**	17,885
Lease liabilities		**56**	72
Current taxation	26(a)	**9,617**	65
Total current liabilities		**328,288**	335,118
Net current liabilities		**(68,642)**	(49,998)
Total assets less current liabilities		**1,492,220**	1,544,020
Non-current liabilities			
Senior Notes	24	**373,756**	434,716
Provisions	28	**16,737**	30,928
Deferred tax liabilities	26(b)	**174,650**	181,798
Total non-current liabilities		**565,143**	647,442
NET ASSETS		**927,077**	896,578
CAPITAL AND RESERVES			
Share capital	29(c)	**104,248**	103,158
Reserves		**768,308**	726,665
Total equity attributable to equity shareholders of the Company		**872,556**	829,823
Perpetual notes	29(e)	**55,476**	66,569
Non-controlling interests		**(955)**	186
Total equity		**927,077**	896,578

Approved and authorised for issue by the board of directors on 21 March 2023.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 107 to 171 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

(Expressed in United States dollars)

	Note	Share capital USD'000 (Note 29(c))	Share premium USD'000 (Note 29(d)(i))	Other reserve USD'000 (Note 29(d)(ii))	Exchange reserve USD'000 (Note 29(d)(iii))	Property revaluation reserve USD'000 (Note 29(d)(iv))	Retained profits USD'000	Total USD'000	Perpetual notes USD'000 (Note 29(e))	Non-controlling interests USD'000	Total equity USD'000
		Attributable to equity shareholders of the Company									
At 1 January 2021		102,918	768,520	36,600	(499,253)	310,683	101,741	821,209	66,569	386	888,164
Loss for the year		–	–	–	–	–	(55,238)	(55,238)	–	(200)	(55,438)
Other comprehensive income	12	–	–	–	184	62,895	–	63,079	–	–	63,079
Total comprehensive income		–	–	–	184	62,895	(55,238)	7,841	–	(200)	7,641
Equity-settled share-based transactions	27	240	806	(273)	–	–	–	773	–	–	773
Reclassification of property revaluation reserve to accumulated losses upon disposals of assets concerned		–	–	–	–	(2,751)	2,751	–	–	–	–
At 31 December 2021		103,158	769,326	36,327	(499,069)	370,827	49,254	829,823	66,569	186	896,578

	Note	Share capital USD'000 (Note 29(c))	Share premium USD'000 (Note 29(d)(i))	Other reserve USD'000 (Note 29(d)(ii))	Exchange reserve USD'000 (Note 29(d)(iii))	Property revaluation reserve USD'000 (Note 29(d)(iv))	Retained profits USD'000	Total USD'000	Perpetual notes USD'000 (Note 29(e))	Non-controlling interests USD'000	Total equity USD'000
		Attributable to equity shareholders of the Company									
At 1 January 2022		**103,158**	**769,326**	**36,327**	**(499,069)**	**370,827**	**49,254**	**829,823**	**66,569**	**186**	**896,578**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**59,177**	**59,177**	**-**	**(286)**	**58,891**
Other comprehensive income	12	**-**	**-**	**-**	**(20,871)**	**-**	**-**	**(20,871)**	**-**	**(855)**	**(21,726)**
Total comprehensive income		**-**	**-**	**-**	**(20,871)**	**-**	**59,177**	**38,306**	**-**	**(1,141)**	**37,165**
Repurchase of perpetual notes	29(e)	**-**	**-**	**-**	**-**	**-**	**1,102**	**1,102**	**(11,093)**	**-**	**(9,991)**
Equity-settled share-based transactions	27	**1,090**	**3,688**	**(1,453)**	**-**	**-**	**-**	**3,325**	**-**	**-**	**3,325**
Reclassification of property revaluation reserve to retained profits upon disposals of assets concerned		**-**	**-**	**-**	**-**	**(511)**	**511**	**-**	**-**	**-**	**-**
At 31 December 2022		**104,248**	**773,014**	**34,874**	**(519,940)**	**370,316**	**110,044**	**872,556**	**55,476**	**(955)**	**927,077**

The notes on pages 107 to 171 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2022
(Expressed in United States dollars)

	Note	2022 USD'000	2021 USD'000
Operating activities			
Profit/(loss) before taxation		**54,708**	(60,451)
Adjustments for:			
Depreciation and amortisation	6(c)	**61,708**	49,704
Share of (profits)/losses of associate and joint venture		**(270)**	197
Gain on disposals of property, plant and equipment	6(c)	**(6)**	(29)
Net finance costs	6(a)	**40,795**	48,926
Gain from repurchase of Senior Notes due 2024	7	**(23,144)**	–
Equity-settled share-based payment expenses	6(b)	**–**	34
Employee benefit accrued		**–**	(321)
Changes in working capital:			
Decrease/(increase) in inventories		**56,869**	(53,395)
Decrease/(increase) in trade and other receivables		**7,363**	(5,165)
Increase in trade and other payables and contract liabilities		**40,353**	148,678
Increase in other non-current assets		**(3,903)**	(3,265)
Decrease in other non-current liabilities		**–**	(39,029)
Cash generated from operations		**234,473**	85,884
Income tax paid	26(a)	**(694)**	(973)
Net cash generated from operating activities		**233,779**	84,911
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(80,379)**	(48,130)
Proceeds from disposals of property, plant and equipment		**6**	37
Payments for acquisition of intangible asset		**(715)**	(2,331)
Acquisition of subsidiary, net of cash acquired		**–**	(5,557)
Payments for acquisition of an associate		**(6,951)**	(785)
Interest received		**123**	3
Net cash used in investing activities		**(87,916)**	(56,763)
Financing activities			
Capital element of lease rentals paid		**(130)**	(141)
Repayment of Senior Notes due 2022	23(b)	**(14,912)**	–
Repurchase of Senior Notes due 2024	23(b)	**(39,671)**	–
Repurchase of perpetual notes	29	**(9,991)**	–
Interest element of lease rentals paid		**(6)**	(5)
Proceeds from shares issued under share option scheme		**3,325**	–
Interest paid		**(42,489)**	(41,518)
Net cash used in financing activities		**(103,874)**	(41,664)
Net increase/(decrease) in cash and cash equivalents		**41,989**	(13,516)
Cash and cash equivalents at beginning of the year		**25,937**	38,904
Effect of foreign exchange rate changes		**(3,231)**	549
Cash and cash equivalents at end of the year	23	**64,695**	25,937

The notes on pages 107 to 171 form part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Mongolian Mining Corporation (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 Company and its subsidiaries (together referred to as the "**Group**") are principally engaged in the mining, processing, transportation and sale of coal.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) 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(c) 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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Group and the Group's interests in two associates 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 (see Note 2(f));
- Buildings and plants as well as machinery and equipment (see Note 2(h)); and
- Derivative financial instruments (see Note 2(g)).

Non-current assets and disposals groups held for sale are stated at the lower of carrying amount and fair value less costs (see Note 2(y)).

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.

(b) Basis of preparation of the financial statements (continued)

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 novel coronavirus ("COVID-19") outbreak has adversely impacted the operating environment and business performance of the Group during the first half of the year ended 31 December 2022. The coal sales volume has been impacted by temporary border crossing limitations and volatility caused by the COVID-19 during the first half of 2022. During the second half of 2022, the border throughput started to improve and reached pre-COVID-19 level towards the end of 2022. The Group had net current liabilities of USD68,642,000 as at 31 December 2022. The Group had put in place contingency measures for cash conservation and efficiency purposes such as temporary adjustment to levels of production and obtained standby facilities from local banks in Mongolia totalling USD38,700,000 as of the reporting date. Based on the cash flow forecast of the Group for the next twelve months ending 31 December 2023 prepared by the management, the directors of the Company (the "**Directors**") expect to maintain adequate financial resources to cover its operating costs and meet its financing commitments, as and when they fall due for the twelve months period subsequent to 31 December 2022.

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.

(c) 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 IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

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

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions, cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an interest in an associate or joint venture (see Note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see Note 2(y)).

(e) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale (see Note 2(y)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture, after applying the ECL model to such other long-term interests where applicable (see Note 2(k)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

In the Company's statement of financial position, investments in associate and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see Note 2(y)).

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(v)(ii)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value through profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement of fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

The following items are stated at their revalued amounts, being their fair values at the date of the revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses:

- buildings and plants (under the Property, plant and equipment and Construction in progress); and
- machinery and equipment.

Revaluations are performed with sufficient regularity to ensure that the carrying amounts of these assets do not differ materially from that which would be determined using fair values at the end of reporting period.

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)):

- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest;
- motor vehicles;
- office equipment; and
- mining properties.

Changes arising on the revaluation are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred.

Construction in progress represents property, plant and equipment under construction and equipment pending installation. Except for those stated at their revalued amount as aforementioned, other construction in progress items are initially recognised at cost less impairment losses (Note 2(k)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (Note 2(x)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

(h) Property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, other than mining properties, over their estimated useful lives using the straight-line method, after taking into account the estimated residual values.

The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
– Buildings and plants	10 – 40 years
– Machinery and equipment	10 years
– Motor vehicles	5 – 10 years
– Office equipment	3 – 10 years
– Right of use assets are depreciated over the unexpired term of lease	

Mining properties, except for stripping activity assets related to capitalised stripping costs incurred during the production phase, are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Stripping activity assets related to stripping costs incurred during the production phase are depreciated using a units-of-production basis over the proven and probable coal reserves of the component to which they relate.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets

Intangible assets (acquired mining rights, software and GS Terminal) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(k)).

Intangible assets (acquired mining rights) are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Amortisation of other intangible assets with finite useful lives is recognised in profit or loss on a straight-line basis over the expected useful lives. The software are amortised over 10 years from the date they are available for use, and GS Terminal is amortised for 3 years from the date it is available for use.

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(h) and 2(k)(ii)).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see Notes 2(f)(i), 2(v)(ii) and 2(k)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, including loans to associates and joint ventures, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);
- contract assets as defined in IFRS 15 (see Note 2(p)); and
- debt securities measured at FVOCI (recycling).

Other financial assets measured at fair value, including units in bond funds, equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(v)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(k) Credit losses and impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets;

– construction in progress;

– intangible assets;

– other non-current assets (excluding other financial assets); and

– investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(k)(i) and (ii)).

