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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2015, Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**") generated a total revenue of United States Dollar ("**USD**") 99.5 million, compared to USD328.3 million for the year ended 31 December 2014.

The average selling price ("**ASP**") of hard coking coal ("**HCC**") achieved on a combined basis at all selling points was USD63.2 per tonne for the year ended 31 December 2015 compared to USD83.5 per tonne for the year ended 31 December 2014, representing a decrease of 24.3%.

The loss attributable to the equity shareholders of the Company for the year ended 31 December 2015 was USD187.8 million, compared to a loss of USD282.8 million for the year ended 31 December 2014. The basic loss per share attributable to the equity shareholders of the Company amounted to USD2.03 cents for the year ended 31 December 2015, as compared to the basic loss per share of USD5.95 cents for the year ended 31 December 2014.

Major contributing factor of the Group's net loss position is the decrease of ASP and sales volume of coking coal products due to challenging market conditions in China, as coking coal price continued to be affected by global supply and demand imbalances.

The board (the "**Board**") does not recommend the payment of dividend for the year ended 31 December 2015 (dividend for the year ended 31 December 2014: nil).

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

The Board of directors (the "**Directors**") of the Company is announcing the audited annual results of the Group for the year ended 31 December 2015 together with the comparative figures for the corresponding period in 2014 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	Note	**2015 USD'000**	2014 USD'000
Revenue	*4*	**99,485**	328,307
Cost of revenue	*5*	**(165,604)**	(335,510)
Gross loss		**(66,119)**	(7,203)
Other revenue		**848**	3,319
Other net (loss)/income		**(1,082)**	34,171
Selling and distribution costs	*6(c)*	**(8,589)**	(56,445)
General and administrative expenses		**(30,520)**	(30,916)
Impairment loss	*6(c)*	**—**	(190,000)
Loss from operations		**(105,462)**	(247,074)
Finance income	*6(a)*	**5,084**	3,911
Finance costs	*6(a)*	**(104,106)**	(98,431)
Net finance costs	*6(a)*	**(99,022)**	(94,520)
Share of losses of associates		**(15)**	(19)
Share of losses of joint venture		**(87)**	(70)
Loss before taxation	*6*	**(204,586)**	(341,683)
Income tax	*7*	**16,873**	58,978
Loss for the year		**(187,713)**	(282,705)
Attributable to:			
Equity shareholders of the Company		**(187,763)**	(282,837)
Non-controlling interests		**50**	132
Loss for the year		**(187,713)**	(282,705)
Basic loss per share	*8(a)*	**(2.03) cents**	(5.95) cents
Diluted loss per share	*8(b)*	**(2.03) cents**	(5.95) cents
Loss for the year		**(187,713)**	(282,705)
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(22,632)**	(80,512)
Total comprehensive income for the year		**(210,345)**	(363,217)
Attributable to:			
Equity shareholders of the Company		**(210,395)**	(363,349)
Non-controlling interests		**50**	132
Total comprehensive income for the year		**(210,345)**	(363,217)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	**2015 USD'000**	2014 USD'000
Non-current assets			
Property, plant and equipment, net	*10*	**540,714**	594,926
Construction in progress	*11*	**55,164**	58,421
Lease prepayments		**68**	73
Intangible assets	*12*	**510,380**	511,089
Interest in associates		**45**	63
Interest in joint venture		**95**	15
Other non-current assets		**50,582**	25,823
Deferred tax assets		**46,629**	37,968
Total non-current assets		**1,203,677**	1,228,378
Current assets			
Assets held for sale		**55**	484
Inventories		**45,829**	48,900
Trade and other receivables	*13*	**93,857**	152,207
Cash and cash equivalents		**50,702**	252,856
Total current assets		**190,443**	454,447
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*14(b)*	**197,631**	114,818
Trade and other payables	*15*	**213,429**	298,118
Current taxation		**144**	68
Obligations under finance leases		**—**	8
Total current liabilities		**411,204**	413,012
Net current (liabilities)/assets		**(220,761)**	41,435
Total assets less current liabilities		**982,916**	1,269,813
Non-current liabilities			
Long-term borrowings, less current portion	*14(a)*	**—**	161,978
Senior notes	*16*	**597,634**	595,906
Provisions		**13,567**	12,995
Deferred tax liabilities		**102,483**	101,640
Other non-current liabilities		**79,441**	456
Total non-current liabilities		**793,125**	872,975
NET ASSETS		**189,791**	396,838
CAPITAL AND RESERVES			
Share capital		**92,626**	92,626
Reserves		**96,823**	303,920
Total equity attributable to equity shareholders of the Company		**189,449**	396,546
Non-controlling interests		**342**	292
TOTAL EQUITY		**189,791**	396,838

NOTES

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the mining, processing, transportation and sale of coal.

Pursuant to a group reorganisation completed on 17 September 2010 (the "**Reorganisation**") to rationalise the group structure for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Company's shares were listed on the Stock Exchange on 13 October 2010. Details of the Reorganisation are set out in the prospectus of the Company dated 28 September 2010.

2 STATEMENT OF COMPLIANCE

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. 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 is provided as below.

Changes in Accounting Policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

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

(i) 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 are demonstrable. Such changes may be as result of variation to any of the mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social, governmental or other factors.

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

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

– Depreciation, depletion and amortisation charged in the income statement 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 balance sheet or charged to the income statement 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.

(ii) Useful lives of property, plants and equipment

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

(iii) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow 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 increase or decrease in the provision of the impairment loss and affect the Group's net assets value.

In relation to trade and other receivables (including the value-added tax ("**VAT**") receivables), a provision for impairment is made and an impairment loss is recognised in profit or loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Management uses judgment in determining the probability of insolvency or significant financial difficulties of the debtor.

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

(iv) 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.

(v) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

(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) Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Group. It requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

(viii) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs 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.

There are two types of stripping activity:

– Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced; and

– Production stripping is the interburden removal during the normal course of production activity.

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 the 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 stripping ratio. When the current stripping 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.

(ix) Taxation

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

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to the Group's accounting policies on "obligations for reclamation", "recognition of deferred tax assets" and "derivative financial instruments". Information about the assumptions and their risk factors are set out in Notes 3(a) (iv), (v) and (vi).

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:

	2015	2014
	USD'000	USD'000
Self-produced coal		
Washed HCC	**75,594**	280,081
Washed semi-soft coking coal ("**SSCC**")	**—**	4,277
Washed thermal coal ("**middlings**")	**1**	43,925
Raw coal ("**ROM coal**")	**—**	24
Trading of coal procured from Chinese third party sources	**23,890**	—
	99,485	328,307

Revenue during the year ended 31 December 2015 include approximately USD37,997,000 (year ended 31 December 2014: USD130,602,000) which arose from sales of washed HCC to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

During the year ended 31 December 2015, the Group had four customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD26,119,000, USD15,097,000, USD11,564,000 and USD11,243,000, respectively. During the year ended 31 December 2014, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD117,673,000 and USD34,427,000, respectively.

5 COST OF REVENUE

	2015	2014
	USD'000	USD'000
Mining costs	**34,830**	126,841
Processing costs	**13,084**	31,596
Transportation costs	**15,387**	74,383
Provision losses on coal inventories	**6,122**	—
Others *(Note (i))*	**43,309**	62,069
Cost of revenue during mine operations	**112,732**	294,889
Cost of revenue during idled mine period *(Note (ii))*	**52,872**	40,621
Cost of revenue	**165,604**	335,510

Note:

(i) Others include cost of coal procured from Chinese third party sources and royalty tax for the coal exported from Mongolia.

(ii) Cost of revenue during idled mine period for the year ended 31 December 2015 includes USD34,390,000. (2014: USD27,954,000) of mining contractor costs and depreciation expense related to idled plant and equipment.

6 LOSS BEFORE TAXATION

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

(a) Net finance costs:

	2015	2014
	USD'000	USD'000
Interest income	**(5,084)**	(3,911)
Finance income	**(5,084)**	(3,911)
Net change in fair value of derivative component of senior notes *(Note 16)*	**—**	700
Interest on bank and other borrowings	**22,276**	22,575
Interest on liability component of senior notes *(Note 16)*	**54,978**	54,827
Transaction costs	**4,136**	3,440
Unwinding interest on		
– Obligations under finance lease	**—**	8
– Accrued reclamation obligations	**854**	808
Less: Interest expense capitalised into construction in progress*	**—**	(8,617)
Net interest expense	**82,244**	73,741
Foreign exchange loss, net	**21,862**	24,690
Finance costs	**104,106**	98,431
Net finance costs	**99,022**	94,520

* No borrowing costs have been capitalised for the year ended 31 December 2015; borrowing costs have been capitalised at a rate of 8.1% per annum for the year ended 31 December 2014.

(b) Staff costs:

	2015	2014
	USD'000	USD'000
Salaries, wages, bonuses and benefits	**20,961**	25,167
Retirement scheme contributions	**2,322**	3,015
Equity-settled share-based payment expenses	**3,298**	3,475
	26,581	31,657

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the Government of Mongolia ("**GoM**") whereby the Group is required to make contributions to the Schemes at a rate of 7% 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:**

	2015	2014
	USD'000	USD'000
Selling and distribution costs *(Note(i))*	**8,589**	56,445
Depreciation and amortisation	**39,179**	46,145
Provision for impairment losses on trade and other receivables *(Note 13(b))*	**8,512**	8,806
Provision for impairment loss on non-financial assets *(Note (ii))*	**—**	190,000
	8,512	198,806
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	**705**	2,224
– hire of other assets (including property rentals)	**962**	2,006
	1,667	4,230
Net gain on disposal of property, plant and equipment and assets held for sale	**(62)**	(36,881)
Auditors' remuneration		
– audit services	**536**	536
– tax and other services	**9**	272
	545	808
Cost of inventories *(Note(iii))*	**165,604**	335,510

Note:

(i) Selling and distribution costs

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 the new market penetration strategy to diversify and expand sales channels in inland PRC.

(ii) Impairment of non-financial assets

Given the fact that coking coal market experienced continuing price decline and the operating losses sustained by the Group during the year ended 31 December 2015, according to IAS 36, Impairment of assets, management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress, intangible assets and long-term prepayments 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 cash generating unit ("**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.

Compared with the one used at the year end of 2014, economically recoverable reserves and resources applied in the estimation made for the year end of 2015 had incorporated the latest JORC (2012) Coal Reserve estimate for UHG issued at a post balance sheet date.

– Growth rate

Instead of using a steady growth rate over the estimation period longer than five years, the cash flow projection made at the year end of 2015 and the year end of 2014 followed the same mechanism as coal product price multiplied by sales quantity, which was consistent throughout the whole life-of-mine ("**LOM**") time.

– Coal prices

The coal price assumptions are management's best estimates 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 difference qualities and type of coal.

Coal price for the next five years estimated at the year end of 2015 declined by approximately 9% than that at the year end of 2014, which was 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. The treatment was consistent among estimations made at the year end of 2014 and the year end of 2015.

– 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, 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.

Compared with the estimated production volumes as at the year end of 2014, changes were made in the 2015 assumption to reflect updated production plan standing on the latest economically recoverable reserve and resource statements and exploration and evaluation work undertaken by appropriately qualified persons.

– 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 20% was applied to the future cash flows projection at the year end of 2015 (2014: 20%). The directors believe that the post-tax discount rate was match with the latest cash flow projection modeling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2015, and has not resulted in the identification of an impairment loss for the year ended 31 December 2015. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2015 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. It is estimated that adverse changes in the key assumptions would lead to the recognition of an impairment provision against the CGU as follows:

	USD'000
7% decrease in long-term coal price	12,000
7% decrease in the estimated production volume	3,000
One percentage point increase in pre-tax discount rate	13,000
2% increase in the estimated operating costs	2,000
45% increase in the estimated capital expenditure	5,000

This assumes that the adverse change in the key assumption occurs in isolation of changes to other key assumptions and that no mitigating action is taken by management.

