MONGOLIAN MINING CORPORATION

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

ANNUAL REPORT 2016

CONTENTS

COMPANY PROFILE

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

Mission, Vision and Values

OUR MISSION:

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

OUR VISION:

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

OUR VALUES AND OBJECTIVES:

WE RECOGNISE THAT PEOPLE ARE OUR KEY ASSET.
THEREFORE:

- MMC places the safety of our personnel the highest priority
- As a responsible employer, MMC provides equal employment opportunities within a meritocratic workplace

WE BELIEVE THAT MODERN AND COST-EFFICIENT TECHNOLOGY WILL BRING SUSTAINABLE GROWTH AND PROSPERITY.
THEREFORE:

- MMC aims to use technology and innovate in the same to produce quality products safely at the lowest cost
- MMC continues to contribute to the development of technical standards in the global extractive industry

WE ARE COMMITTED TO ENVIRONMENTAL SUSTAINABILITY IN OUR OPERATIONS.
THEREFORE:

- MMC strives to minimise the impact of our operations on the environment
- MMC complies with all required environmental standards, and take further measures to prevent and mitigate potential environmental impact

WE ARE COMMITTED TO SOCIALLY RESPONSIBLE MINING PRACTICES.
THEREFORE:

- MMC strives to build mutually beneficial relationships with local communities and officials
- MMC contributes to social development through community development initiatives and other programs

WE ARE COMMITTED TO TRANSPARENT AND FAIR BUSINESS PRACTICES.
THEREFORE:

- MMC fosters mutually beneficial relationships with our suppliers and contractors
- MMC develops, maintains and values long-term relationships with our customers

WE BELIEVE SOUND CORPORATE GOVERNANCE IS A CORNERSTONE OF MMC'S MANAGEMENT AND OPERATIONS.
THEREFORE:

- MMC complies with the best international practices
- MMC continues to cultivate a culture of good corporate governance as an integral part of its ongoing organisational development

Corporate Information

BOARD OF DIRECTORS

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

Non-Executive Directors
Oyungerel Janchiv
Od Jambaljamts
Gankhuyag Adilbish

Independent Non-Executive Directors
Khashchuluun Chuluundorj
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

P.O. Box 258
18 Forum Lane, Camana Bay
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Ng Sin Yee, Clare

INDEPENDENT AUDITOR

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

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Ng Sin Yee, Clare

LEGAL ADVISERS

Davis Polk & Wardwell
18th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

Economic & Legal Consultancy LLP
6th Floor, Shonkhor Tower
Genden Street 16
Sukhbaatar District
Ulaanbaatar 211213
Mongolia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