(l) Inventories

Coal inventories are physically measured or estimated and valued at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated future sales price of the product the Group expects to realise when such item is sold or processed, less estimated costs to complete and bring the product to sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(p)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 2(t).

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(p) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(m)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(v)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(v)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i).

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value is measured at grant date using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until the option is exercised (when it is transferred to the share capital and share premium account).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interests in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

(s) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(u) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in Mongolia. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure, which is included in the mining properties. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. 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 and the corresponding asset are recognised at the appropriate discount rate.

(v) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

The Group is the principal for its revenue transactions and recognises revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

(i) Revenue from contracts with customers

Sales of the Group's products are recognised as follows:

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

(a) Sale of goods

Revenue associated with the sale of coal is recognised when the control over the goods is transferred to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) Revenue from other sources and other income

(a) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

(w) Translation of foreign currencies

The presentation currency of the Group is USD. The functional currency of the Company, the investment holding companies and main operating group entities located in Mongolia is USD and the functional currency of remaining group entities located in Mongolia is MNT. Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of subsidiaries using the functional currency other than USD are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into USD at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale the non-current asset is not depreciated or amortised.

(z) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Group chooses to apply 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.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent, if any.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 and 2021, respectively (see Notes 14 and 15). 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.

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

(ii) *Reserves* (continued)

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, 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(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.

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

(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 judgements 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:

	2022	2021
	USD'000	USD'000
Washed hard-coking coal	**508,355**	174,175
Washed semi-soft coking coal	**27,342**	6,357
Middlings	**9,922**	3,019
Raw thermal coal	**629**	518
	546,248	184,069

During the year ended 31 December 2022, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and rendering of services, being USD81,177,000 and USD79,645,000. During the year ended 31 December 2021, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and rendering of services, being USD30,191,000 and USD23,320,000.

Revenue during the year ended 31 December 2022 includes approximately USD43,535,000 (2021: USD75,516,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

Details of concentrations of credit risk arising from these customers are set out in Note 30(b).

5 COST OF REVENUE

	2022	2021
	USD'000	USD'000
Mining costs	**147,846**	42,475
Processing costs	**43,734**	11,950
Transportation costs	**100,942**	43,138
Others (Note (i))	**134,164**	43,906
Cost of revenue during mine operations	**426,686**	141,469
Cost of revenue during idled mine period (Note (ii))	**24,445**	20,021
Cost of revenue	**451,131**	161,490

Notes:

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

(ii) For the years ended 31 December 2022 and 2021, cost of revenue during idled mine period mainly includes depreciation expense related to idled plant and equipment, staff costs and mining contractor costs.

6 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

	2022	2021
	USD'000	USD'000
Interest income	**(145)**	(54)
Net change in fair value of derivative component of senior notes	**(2,661)**	–
Gain on derecognition of derivative component of Senior Notes due 2022	**(507)**	–
Foreign exchange gain, net	**(2,973)**	–
Finance income	**(6,286)**	(54)
Interest on liability component of senior notes (Note 23)	**45,430**	46,170
Interest on lease liabilities	**6**	5
Transaction cost	**52**	66
Unwinding interest on accrued reclamation obligations (Note 28)	**1,593**	492
Net interest expense	**47,081**	46,733
Net change in fair value of derivative component of senior notes	**–**	608
Foreign exchange loss, net	**–**	1,639
Finance costs	**47,081**	48,980
Net finance costs	**40,795**	48,926

No borrowing costs have been capitalised for the years ended 31 December 2022 and 2021.

6 PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

(b) Staff costs:

	2022 USD'000	2021 USD'000
Salaries, wages, bonuses and benefits	**26,494**	20,353
Retirement scheme contributions	**3,722**	2,894
Equity-settled share-based payment expenses (Note 27)	**–**	34
	30,216	23,281

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 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.

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

(c) Other items:

	2022 USD'000	2021 USD'000
Selling and distribution costs (Note (i))	**2,434**	9,625
Depreciation and amortisation	**61,708**	49,704
Net gain on disposals of property, plant and equipment	**(6)**	(29)
Auditors' remuneration		
– audit services	**639**	639
– tax and other services	**7**	30
	646	669
Cost of inventories (Note (ii))	**426,686**	141,469

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 USD106,300,000 (2021: USD48,711,000) 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 USD479,000 (2021: USD2,269,000).

7 GAIN FROM REPURCHASE OF SENIOR NOTES DUE 2024

The Group repurchased a total of USD63,591,000 principal amount from senior notes with initial principal amount of USD440,000,000 maturing on 15 April 2024 ("**Senior Notes due 2024**") through open market purchase and tender offer during the year ended 31 December 2022. The excess of derecognised carrying amount of the Senior Notes due 2024 over the consideration to settle the financial liabilities, amounting to approximately USD23,144,000, has been recognised as a gain from repurchase of Senior Notes due 2024 and credited to profit or loss during the year ended 31 December 2022.

8 INCOME TAX

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

	2022 USD'000	2021 USD'000
Current tax		
Provision for the year (Note 26(a))	11,194	132
Over-provision in respect of prior years	(115)	–
Deferred tax		
Origination and reversal of temporary difference (Note 26(b))	(15,262)	(5,145)
	(4,183)	(5,013)

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

	2022 USD'000	2021 USD'000
Profit/(loss) before taxation	54,708	(60,451)
Notional tax on profit/(loss) before taxation	14,335	(12,141)
Tax effect of non-deductible items (Note (iii))	1,743	6,732
Tax effect of non-taxable items (Note (iii))	(20,678)	(334)
Prior year tax loss utilised	(163)	–
Tax losses not recognised	695	730
Over-provision in respect of prior years	(115)	–
Actual tax expenses	(4,183)	(5,013)

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 years ended 31 December 2022 and 2021. According to the Corporate Income Tax Law of the PRC, the Company's subsidiaries in the PRC are 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, Luxembourg, and Singapore profits tax as it has no assessable income arising in or derived from Hong Kong, Luxembourg and Singapore during the years ended 31 December 2022 and 2021.

(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 years ended 31 December 2022 and 2021.

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic profit per share is based on the profit attributable to ordinary equity shareholders of the Company of USD59,177,000 (loss attributable to ordinary equity shareholders of the Company of 2021: USD55,238,000) and the weighted average of 1,042,476,786 ordinary shares (2021: 1,031,576,786 ordinary shares) in issue during the year.

(b) Diluted earnings/(loss) per share

For the years ended 31 December 2022 and 2021, basic and diluted earnings/(loss) per share are the same.

No potential dilutive shares existed as at 31 December 2022. The equity-settled share-based payment transactions (see Note 27) are anti-dilutive and therefore not included in calculating diluted earnings/(loss) per share for the year ended 31 December 2021.

10 DIRECTORS' REMUNERATION AND INTEREST OF DIRECTORS

Directors' remuneration was disclosed according to the requirement of Section 383 – *Notes to financial statements to contain information on directors' emoluments* of Companies Ordinance (Cap. 622) and Companies Regulation (Cap. 622G). Details of the Directors' remuneration disclosed are as follows:

	Year ended 31 December 2022					
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses (Note 11)	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	19	1,134	75	99	–	1,327
Battsengel Gotov	19	729	75	66	–	889
Non-executive directors						
Enkhtuvshin Gombo	19	–	–	–	–	19
Myagmarjav Ganbyamba (appointed on 1 January 2022)	19	–	–	–	–	19
Od Jambaljamts	19	–	–	–	–	19
Enkhtuvshin Dashtseren (resigned on 1 January 2022)	–	–	–	–	–	–
Independent non-executive directors						
Khashchuluun Chuluundorj	19	–	–	–	–	19
Unenbat Jigjid	19	–	–	–	–	19
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	191	1,863	150	165	–	2,369

Year ended 31 December 2021

	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses (Note 11))	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	19	1,139	23	96	–	1,277
Battsengel Gotov	19	732	23	62	10	846
Non-executive directors						
Enkhtuvshin Gombo	19	–	–	–	–	19
Enkhtuvshin Dashtseren	19	–	–	–	–	19
Od Jambaljamts	19	–	–	–	–	19
Independent non-executive directors						
Khashchuluun Chuluundorj	19	–	–	–	–	19
Unenbat Jigjid	19	–	–	–	–	19
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	191	1,871	46	158	10	2,276

Notes:

(i) No emoluments have been paid to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2022 and 2021.

(ii) There are no loans, quasi-loans or other dealings in favour of the Directors, their controlled bodies corporate and connected entities existed at the end of the year or at any time during the years ended 31 December 2022 and 2021.

(iii) No transactions, arrangements and contracts in relation to Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the years ended 31 December 2022 and 2021.

(iv) No consideration was provided to or receivable by third parties for making available Directors' services during the years ended 31 December 2022 and 2021.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2022	2021
	Number of individuals	Number of individuals
Directors	**2**	2
Non-directors	**3**	3
	5	5

The emoluments of the Directors are disclosed in Note 10. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2022	2021
	USD'000	USD'000
Basic salaries, allowances and benefits in kind	**744**	749
Discretionary bonuses	**225**	83
Retirement scheme contributions	**79**	69
Equity-settled share-based payment expenses	**–**	15
	1,048	916

The emoluments of the remaining individuals with the highest emoluments are within the following band:

	2022	2021
	Number of individuals	Number of individuals
HKD2,000,001 to HKD2,500,000	**–**	3
HKD2,500,001 to HKD3,000,000	**3**	–

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2022 and 2021.

12 OTHER COMPREHENSIVE INCOME

	2022 **USD'000**	2021 USD'000
Exchange differences on re-translation of the financial statements of certain subsidiaries	**(21,726)**	184
Surplus on revaluation of plants, buildings, and machinery and equipment:		
– Before-tax amount (Notes 14, 15)	**–**	78,672
– Tax effects	**–**	(15,777)
– Net-of-tax amount	**–**	62,895
	(21,726)	63,079

Note:

Exchange differences on re-translation mainly resulted from the fluctuation of MNT and RMB exchange rate against USD during the respective reporting periods.

13 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.