In light of a regular portfolio review, inflation pressures on operating costs, different product quality different mine has, and also following the latest coal price environment at the year end of 2014, the impairment loss of USD190,000,000 had been recognised as at 31 December 2014 in relation to the mining rights of BN Mine to reflect significant downward pressure on coal prices due to persisting oversupply situation in the coal industry (see Note 12). The BN Mine was acquired by the Company on 31 May 2011 when the Group entered into a share purchase agreement ("**Share Purchase Agreement**") with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited (collectively the "**Seller**") in relation to the acquisition of the entire issued share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "**Acquisition**"). Baruun Naran Limited ultimately owns the BN Mine. The Acquisition was completed on 1 June 2011. In order to rationalise the Seller's structure which was not cost-effective for the Group, Mongolian Coal Corporation Limited, a wholly-owned subsidiary of the Company which acted as the buyer of the Acquisition, decided to wind up Baruun Naran Limited voluntarily on 21 June 2012. Accordingly, Baruun Naran Limited (a Gibraltar registered company) was liquidated and all of its assets were transferred to Mongolian Coal Corporation Limited on 16 July 2012.

(iii) Cost of inventories

Cost of inventories includes USD50,475,000 (2014: USD79,333,000) relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also included in cost of inventories was transportation and stockpile losses amounted to USD862,000 (2014: USD3,542,000).

7 INCOME TAX

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

	2015	2014
	USD'000	USD'000
Current tax		
Provision for the year	**647**	8,492
Exemption of withholding tax obligation in prior years *(Note (v))*	**(7,647)**	—
Deferred tax		
Origination and reversal of temporary difference	**(9,873)**	(67,470)
	(16,873)	(58,978)

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

	2015 **USD'000**	2014 USD'000
Loss before income tax	**(204,586)**	(341,683)
Notional tax on loss before taxation	**(21,504)**	(62,580)
Tax effect of non-deductible items *(Note (iii))*	**(5,880)**	3,436
Tax effect of non-taxable items *(Note (iv))*	**15,819**	(677)
Tax losses not recognised	**2,339**	843
Exemption of withholding tax obligation in prior years *(Note (v))*	**(7,647)**	—
Actual tax expenses	**(16,873)**	(58,978)

Note:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2015 and 2014. According to the Corporate Income Tax Law of China, the Company's subsidiary in China is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2015 and 2014.

(iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2015 and 2014.

(iv) Non-taxable items mainly represent the unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2015 and 2014.

(v) The waiving is pursuant to the adoption of the new law on Economic Transparency on 7 August 2015 as approved by Mongolian Parliament for amnesty from tax obligations and administrative penalties.

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of USD187,763,000 (2014: USD282,837,000) and the 9,262,591,250 ordinary shares (2014: 4,751,758,537 ordinary shares after adjusting for the rights issue in 2014) in issue during the year. In calculating basic loss per share, the weighted average number of shares outstanding during the years ended 31 December 2015 and 2014 were calculated as if the bonus elements without consideration included in the rights issue had existed from the beginning of the comparative period.

(b) Diluted loss per share

For the years ended 31 December 2015 and 2014, basic and diluted loss per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2015 and 2014.

9 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal. The majority of its customers are located in China. Based on information reported to 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. Accordingly, no additional business and geographical segment information are presented.

10 PROPERTY, PLANT AND EQUIPMENT

Mining properties as at 31 December 2015 include stripping activity assets carrying book value of USD225,233,000 (2014: USD223,451,000) and application fee for the mining rights of USD770,000 (2014: USD627,000) in relation to the Group's mine deposits.

During 2015, the addition of mining properties for the year ended 31 December 2015 include the increase in reclamation provision of USD454,000 (2014: increase in reclamation provision of USD3,467,000). As at 31 December 2015, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with net book values of USD91,100,000, USD23,519,000 and USD2,532,000, respectively (31 December 2014: USD105,290,000, USD27,629,000 and USD3,008,000, respectively) (see Note 14).

11 CONSTRUCTION IN PROGRESS

	2015 **USD'000**	2014 USD'000
At 1 January	**58,421**	148,371
Additions	**184**	6,314
Transfer to property, plant and equipment *(Note 10)*	**—**	(86,855)
Transfer to intangible assets *(Note 12)*	**—**	(4,909)
Disposal	**(443)**	—
Exchange adjustments	**(2,998)**	(4,500)
At 31 December	**55,164**	58,421

The construction in progress is mainly related to water supply facility and other mining related machinery and equipment.

12 INTANGIBLE ASSETS

	Acquired mining right USD'000	Softwares USD'000	Total USD'000
Cost:			
At 1 January 2014	701,557	—	701,557
Addition for the year	—	7	7
Transfer from Construction in progress *(Note 11)*	—	4,909	4,909
Exchange adjustments	—	(178)	(178)
At 31 December 2014	701,557	4,738	706,295
At 1 January 2015	701,557	4,738	706,295
Exchange adjustments	—	(263)	(263)
At 31 December 2015	701,557	4,475	706,032
Accumulated amortisation and impairment loss:			
At 1 January 2014	5,203	—	5,203
Amortisation charge for the year	—	3	3
Impairment loss *(Note 6(c))*	190,000	—	190,000
Exchange adjustments	—	—	—
At 31 December 2014	195,203	3	195,206
At 1 January 2015	195,203	3	195,206
Amortisation charge for the year	—	452	452
Impairment loss	—	—	—
Exchange adjustments	—	(6)	(6)
At 31 December 2015	195,203	449	195,652
Carrying amount:			
At 31 December 2015	506,354	4,026	510,380
At 31 December 2014	506,354	4,735	511,089

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

13 TRADE AND OTHER RECEIVABLES

	2015	2014
	USD'000	USD'000
Trade receivables *(Note (a))*	**1,976**	36,952
Other receivables *(Note (c))*	**92,317**	125,390
	94,293	162,342
Less: allowance for doubtful debts *(Note (b))*	**(436)**	(10,135)
	93,857	152,207

Note:

(a) Ageing analysis

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

	2015	2014
	USD'000	USD'000
Within 90 days	**631**	12,093
90 to 180 days	**734**	9,998
180 to 365 days	**175**	4,726
	1,540	26,817

(b) Impairment of trade receivables

Impairment 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 impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	2015	2014
	USD'000	USD'000
At 1 January	**10,135**	5,029
Provision for impairment losses	**8,512**	8,806
Amounts written off	**(18,211)**	(3,700)
At 31 December	**436**	10,135

As at 31 December 2015, an allowance for doubtful debts amounting to USD436,000 (2014: USD10,135,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date, which have been included in "general and administrative expenses" in the consolidated statement of comprehensive income.

During the year ended 31 December 2015, management assessed that the recoverability of trade receivables due from certain customers is remote, and USD18,211,000 have been written off against allowance for doubtful debts.

(c) Other receivables

	2015	2014
	USD'000	USD'000
Amounts due from related parties *(Note (i))*	**456**	607
Prepayments and deposits *(Note (ii))*	**25,462**	31,448
VAT and other tax receivables *(Note (iii))*	**20,752**	35,786
Amounts due from the GoM in relation to the termination of the Concession Agreement *(Note (iv))*	**41,952**	44,408
Others *(Note (v))*	**3,695**	13,141
	92,317	125,390

Note:

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

(ii) At 31 December 2015 and 2014, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

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

(iv) It represented the compensation amount receivable from the GoM upon the termination of a Build-Operate-Transfer Concession Agreement (the "**Concession Agreement**") signed on 6 May 2013, relating to the railway base infrastructure between UHG coking coal mine and Gashuun Sukhait border check point of Mongolia (the "**UHG-GS Railway**"), after taking into account of liabilities assumed by the GoM. The Group has been negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into the equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.

Subsequent to the balance sheet date, and based on the contracted exchange rate, the Ministry of Finance ("**MOF**"), representative designated by GoM, issued MNT denominated promissory notes with total face value of approximately MNT120.6 billion (equivalent to USD60,336,000) to the Group with regards to the settlement of this receivables in relation to the termination of the Concession Agreement. Until the issuance of the consolidated financial statements, the Group has received all the above mentioned MNT denominated promissory notes, and as such its rights for equity conversion into the railway project shall deemed as terminated.

(v) At 31 December 2015, this item mainly represented the interest receivables on deposit. At 31 December 2014 this item mainly represented the reimbursement receivables due from Erdenes MGL LLC of USD8.4 million.

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

14 BORROWINGS

(a) The Group's long-term interest-bearing borrowings comprise:

	2015	2014
	USD'000	USD'000
Bank loan		
– secured	**144,818**	241,636
– unsecured	**40,000**	40,000
Less: Current portion of long-term borrowing less amortised transaction costs	**(182,631)**	(114,818)
Less: Unamortised transaction costs	**(2,187)**	(4,840)
	—	161,978

As at 31 December 2015, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**") were due within one year, which were with principal amount of USD40,909,000 (2014: USD81,818,000), USD6,545,000 (2014: USD13,091,000) and USD4,364,000 (2014: USD8,727,000), respectively, bearing interest of one month LIBOR + 3.5%~3.75% per annum, and were secured by the Group's property, plant and equipment (see Note 10) and cash at bank.

As at 31 December 2015, the Group's long-term interest-bearing borrowings from BNP Paribas, Singapore Branch and Industrial and Commercial Bank of China Limited (the "**BNP and ICBC Facility**") of USD93,000,000 (2014: USD138,000,000) were due within one year, which were with principal amount, bearing interest of 3 months LIBOR + 6.00% per annum, and were secured by the Group's cash at bank and inventories. The attributable transaction cost amounts to USD2,008,000 as at 31 December 2015. The BNP Paribas facility was initially contracted with Standard Bank Plc. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interest in (and obligations under) the facility to BNP Paribas, Singapore Branch. On 5 March 2014, the facility was refinanced to a facilities agreement with two international banks as arrangers and original lenders, BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited. The BNP and ICBC Facility is a coal pre-export loan facility of USD150,000,000 bearing interest of LIBOR + 6.00% per annum.

In March 2014, the Group refinanced short-term loans of USD40,000,000 into a revolving credit facility, and extended its maturity date to 20 March 2015 with an interest of 10.0% per annum. On 31 December 2014, the maturity date was extended to 20 March 2016, and interest for the extension period is 11.20% per annum. On 21 March 2016, the maturity date was further extended to 20 June 2016, and interest for the extension period is 11.20 % per annum.

The Group's long-term borrowings are repayable as follows:

	2015	2014
	USD'000	USD'000
Within 1 year or on demand	**184,818**	114,818
After 1 year but within 2 years	**—**	166,818
	184,818	281,636

(b) The Group's short-term interest-bearing borrowings comprise:

	2015	2014
	USD'000	USD'000
Bank loans		
– Unsecured	**15,000**	—
Current portion of long-term borrowings		
– Bank loan	**184,818**	114,818
Less: Unamortised transaction costs	**(2,187)**	—
	197,631	114,818

On 24 February 2016, the Group had repaid the USD5,000,000 short-term loan by converting it into coal pre-payment facility.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. The Group was in breach of certain security coverage ratio and financial covenants under the BNP and ICBC Facility as at 31 December 2015.

15 TRADE AND OTHER PAYABLES

	2015	2014
	USD'000	USD'000
Trade payables *(Note (i))*	**39,287**	125,217
Receipts in advance *(Note (ii))*	**40,016**	16,866
Amounts due to related parties *(Note (iii))*	**11,565**	8,102
Payables for purchase of equipment	**2,691**	4,858
Security deposit on construction work	**978**	1,340
Interest payable	**18,961**	18,081
Other taxes payables	**3,310**	20,782
Promissory notes *(Note (iv))*	**72,230**	66,601
Others *(Note (v))*	**24,391**	36,271
	213,429	298,118

Note:

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

	2015	2014
	USD'000	USD'000
Within 90 days	**14,122**	40,958
90 to 180 days	**2,153**	22,410
180 to 365 days	**14,019**	58,380
Over 365 days	**8,993**	3,469
	39,287	125,217

(ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.

(iii) 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.

(iv) On 27 November 2012, the Company issued two promissory notes to QGX Holdings Ltd., each in the amount of USD52,500,000, and shall bear interest at a rate of 3.0% per annum commencing on the issue date to the maturity date. The original maturity date was 22 November 2013. On 8 February 2013, an amendment agreement was signed by the Company and QGX Holdings Ltd. to extend the maturity date of two promissory notes from 22 November 2013 to 31 March 2014 and 31 December 2014, respectively.

During the year ended 31 December 2014, based on the new amendment agreements, the Group offset USD45,174,000 of promissory notes principal and accrued interest with the trade receivables due from affiliated company of QGX Holdings Ltd. On 31 December 2014, the maturity date of two promissory notes was extended to 31 March 2015, with a rate of 8.0% per annum to the maturity date.

On 31 March 2015, the maturity date of two promissory notes was further extended to 30 June 2015, with a rate of 8.0% per annum to the maturity date. On 30 June 2015, the maturity date of two promissory notes was further extended to 30 September 2015, with a rate of 8.0% per annum to the maturity date. On 30 September 2015, the maturity date of two promissory notes was further extended to 31 December 2015, with a rate of 8.0% per annum to the maturity date. On 31 December 2015, the maturity date of two promissory notes was extended to 31 March 2016, with a rate of 8.0% per annum to the maturity date.

(v) Others represent mainly accrued expenses, payables for staff related costs and other deposits.

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

16 SENIOR NOTES

	USD'000
At 1 January 2015	595,906
Interest charged during the year *(Note 6(a))*	54,978
Interest payable	(53,250)
At 31 December 2015	597,634

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 which were listed on the Singapore Exchange Securities Trading Limited (the "**Senior Notes**"). The Senior Notes bear interest at 8.875% per annum, payable semi-annually in arrears, and will be due in 2017.

The Senior Notes may be redeemed at the option of the Company upon giving not less than 30 days or no more than 60 days notice to the holders.

The Company has agreed, for the benefit of the holders of the Senior Notes, to pledge all of the capital stock of Mongolian Coal Corporation Limited owned by the Company and to cause Mongolian Coal Corporation Limited to pledge all of the capital stock of Mongolian Coal Corporation S.a.r.l. owned by Mongolian Coal Corporation Limited. The Senior Notes are guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.a.r.l., Energy Resources Corporation LLC, Energy Resources LLC ("**ER**"), Energy Resources Mining LLC and Transgobi LLC.

The Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 was charged to profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 31 December 2015 was nil (2014: nil) which was presented as derivative financial instruments.

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account attributable transaction costs of USD13,213,000.

Fair value of the derivative component was valued by the Directors with reference to a valuation report issued by an independent business valuer based on the Binomial model. The Group is seeking for a potential restructuring of the USD600,000,000 8.875% Senior Notes. The Group has appointed restructuring advisers to assist with negotiations with the holders of the Senior Notes and to achieve the debt restructuring in respect of the Senior Notes.

17 DIVIDENDS

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2015 (dividend for the year ended 31 December 2014: nil).

18 EXTRACT OF INDEPENDENT AUDITOR'S REPORT TO BE ISSUED ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw your attention to note 2(b) to the consolidated financial statements which describes that the Group had net current liabilities of approximately USD220,761,000 as at 31 December 2015 and made a loss of USD187,713,000 for the year then ended. These conditions, along with other matters set forth in note 2(b), indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the availability of the ongoing financial support from the Group's bankers, lenders, creditors and shareholders to enable the Group to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The consolidated financial statements do not include any adjustments that would result should the Group be unable to continue to operate as a going concern."

MANAGEMENT DISCUSSION AND ANALYSIS

In 2015, the global coking coal markets continue to face persisting imbalance between supply and demand, which led to the coking coal prices dropping to the lowest levels seen in a decade. In the fourth quarter of 2015, benchmark prices of coking coal settled at the lowest since 2005. The industry report estimates that it may take at least two years for coking prices to rise above current levels, provided that around 30 million tonnes ("**Mt**") of annual supply is required to be taken off the seaborne market to offset the receding Chinese demand and new supply from ongoing mine expansions.

In China, the Group's principal market, the crude steel output fell last year for the first time since 1981, amid a wider slowdown in the country's economy. According to the National Bureau of Statistics ("**NBS**"), Chinese crude steel production declined 2.3% year-on-year to 803.8 Mt in 2015. The steel sector, the main consumer of coking coal, has been plagued by overcapacity in China and the rest of the world for years, and global steel prices have plummeted in the face of oversupply. Cooling Chinese coal consumption is the major factor behind the fall, although softer prices in the domestic market also contributed to weaker imports. The acceleration of the RMB depreciation from the third quarter of 2015 also made imports more costly.

The coal mining industry is experiencing severe competition between producers from various regions. It is expected in the near future to result in accelerated mine closures among high-cost producers. Recently, the Chinese government revealed plans to tackle chronic overcapacity in the coal sector by closing 4,300 small and inefficient coal mines and cutting annual coal production capacity by 700 Mt over the next three years.

In the last several years, in order to improve the Company's competitive position, the Company's management was able to achieve significant cost reductions by improvements in operational efficiency and productivity. Unfortunately this was insufficient to offset the continued sharp decline in product prices. Therefore, the management has prioritized resolving financial issues with a focus on preserving liquidity and managing its balance sheet.

In light of the adverse market conditions, and to better protect the interests of all the stakeholders of the Company, the Company started a dialogue with its lenders, and the financial and legal advisors of the steering committee of its noteholders about a possible restructuring arrangement in relation to its debt facilities. The Company is committed to transparent communication with broader investment community with the ultimate goal to achieve outcomes acceptable, and in the long term, beneficial to all its stakeholders.

THERE CAN BE NO ASSURANCE THAT ANY DISCUSSIONS WITH ANY NOTEHOLDER AND LENDER WILL LEAD TO A PROPOSAL ACCEPTABLE TO THE NOTEHOLDERS AND THE LENDERS MORE GENERALLY OR THAT DISCUSSIONS WITH THE NOTEHOLDERS AND THE LENDERS CAN BE PROGRESSED TO ANY POSITIVE CONCLUSION. ACCORDINGLY, THE COMPANY OFFERS NO ASSURANCE THAT THE PROPOSED RESTRUCTURING WILL BE SUCCESSFULLY CONCLUDED. SHAREHOLDERS OF THE COMPANY, THE NOTEHOLDERS, HOLDERS OF OTHER SECURITIES OF THE COMPANY AND POTENTIAL INVESTORS IN THE SECURITIES OF THE COMPANY ARE ADVISED TO EXERCISE EXTREME CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

According to World Steel Association ("**WSA**"), China remains the largest crude steel producer in the world with 49.5% share in the global production, but in 2015 its steel output posted its first annual contraction in a quarter of a century. China's crude steel output decreased 2.3% to 803.8 Mt in 2015, according to the data from NBS. That compared with a growth of 0.9% in 2014 and 12.5% in 2013, reflects a weak downstream demand amid a slowdown in the Chinese economy.

Demand for steel is weakening as policy makers seek to steer the economy away from an investment to consumption-led growth. The economy expanded 6.9% last year, the slowest pace since 1990. As a result, the domestic steel consumption declined to 689.8 Mt in 2015, representing 5.3% year-on-year drop according to China Coal Resource ("**CCR**") estimates.

China's steel product exports have increased for six straight years and jumped 20% to 112.4 Mt last year, topping 100 Mt for the first time, according to trade statistics reported by China's General Administration of Customs ("**China Customs**"). The surge in 2015 was caused by steelmakers looking for markets overseas due to surplus production and softer domestic demand accompanying a slowdown in the Chinese economy. However, China's massive exports have caused steel prices to fall throughout the world, and it was reported that the European Union, USA and India considered imposing protectionist measures according to the media reports.

The Chinese government recently announced that it is determined to continue undertaking supply side reform by cutting back industrial overcapacity faced by steel, coal and cement producers. Officials reported that China cut crude steel production by about 90 Mt in recent years and will target to cut a further 100-150 Mt without specifying an exact timeframe.

Following the weak performance of the steel industry, China's coke production declined to 447.8 Mt in 2015 from 476.9 Mt recorded in 2014, representing a 6.1% decrease. Similarly, Chinese coke consumption was 440.7 Mt in 2015, which is 3.0% lower compared to 454.5 Mt reported in 2014. With domestic excess production and lower demand, Chinese coke exports continued to grow in 2015 and reached 9.9 Mt from 8.5 Mt recorded in 2014, representing a 15.8% year-on-year increase.

Chinese coal production fell by 3.5% year-on-year to 3.7 billion tonnes according to NBS, resulting in a decline for two consecutive years. Chinese coking coal production was 483.8 Mt, representing a 3.6% decrease from 502.1 Mt recorded in previous year, and coking coal consumption fell by 5.8% to 528.6 Mt from 561.3 Mt in 2014.

The fixed asset investment ("**FAI**") in China's coal mining and washing industry continued to drop to RMB400.8 billion in 2015, representing a 14.4% fall compared to the preceding year. Also, China's coal mining and washing industry profit fell to RMB44.1 billion, or down by 65% year-on-year according to NBS. During the same period, the coal mining and washing industry realised a revenue of RMB2.5 trillion, a decline of 14.8% year-on-year.

In order to fight air pollution and overcapacity faced by the coal industry, the Chinese government recently announced that it will halt issuing approvals for new coal mines for the next three years, cut annual coal production capacity by 700 Mt and also allocate RMB30 billion to support the relocation of employees affected by the closure of 4,300 small and inefficient coal mines.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

With declining demand in 2015, Chinese coking coal imports fell to 47.8 Mt, representing 23.3% year-on-year decline compared to 62.4 Mt imported in 2014, according to China Customs. For imported coking coal, Australia increased its market share to 53.4% from 50.1% in 2014. Mongolia preserved its position as the second largest supplier and also increased its market share to 26.6% from 23.7% in 2014.

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

Countries	**2015**	**2014**	**Change**
Australia	25.5	31.3	-18.3 %
Mongolia	12.7	14.8	-13.8 %
Canada	5.7	7.2	-20.7%
Russia	3.2	5.8	-44.0 %
USA	0.1	2.1	-94.5 %
Others	0.5	1.3	-60.9 %
Total	**47.8**	**62.4**	**-23.3%**

Source: China Coal Resource

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 and year-on-year percentage change.

According to the data from Mongolian National Statistics Office, Mongolian coal exports to China reached 14.5 Mt in 2015, representing a 25.8% decrease compared to 19.5 Mt reported in previous year. The Group remains as the only major producer and exporter of washed coking coal in Mongolia.

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

In 2015, the Parliament of Mongolia ("**Parliament**") adopted the following amendments to the Minerals Law (the "**Amendments**"), which were relevant to the Group's operations in Mongolia. The Group does not expect any material impact on its financials from the Amendments described below.

On 23 January 2015, license fees previously expressed in USD were changed such that they are now expressed in MNT. For coal deposits, an annual mining license fee payable by license holder was previously USD5 per hectare and it has been changed to MNT7,250 per hectare after the Amendment. Our Mongolian operating subsidiaries holding mining licenses are in compliance with the license fee payment obligations as stipulated under relevant provisions in the Minerals Law.

On 18 February 2015, a concept of a special royalty for mineral deposits of strategic importance was introduced. It provides an option for the GoM either to exercise its right to take an equity interest in such deposits as stipulated under the Minerals Law or to, in lieu of such interest, impose a special royalty of up to 5% in addition to the base and progressive royalties applicable universally to all mining licenses under the Minerals Law.

Labour Relations, Occupational Health and Safety related legislation

On 17 February 2015, the GoM, Geology and Mining Sector Labour Union and representatives of the mining sector employers entered into a collective bargaining agreement for 2015 and 2016 (the "**Collective Bargaining Agreement**"). Under this agreement, it was stipulated that the industry's minimum wage for 2015 and 2016 shall be doubled to the national minimum wage set by the GoM, which currently equals to MNT192,000 per month.