14 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Cost or valuation:						
At 1 January 2021	435,680	297,241	42,945	4,409	522,632	1,302,907
Additions	285	95	2,506	570	49,567	53,023
Disposals	(789)	(2,274)	(1,770)	(234)	–	(5,067)
Transfer from construction in progress	850	255	–	–	–	1,105
Adjustment on mining rehabilitation	–	–	–	–	10,978	10,978
Surplus on revaluation	75,662	35,117	–	–	–	110,779
Exchange adjustments	31	14	2	–	–	47
At 31 December 2021	511,719	330,448	43,683	4,745	583,177	1,473,772
Representing:						
Cost	502	–	43,683	4,745	583,177	632,107
Valuation	511,217	330,448	–	–	–	841,665
	511,719	330,448	43,683	4,745	583,177	1,473,772
At 1 January 2022	511,719	330,448	43,683	4,745	583,177	1,473,772
Additions	437	1,145	1,667	790	44,699	48,738
Disposals	(929)	(201)	(454)	(220)	–	(1,804)
Transfer from construction in progress	51	–	–	–	–	51
Adjustment on mining rehabilitation	–	–	–	–	(15,784)	(15,784)
Exchange adjustments	(26,107)	(11,560)	(19)	(128)	–	(37,814)
At 31 December 2022	**485,171**	**319,832**	**44,877**	**5,187**	**612,092**	**1,467,159**
Representing:						
Cost	616	–	44,877	5,187	612,092	662,772
Valuation	484,555	319,832	–	–	–	804,387
	485,171	319,832	44,877	5,187	612,092	1,467,159
Accumulated amortisation and depreciation:						
At 1 January 2021	108,959	164,835	33,292	3,700	109,071	419,857
Charge for the year	13,490	17,853	4,326	567	11,568	47,804
Written back on disposals	(29)	(1,415)	(197)	(145)	–	(1,786)
Adjustment on revaluation	19,723	19,472	–	–	–	39,195
Exchange adjustments	11	7	1	2	–	21
At 31 December 2021	142,154	200,752	37,422	4,124	120,639	505,091
At 1 January 2022	142,154	200,752	37,422	4,124	120,639	505,091
Charge for the year	14,666	18,350	4,463	330	21,704	59,513
Written back on disposals	(4)	(191)	(454)	(215)	–	(864)
Exchange adjustments	(9,339)	(6,810)	(16)	(104)	–	(16,269)
At 31 December 2022	**147,477**	**212,101**	**41,415**	**4,135**	**142,343**	**547,471**
Carrying amount:						
At 31 December 2022	**337,694**	**107,731**	**3,462**	**1,052**	**469,749**	**919,688**
At 31 December 2021	369,565	129,696	6,261	621	462,538	968,681

Notes:

(a) Majority part of the Group's property, plant and equipment are located in Mongolia.

(b) Mining properties as at 31 December 2022 include stripping activity assets with the carrying amount of USD447,797,000 (2021: USD424,554,000) and application fee for the mining rights of USD934,000 (2021: USD898,000) in relation to the Group's mine deposits.

(c) As at 31 December 2022, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2022 is approximately USD8,446,000 (2021: USD9,371,000). The Directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.

(d) Buildings and plants as at 31 December 2022 include right-of-use assets for office leasing with the carrying amount of USD57,000 (2021: USD71,000).

(e) 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 2022	**Fair value measurements as at 31 December 2022 categorised into**		
		Level 1	**Level 2**	**Level 3**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Recurring fair value measurement				
Buildings and plants	**337,637**	**–**	**–**	**337,637**
Machinery and equipment	**107,731**	**–**	**–**	**107,731**
Buildings and plants, machinery and equipment under construction (Note 15)	**47,387**	**–**	**–**	**47,387**
Total	**492,755**	**–**	**–**	**492,755**

	Fair value as at 31 December 2021	Fair value measurements as at 31 December 2021 categorised into		
		Level 1	Level 2	Level 3
	USD'000	USD'000	USD'000	USD'000
Recurring fair value measurement				
Buildings and plants	369,495	–	–	369,495
Machinery and equipment	129,696	–	–	129,696
Buildings and plants, machinery and equipment under construction (Note 15)	46,828	–	–	46,828
Total	546,019	–	–	546,019

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(i) Fair value hierarchy (continued)

During the year ended 31 December 2022, 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 2021, 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 2021 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: FM Global, Unitary Construction costs, 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 any 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 were compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Coal Handling and Preparation Plant ("**CHPP**") modules' estimated unitary RCN (USD/ton of processing capacity) is in the middle of the range of recently constructed coal processing plants;

  - Engineering and general administrative expenses for several analysed coal mines range between 7-8% of RCN; and

  - Interest During Construction estimated to be equal to 7.8% of RCN based on the actual interest paid during CHPP construction.

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(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 Group'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 Group 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:

	2022	2021
	USD'000	USD'000
Buildings and plants	**119,085**	141,397
Machinery and equipment	**13,236**	24,439
Buildings and plants, machinery and equipment under construction (Note 15)	**23,670**	20,692
	155,991	186,528

(f) 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 2022, 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 2022 is consistent with that at the year end of 2021, 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.

Notes: (continued)

(f) Impairment of mining related assets (continued)

– 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 17% and pre-tax discount rate of 23% were applied to the future cash flows projection at the year end of 2022 (2021: post-tax discount rate of 17% and pre-tax discount rate of 22%). The Directors believe that the discount rates were 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 2022, and has not resulted in the identification of an impairment loss for the year ended 31 December 2022. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2022 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.

15 CONSTRUCTION IN PROGRESS

	2022 USD'000	2021 USD'000
At 1 January	**46,828**	43,961
Additions	**2,052**	9
Transfer to property, plant and equipment (Note 14)	**(51)**	(1,105)
Revaluation gain	**–**	7,088
Disposal	**–**	(3,126)
Exchange adjustments	**(1,442)**	1
At 31 December	**47,387**	46,828

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

16 OTHER RIGHT-OF-USE ASSETS

	2022 USD'000	2021 USD'000
Cost:		
At 1 January	**65**	65
At 31 December	**65**	65
Accumulated depreciation:		
At 1 January	**15**	14
Charge for the year	**1**	1
At 31 December	**16**	15
Net carrying amount:	**49**	50

Note: Right-of-use assets comprise interests in leasehold land held for own use located in Mongolia, with original lease period from 15 years to 60 years.

17 INTANGIBLE ASSETS

	Acquired mining right (Note (i)) USD'000	Software USD'000	GS Terminal (Note (ii)) USD'000	Total USD'000
Cost:				
At 1 January 2021	701,557	3,676	–	705,233
Addition	–	–	3,031	3,031
At 31 December 2021	701,557	3,676	3,031	708,264
Addition	–	–	143	143
At 31 December 2022	**701,557**	**3,676**	**3,174**	**708,407**
Accumulated amortisation and impairment loss:				
At 1 January 2021	204,073	2,206	–	206,279
Amortisation charge for the year	1,467	368	64	1,899
At 31 December 2021	205,540	2,574	64	208,178
Amortisation charge for the year	765	368	1,061	2,194
At 31 December 2022	**206,305**	**2,942**	**1,125**	**210,372**
Carrying amount:				
At 31 December 2022	**495,252**	**734**	**2,049**	**498,035**
At 31 December 2021	496,017	1,102	2,967	500,086

Notes:

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

(ii) GS Terminal represents the permission to operate at the customs bonded terminal for 3 years.

18 INTERESTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong	1 share	100%	–	Investment holding
Mongolian Mining Corporation Pte. Ltd.(i)	Singapore	1 share of USD1 each	100%	–	Investment holding
Mongolian Coal Corporation S.à.r.l.	Luxembourg	1,712,669 shares of USD10 each	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	19,800,000 shares of USD1 each	–	100%	Investment holding
Energy Resources LLC ("**ER**")	Mongolia	117,473,410 shares of USD2 each	–	100%	Mining and trading of coal
Energy Resources Rail LLC	Mongolia	15,300,000 shares of MNT1,000 each	–	100%	Railway project management
Tavan Tolgoi Airport LLC	Mongolia	5,795,521 shares of MNT1,000 each	–	100%	Airport operation and management
Ukhaa Khudag Water Supply LLC	Mongolia	96,016,551 shares of MNT1,000 each	–	100%	Water exploration and supply management
United Power LLC	Mongolia	100,807,646 shares of MNT1,000 each	–	100%	Power supply project management
Tavan Tolgoi Power Plant Water Supply LLC	Mongolia	6,554,000 shares of MNT 1,000 each	–	100%	Power supply and water exploration project
Khangad Exploration LLC	Mongolia	34,532,399 shares of USD1 each	–	100%	Exploration and development of coal mine
Baruun Naran S.à.r.l.	Luxembourg	24,918,394 shares of EUR1 each	–	100%	Investment holding
Tianjin Zhengcheng Import and Export Trade Co., Ltd. ("**TZJV**")(ii)	China	RMB2,035,998	–	51%	Trading of coals and machinery equipment
Inner Mongolia Fangcheng Trade Co., Ltd.(iii)	China	RMB1,000,000	–	51%	Trading of coals and machinery equipment

Notes:

(i) Incorporated as Private Company under the laws of Singapore.

(ii) Registered as Sino-Foreign Cooperative Equity Joint Ventures under PRC law.

(iii) Registered as Private Enterprise under PRC law.

19 INTERESTS IN ASSOCIATES

The following table presents the particulars of the associates, which are unlisted corporate entities whose quoted market prices are not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company: Group's effective interest	Equity attributable to the Company: Held by a subsidiary	Principal activity
Gashuun Sukhait Road LLC	Incorporated	Mongolia	100,000 shares of MNT1,000 each	40.00%	40.00%	Paved road maintenance service (Note (i))
Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd.	Incorporated	People's Republic of China	RMB500,000,000	10.00%	10.00%	Operate warehouse for coal storage (Note (ii))

Notes:

(i) The principal activities of Gashuun Sukhait Road LLC are supplying safety, readiness, protection, repair and maintenance service for paved road operations from UHG to Gashuun Sukhait ("**GS**"). The investment in Gashuun Sukhait Road LLC enables the Group to monitor the usage situation of the aforementioned paved road.