The Group does not expect any impact on its financials for entering into the Collective Bargaining Agreement. Its existing internal remuneration policies are in line with the Collective Bargaining Agreement.

On 14 May 2015, the Parliament amended the Law on Occupational Safety and Hygiene. In light of this amendment, the GoM adopted Resolution No.269 on investigation and registration of industrial accidents, and acute poisonings on 29 June 2015.

Pursuant to these changes, the criteria for the consideration of accidents was further specified and its scope was widened. In accordance with these changes, the Group has undertaken required changes to its internal regulations related to the investigation and registration of any workplace accidents.

Taxation, Accounting and Financial Reporting related legislation

On 9 July 2015, the Law on VAT was revised by the Parliament and it has become effective since 1 January 2016. Under this revision, the VAT rate of 10% payable with respect to all goods sold, works performed and services provided within Mongolia continue to be applied and most importantly, the zero-rate regime for the exported "finished mineral products" continue to be applied, and the list of "finished mineral products" will be adopted by the GoM. Based on the revised Law on VAT,

Government Resolution No.502 was issued on 21 December 2015, which replaced Resolution No. 286 that was adopted in 2010 and the list of exported "finished mineral products" was redefined. The processed coals, those comprise of processed anthracite, semi anthracite, HCC, SSCC and non-coking coal continue to be classified as "finished mineral products".

Therefore, the Group will continue to be entitled to claim its VAT paid during its operation in Mongolia, whereas a producer of other mineral products that are not included in the list of "finished minerals products" will be excluded from VAT payment refunding. This list is in compliance with other resolutions and standards such as Government Resolution No. 193 of 2011 on Requirements, Types, Main Principles and Methodology of Mineral Ore, Concentrate and Products and Mongolian National Standard 6457:2014 on Coal Products and Classification.

With regard to other changes made by the revised Law on VAT, the revenue threshold for VAT payer registration was revised from MNT10 million to MNT50 million. VAT will be imposed on all types of works and services imported to Mongolia, regardless of whether or not the works and services are performed and rendered within the territory of Mongolia. The list of deductibles from the VAT taxable was shortened.

On 19 June 2015, the Law on Accounting and Law on Auditing were revised by the Parliament and have became effective since 1 January 2016. Under the revised Law on Accounting, a legal entity or any of its representatives who operate in Mongolian territory can record its financial transactions in a currency other than MNT, if agreed by the government authority in charge of finance and accounting. However, financial statements submitted to the relevant government authority shall be denominated only in MNT. Under the revised Law on Accounting, a company with one or more subsidiaries shall be required to submit consolidated financial statements. If its ultimate parent company is registered in a foreign country, the top parent company registered in Mongolia is obliged to issue consolidated financial statements. On the Law on Auditing, the main change was that the term for conducting audit service provided by an audit firm to a legal entity is extended to five consecutive years from three consecutive years.

In accordance with these changes, the Group has undertaken required changes to its internal regulations and procedures related to taxation reporting in Mongolia.

During 2015, the excise and customs duties of imported gasoline and diesel were increased by the GoM which has the authority to set the excise duty on imported gasoline and diesel within the range defined under the Law on Excise Tax and Parliament Resolution No.27, 1999. The changes include:

(a) On 19 January 2015, the GoM issued Resolution No.18 and increased excise duty for imported diesel from MNT30,000 to MNT265,000 per tonne, and increased excise duty for gasoline with octane rate up to 90 from MNT30,000 to MNT252,000 per tonne and gasoline with octane rate above 90 from zero to MNT259,000 per tonne, which are imported through Sukhbaatar, Zamiin Uud, Ereentsav and Altanbulag border ports of Mongolia. Such resolution has become effective on 20 January 2015.

(b) On 16 February 2015, the GoM issued Resolution No. 65 and increased the customs duty for imported diesel and gasoline from 1% to 5%. This resolution has become effective from 18 February 2015.

(c) On 9 November 2015, the GoM issued Resolution No.438 and increased the excise duty of imported diesel via Sukhbaatar, Zamiin-Uud, Altanbulag at MNT520,000 per tonne and at MNT390,000 per tonne for diesel imported via Ereentsav. It also increased the excise duty for gasoline at MNT400,000 per tonne which are imported through Sukhbaatar, Zamiin Uud, and Altanbulag and MNT270,000 per tonne for gasoline imported via Ereentsav border ports of Mongolia. This resolution has become effective since 10 November 2015.

Investment related legislation

On 14 May 2015, the Parliament amended the Law on Investment such that certain powers vested in other government ministerial level body have been shifted to the Investment Agency.

Pursuant to the relevant clauses under the Law on Investment, ER, an indirectly wholly-owned subsidiary of the Company, has applied for the Stabilization Certificate according to the procedures prescribed by this Law. On 13 August 2015, the Stabilization Certificate was issued by the Investment Agency to ER. Effectively, ER now has four main taxes namely, corporate income tax, customs tax, VAT and royalty, stabilized for the period until 17 April 2033.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

The UHG deposit sits within the 2,960 hectare Mining License MV-11952 ("**UHG mining license**"), granted to the Group effective for 30 years from 29 August 2006, extendable twice by 20-year periods. Since acquiring the UHG mining license, the Group has prepared three JORC compliant Coal Resource estimates, the most recent of which, stated as of 30 November 2015, represents only a minor update from the second estimate stated previously as of 31 December 2014.

This most recent Coal Resource update has been made in accordance with the requirements of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). Compared to the previous JORC Coal Resource estimate stated as at 31 December 2014, this update was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2015 and 30 November 2015. No further exploration data was incorporated.

Exploration activities conducted in the process of preparing the two preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality geological models supporting the latest Coal Resource estimate as at 30 November 2015, included:

- 1,556 individual boreholes drilled for 191,275 metres ("**m**"), including 104,369m of HQ-3 (63.1 millimetres ("**mm**") core, 96.0mm hole diameter) and 86,906m of 122mm diameter open hole drilling;
- 37,548 individual analytical samples collected and analysed;
- 71 kilometres ("**km**") of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International Ltd (**"Polaris"**) and analysed by Velseis Processing Pty Ltd (**"Velseis"**); and
- results from large-diameter, bulk-sample drilling samples analysed at the ALS Group (**"ALS"**) laboratories in Ulaanbaatar.

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

Figures reported based upon an in situ density at an as-received moisture basis are summarised in Table 2. By mine survey measurement, it is calculated that production activity between 1 December 2015 and 31 December 2015 has depleted the stated JORC Coal Resource by less than 1 Mt, and it is thus considered that such production activity has imparted no material change.

With updated surface topography being the only new information used in preparation of the updated JORC Coal Resource estimate, and all other information and methodology remaining consistent with the previous JORC Coal Resource estimate, Appendix 1 of the Company's 2014 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 estimate, by depth and category, as at 30 November 2015 (Note):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	2	3	5	5	10
BHWE to 100m	73	23	17	97	114
From 100m to 200m	94	48	26	141	168
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	15	92	108
Below 400m	40	44	30	84	114
Sub-Total above 300m	260	138	70	398	468
Sub-Total below 300m	97	79	45	177	222
Total	**357**	**217**	**115**	**575**	**689**
Total (Rounded)	**360**	**220**	**120**	**580**	**690**

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 8 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, Minerals Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimate of the Coal Resource set out in Table 2 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 30 November 2015, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The JORC Code (2012).

(ii) Mr. Gary Ballantine is employed by the Group as Executive General Manager for Exploration and Geology. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 25 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).

In 2015, 16 boreholes were drilled within the UHG mining license, comprising 636m of HQ-3 drilling and 368m of 122mm diameter open hole drilling, outside of the northern pit limit. The purpose of this drilling was to improve the geotechnical knowledge related to the boundaries of basement rock on the northern periphery of the UHG deposit. The information obtained allowed the revision to be made to the LOM pit slope design, subsequently allowing the revision of ex-pit dump design and the facilitation of shorter overburden haulage distances than previously determined during LOM planning. Data obtained from this drilling was not included in the JORC Coal Resource updated as of 30 November 2015, and is unlikely to have any bearing upon future updates.

Baruun Naran (BN) deposit

The BN deposit is covered by two mining licenses. Mining License 14493A ("**BN mining license**") of 4,482 hectares area was obtained through the acquisition of Baruun Naran Limited, formerly known as QGX Coal Limited on 1 June 2011, and is effective for 30 years from 1 December 2008. Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013, effective for 30 years. Both licenses are extendable twice, by 20-year periods.

During 2015, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 30 June 2015 for the BN and THG mining licenses. The estimation process applied more stringent requirements under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014), as compared to the previous JORC (2012) Coal Resource estimates prepared by McElroy Bryan Geological Services Pty Ltd (**"MBGS"**), stated as of 30 June 2012 and 30 April 2013 for the BN mining license and the THG mining licenses respectively.

No further drilling was conducted at the BN deposit in 2015, however the updated JORC (2012) Coal Resource stated as at 30 June 2015 did incorporate additional exploration data gained from the exploration drilling program conducted in 2014. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated JORC (2012) Coal Resource statement:

- total of 92 exploration boreholes at BN, with a total of 28,540m drilled, of which 14,780m were HQ-3 9,640m PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122mm diameter open hole;
- total of 32 exploration boreholes at Tsaikhar Khudag ("**THG**"), with a total of 9,970m drilling at THG, of which 5,900m were HQ-3, 3,610m PQ-3 and 460m were 122mm open hole;
- total of 8,720 (BN) and 3,824 (THG) coal samples collected and analysed; and
- total of 75km of 2D seismic survey captured by Polaris over the BN mining license, and analysed by Velseis.

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

Summary of the updated JORC (2012) Coal Resources 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 estimate, by depth and category, as at 30 June 2015 (Note):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to BHWE	10	2	1	12	13
BHWE to 100m	42	9	3	51	54
From 100m to 200m	62	11	5	73	78
From 200m to 300m	67	13	7	80	87
From 300m to 400m	70	16	9	86	95
Below 400m	—	—	—	—	—
Sub-Total above 300m	181	35	16	216	232
Sub-Total below 300m	70	16	9	86	95
Total	**251**	**51**	**25**	**302**	**327**
Total (Rounded)	**250**	**50**	**30**	**300**	**330**

Table 4. THG mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (Note):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to BHWE	—	—	2	—	2
BHWE to 100m	—	—	14	—	14
From 100m to 200m	—	—	19	—	19
From 200m to 300m	—	—	19	—	19
From 300m to 400m	—	—	18	—	18
Below 400m	—	—	—	—	—
Sub-Total above 300m	—	—	54	—	54
Sub-Total below 300m	—	—	18	—	18
Total	**—**	**—**	**72**	**—**	**72**
Total (Rounded)	**—**	**—**	**70**	**—**	**70**

Notes:

(i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 8 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, Minerals Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimate of the Coal Resource set out in Table 3 and Table 4 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, and has been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

(ii) Mr. Gary Ballantine is employed by the Group as Executive General Manager for Exploration and Geology. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 25 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

During 2015, the Group engaged RungePincockMinarco Limited (**"RPM"**) to prepare an updated JORC (2012) Coal Reserve statement as at 30 November 2015 for the UHG deposit. Much of the work conducted represented an update to work previously completed by RPM in 2013 to produce the previous JORC (2012) Coal Reserve statement as at 31 December 2012. This update, however, focused solely on UHG stand-alone operation, given the continued non-operational status of the BN mine.

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

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

- washability curves on seam ply basis, as prepared previously by Mr. John Trygstad of Norwest Corporation ("**Norwest**") for inclusion in the previous JORC (2012) Coal Reserve estimate, to individual coal seams based upon propensity for processing into coking and/or thermal products, with update made to reassign portion of Seam 0B from thermal to coking coal production, based upon results observed during production trials in 2015;

- updated assumptions with regard to (i) coal losses and dilution, and (ii) manual re-assignment of proportion of coal mined from coking to thermal product streams, based upon survey reconciliation of actual production performance at UHG as well as allowing for unadjusted presentation of Proved and Probable categorisation of Coal Reserves as per JORC Code (2012) specification;

- 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 forecasted based upon negotiated reductions in cost for mining and blasting contractor services; and

- updated revenue input assumptions, derived from an updated market study commissioned from Shanxi Fenwei Energy Consulting Co. Ltd ("**Shanxi Fenwei**") in October 2015, 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.

Within the economical pit shell limit determined as a result of this optimisation process, pit designs were then designed to account for practicalities such as ramp accesses and minimum operating pit dimensions. Modifying Factors were then applied enabling determination of the mineable in situ coal within the pit shell and conversion to run-of-mine ("**ROM**") and product coal quantities.

Tonnages based upon an as-received basis with 5% total moisture, resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 30 November 2015 are shown in Table 5. It is considered that no material change to the stated Coal Reserve has resulted from depletion on account of production activity, with less than 1 Mt of coal extracted between 1 December 2015 and 31 December 2015 according to mine survey measurement.

Table 5. UHG mining license JORC (2012) Coal Reserve estimate, as at 30 November 2015 (Note):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	119	52	171
Thermal	52	4	55
Total	**171**	**55**	**226**

Note:

(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. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RungePincockMinarco Limited and has extensive experience in the mining industry, working for over 30 years with major mining companies, mining contractors and consultants. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined in the JORC Code (2012). Mr. Eisenmenger consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.*

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

Excluding for depletion of approximately 16 Mt as a result of mining activity since release of the previous JORC (2012) Coal Reserve estimate, the updated JORC (2012) Coal Reserve estimate as of 30 November 2015 has resulted in reduction of Total Coal Reserve by approximately 24.4%. This is largely due in part to 50.7%, 56.7% and up to 64.0% reduction in forecasted mine gate revenue

assumptions for HCC, SSCC and thermal coal respectively, compared to assumptions made in the previous Coal Reserve estimate, in line with medium term market conditions forecasted by Shanxi Fenwei.

The application of forecasted sustainable reductions with regard to mining, processing, site administration and other unit costs of 24.7%, 26.2%, 51.3% and 32.4% respectively, largely possible on the basis of actual, sustainable reductions achieved since 2012, as well as on the basis of successful contract negotiations with mining and blasting contractors in 2015, has ensured that the Coal Reserve has not decreased so significantly in lieu of the significantly reduced revenue assumptions. As a result, there has been 6.5% proportional increase to the content of coking coal within the Total Coal Reserve, as well as reduction in the forecasted remaining LOM stripping ratio by 23.7% to 4.5 bank cubic metres ("**bcm**") per ROM for the minable quantities in the LOM schedule.

Baruun Naran (BN) deposit

A JORC (2012) Coal Reserve estimate was most recently prepared for the BN deposit as part of an integrated LOM study prepared by RPM in 2013, with the resulting statement dated 31 December 2012. This study was completed on the previous JORC (2012) Coal Resource estimate within the BN mining license prepared by MBGS with statement dated 30 June 2012. Further update to this has not been prepared as of yet, pending completion of the most recent JORC (2012) Coal Resource estimate across the BN mining license and THG mining license as at 30 June 2015, but there are plans to review it in 2016.

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

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

- limitation of open pit depth to 350m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla from AMC;
- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest;
- cost input assumptions based upon historical operating performances at both the UHG and BN mines, up until end of 2012; and
- revenue input assumptions derived from a market study of the principal coking and thermal coal markets in China, completed by Shanxi Fenwei in March 2012.

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of above is summarised in Table 6, with tonnage estimation based on an as-received basis with 6% total moisture. Production activity between 1 January 2013 and 31 December 2015 has depleted the stated BN ROM Coal Reserve by less than 1 Mt, according to mine survey measurement, and is considered to impart no material change.

Table 6. BN mining license JORC (2012) Coal Reserve estimate, as at 30 June 2012 (Note):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	118	22	140
Thermal	23	2	25
Total	**141**	**24**	**165**

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. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RungePincockMinarco Limited and has extensive experience in the mining industry, working for over 30 years with major mining companies, mining contractors and consultants. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralization 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. Eisenmenger consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.

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

Production and Transportation

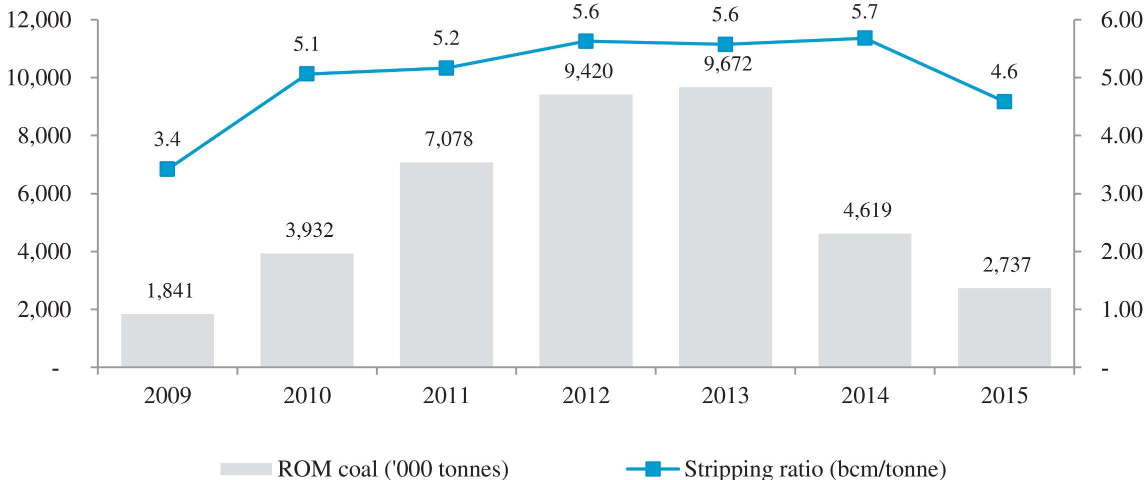
Coal Mining

As part of a deliberate strategy to adjust production output lower in view of reduced market demand, the Group's annual ROM coal mining output decreased to 2.7 Mt, as can be seen in Figure 1. All ROM coal output in 2015 was sourced from the UHG mine, whilst production activities at the BN mine remained suspended. This was achieved at a stripping ratio of 4.6 bcm per ROM tonne, with total of 12.6 million bank cubic metres ("**Mbcm**") of overburden material removed to access the coal mined.

Some of the reduction in stripping ratio is largely attributable to the successful introduction of Seam 0B in feed blend to the coal handling and preparation plant (“**CHPP**”) during the production of HCC. Approximately 219 thousand tonnes (“**kt**”) of Seam 0B, representing 8.0% of the total ROM tonnes delivered to CHPP, was sourced in 2015 from this incrementally low stripping ratio seam that lies partially uncovered at the bottom of the existing pit, that previously was considered only as a source for thermal coal production.

Following a more thorough investigation by the Group’s technical services personnel, including drill hole chip sampling and trench sampling, a significant proportion of Seam 0B has been identified as suitable for HCC production. Subsequently, there is now intention that discrete portions of this seam be included in CHPP feed, in blend ratios of up to 50%, in the production of HCC.

Figure 1. The Group’s historical annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bcm of overburden per ROM tonne of coal):



Following a successful, small scale geotechnical drilling exercise completed in the first half of 2015, the subsequent analysis of results has proven the initial predictions intended to be evaluated, and has led to the revision of the geotechnical recommendations regarding overall slope angle and distance required between pit crest and ex-pit overburden dump to the north of the UHG pit. This has allowed for the ex-pit waste dump location to be safely moved closer to the pit, with the resulting decrease to vertical and horizontal haulage distances allowing for reduction in required truck hours, and hence haulage cost.

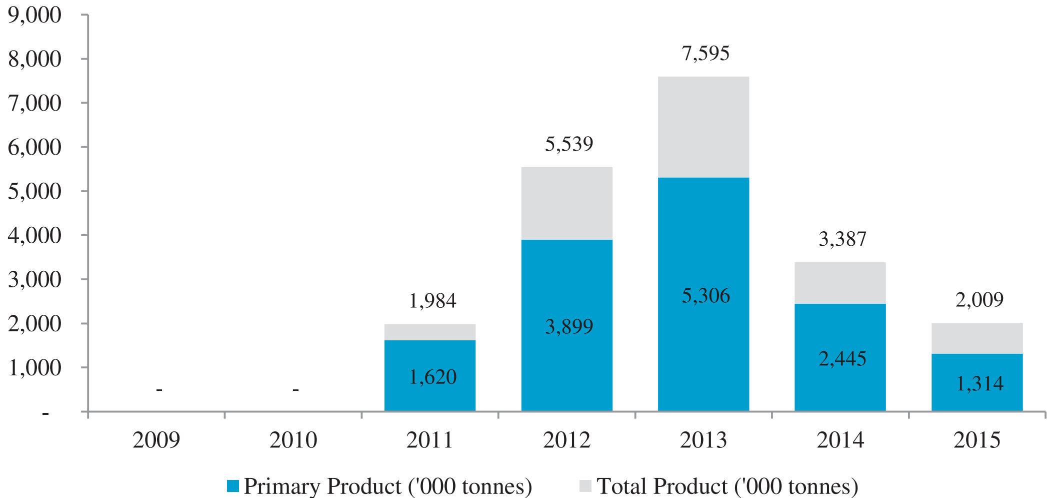
During the second half of 2015, negotiation with mining and blasting contractors has led to significant reductions in the forecasted cost of services going forward in respective contract extension periods. The contract revisions became effective in late 2015, during a period of reduced mining activity, and thus the positive impact resulting from these contract revisions on overall unit cost per bcm of material mined will be more pronounced from 2016 onward.

Coal Processing

In response to the reduced market demand and lower mine production output, the volume of ROM coal processed was also reduced, with total CHPP feed of 2.6 Mt in 2015 achieved, including 49 kt from third parties under fee for service arrangements. From the feed of ROM coal owned by the Group, a total of 1.3 Mt of HCC primary product and 0.7 Mt of middlings secondary product were produced at yields of 50.9% and 26.9% respectively. Figure 2 displays the historical semi-annual washed production volumes of the Group.

Production trials that had commenced in the first half of 2015 with regard to inclusion of Seam 0B in the ROM feed blend to CHPP when producing HCC were expanded in the second half of 2015 with continued positive results. During the second half of 2015, on average the ROM feed blend to CHPP comprised 29.0% of Seam 0B, whilst meeting customer product specifications and achieving 51.7% primary and 21.1% secondary yields.

Figure 2. The Group's historical annual total primary processed coal production volumes (in thousand tonnes):



Transportation and Logistics

In 2015, the Group's transportation and logistics operations within Mongolia were reduced in line with decreased CHPP output according to forecasted market demand. Operations were scheduled to meet customer requirements whilst maintaining low primary product inventory. Domestic transportation activity was solely concentrated on haulage of HCC product between the UHG CHPP and the Tsagaan Khad (**"TKH"**) coal stockpile and trans-shipping facility adjacent to the Gashuunsukhait ("**GS**") and Ganqimaodu ("**GM**") Sino-Mongolian border crossing. This was achieved using only the Group's own coal transportation fleet, compromised of double-trailer heavy haulage trucks, without reliance upon any third party haulage contractors. All middlings thermal coal production was rehandled onsite at UHG from the CHPP to a nearby satellite stockpile location, reducing short term cost of operation by way of not hauling to TKH when customer demand did not require it.

Management has remained focused on improving operational efficiencies throughout the year, with the main achievement being increasing the average number of round trips per utilised truck per month. Previously, when operating on the gravel road between UHG and TKH, a maximum fleet average of approximately 13 round trips per truck per month was possible. In the calendar year following construction of the paved road, this fleet average increased to 20 round trips per truck per month. In 2015 the fleet average has been increased to 42 round trips per utilised truck per month, through further systematic improvements being made to remove system bottlenecks.