(ii) The principal activities of Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd. ("**Guoneng Ganqimaodu**") are provision of customs-supervised warehousing services, road cargo transportation, general cargo warehousing services, domestic freight forwarding and loading service.

On 9 April 2021, ER, a wholly-owned subsidiary of the Company, entered into an investment agreement ("**Investment agreement**") with CHN Energy Coal Coking Co., Ltd. ("**CECC**"), an independent third party and one of the Group's largest customer. Pursuant to the Investment Agreement, ER and CECC agreed to establish Guoneng Ganqimaodu for coal storage and handling customs bonded stockyard located at the Ganqimaodu port in the PRC. ER and CECC hold 10% and 90%, respectively, of the total equity interests in Guoneng Ganqimaodu. The registered capital of Guoneng Ganqimaodu is RMB500,000,000 which is contributed by ER and CECC respectively, in proportion to their equity interests in Guoneng Ganqimaodu. On 30 December 2021, ER paid up RMB5,000,000 (then equivalent to approximately USD785,000) of Guoneng Ganqimaodu's registered capital, and paid up the remaining of Guoneng Ganqimaodu's registered capital RMB45,000,000 (then equivalent to approximately USD6,951,000) on 25 April 2022. Pursuant to ER's rights stated on the articles of association of Guoneng Ganqimaodu, the directors of the Company considered that the Group has significant influence on Guoneng Ganqimaodu through its participation in the board of directors of Guoneng Ganqimaodu.

All of above associates are accounted for using the equity method in the consolidated financial statements.

19 INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Gashuun Sukhait Road LLC	
	2022	2021
	USD'000	USD'000
Gross amounts of the associate:		
Current assets	**1,639**	1,547
Non-current assets	**627**	859
Current liabilities	**1,763**	1,997
Equity	**503**	409
Revenue	**1,565**	1,898
Profit/(loss) from continuing operations	**180**	(490)
Total comprehensive income	**94**	(490)
Reconciled to the Group's interests in associate:		
Gross amounts of net assets of the associate	**503**	409
Group's effective interest	**40%**	40%
Group's share of net assets of the associate	**201**	164
Carrying amount in the consolidated financial statements	**201**	164

	Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd.
	2022
	USD'000
Gross amounts of the associate:	
Current assets	**20,745**
Non-current assets	**77,057**
Current liabilities	**11,649**
Non-current liabilities	**11,597**
Equity	**74,556**
Revenue	**12,211**
Profit from continuing operations	**2,139**
Total comprehensive income	**(4,242)**
Reconciled to the Group's interests in associate:	
Gross amounts of net assets of the associate	**74,556**
Group's effective interest	**10%**
Group's share of net assets of the associate	**7,456**
Carrying amount in the consolidated financial statements	**7,456**

20 OTHER NON-CURRENT ASSETS

	2022 USD'000	2021 USD'000
Prepayments in connection with construction work, equipment purchases and others (Note 22(c)(ii))	**58,923**	55,020
Other financial asset (Note)	**614**	614
	59,537	55,634

Note: The Group has an investment of 2.25% equity interest in International Medical Center LLC.

21 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2022 USD'000	2021 USD'000
Coal	**96,945**	155,217
Materials and supplies	**16,286**	14,883
	113,231	170,100
Less: Provision on coal inventories	**(10,437)**	(10,437)
	102,794	159,663

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2022 USD'000	2021 USD'000
Carrying amount of inventories sold	**426,686**	141,469

22 TRADE AND OTHER RECEIVABLES

	2022 USD'000	2021 USD'000
Trade receivables (Note (a))	**4,432**	14,038
Other receivables (Note (c))	**87,725**	85,482
	92,157	99,520
Less: allowance for credit losses (Note (b))	**–**	–
	92,157	99,520

Notes:

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of loss allowance, is as follows:

	2022	2021
	USD'000	USD'000
Within 90 days	**4,245**	14,020
90 to 180 days	**187**	–
180 to 270 days	**–**	18
	4,432	14,038

(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 (Note 2(k)(i)).

As at 31 December 2022, the Group evaluated the loss allowance for ECL and no loss allowance of trade receivables (2021: nil) was made based on the assessment. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in Note 30(b).

(c) Other receivables

	2022	2021
	USD'000	USD'000
Amounts due from related parties (Note (i))	**3**	1
Prepayments and deposits (Note (ii))	**53,809**	49,220
Value added tax ("**VAT**") and other tax receivables (Note (iii))	**33,150**	24,236
Others	**763**	12,025
	87,725	85,482

Notes:

(i) Amounts due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 32(a)).

(ii) At 31 December 2022 and 2021, 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 Mongolian Tax Authority ("**MTA**"). According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties payable to MTA against VAT receivable from MTA. The Group verifies the collectability of such funds with MTA on a regular basis, and based on currently available information, the Group anticipates full recoverability.

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

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2022 USD'000	*2021* USD'000
Cash on hand	**2**	2
Cash at bank	**64,693**	25,935
Cash and cash equivalents in the consolidated cash flow statement	**64,695**	25,937

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Senior Notes due 2022 (Note) USD'000 (Note 24)	Senior Notes due 2024 (Note) USD'000 (Note 24)	Total USD'000
At 1 January 2022	**18,183**	**443,308**	**461,491**
Changes from financing cash flows:			
Interest paid	**(1,190)**	**(41,299)**	**(42,489)**
Repayment of Senior Notes due 2022	**(14,912)**	**–**	**(14,912)**
Repurchase of Senior Notes due 2024	**–**	**(39,671)**	**(39,671)**
Total changes from financing cash flows	**(16,102)**	**(80,970)**	**(97,072)**
Changes in fair value	**(3,168)**	**–**	**(3,168)**
Other changes:			
Interest expenses (Note 6(a))	**1,153**	**44,277**	**45,430**
Excess of derecognised carrying amount over the consideration	**–**	**(23,144)**	**(23,144)**
Others	**(66)**	**(2,365)**	**(2,431)**
Total other changes	**1,087**	**18,768**	**19,855**
At 31 December 2022	**–**	**381,106**	**381,106**

Note: Liabilities include accrued interest as disclosed in Note 25.

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Senior Notes due 2022 (Note) USD'000 (Note 24)	Senior Notes due 2024 (Note) USD'000 (Note 24)	Total USD'000
At 1 January 2021	17,067	441,328	458,395
Changes from financing cash flows:			
Interest paid	(818)	(40,700)	(41,518)
Total changes from financing cash flows	(818)	(40,700)	(41,518)
Changes in fair value	608	–	608
Other changes:			
Interest expenses (Note 6(a))	1,408	44,762	46,170
Others	(82)	(2,082)	(2,164)
Total other changes	1,326	42,680	44,006
At 31 December 2021	18,183	443,308	461,491

Note: Liabilities include accrued interest as disclosed in Note 25.

24 SENIOR NOTES

	2022 USD'000	2021 USD'000
Senior Notes due 2022 (Note (i))	**–**	17,885
Senior Notes due 2024 (Note (ii))	**373,756**	434,716
	373,756	452,601

Notes:

(i) The Senior Notes due 2022 bore interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually, and was due on 30 September 2022 ("**Senior Notes due 2022**"). The Senior Notes due 2022 was fully repaid on 30 September 2022 and the outstanding principal amount was nil as at 31 December 2022 (31 December 2021: USD14,912,000).

(ii) On 15 April 2019, the Group issued the Senior Notes due 2024 with a principal amount of USD440,000,000 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 2022 was nil (31 December 2021: nil). The liability component was initially recognised at fair value of USD429,795,446, after taking into account attributable transaction costs of USD10,204,554 and is accounted on amortised cost subsequently. In October and December 2022, the Group repurchased an aggregate principal amount of USD63,591,000 from Senior Notes due 2024 (See Note 7). As at 31 December 2022, the carrying amount of the liability component was USD373,756,000 (31 December 2021: USD434,716,000) The outstanding principal amount of the Senior Notes due 2024 is USD376,409,000 as at 31 December 2022 (31 December 2021: USD440,000,000).

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

25 TRADE AND OTHER PAYABLES

	2022 USD'000	2021 USD'000
Trade payables (Note (i))	**103,987**	141,395
Amounts due to related parties (Note (ii))	**3,986**	3,870
Payables for purchase of equipment	**2,013**	4,504
Interest payable (Note (iii))	**7,350**	8,890
Other taxes payables	**11,015**	13,276
Others (Note (iv))	**8,018**	3,663
	136,369	175,598

Notes:

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

	2022 USD'000	2021 USD'000
Within 90 days	**71,264**	48,505
90 to 180 days	**–**	5,812
180 to 365 days	**–**	31,323
Over 365 days	**32,723**	55,755
	103,987	141,395

(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 (see Note 32(a)).

(iii) As at 31 December 2022, interest payables was related to Senior Notes due 2024 amounting to USD7,350,000 (interest payables for Senior Notes due 2022 and 2024 as at 31 December 2021: USD8,890,000).

(iv) Others represent accrued expenses, payables for staff related costs and other deposits.

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

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax payable in the consolidated statement of financial position represents:

	2022 USD'000	2021 USD'000
At 1 January	**65**	3,323
Provision for the year (Note 8(a))	**11,194**	132
Offsetting with other tax receivables	**–**	(2,436)
Income tax paid	**(694)**	(973)
Exchange adjustments	**(948)**	19
At 31 December	**9,617**	65

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of other properties USD'000	Tax losses USD'000	Unrealised profits on intra-group transactions USD'000	Depreciation and amortisation USD'000	Unrealised foreign exchange differences on Senior Notes USD'000	Fair value adjustments in relation to the acquisition USD'000	Fair value of financial instrument USD'000	Total USD'000
Deferred tax arising from:								
At 1 January 2021	(64,542)	1,453	(232)	2,122	10,672	(99,222)	8	(149,741)
Credited/(charged) to profit or loss (Note 8(a))	4,423	5,650	(820)	(4,328)	–	71	149	5,145
Credited/(charged) to reserves	(15,225)	1	8	(224)	3	1	1	(15,435)
At 31 December 2021	(75,344)	7,104	(1,044)	(2,430)	10,675	(99,150)	158	(160,031)
At 1 January 2022	**(75,344)**	**7,104**	**(1,044)**	**(2,430)**	**10,675**	**(99,150)**	**158**	**(160,031)**
Credited/(charged) to profit or loss (Note 8(a))	**4,458**	**(4,835)**	**714**	**(1,246)**	**16,054**	**275**	**(158)**	**15,262**
Credited/(charged) to reserves	**2,010**	**(801)**	**131**	**533**	**(3,249)**	**-**	**-**	**(1,376)**
At 31 December 2022	**(68,876)**	**1,468**	**(199)**	**(3,143)**	**23,480**	**(98,875)**	**-**	**(146,145)**

	2022 USD'000	2021 USD'000
Net deferred tax assets recognised in the consolidated statement of financial position	**28,505**	21,767
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(174,650)**	(181,798)
	(146,145)	(160,031)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD406,173,000 as at 31 December 2022 (2021: USD406,646,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated. Expiry of unrecognised tax losses of Group entities located in PRC will expire in five years under the PRC tax regulations.