Occupational Health, Safety and Environment

Within the reporting period of 2015, approximately 3.3 million man-hours were recorded as worked by employees, contractors and sub-contractors of the Group. During this period, 2 occurrences of Lost Time Injury ("**LTI**") were recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.6 LTIs per million man-hours worked equivalent being recorded, the lowest for any annual period that the Group has achieved since the commencement of public reporting.

Whilst the reduced LTIFR has been influenced by lower production activity, the result is also attributable to the focus of the Group's management efforts and commitment to the goal of Zero Harm. This has been maintained through a difficult period operationally, during which there has been proportionally more man-hours of exposure to tasks with typically higher potential for LTI. During 2015, the Group continued to deliver Occupational Health, Safety and Environment ("**OHSE**") specific training to employees, contractors, sub-contractors and visitors, with delivery of 5,149 training sessions to individuals, totalling 12,598 man-hours.

The Group's safety performance continues to compare favourably in terms of LTIFR against publicly reported mining safety statistics, such as those from the Queensland Government Department of Natural Resources and Mines (Surface Coal Mines, 2.3, 2014-2015) and the New South Wales Department of Resources and Energy (Surface Coal Mines, 1.9, 2014-2015).

Sales and Marketing

Challenging market conditions in steel and steelmaking raw materials industry were further exacerbated in 2015. Intense competition remained amongst Chinese domestic and international coal exporters to the China market. HCC prices dropped to the lowest levels seen in many years, and signs of a slowing economy in China put further downward pressure on an ongoing global coking coal supply and demand imbalance.

The Group pursued a strategy to maintain relationship with its existing customer base, which includes key end-users with long term strategic value, while maintaining prudent management of liquidity in sales arrangements.

On 3 April 2015, the Group signed a sales agreement with Shenhua Bayannoer Energy Co., Ltd., a subsidiary of China Shenhua Group, under which the Group committed to supply 1.2 Mt of HCC to China Shenhua Group.

Furthermore, on 8 May 2015, the Group signed a long-term cooperation agreement with Baotou Iron and Steel Co., Ltd. ("**Baogang Group**") to supply coking coal products, as such reinforcing the direct relationship with the Baogang Group, which is the largest steel mill in Inner Mongolia, China.

The Tianjin Zhengcheng Import and Export Trade Co., Ltd. ("**TZ JV**"), the Group's subsidiary in China, which operates as a joint venture with Risun Mining Co., Ltd, continued to maintain its relationship with its existing end-users' base mostly comprised of steel mills and coke plants located in Hebei, Shandong and the surrounding coastal area in China. The Group developed and maintained a product mix of coking coal products produced by the Group with supplementary third party coal products from Chinese origins in order to keep a proper balance of efficient cost structure as well as maintaining its market share. The variety of coal such as SSCC, weak caking coal, gas coal and lean coal was sourced from third parties from different regions of Shanxi and resold by TZ JV to customers located in Hebei, namely Jianlong Janeboat Steel Co., Ltd, Qiananshi Jiujiang Wire Co., Ltd and Tangshan Dafeng Coking Co., Ltd.

The Group sold a total of 1.5 Mt of coal products in 2015, out of which 1.2 Mt was exported from the HCC originated from Mongolia, and 0.3 Mt of other types of coal products originated from third parties in China which included SSCC, lean coal, weak caking coal and gas coal. Out of the sales volume of 1.2 Mt HCC that was originated from Mongolia 0.7 Mt, 0.3 Mt, and 0.2 Mt were sold under Delivery-at-Place ("**DAP**") GM, FOT and Cost-and-Freight ("**C&F**") terms, respectively. Exported HCC volume in 2015 represents a 64.6% year-on-year decrease compared to 3.4 Mt HCC sold in China in 2014.

Table 7. Mongolian HCC sales volume by terms (Note):

#	Delivery terms	Sales volume (Mt)	Volume share (%)
1	DAP	0.7	58.9%
2	FOT	0.3	28.5%
3	C&F	0.2	12.6%
	TOTAL	**1.2**	**100%**

Note:

(i) Due to rounding, discrepancy may exist between sub-totals, totals and volume shares.

OUTLOOK AND BUSINESS STRATEGIES IN 2016

The global coking coal markets continue to face persisting imbalance between supply and demand, which led to the coking coal prices dropping to the lowest levels seen in a decade with benchmark prices in the fourth quarter of 2015 to settled at the lowest since 2005. The industry report estimates that it may take at least two years for coking prices to rise above current levels, provided that around 30 Mt of annual supply is required to be taken off the seaborne market to offset receding Chinese demand and new supply from ongoing mine expansions.

The industry is experiencing severe competition between producers from various regions, which is expected in the near future to result in an accelerated pace of mine closures among high-cost producers. Recently, the Chinese government has revealed plans to tackle prolonged overcapacity in the coal sector by closing 4,300 small and cutting inefficient coal mines and cutting annual production capacity by 700 Mt over the next three years.

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

During the past several years, in order to improve the Company's competitive position, the Company's management was able to achieve significant cost reductions by improving its operational efficiency and productivity, but unfortunately this was insufficient to offset the continued sharp decline in product prices. Therefore, the management has prioritized resolving financial issues with a focus on preserving liquidity and balance sheet management.

In light of the adverse market conditions, and to better protect the interests of all the stakeholders of the Company, the Company started a dialogue with its lenders, and the financial and legal advisors of the steering committee of its noteholders about a possible restructuring arrangement in relation to its debt facilities. The Company is committed to transparent communication with broader investment community with ultimate goal to achieve outcomes acceptable and in the long term beneficial to all its stakeholders.

THERE CAN BE NO ASSURANCE THAT ANY DISCUSSIONS WITH ANY NOTEHOLDER AND LENDER WILL LEAD TO A PROPOSAL ACCEPTABLE TO THE NOTEHOLDERS AND THE LENDERS MORE GENERALLY OR THAT DISCUSSIONS WITH THE NOTEHOLDERS AND THE LENDERS CAN BE PROGRESSED TO ANY POSITIVE CONCLUSION. ACCORDINGLY, THE COMPANY OFFERS NO ASSURANCE THAT THE PROPOSED RESTRUCTURING WILL BE SUCCESSFULLY CONCLUDED. SHAREHOLDERS OF THE COMPANY, THE NOTEHOLDERS, HOLDERS OF OTHER SECURITIES OF THE COMPANY AND POTENTIAL INVESTORS IN THE SECURITIES OF THE COMPANY ARE ADVISED TO EXERCISE EXTREME CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

The Company will continue to pursue its long term development objectives, including the opportunity to engage in coal mining, processing, and transportation and exploration activities at Tavan Tolgoi coalfield in Mongolia. This is evidenced from the Group forming and leading a consortium jointly with China Shenhua Energy Company Limited and Sumitomo Corporation (the "**Consortium**") and the on-going negotiation process with the GoM in relation to the conclusion of definitive agreements with the GoM and its Consortium partners in connection with the Tavan Tolgoi coalfield development. The ultimate benefit to Mongolia is seen from the significant improvement of the competitive position of Mongolian coal in international markets by consolidating commercial operations within the Tavan Tolgoi coalfield under public private partnership model. However, any final outcomes of this transaction remain highly uncertain given the complex nature of negotiations, involving multiple stakeholders and including the regulators.

SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD NOTE THAT THE COMPANY MAY OR MAY NOT ENTER INTO ANY DEFINITIVE AGREEMENTS WITH ITS CONSORTIUM PARTNERS, THE GOM AND/OR ITS DESIGNATED ENTITIES. EVEN IF DEFINITIVE AGREEMENTS ARE ENTERED INTO, COMPLETION AND FULFILLMENT OF SUCH AGREEMENTS WILL BE SUBJECT TO SATISFACTION OF THE CONDITIONS PRECEDENT SET OUT THEREIN. ACCORDINGLY, THE COMPANY MAY OR MAY NOT BENEFIT FROM THE TAVAN TOLGOI COALFIELD DEVELOPMENT. SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

FINANCIAL REVIEW

Revenue

Sluggish coking coal demand growth kept the market oversupplied with further downward pressure on prices during 2015. China's slowing economy and poor appetite for steel making components pushed coking coal benchmark prices to the lowest levels in a decade. The Group continued to focus strictly on controlling operational costs and limiting capital outflow in 2015.

The Group's total sales volume for the year ended 31 December 2015 was approximately 1.5 Mt of coal products generating total revenue of USD99.5 million, whilst in 2014 the total sales volume was 5.4 Mt of coal products with total revenue of USD328.3 million. For the year ended 31 December 2015, approximately 0.7 Mt of HCC was sold at DAP GM terms, representing 48.4% of total sales volume which generated revenue of USD37.6 million. Approximately 0.8 Mt of coal products was sold at FOT and C&F terms under inland China sales generating revenue of USD61.9 million. The sales includes approximately 0.3 Mt of coal products procured from Chinese third party sources which generated revenue of USD23.9 million. The lower total revenue compared to the corresponding period in 2014 was essentially attributable to the continuing further downward pressure on coking coal price due to the oversupplied market, which ultimately led to a lower sales volume of HCC.

The Group's pricing reflected the current deteriorating price trend apparent to all coking coal products in the global market. The ASP of HCC achieved on a combined basis at all selling points was USD63.2 per tonne for the year ended 31 December 2015, supported by higher HCC selling prices of inland China sales. The ASP of HCC under FOT and C&F terms sales were USD66.3 per tonne and USD104.4 per tonne, respectively for the year ended 31 December 2015, compared to USD91.4 per tonne and USD119.4 per tonne in 2014 respectively. It is worth noting that the ASP of sales under C&F terms is an average price of sold quantity across different locations in China, therefore year-on-year comparison may not depict the true trend as selling quantity and locations will differ each year. The ASP of HCC of sales under DAP GM terms was USD53.2 per tonne for the year ended 31 December 2015 which was approximately 23.2% lower compared to USD69.3 per tonne in 2014.

For the year ended 31 December 2015, the Group derived individually more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD26.1 million, USD15.1 million, USD11.6 million and USD11.2 million, respectively, whilst in 2014 the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD117.7 million and USD34.4 million, respectively.

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.

During the year ended 31 December 2015, the total cost of revenue was USD165.6 million, compared to USD335.5 million in 2014. The cost of revenue of self-produced coal was reduced by 59.4% from USD326.6 million to USD132.7 million mainly as a result of lower sales volume.

The cost of revenue of procured coal for the year ended 31 December 2015 consisted of USD23.4 million relating to trading of coal procured from Chinese third parties, which generated revenue of USD23.9 million, and USD3.4 million cost relating to HCC procured from Mongolia. For the year ended 31 December 2014, the cost of revenue of procured coal was USD8.9 million relating to trading of HCC procured from Mongolia.

As of 31 December 2015, USD6.1 million inventory provision was booked due to continuous weakening prices of coal products. The provision was made based on the assessment of the net realizable value of coal inventories.

Table 8. Total and individual costs of revenue of self-produced coal:

	Year ended 31 December	
	2015	2014
	(USD'000)	(USD'000)
Cost of self-produced coal	**132,701**	326,577
Idling cost	**52,872**	40,621
Cost of self-produced coal excluding idling cost	**79,829**	285,956
Mining cost	**34,830**	126,841
Variable cost	**15,960**	66,599
Fixed cost	**16,598**	45,883
Depreciation and amortisation	**2,272**	14,359
Processing cost	**13,084**	31,596
Variable cost	**5,216**	12,448
Fixed cost	**2,664**	3,716
Depreciation and amortisation	**5,204**	15,432
Handling cost	**1,185**	5,975
Transportation cost	**15,387**	74,383
Logistic cost	**2,690**	9,763
Variable cost	**1,416**	3,549
Fixed cost	**1,169**	5,215
Depreciation and amortisation	**105**	999
Site administration cost	**6,261**	12,992
Transportation and stockpile loss	**862**	3,542
Royalties and fees	**5,530**	20,864
Royalty	**3,509**	13,656
Air pollution fee	**1,127**	2,719
Customs fee	**894**	4,489

In accordance with the Group's policy to conserve cash outflow during the current state of the market when ASP is trending lower, it made tactical sense for the Group to temporarily suspend operations at certain times during the period under review for conservation and efficiency purposes. In relation to this, idling costs arose during such periods when production was held at a limited level, which incurred associated costs of USD52.9 million, including depreciation and amortisation of USD18.5 million.