Expiry of unrecognised tax losses of Group entities located in Mongolia and PRC:

	2022	2021
	USD'000	USD'000
Year of expiry		
2022	**–**	131
2023	**96**	96
2024	**–**	–
2025	**9**	1,030
2026	**347**	233
2027	**1,020**	–
	1,472	1,490

In relation to group entities located in the jurisdictions other than Mongolia and PRC, the tax losses do not expire under current tax legislations.

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company had a share option scheme ("**Share Option Scheme**") which was adopted on 17 September 2010, that became effective on the Listing Date on 13 October 2010 ("**Adoption Date**"), whereby the board of Directors of the Company is authorised, at their discretion, invites eligible participants to receive options to subscribe for shares ("**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group. The Share Option Scheme expired 12 October 2020; however, the provisions of the Share Option Scheme remained in force to the extent necessary to give effect to any Options granted or exercised thereto or otherwise as may be required.

On 16 June 2021, the Company adopted a new share option scheme ("**New Share Option Scheme**"), in which the board of Directors of the Company is authorised, at its discretion, to grant to eligible participants options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. There is no Share Options granted under the New Share Option Scheme during the years ended 31 December 2022 and 31 December 2021.

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The terms and conditions of the grants as at 31 December 2022 are as follows:

Grant Date	Number of options (Note (b)) '000	Vesting conditions	Contractual life of options
8 May 2017	2,800	1 July 2017	1 July 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2018	8 May 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2019	8 May 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2020	8 May 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2021	8 May 2017 to 8 May 2022

(b) The movement of the number and weighted average exercise prices of share options are as follows:

	2022		2021	
	Weighted average exercise price HKD	**Number of options '000**	Weighted average exercise price HKD	Number of options '000
Outstanding at 1 January	**2.39**	**10,900**	2.39	13,680
Forfeited during the year	**–**	**–**	2.39	(380)
Expired during the year	**–**	**–**	–	–
Exercised during the year	**2.39**	**(10,900)**	2.39	(2,400)
Outstanding at 31 December	**–**	**–**	2.39	10,900
Exercisable at 31 December	**–**	**–**	2.39	10,900

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of share options and assumptions:

	8 May 2017
Fair value at measurement date	HKD0.160 ~ HKD0.1150
Share price	HKD0.2392
Exercise price	HKD0.2392
Expected life	5 years
Risk-free interest rate	1.132%
Expected volatility	62%
Expected dividends	–

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

28 PROVISIONS

	2022	2021
	USD'000	USD'000
Accrued reclamation obligations	**16,737**	30,928
Others	**1,500**	1,500
	18,237	32,428
Less: Current portion	**(1,500)**	(1,500)
	16,737	30,928

28 PROVISIONS (CONTINUED)

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the end of each reporting period, the Group reassesses the estimated costs and adjusts the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2022 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	2022	2021
	USD'000	USD'000
At 1 January	**30,928**	19,458
(Decrease)/increase for reassessment of estimated costs	**(15,784)**	10,978
Accretion expense (Note 6(a))	**1,593**	492
At 31 December	**16,737**	30,928

Accrued reclamation costs change during the years ended 31 December 2022 and 2021 resulted from the reassessment of estimated costs.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Share premium	Other reserve	Accumulated losses	Perpetual notes	Total equity
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
		(Note 29(c))	(Note 29(d)(i))	(Note 29(d)(ii))		(Note 29(e))	
At 1 January 2021		102,918	768,520	22,895	(132,129)	66,569	828,773
Changes in equity for 2021:							
Total comprehensive income		–	–	–	(2,681)	–	(2,681)
Equity-settled share-based transactions	27	240	806	(273)	–	–	773
At 31 December 2021		103,158	769,326	22,622	(134,810)	66,569	826,865
At 1 January 2022		**103,158**	**769,326**	**22,622**	**(134,810)**	**66,569**	**826,865**
Changes in equity for 2022:							
Total comprehensive income		**–**	**–**	**–**	**1,629**	**–**	**1,629**
Repurchase of perpetual notes		**–**	**–**	**–**	**1,102**	**(11,093)**	**(9,991)**
Equity-settled share-based transactions	27	**1,090**	**3,688**	**(1,453)**	**–**	**–**	**3,325**
At 31 December 2022		**104,248**	**773,014**	**21,169**	**(132,079)**	**55,476**	**821,828**

(b) Dividends

The board of Directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2022 (dividend in respect of the year ended 31 December 2021: nil).

(c) Share capital

	2022		2021	
	Number of shares'000	USD'000	Number of shares'000	USD'000
Ordinary shares, authorised				
At 1 January and 31 December	**1,500,000**	**150,000**	1,500,000	150,000

	2022		2021	
	Number of shares'000	USD'000	Number of shares'000	USD'000
Ordinary shares, issued and fully paid				
At 1 January	**1,031,577**	**103,158**	1,029,177	102,918
Impact of share option exercise	**10,900**	**1,090**	2,400	240
At 31 December	**1,042,477**	**104,248**	1,031,577	103,158

10,900,000 share options were exercised during the year ended 31 December 2022 (2021: 2,400,000).

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Other reserve

The other reserve comprises the following:

– the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and

– the portion of the grant date fair value of unexercised share options granted to Directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's entities to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(w).

(iv) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in Note 2(h).

(e) 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. 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. On 15 April 2019, the Company redeemed a principal amount of USD23,972,000 with a carrying amount of USD9,328,000 through debt refinancing. After the debt refinancing, the outstanding principal amount of perpetual notes was USD171,028,000 with a carrying amount of USD66,569,000. Pursuant to the Company's announcements dated 12 July 2022 and 23 November 2022, the Company repurchased a principal amount of USD22,120,000 and USD6,380,000, respectively, with a carrying amount of USD8,610,000 and USD2,483,000. As at 31 December 2022, the outstanding principal amount of the perpetual notes was USD142,528,000 with a carrying amount of USD55,476,000.

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.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2022 was 20.5% (2021: 24.1%).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

Substantially all of the Group's cash at bank are deposited in the reputable banks which management assessed the credit risk to be insignificant.

Trade receivables are presented net of loss allowance. In order to minimise the credit risk, the credit committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes a loss allowance for trade receivables that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the end of the reporting period, the Group believes that no loss allowance for trade receivables is required in the consolidated financial statements. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as two customers accounted for 100% (2021: two customers accounted for 99%) of the total trade receivables as at 31 December 2022.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

(b) **Credit risk** (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2022:

		2022	
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	**USD'000**	**USD'000**
Current	**0.0%**	**4,245**	**–**
90 – 180 days	**0.0%**	**187**	**–**
180 – 270 days	**0.0%**	**–**	**–**
		4,432	**–**

		2021	
	Expected loss rate	Gross carrying amount	Loss allowance
	%	USD'000	USD'000
Current	0.0%	14,020	–
90 – 180 days	0.0%	–	–
180 – 270 days	0.0%	18	–
		14,038	–

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The credit risk on other receivables and related companies is limited because the counterparties have no historical default record and the Directors expect that the general economic conditions will not significantly change for the 12 months after the reporting date.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 22.

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. 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 MNT. The currencies giving rise to this risk are primarily MNT and RMB.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year-end date.

	Exposure to foreign currencies (expressed in United States Dollars)				
	2022				
	Mongolian Togrog USD'000	**Euros USD'000**	**Renminbi USD'000**	**Hong Kong Dollar USD'000**	**United States Dollars USD'000**
Trade and other receivables	**55**	**–**	**4,467**	**–**	**–**
Cash and cash equivalents	**3,005**	**1**	**18,600**	**4**	**3**
Trade and other payables	**(58,249)**	**(14)**	**(10,562)**	**(179)**	**(272)**
Net exposure arising from recognised assets and liabilities	**(55,189)**	**(13)**	**12,505**	**(175)**	**(269)**

	Exposure to foreign currencies (expressed in United States Dollars)				
	2021				
	Mongolian Togrog USD'000	Euros USD'000	Renminbi USD'000	Hong Kong Dollar USD'000	United States Dollars USD'000
Trade and other receivables	11,955	–	3,390	–	–
Cash and cash equivalents	496	2	21,807	486	3
Trade and other payables	(21,242)	(18)	(13,828)	(179)	(272)
Contract liabilities	(28,706)	–	(81,584)	–	–
Net exposure arising from recognised assets and liabilities	(37,497)	(16)	(70,215)	307	(269)

(c) Currency risk (continued)

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(w) as at the respective end of the reporting periods would (decrease)/increase profit after taxation (2021: (increase)/ decrease loss after taxation) by the amount shown below. This analysis assumes that all other risk variables remained constant.

Profit/loss for the year	**2022** **USD'000**	2021 USD'000
5% increase in MNT	**(2,070)**	(1,406)
5% decrease in MNT	**2,070**	1,406
5% increase in RMB	**470**	(2,632)
5% decrease in RMB	**(470)**	2,632
5% increase in EUR	**(1)**	(1)
5% decrease in EUR	**1**	1
5% increase in USD	**(12)**	(12)
5% decrease in USD	**12**	12
5% increase in HKD	**(9)**	15
5% decrease in HKD	**9**	(15)

(d) Interest rate risk

The Group's interest rate risk arises primarily from senior notes. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk.

The following table details the profile of the Group's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the end of the reporting period. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 24.

	2022 **USD'000**	2021 USD'000
Net fixed rate borrowings:		
Senior Notes due 2024	**373,756**	434,716
	373,756	434,716
Net floating rate borrowings:		
Senior Notes due 2022	**–**	17,885
Less: Bank deposits	**(64,693)**	(25,935)
	(64,693)	(8,050)
Total net borrowings:	**309,063**	426,666

As at 31 December 2022, the interest rate risk of the Group was immaterial.

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle or manage its obligations associated with financial liabilities. In 2022 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due. The Directors have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2023. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors. The Directors are of the opinion that the assumptions and sensitivities which are included 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.

The Group's objective is to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2022				
	Contractual undiscounted cash outflow				
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	Total contractual undiscounted cash flow	Carrying amount at 31 Dec
	USD'000	USD'000	USD'000	USD'000	USD'000
Senior Notes due 2024 (Note 24)	27,467	393,818	–	421,285	373,756
Trade and other payables (Note 25)	136,369	–	–	136,369	136,369
Lease liabilities	56	–	–	56	56
	163,892	393,818	–	557,710	510,181

(e) Liquidity risk (continued)

	2021				
	Contractual undiscounted cash outflow				
	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	Total contractual undiscounted cash flow	Carrying amount at 31 Dec
	USD'000	USD'000	USD'000	USD'000	USD'000
Senior Notes due 2022 (Note 24)	15,807	–	–	15,807	17,885
Senior Notes due 2024 (Note 24)	32,108	40,700	460,350	533,158	434,716
Trade and other payables (Note 25)	175,598	–	–	175,598	175,598
Lease liabilities	72	–	–	72	72
	223,585	40,700	460,350	724,635	628,271

(f) Fair value measurement

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments 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

(f) Fair value measurement (continued)

(i) Fair value hierarchy (continued)

The Group has a team headed by the finance manager performing valuations for the financial instruments, including the redemption option embedded in the Senior Notes and derivative components of the Senior Notes due 2022. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

	Fair value at 31 December 2022	**Fair value measurements as at 31 December 2022 categorised into**		
		Level 1	**Level 2**	**Level 3**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Recurring fair value measurement				
Financial asset				
– Redemption option embedded in Senior Notes due 2024	**–**	**Not applicable**	**Not applicable**	**–**

	Fair value at 31 December 2021	Fair value measurements as at 31 December 2021 categorised into		
		Level 1	Level 2	Level 3
	USD'000	USD'000	USD'000	USD'000
Recurring fair value measurement				
Financial asset				
– Redemption option embedded in Senior Notes due 2024	–	Not applicable	Not applicable	–
Financial liabilities				
– Derivative components of Senior Notes due 2022	3,168	Not applicable	Not applicable	3,168

During the year ended 31 December 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2021: nil). 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.

(f) Fair value measurement (continued)

(i) *Fair value hierarchy* (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Weighted average
Derivative components of Senior Notes due 2022	Discounted cash flow method	Bond yield	Not applicable (2021: 9.76%)
		Coal price index	Not applicable (2021: USD201 to USD294)
Redemption option embedded in Senior Notes due 2024	Binomial model	Expected volatility	12.8% (2021: 89.5%)

The fair value of derivative components of the Senior Notes due 2022 is determined using discounted cash flow method and the significant unobservable input used in the fair value measurement is bond yield and coal price index. The fair value measurement is negatively correlated to the bond yield.

The fair value of redemption option embedded in Senior Notes due 2024 is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2022, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's net finance costs by nil.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2022 **USD'000**	2021 USD'000
Derivative components of Senior Notes due 2022:		
At 1 January	**3,168**	2,560
Changes in fair value recognised in profit or loss during the year	**(2,661)**	608
Gain on derecognition	**(507)**	–
At 31 December	**–**	3,168
Total (gains)/losses for the period included in profit or loss for liabilities held at the end of the reporting year	**(3,168)**	608

The redemption option embedded in Senior Notes due 2024 was nil as at the years ended 31 December 2022 and 2021.

The net gains or losses resulting from the remeasurement of the derivative components of the Senior Notes due 2022 and the redemption option embedded in the Senior Notes due 2024 are recognised in net finance costs in the consolidated statement of profit or loss.

(f) Fair value measurement (continued)

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2022 and 31 December 2021 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 31 December 2022		At 31 December 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	USD'000	**USD'000**	USD'000	USD'000
Liability component of Senior Notes due 2022	**–**	**–**	14,717	14,333
Liability component of Senior Notes due 2024	**373,756**	**352,414**	434,716	444,972

31 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at respective end of the reporting periods not provided for in the financial statements were as follows:

	2022	2021
	USD'000	USD'000
Contracted for	**–**	763

(b) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 28 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the Directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS Mongolia LLC ("**MCS**")	Shareholder of MMC
MCS International LLC	Subsidiary of MCS
MCS Holding LLC	Subsidiary of MCS
MCS Estates LLC	Subsidiary of MCS
International Medical Center LLC	Subsidiary of MCS
Uniservice Solution LLC	Subsidiary of MCS
M Armor LLC	Subsidiary of MCS
Shangri-La Ulaanbaatar LLC	Subsidiary of MCS
Shangri-La Ulaanbaatar Hotel LLC	Subsidiary of MCS
Unitel LLC	Subsidiary of MCS
Univision LLC	Subsidiary of MCS
Skynetworks LLC	Subsidiary of MCS
Top Motors LLC	Subsidiary of MCS
Tengerleg Ekh Oron LLC	Subsidiary of MCS
Risun Supply Management Co., Ltd.	Shareholder of TZJV

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2022 are as follows:

	2022	2021
	USD'000	USD'000
Ancillary services (Note (i))	**14,379**	13,502
Lease of property, plant and equipment (Note (ii))	**215**	208
Purchase of property and goods (Note (iii))	**283**	120
Sales of property (Note (iv))	**(6)**	–
Sales of goods (Note (v))	**(6,107)**	(7,477)

Notes:

(i) Ancillary services represent expenditures for support services such as security service and vehicle inspection fees, cleaning and canteen expense, power and heat generation, and distribution and management fees paid to M Armor LLC, Uniservice Solution LLC, MCS International LLC, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, where applicable.

(ii) Lease of property, plant and equipment represents rental charges paid for properties leased from Shangri-La Ulaanbaatar LLC and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

(iii) Purchase of property and goods mainly represents purchase of motor vehicles from MCS and its affiliates. The purchasing charges are based on comparable or prevailing market rates, where applicable.

(iv) Sales of property represents sale of motor vehicle to International Medical Center LLC in 2022. There were no sales of property in 2021.

(v) Sales of goods represent the coal sales to Risun Supply Management Co., Ltd. The sales are carried out at comparable or prevailing market rates, where applicable.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Amounts due from/(to) related parties

	2022	2021
	USD'000	USD'000
Other receivables (Note 22(c))	**3**	1
Other accruals and payables (Note 25)	**(3,986)**	(3,870)

(b) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors.

Remuneration for key management personnel, including amounts paid to the Directors as disclosed in Note 10, and certain of the highest paid employees as disclosed in Note 11, is as follows:

	2022	2021
	USD'000	USD'000
Salaries and other emoluments	**3,040**	3,048
Discretionary bonus	**442**	170
Retirement scheme contributions	**269**	250
Equity-settled share-based payment expenses	**–**	28
	3,751	3,496

(c) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Directors' Report.

	Note	2022 USD'000	2021 USD'000
Non-current assets			
Interests in subsidiaries	18	**820,999**	838,650
Total non-current assets		**820,999**	838,650
Current assets			
Trade and other receivables		**83**	281
Cash and cash equivalents		**1,278**	564
Total current assets		**1,361**	845
Current liabilities			
Trade and other payables		**314**	557
Total current liabilities		**314**	557
Net current assets		**1,047**	288
Total assets less current liabilities		**822,046**	838,938
Non-current liabilities			
Senior Notes		**218**	12,073
Total non-current liabilities		**218**	12,073
Net assets		**821,828**	826,865
Capital and reserves	29(a)		
Share capital		**104,248**	103,158
Reserves		**717,580**	723,707
Total equity		**821,828**	826,865

Approved and authorised for issue by the board of directors on 21 March 2023.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

34 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company entered into an investment agreement with Erdene Mongol LLC ("**EM**") and Erdene Resource Development Corporation to subscribe for 50% of the share capital of EM, a company engaged in the exploration of gold and other precious metals for a total consideration of USD40.0 million (the "**Investment Agreement**"). Pursuant to the Investment Agreement, the Company has paid USD5.0 million to EM in January 2023 and the remaining USD35.0 million is expected to be made in 2023 subject to the completion of a series of milestones. Following the third closing under the Investment Agreement, EM will become a subsidiary of the Company and its financial results will be consolidated into that of the Group.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 17, *Insurance contracts*	1 January 2023
Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2024
Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: *Definition of accounting estimates*	1 January 2023
Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

XI. FINANCIAL SUMMARY

FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2022	2021	2020	2019	2018
	USD'000	USD'000	USD'000	USD'000	USD'000
Revenue	**546,248**	184,069	417,424	626,596	590,710
Cost of revenue	**(451,131)**	(161,490)	(288,848)	(374,534)	(360,310)
Gross profit	**95,117**	22,579	128,576	252,062	230,400
Other costs	**(1,328)**	(3,422)	(2,155)	(1,070)	(986)
Other net income/(loss)	**5,509**	3,382	2,418	(14,968)	2,146
Selling and distribution costs	**(2,434)**	(9,625)	(27,645)	(54,271)	(61,410)
Administrative expenses	**(24,775)**	(24,242)	(19,773)	(21,849)	(16,458)
Profit/(loss) from operations	**72,089**	(11,328)	81,421	159,904	153,692
Finance income	**6,286**	54	5,053	1,120	134
Finance costs	**(47,081)**	(48,980)	(46,191)	(46,783)	(55,529)
Gain from repurchase of Senior Notes due 2024	**23,144**	–	–	–	–
Gain from the debt refinancing	**–**	–	–	21,101	–
Share of profits/(losses) of associates	**286**	(196)	(77)	140	171
Share of losses of joint venture	**(16)**	(1)	(5)	(16)	(8)
Profit/(loss) before taxation	**54,708**	(60,451)	40,201	135,466	98,460
Income tax	**4,183**	5,013	(10,596)	(38,746)	(16,050)
Profit/(loss) for the year	**58,891**	(55,438)	29,605	96,720	82,410
Attributable to:					
Equity shareholders of the Company	**59,177**	(55,238)	28,940	96,527	82,773
Non-controlling interests	**(286)**	(200)	665	193	(363)
Basic earnings/(loss) per share	**5.68 cents**	(5.35) cents	2.81 cents	9.38 cents	8.04 cents
Diluted earnings (loss)/per share	**5.68 cents**	(5.35) cents	2.81 cents	9.38 cents	8.04 cents