The mining cost during mine operations consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and costs paid to fuel suppliers. For the year ended 31 December 2015, the Group's total mining costs were approximately USD34.8 million (2014: USD126.8 million). Mining unit cost was USD15.5 per ROM tonne for 2015, compared to USD19.7 per ROM tonne in 2014.

Table 9. Total unit mining cost per ROM tonne:

	Year ended 31 December	
	2015 (USD/ ROM tonne)	2014 (USD/ ROM tonne)
Mining cost	**15.5**	19.7
Blasting	**1.3**	1.4
Plant cost	**3.5**	5.5
Fuel	**2.3**	3.4
National staff cost	**1.4**	1.2
Expatriate staff cost	**0.6**	0.5
Contractor fee	**5.2**	5.1
Ancillary and support cost	**0.2**	0.4
Depreciation and amortisation	**1.0**	2.2

Note: The above mining cost table does not include idling cost

The Group identified components of the mine in accordance with the mine plan, and accounting of mining unit costs is based on the stripping ratio applicable to each component of the mine. Average accounting stripping ratio for components mined during the year ended 31 December 2015 was 2.5 bcm per tonne, compared to 2.7 bcm per tonne for the year ended 31 December 2014. The mining cost is not only recorded in the income statement, but also the costs of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average stripping ratio, which is capitalised in the balance sheet as mining structure.

The processing cost during mine operations primarily includes the costs associated with the operations of CHPP including power and water costs. During the year ended 31 December 2015, the Group's processing cost was approximately USD13.1 million (2014: USD31.6 million), of which approximately USD5.2 million is related to the depreciation and amortisation of the CHPP, USD3.0 million incurred in the UHG Power Plant for the power generation and distribution, and USD0.8 million incurred in the UHG Water Supply Facility for the water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne increased by USD0.9 or 18.4% from USD4.9 per ROM tonne for the year ended 31 December 2014 to USD5.8 per ROM tonne for 2015. The increase was mainly attributable to the lower utilisation of CHPP module capacity.

Table 10. Total processing cost and unit processing cost per ROM tonne:

	Year ended 31 December			
	2015	2014	**2015**	2014
	(USD'000)	(USD'000)	**(USD/ROM tonne)**	(USD/ROM tonne)
Total processing costs	**13,084**	31,596	**5.8**	4.9
Consumables	**671**	1,652	**0.3**	0.3
Maintenance and spares	**812**	3,293	**0.4**	0.5
Power	**2,956**	5,640	**1.3**	0.9
Water	**777**	1,863	**0.3**	0.3
Staff	**1,767**	2,636	**0.8**	0.4
Ancillary and support	**897**	1,080	**0.4**	0.1
Depreciation and amortisation	**5,204**	15,432	**2.3**	2.4

Note: The above total processing cost table does not include idling cost

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP, and also the removal of coarse reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2015, the Group's handling cost was approximately USD1.2 million (2014: USD6.0 million). Unit handling cost decreased by USD0.1 or 9.1% from USD1.1 per tonne in 2014 to USD1.0 per tonne for the year ended 31 December 2015. The decrease was mainly attributable to cost savings arising from lower fuel prices.

Transportation costs include costs related to the transportation of coal products from UHG to TKH, and the transportation of coal products from TKH to GM, including fees paid to third party transportation contractors. During the year ended 31 December 2015, the Group's transportation costs, excluding idling cost, were USD15.4 million (2014: USD74.4 million), of which USD8.4 million was related to long-haul (UHG-TKH) transportation, and USD6.9 million was related to short-haul (TKH-GM) cross-border transportation. On a unit cost basis, the Group's overall transportation cost decreased in the UHG-GM section by USD0.6 per tonne or 4.3% from USD14.1 per tonne in 2014 to USD13.5 per tonne in 2015. The transportation cost in the long haul section (UHG-TKH) was increased from USD6.5 per tonne in 2014 to USD7.4 per tonne in 2015. Long-haul transportation costs increased because of higher third-party costs due to lower transportation volume. For the short-haul (TKH-GM) section, where the Group utilised third-party contractors, the Group's transportation costs were reduced by 19.7% from USD7.6 per tonne in 2014 to USD6.1 per tonne in 2015 as a result of effective negotiations on haulage fees with the contractors.

The logistics costs are mainly related to costs associated with operating product stockpiles at UHG and TKH. For the year ended 31 December 2015, the Group's logistics cost was approximately USD2.7 million (2014: USD9.8 million). The reduction in logistics costs is attributable to lower sales volume of coal products.

The site administration cost during mine operations is primarily related to the site support facilities and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations. For the year ended 31 December 2015, the Group's site administration cost was approximately USD6.3 million (2014: USD13.0 million).

For the year ended 31 December 2015, total transportation loss was negligible compared to USD1.3 million loss in 2014. During 2015, the Group recorded unrealized inventory loss of USD0.8 million for ROM coal and washed HCC stockpiles at UHG compared to unrealised loss of USD2.3 million recorded in 2014. The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the UHG and BN mines, and product coal stockpile inventories at UHG and TKH. 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. Subsequently, the measurement of stockpile quantities is an estimation in which errors are inherent. Therefore, variations within 5% are tolerated, and any tonnages above/below this limit are recorded as stockpile gain/loss. The management expects that by maintaining lower levels of inventory and improving overall inventory management, the Company will be in a position to keep inventory losses under control.

Table 11. Transportation and stockpile gains and losses by amounts and volumes:

	Year ended 31 December			
	2015	2014	**2015**	2014
	(USD'000)	(USD'000)	**tonne'000**	tonne'000
Transportation and stockpile losses	**862**	3,542	**0.3**	51.7
Transportation loss	**21**	1,283	**2.0**	23.4
Washed coal	**21**	1,283	**2.0**	23.4
Stockpile loss/(gain)	**841**	2,259	**(1.7)**	28.3
Washed coal	**1,660**	3,867	**44.7**	126.0
Raw coal	**(819)**	(1,608)	**(46.4)**	(97.7)

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid according to the applicable laws and regulations in Mongolia. The progressive royalty rate is applied in the range of 5 - 8% for processed coal products and 5 - 10% for raw coal products based on monthly reference price determined by the Ministry of Mining of Mongolia. The Group's effective royalty rate for the year ended 31 December 2015 was approximately 5.4% for coal exported from Mongolia based on customs clearance documentation (2014: 5.0%).

Gross Loss

The Group's gross loss for the year ended 31 December 2015 was approximately USD66.1 million, representing an increase of approximately USD58.9 million from the gross loss of approximately USD7.2 million recorded for the year ended 31 December 2014. The gross loss was driven by (i) decrease in ASP of coking coal products supplied by the Group under the current state of the market, as coking coal pricing continued to be affected negatively by the global supply and demand imbalances; and (ii) lower HCC sales volume.

Selling and Distribution Costs

The Group's selling and distribution costs of USD8.6 million for the year ended 31 December 2015 (2014: USD56.4 million) are associated with the inland China market penetration strategy and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution cost is notably lower compared to 2014 due to lower sales volume.

General and Administration Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortisation of office equipment and other expenses. For the year ended 31 December 2015, the Group's general and administrative expenses was USD30.5 million which was similar to the level of USD30.9 million incurred for the year ended 31 December 2014.

Net Finance Costs

Net finance costs for the year ended 31 December 2015 was approximately USD99.0 million (2014: USD94.5 million). Net finance costs for the year ended 31 December 2015 comprised of (i) interest expense and other credit facilities related expenses, and (ii) USD21.9 million foreign exchange loss due to the depreciating MNT against the USD.

Income Tax Expenses

The Group did not have income tax expense for the year ended 31 December 2015 due to the loss incurred during the period, but had income tax credit of USD16.9 million due to the recognition of deferred tax asset. The Group's income tax credit for the year ended 31 December 2014 was approximately USD59.0 million.

Loss for the Period

As a result of the costs listed above, losses attributable to equity shareholders of the Company for the year ended 31 December 2015 amounted to approximately USD187.8 million (2014: USD282.8 million). The major contributing factor of the Group's net loss position is the decrease of ASP and sales volume of coking coal products due to challenging market conditions in China, as coking coal price continued to be affected by global supply and demand imbalances.

Impairment Loss

In accordance with IAS 36 Impairment of Assets, entity shall assess at the end of each reporting period whether its assets are carried at value no more than their recoverable amount. Thus, the Company has undertaken an impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets; and the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2015, and has not resulted in the identification of an impairment loss for the year ended 31 December 2015. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2015 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard. For the year ended 31 December 2014, impairment loss of USD190 million was recognized, considering the prolonged weakening global coking coal prices due to the supply and demand imbalances.

Liquidity and Capital Resources

For the year ended 31 December 2015, the Company's cash needs were primarily related to working capital requirements and debt repayments.

The Company's cash resources were mainly funded by proceeds of approximately Hong Kong Dollar ("**HKD**") 1,556 million from rights shares issued on 29 December 2014 and revenue generated from sales of coal products.

Table 12. Combined cash flows:

	Year ended 31 December	
	2015	2014
	USD'000	USD'000
Net cash (used in)/generated from operating activities	**(14,184)**	41,173
Net cash (used in)/generated from investing activities	**(36,236)**	25,782
Net cash (used in)/generated from financing activities	**(151,709)**	109,524
Net (decrease)/increase in cash and cash equivalents	**(202,129)**	176,479
Cash and cash equivalents at beginning of the year	**202,856**	26,535
Effect of foreign exchange rate changes	**(25)**	(158)
Time deposits with original maturity over three months	**50,000**	50,000
Cash and cash equivalents at end of the year	**50,702**	252,856

Note: USD36.2 million used in investing activities comprises of USD42.5 million incurred for payments for deferred stripping activity, USD5.4 million generated from interest income and USD0.9 million generated from disposal of property, plant and equipment.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 31 December 2015 was 57.0% (31 December 2014: 51.9% after considering provision for impairment loss on non-financial assets). All borrowings are denominated in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro and HKD. The Company's policy is to regularly monitor current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Use of Proceeds from the Rights Issue of the Company

On 29 December 2014, the Company issued 5,557,554,750 rights shares to qualifying shareholders by way of rights issue at the subscription price of HKD0.28 per rights share on the basis of three rights shares for every two existing shares held by qualifying shareholders whose names appeared on the register of members of the Company on 2 December 2014. Approximately HKD1,556 million was raised from the issuance of the rights shares, net proceeds of which after deducting associated transaction costs was HKD1,516 million or approximately USD195.5 million.

As at 31 December 2015, the Company had used the proceeds from the rights issue as follows:

– approximately USD108.0 million for repayment of existing indebtedness and related interest payments; and

– approximately USD47.5 million for general working capital needs.

Indebtedness

As of 31 December 2015, the Company had USD799.8 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Senior Notes, (ii) USD150 million BNP and ICBC Facility, (iii) USD180 million EBRD, FMO and DEG Loan Agreements, (iv) USD40 million revolving credit line from Trade and Development Bank of Mongolia, (v) USD10 million short-term loan from Golomt Bank of Mongolia, and (vi) USD5 million short-term loan.