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2022	2021	2020	2019	2018
	USD'000	USD'000	USD'000	USD'000	USD'000
Total assets	**1,820,508**	1,879,138	1,735,540	1,732,172	1,717,968
Total liabilities	**893,431**	982,560	847,376	866,193	860,582
Net assets	**927,077**	896,578	888,164	865,979	817,261
Total equity	**927,077**	896,578	888,164	865,979	817,261
Equity attributable to equity shareholders of the Company	**872,556**	829,823	821,209	799,689	741,836
Perpetual notes	**55,476**	66,569	66,569	66,569	75,897
Non-controlling interests	**(955)**	186	386	(279)	(472)

XII. GLOSSARY AND TECHNICAL TERMS

"Adoption Date"	13 October 2010, the date the Share Option Scheme became unconditional and effective
"AGM"	Annual general meeting
"AML"	Alpha Model Limited
"ASP"	Average selling price
"AusIMM"	The Australasian Institute of Mining and Metallurgy
"BAP"	Biodiversity Action Plan
"bcm"	Bank cubic metres
"BFP"	Belt Filter Press
"BHWE"	Base Horizon of Weathering Elevation
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the Tavan Tolgoi formation
"BN mine"	The area of the BN deposit that can be mined by open-pit mining methods
"Board"	The Board of Directors of the Company
"CG Code"	The Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	The People's Republic of China
"CHPP"	Coal handling and preparation plant
"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "we", "us", "our", "Mongolian Mining Corporation" or "MMC"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010, the shares of which are listed on the Main Board of the Stock Exchange
"CSR"	Corporate Social Responsibility
"DAP"	Delivery-at-Place
"Director(s)"	Director(s) of the Company

"EBITDA"	Earnings before interest, tax, depreciation and amortisation
"EITI"	Extractive Industry Transparency Initiative
"Fexos"	Fexos Limited
"FOT"	Free-on-Transport
"Ganqimaodu" or "GM"	The China side of the China-Mongolia border crossing
"Gashuunsukhait" or "GS"	The Mongolia side of the China-Mongolia border crossing
"GoM"	Government of Mongolia
"Group" or "Our Group"	The Company together with its subsidiaries
"HCC"	Hard coking coal
"HKD"	Hong Kong Dollar
"HR"	Human resources
"HSE"	Health, Safety and Environment
"IASs"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRSs"	International Financial Reporting Standards
"JORC"	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited
"km"	Kilometres
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"KPI"	Key performance indicator
"kt"	Thousand tonnes
"Listing Date"	13 October 2010, the date the shares were listed on the Stock Exchange

"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LOM"	Life-of-Mine
"LTIFR"	Lost Time Injury Frequency Rate
"LTIs"	Lost Time Injuries
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mt"	Million tonnes
"NBS"	National Bureau of Statistics of China
"New Share Option Scheme"	A share option scheme which was adopted by the Company on 16 June 2021
"Norwest"	Norwest Corporation
"Offer Date"	3 April 2023, the date of offer of a total of 33,250,000 Share Options to its Director and certain employees under the New Share Option Scheme adopted by the Company
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"Parliament"	Parliament of Mongolia
"probable reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified

"raw coal"	Generally means coal that has not been washed and processed
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"share(s)"	Ordinary share(s) of USD0.10 each in the share capital of the Company
"Share Options" or "Options"	The share options which were granted under the Share Option Scheme and granted or to be granted under the New Share Option Scheme to eligible participants to subscribe for Shares of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"SSCC"	Semi-soft coking coal
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG and BN deposits
"the Schemes"	Defined contribution retirement benefit schemes in which the Group participates
"thermal coal"	Also referred to as "steam coal" or "steaming coal", thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"THG"	Tsaikhar Khudag
"TKH"	Tsagaan Khad
"tonne"	Metric tonne, being equal to 1,000 kilograms

"TRIFR"	Total Recordable Injury Frequency Rate
"Tsogttsetsii" or "Tsogttsetsii soum"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"UHG"	Ukhaa Khudag
"UHG deposit"	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	The aboveground (<300m) portion of our UHG deposit
"USD"	United States Dollar
"VAT"	Value added tax
"washed coal"	Coals that have been washed and processed to reduce its ash contents

XIII. APPENDIX I

Appendix I

Technical details of the UHG Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4. Similar technical details relevant to the underlying UHG Coal Resource estimate were previously published in the form of 'JORC Table 1' Sections 1, 2 and 3 in the MMC Annual Report 2014.

JORC (2012) TABLE 1

Section 4: Estimation and Reporting of Ore Reserves

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• **Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.** • **Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.** • The Mineral Resource estimate used as the basis for this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation UHG mine (Licence MV-11952)", prepared by MMC, Energy Resources LLC, Geology Department, January 2022. • The Competent Person for the Mineral Resource estimate was Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas graduated in 2008 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#318198). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.
Site visits	• **Comment on any site visits undertaken by the Competent Person and the outcome of those visits.** • **If no site visits have been undertaken indicate why this is the case.** • The Competent Person for the Coal Reserves Statement made consecutive site visits since 2017. His last visit was in November 2021. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the UHG Life of Mine (LOM) plan update study April 2022. • The competent person believes a further site visit was warranted in 2022 to review changes in the mining progress as well as mining conditions.

Criteria	Commentary
Study status	• **The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.** • **The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically.** • A LOM study update, equivalent to a Feasibility Study update was completed in January 2018 by GLOGEX. • GLOGEX is completing preparation of an updated scenario of the Life of Mine ("LOM") Study for the UHG deposit. UHG design, mine planning has been completed and economic analysis will be completed in April 2022.
Cut-off parameters	• **The basis of the cut-off grade(s) or quality parameters applied.** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.
Mining factors or assumptions	• **The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design).** • **The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc.** • **The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.** • **The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).** • **The mining dilution factors used.** • **The mining recovery factors used.** • **Any minimum mining widths used.** • **The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.** • **The infrastructure requirements of the selected mining methods.** • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and hydraulic excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste.

Criteria	Commentary
	• Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants ("**AMC**"). • The mining factors used were: – Minimum coal mining thickness of 0.5m. – Minimum parting mining thickness of 0.5m. – Mineable coal section roof and floor loss of 100mm. – Mineable coal section roof and floor dilution of 100mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.46t/m^3, and ash of 92%. – Relative density data in the geological model is based on an average in-situ moisture of 3.58% (ar). ROM moisture is assumed to be 3.64% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar) and thermal product coal moisture 2.68% (ar). • The application of "Affected Zones" with higher global losses, as per the 2013 LOM Study, were discontinued on the basis of actual mining coal recovery reconciliation results supplied by MMC for an 18-month period of sampling undertaken by MMC from January 2014 to June 2015. • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the BN mine. The infrastructure will be expanded as UHG production expands.

Criteria	Commentary
Metallurgical factors or assumptions	• **The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.** • **Whether the metallurgical process is well-tested technology or novel in nature.** • **The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.** • **Any assumptions or allowances made for deleterious elements.** • **The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.** • **For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. Coking coal seams 0C, 3A and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed. • The process generates primary coking coal product from a low cut point that will produce a 11.0% (dry) ash HCC and 9.5% (dry) ash SSCC product, and a secondary middlings product of varied ash per customer request is produced from a variable high cut. • International coal processing consultant Norwest Corporation has generated ash-yield curves for major coking coal seams. MMC recently modified ash yield curves of extracted coal seams in the mine based on in pit bulk sampling. • Thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.

Criteria	Commentary
Environmental	• **The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.
Infrastructure	• **The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.** • All necessary infrastructure to support the UHG mine is in place at either the mine site or at the UHG mine industrial area. Power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.

Criteria	Commentary
Costs	• **The derivation of, or assumptions made, regarding projected capital costs in the study.** • **The methodology used to estimate operating costs.** • **Allowances made for the content of deleterious elements.** • **The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products.** • **The source of exchange rates used in the study.** • **Derivation of transportation charges.** • **The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.** • **The allowances made for royalties payable, both Government and private.** • Project capital cost estimates for mining plant and equipment have been provided by MMC. • The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at UHG provided by MMC year to date 1 January 2022 based on 2,850 MNT/USD exchange rate. GLOGEX reviewed key cost inputs and adjusted actual costs to reflect the key factors of the project to increase the accuracy of pit optimisation results. • Operating cost estimates have been provided from MMC's assessment of existing operating costs incurred in the operation and also from MMC's mining contractor. – Actual mining contractor coal mining costs were provided and applied in the study in USD/bcm; however for presentation in Table 5.7 Glogex converted to USD/t ROM using the weight average relative density of coal in the pit shells. • Coal processing costs are based on those actually being incurred in the existing CHPP operation. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of UHG product coal. There are no private royalties payable.

Criteria	Commentary

Revenue factors	• **The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.**
	• **The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.**
	• Shanxi Fenwei Energy Consulting Co Ltd ("**Shanxi Fenwei**") completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China.
	• The coal selling prices for Hard Coking Coal were estimated based on 6 years average of 2020-2021 historical prices and price forecast 2022-2025, as provided by MMC's actual coal selling prices as well as price forecast of Shanxi Fenwei product value at the DAP Ganqimaodu port of China. The coal selling prices for Semi-soft coking coal, Middlings and Thermal coal were estimated based on 6 years average of price forecast 2020-2025, as provided by MMC's actual coal selling prices as well as price forecast of Shanxi Fenwei product value at the DAP Ganqimaodu port of China.
	• The coal selling prices assigned to each product, were:
	  • HCC < 11% ash (dry): USD134.7/t product (ar),
	  • SSCC < 9.5% ash (dry): USD95.9/t product (ar),
	  • Middlings ~ benchmark CV 6,000 kcal/kg (gar): USD48.8/t product (ar),
	  • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD30.7/t product (ar).

Market assessment	• **The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.** • **A customer and competitor analysis along with the identification of likely market windows for the product.** • **Price and volume forecasts and the basis for these forecasts.** • **For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.** • Shanxi Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets in Mongolia and China in April 2021.

Criteria	Commentary
Economic	• **The inputs to the economic analysis to produce the net present value ("NPV") in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.** • **NPV ranges and sensitivity to variations in the significant assumptions and inputs.** • No economic analysis.
Social	• **The status of agreements with key stakeholders and matters leading to social licence to operate.** • All key stakeholder agreements are in place providing a social licence to operate.
Other	• **To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:** • **Any identified material naturally occurring risks.** • **The status of material legal agreements and marketing arrangements.** • **The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.** • All material legal agreements, marketing agreements and government agreements are in place to allow the UHG mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.

Criteria	Commentary
Classification	• **The basis for the classification of the Ore Reserves into varying confidence categories.** • **Whether the result appropriately reflects the Competent Person's view of the deposit.** • **The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.
Audits or reviews	• **The results of any audits or reviews of the Ore Reserve estimates.** • Internal peer review by GLOGEX CONSULTING LLC of the Reserves estimate has been completed. • Technical information in this UHG Coal Reserve estimation has been peer reviewed by Independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 29 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).

Criteria	Commentary
Discussion of relative accuracy/ confidence	• **Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.** • **The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.** • **Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.** • **It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.** • Coal production at UHG commenced in April 2009. Run-of-Mine ("**ROM**") coal production of 79.2 Mt was reported by mine survey measurement from April 2009 until end of 2021. • Since the preparation of Reserves estimate effective as of 1 January 2022 the UHG mine has completed reconciliations of actual coal mined against the geological model for the period from January 2021 to January 2022. Last Coal Reserves Statement for UHG was prepared as at 1 January 2022 by GLOGEX and reported as 371Mt (ROM) and the total Marketable reserve is 230 Mt. • As a result of the coal recovery reconciliations that have been undertaken by MMC and the observations made associated with the mining activities over this period of time, the mining modifying factors in this Reserves estimate have been adjusted to be less conservative particularly with respect to assumed losses incurred in the "affected zones", and in the assumed reassignment of thermal to coking coal and semisoft coal to hard coking coal.

XIV. Appendix II

Technical details of the BN Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4.

JORC (2012) TABLE 1

Section 4: Estimation and Reporting of Ore Reserves

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• **Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.** • **Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.** • The Mineral Resource estimate used as the basis of this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation Baruunnaran and Tsaikharkhudag coal mine (Licence MV-14493 and MV-017336)", prepared by Mongolian Mining Corporation, Energy Resources LLC, Geology Department, January 2021. • The Competent Person for the Mineral Resource estimate was Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas graduated in 2008 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#318198). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.
Site visits	• **Comment on any site visits undertaken by the Competent Person and the outcome of those visits.** • **If no site visits have been undertaken indicate why this is the case.** • The Competent Person for the Coal Reserves Statement made consecutive site visits since 2017. His last visit was in November 2021. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the BN Life of Mine (LOM) plan update study April 2022. • The competent person believes a further site visit was warranted in 2022 to review changes in the mining progress as well as mining conditions.

Criteria	Commentary
Study status	• **The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.** • **The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered.** • A LOM study update, equivalent to a Feasibility Study update, was completed in January 2018 by GLOGEX. • GLOGEX is completing preparation of an updated scenario of the Life of Mine ("LOM") Study for the BN deposit. BN design, mine planning has been completed and economic analysis will be completed in March 2022.
Cut-off parameters	• **The basis of the cut-off grade(s) or quality parameters applied.** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.
Mining factors or assumptions	• **The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by pre-liminary or detailed design).** • **The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc.** • **The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.** • **The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).** • **The mining dilution factors used.** • **The mining recovery factors used.**

Criteria	Commentary
	• **Any minimum mining widths used.** • **The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.** • **The infrastructure requirements of the selected mining methods.** • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and hydraulic excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste. • Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants. • The mining factors used were: – Minimum coal mining thickness of 0.5m. – Minimum parting mining thickness of 0.5m. – Mineable coal section roof and floor loss of 100mm. – Mineable coal section roof and floor dilution of 100mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.81g/cc (ar), and ash of 93.86% (ar). – Relative density data in the geological model is based on an average in-situ moisture of 4.55% (ar). ROM model moisture is 2.26% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar), and thermal product coal moisture 2.62% (ar).

Criteria	Commentary
	• Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the UHG mine. The infrastructure will be expanded as BN production expands.
Metallurgical factors or assumptions	• **The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.** • **Whether the metallurgical process is well-tested technology or novel in nature.** • **The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.** • **Any assumptions or allowances made for deleterious elements.** • **The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.** • **For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. UHG Coking coal seams 0C, 3A, and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed.

Criteria	Commentary
	• The process generates primary coking coal product from a low cut point that will produce a 11.5% (ad) ash SHCC and 9.5% (ad) ash SSCC product, and a secondary middlings product of varied ash per customer request produced from a variable high cut point. • International coal processing consultant Norwest Corporation has generated ash-yield curves for major coking coal seams. MMC recently modified ash yield curves of extracted coal seams in the mine based on in pit bulk sampling. • Thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.
Environmental	• **The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.
Infrastructure	• **The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.** • All necessary infrastructure to support the BN mine is in place at either the mine site or at the UHG mine industrial area. UHG power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.

Criteria	Commentary
Costs	• **The derivation of, or assumptions made, regarding projected capital costs in the study.** • **The methodology used to estimate operating costs.** • **Allowances made for the content of deleterious elements.** • **The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products.** • **The source of exchange rates used in the study.** • **Derivation of transportation charges.** • **The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.** • **The allowances made for royalties payable, both Government and private.** • Project capital cost estimates for mining plant and equipment have been provided by MMC. • The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at BN provided by MMC year to date 1 January 2022 based on 2,850 MNT/USD exchange rate. GLOGEX reviewed key cost inputs and accepted for pit optimisation. • Operating cost estimates have been provided from MMC's assessment of actual costs incurring in the operation and as provided by MMC's mining contractor. • Actual mining contractor coal mining costs were provided and applied in the study in USD/bcm; however, for presentation in Table 5.5 GLOGEX converted to USD/t ROM using the weight average relative density of coal in the pit shells. • Coal processing costs are based on contract price between Energy Resources and Khangad exploration. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of BN product coal. There are no private royalties payable.

Criteria	Commentary

Revenue factors	• **The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.**
	• **The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.**
	• Shanxi Fenwei Energy Consulting Co Ltd ("**Shanxi Fenwei**") completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China.
	• The coal selling prices for semi-soft coking coal were estimated based on 5 years average price forecast of 2022-2025, as provided to MMC by Shanxi Fenwei product value at the DAP Ganqimaodu port of China. The coal selling prices for semi-soft coking coal were estimated based on actual coal price provided by MMC from 2020 to 2021 and 5 years average price forecast of 2022-2025 by Shanxi Fenwei. The selling prices of Middlings and Thermal coal were estimated based on 5 years average price forecast of 2022-2025 as provided to MMC by Shanxi Fenwei product value at the DAP Ganqimaodu port of China.
	• The coal selling prices assigned to each product, were:
	  • SHCC < 11.5% ash (dry): USD128.8/t product (ar),
	  • SSCC < 9.5% ash (dry): USD95.9/t product (ar),
	  • Middlings ~ benchmark CV 6,000 kcal/kg (gar): USD48.8/t product (ar),
	  • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD30.7/t product (ar).

Market assessment	• **The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.** • **A customer and competitor analysis along with the identification of likely market windows for the product.** • **Price and volume forecasts and the basis for these forecasts.** • **For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.** • Shanxi Fenwei completed an independent market study for MMC and identified principal coking and thermal coal markets in Mongolia and China in April 2021.

Criteria	Commentary
Economic	• **The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.** • **NPV ranges and sensitivity to variations in the significant assumptions and inputs.** • No economic analysis.
Social	• **The status of agreements with key stakeholders and matters leading to social licence to operate.** • All key stakeholder agreements are in place providing a social licence to operate.
Other	• **To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves.** • **Any identified material naturally occurring risks.** • **The status of material legal agreements and marketing arrangements.** • **The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.** • All material legal agreements, marketing agreements and government agreements are in place to allow the BN mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.

Criteria	Commentary
Classification	• **The basis for the classification of the Ore Reserves into varying confidence categories.** • **Whether the result appropriately reflects the Competent Person's view of the deposit.** • **The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.
Audits or reviews	• **The results of any audits or reviews of the Ore Reserve estimates.** • Internal peer by Glogex of the Reserves estimate has been completed. Technical information in this BN Coal Reserve estimation has been peer reviewed by independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 32 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).

Criteria	Commentary
Discussion of relative accuracy/ confidence	• **Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.** • **The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.** • **Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.** • **It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.** • Coal production at BN commenced in 2011 and since that time some 34 Mbcm of waste and 4.9 Mt of ROM coal has been mined until 1st January 2018. ROM coal production of 4.9 Mt was reported by mine survey measurement from 2011 until end of 2021. • Since the preparation of Reserves estimate effective as of 1 January 2018 the BN mine has completed reconciliations of actual coal mined against the geological model for the period January 2017 to January 2018. Last Coal Reserves Statement for BN was prepared as at 1st January 2018 by GLOGEX and reported as 176Mt (ROM). • As a result of the coal recovery reconciliations that have been undertaken by MMC and the observations made associated with the mining activities over this period. The mining modifying factors in this Reserves estimate have been adjusted to accommodate size of the equipment being used in the mine (i.e., excavator) and the reassignment of hard coking coal to semihard coking coal.

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