The Senior Notes bear a fixed interest rate of 8.875% per annum payable semi-annually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 31 December 2015, the outstanding principal amount was USD600 million. Upon the sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions of all or substantially all of the properties or assets of the Company to any person other than one or more of the beneficial owners of less than 30% of the total voting power of the Company, the Company must make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

On 5 March 2014, the Company as a borrower entered into the BNP and ICBC Facility Agreement for a coal pre-export loan facility of USD150 million. The loan bears an interest rate of LIBOR plus 6.00% per annum, and is repayable in 10 quarterly installments starting from September 2014 and ending in December 2016. As of 31 December 2015, the outstanding principal amount of such BNP and ICBC Facility was USD93.0 million. Under the BNP and ICBC Facility, the Company shall not issue any shares if such issue results in (i) the creation of a new share class of the issued share capital of the Company, and (ii) a change of control by controlling shareholder of the Company ceases to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

Under the EBRD, FMO and DEG Loan Agreements, interest were initially based on six-month LIBOR plus 3.75%-4.25% margin per annum. The USD120 million principal amount of the loan is repayable in 11 semi-annual installments ending on 15 May 2016, and the USD60 million principal amount of the loan is repayable in two equal installments on 15 May 2015 and 15 May 2016, respectively. Pursuant to amendments to the EBRD, FMO and DEG Loan Agreements, starting from September 2015, the interest rate was decreased to one-month LIBOR plus 3.5%-3.75% margin per annum and outstanding principal amount and interest is payable on a monthly basis until the maturity date of 15 May 2016.

As at 31 December 2015, the outstanding principal amount was USD51.8 million. Under the EBRD, FMO and DEG Loan Agreements, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the ER than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the ER, or the ER may not cease to be directly majority owned by entities domiciled in Mongolia, in each case without the prior written consent of EBRD, FMO and DEG.

The loan granted by Trade and Development Bank of Mongolia is a revolving credit facility maturing on 20 March 2016. The loan initially bore interest of 10% per annum, which was subsequently changed to 11.2% per annum from March 2015. As of 31 December 2015, the outstanding principal amount was USD40 million. Subsequent to the balance sheet date, the Group had entered into extension agreement on 21 March 2016 which deferred the maturity date to 20 June 2016.

On 23 March 2015, the Group obtained a short-term loan of USD10 million maturing in January 2016 from Golomt Bank of Mongolia. Subsequently the term of the loan was extended to May 2016. Such loan bears interest of 8.80% per annum. As of 31 December 2015, the outstanding principal amount was USD10 million.

As of 31 December 2015, the Group has USD5 million outstanding short-term loan, which bears interest of 1.25% per month and subsequent to the balance sheet date the loan has been repaid in February 2016 by converting to coal pre-payment facility.

Credit Risk

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

For the year ended 31 December 2015, the Group had approximately USD2.0 million in trade receivables, USD92.3 million in other receivables and USD0.4 million for allowance of doubtful debts. For the year ended 31 December 2014, the Group had USD37.0 million in trade receivables and USD125.4 million in other receivables, as well as USD10.1 million for allowance of doubtful debts.

According to the Group's internal credit policy (the "**Credit Policy**"), the Company holds quarterly Credit Committee meetings to review, assess and evaluate Company'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 single customer, and the maximum contractual term for unsecured limit. As of 31 December 2015, in accordance with the Credit Policy and based on the Credit Committee's assessment, certain debts in the amount of approximately USD18.2 million aged over one year, recoverability of which was assessed as doubtful, were written off against the existing allowance for doubtful debts and provision of additional USD8.5 million was made for allowance for doubtful debts, in line with the overall ageing analysis of trade receivables balance as at 31 December 2015 to USD2.0 million. 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 on an ongoing basis.

With regard to other receivables of USD92.3 million, this amount is mainly related to USD20.8 million VAT and other tax receivables, USD42.0 million from GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax Authority inspection and approval of the VAT tax refund, the Group offset USD28.0 million against its other tax payments and payables to certain suppliers. 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.

Substantially all of the Group's cash at bank are deposited in the reputable banks, which management assessed the credit risk to be insignificant.

Foreign Exchange Risk

During the two years ended 31 December 2015 and 2014, 100% and 100% of the revenue and 61.4% and 87.6% of the purchases in each respective year were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

For the year ended 31 December 2015, 0.4% and 99.6% of the revenues were denominated in USD and RMB respectively. For the year ended 31 December 2014, 19.8% and 80.2% of the revenues were denominated in USD and RMB respectively.

For the year ended 31 December 2015, 98.2% and 63.8% of the finance costs and operating expenditures, respectively, were denominated in USD, while 0.7% and 2.1% of the finance costs and operating expenditures were denominated in RMB; 1.0% of the operating expenditures were denominated in other currencies than the USD, RMB and MNT with the remainder denominated in MNT. For the year ended 31 December 2014, 99.9%, 27.1% and 34.8% of the finance costs, operating expenditures and capital expenditures, respectively, were denominated in USD; while 20.2% and 0.3% of the operating expenditures and capital expenditures, respectively, were denominated in RMB; 0.3% and 5.7% of the operating expenditures and capital expenditures, respectively, were denominated in other currencies than the USD, RMB and MNT; and the remainder was denominated in MNT.

Although the majority of the Group's assets and operating expenses are denominated in MNT, a large portion of expenses, including fuel and capital expenditures, are import costs and are thus linked to USD and RMB prices. Also, the majority of the Group's finance costs are denominated in USD. Therefore, the Group believes that there is a natural hedge that partially offsets 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 2015 and 2014 amounted to USD50.2 million and USD245.8 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2015 and 2014 amounted to USD101.8 million and USD143.6 million, respectively.

The Group has not entered into any derivative instruments to manage foreign exchange fluctuations. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Pledge of Assets of the Group

As at 31 December 2015, the Company pledged ER's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia and XacBank of Mongolia, its Debt Reserve Account held with BNP Paribas London; Collection and Cash Collateral accounts held with BNP Paribas Hong Kong; cooperation contract with Inner Mongolia Qinghua Group of China, coal sales contracts with certain customers; coal mining agreement with Thiess Mongolia LLC (formerly known as Leighton LLC); engineering, procurement and construction management contract for the CHPP constructed at the UHG site with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; water facilities and certain coal stockpiles for bank borrowings.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.a.r.l. are shared among the BNP and ICBC Facility and the USD600 million Senior Notes.

ER pledged its 4,207,500 common shares, being 16.46% common shares held by it in International Medical Centre LLC ("**IMC**") to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

The total amount of indebtedness covered with above pledges is USD744.8 million as at 31 December 2015.

Contingent Liabilities

As at 31 December 2015, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the Share Purchase Agreement entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Seller on 31 May 2011 in relation to the Acquisition, which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in 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 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.

Under the royalty provisions for excessive coal production at the BN mine pursuant to the Share Purchase Agreement and the Settlement 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 has a share option scheme, adopted on 17 September 2010 ("**Share Option Scheme**"), 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.

Under the Share Option Scheme, the Company granted three batches of Share Options to its director and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to a director and employees respectively, at the exercise price of HKD6.66 (which was adjusted to HKD4.53 due to rights issue in December 2014). 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 (which was adjusted to HKD2.67 due to rights issue in December 2014). 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 fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the year ended 31 December 2015, USD3.3 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

The USD600 million Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD4.9 million, and the attributable transactions costs of USD0.1 million were charged to the profit or loss for the year ended 31 December 2012.

The fair value of the derivative component of the Senior Notes as at 31 December 2015 was nil. The liability component was initially recognised at an amortised cost of USD591.7 million after taking into account USD13.2 million as attributable costs.

Capital Commitments and Capital Expenditures

As at 31 December 2015, the Group had USD0.5 million of contracted for capital commitments (as at 31 December 2014: USD0.6 million):

Table 13. Capital commitments:

	As at 31 December 2015 USD'000	As at 31 December 2014 USD'000
Contracted for	**525**	560
Authorized but not contracted for	**—**	—
Total	**525**	560

Table 14. The Group's historical capital expenditure for the periods indicated:

	Year ended 31 December	
	2015	2014
	USD'000	USD'000
CHPP	**59**	1,441
Water supply facility	**124**	2,391
Fleet management system	**—**	1,023
Others	**277**	1,093
Total	**460**	5,948

Operating Lease Commitments

As at 31 December 2015, the Company had contracted obligations consisting of operating leases which totalled approximately USD1.6 million due within one year. Lease terms range from one to five years, with fixed rentals.

Significant Investments Held

As at 31 December 2015, the Company did not hold any significant investments. Save as disclosed in this announcement, the Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the year ended 31 December 2015, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

(a) On 11 March 2016, the Group entered into the Deed of Termination and Release (the "**DTR**") with EBRD, FMO, and DEG (the "**Parallel Lenders**") regarding the repayment of secured interestbearing borrowings. Pursuant to the DTR, the Group shall endorse to the Parallel Lenders certain promissory notes issued by MOF with total amount of approximately MNT105.6 billion and in return the obligations under the borrowings will be discharged in their entirety and the relevant security thereunder will be released after 121 calendar days plus 2 business days from the signing of the DTR. Until the issuance of the consolidated financial statements, the Group had completed the endorsement of promissory notes as required by the DTR.

(b) Pursuant to a temporary waiver letter granted by the Lenders of the BNP and ICBC Facility on 14 March 2016, the Group is due to repay principal installments of approximately USD36.8 million together with applicable interest payment on 22 March 2016. As of the issuance of the consolidated financial statements, the Group had neither made the payment to the Lenders nor been able to secure any waiver or forbearance from the Lenders in this regard. As such, an event of default under the BNP and ICBC Facility has taken place, which also constitutes an event of default under certain of the Group's other indebtedness that contain cross-default provisions, including the Senior Notes issued by the Group with a principal amount of USD 600 million due on 29 March 2017.

    The Group has proposed to enter forbearance agreements with both the Lenders and the steering committee of the holders of the Senior Notes (the "**Steering Committee**"). The Group is in discussion with and intends to continue dialogue with the Lenders and the Steering Committee and their respective advisers. Also, until the issuance of the consolidated financial statements, the Group had not obtained corresponding waivers from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited in respect of the financial covenants breach of the BNP and ICBC Facility. As such, an event of default under the BNP and ICBC Facility has taken place. The Group has initiated discussions with the Lenders for revised terms of the debt facility. Given the material amount of the BNP and ICBC Facility and also existing Intercreditor Agreement between Lenders and the holders of the Senior Notes in relation to the shared securities and guarantees, the discussions to revise the BNP and ICBC Facility are undertaken in connection with the debt restructuring in respect of the Senior Notes. The Group continues discussion with the Lenders regarding waivers on breach of certain security coverage ratio and financial covenants under the BNP and ICBC Facility.

    Until the issuance of the consolidated financial statements, the Group has not received any notice from any of the Lenders demanding immediate repayment of any outstanding amount under the BNP and ICBC Facility or any holder of the Senior Notes or any other creditors.

Employees

As at 31 December 2015, the number of employees of the Group was 1,797 compared with 1,950 employees as at 31 December 2014.

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

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to put 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 2015, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2015, a total of 231 employees attended different professional trainings, out of which 96 employees attended mining heavy equipment operator training, 91 employees attended mine maintenance training and 44 employees attended professional development training.

For the year ended 31 December 2015, the amount of staff costs was USD26.6 million, compared to USD31.7 million in 2014.

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

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Dividend

The Board does not recommend the payment of a dividend for the year ended 31 December 2015 (dividend for the year ended 31 December 2014: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2015.

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

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("**AGM**") of the Company. Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director to attend and answer questions on his behalf at the 2015 AGM which was held on 29 May 2015 due to his engagement in discussions on the Tavan Tolgoi coalfield development with the relevant parties. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG code.

Review of Annual Results

The auditor of the Company, KPMG, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2015 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year in accordance with its engagement under Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" and with reference to Practice Note 730 "Guidance for auditors regarding preliminary announcements of annual results" issued by the Hong Kong Institute of Certified Public Accountants.

Closure of the Register of Members

The register of members of the Company will be closed from Thursday, 26 May 2016 to Tuesday, 31 May 2016, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the forthcoming AGM of the Company to be held on Tuesday, 31 May 2016, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 25 May 2016.

Review by Audit Committee

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

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2015.

Publication of Information on the Stock Exchange's Website and the Company's Website

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2015 will be despatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 24 March 2016

As at the date of this announcement, the board of directors of the Company consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors of the Company, Dr. Oyungerel Janchiv, Mr. Od Jambaljamts and Mr. Gankhuyag Adilbish, being the non-executive Directors of the Company, and Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors of the Company.