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

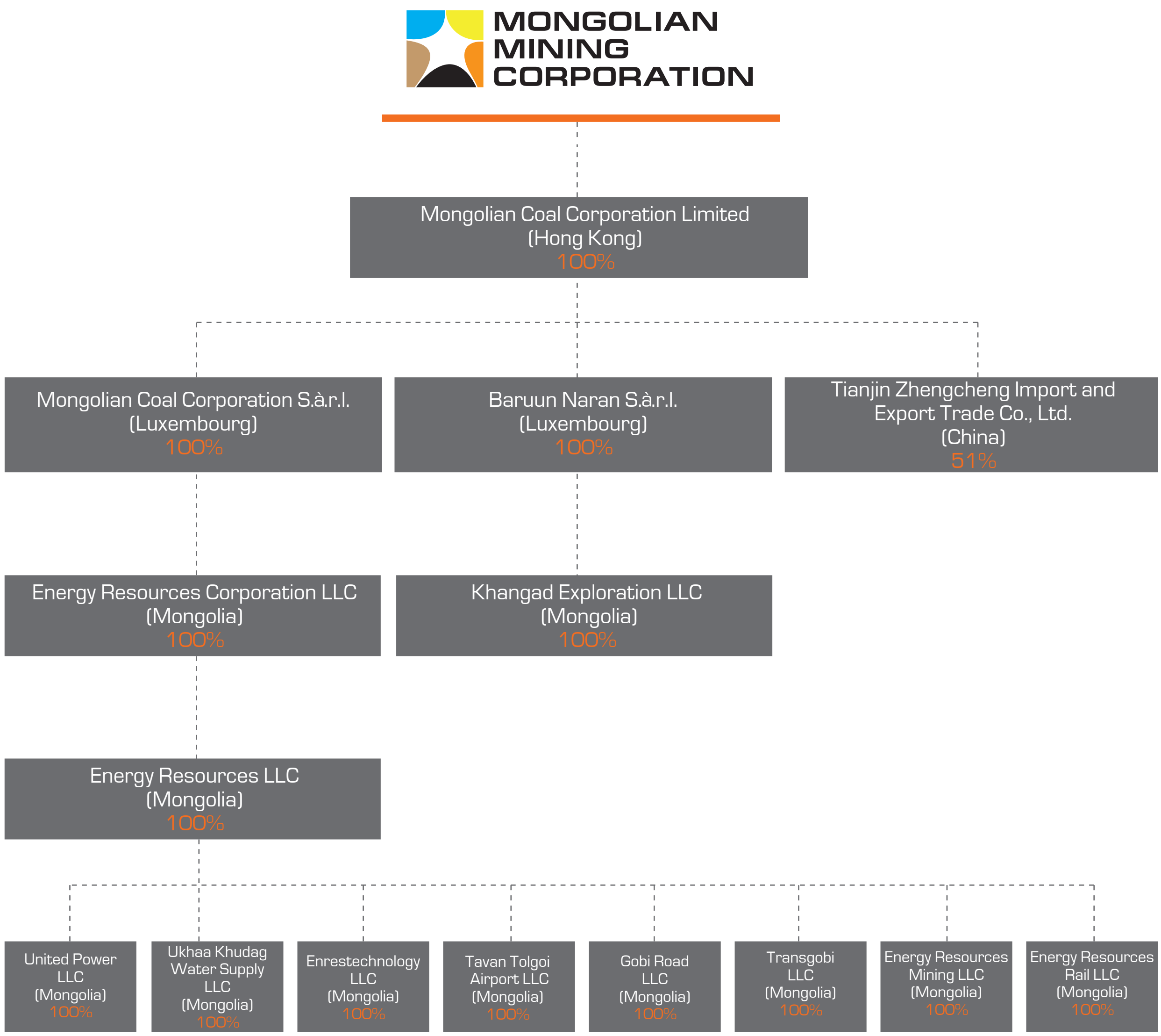
COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Group Structure (as at 31 December 2016)



DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Odjargal Jambaljamts
Executive Director and Chairman of the Board

Aged 51, is an executive Director and Chairman of the board (the "**Board**") of directors (the "**Directors**") of the Company. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is also the Chairman of the Nomination Committee and member of the Remuneration Committee. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC (a controlling shareholder of the Company, and together with its subsidiaries, the "**MCS Group**"). Mr. Jambaljamts has been a director of Starain Limited since January 2011, director of Novel International Investment Limited and director of Novel Holdings Group Limited, a controlling shareholder of the Company, since March 2012. He was appointed as a director of MCS (Mongolia) Limited, MCS Mining Group Limited and MCS Global Limited since July 2012, all of which are controlling shareholders of the Company. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at the Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

Board of Directors

Battsengel Gotov
Executive Director and Chief Executive Officer

Aged 44, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. He joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. Since 2004, Dr. Gotov has served at various managerial positions in the MCS Group. He was appointed as the Chief Executive Officer of Khangad Exploration LLC on 7 December 2012. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation, and stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov is a board member of the Mongolian National Mining Association. He was appointed as a member of the Mineral Resources Policy Council on 7 October 2014. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

Oyungerel Janchiv
Non-executive Director

Aged 62, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. Between 1979 and 1982, Dr. Janchiv served as a petroleum economist at the Oil Supply Management Authority. From 1982 to 1990, she served as an engineer and a chief economist at the Oil Supply Management Authority. From 1990 to 1996, she was the chief executive officer of the board of directors of the Neft Import Concern and was responsible for managing the importation and distribution of petroleum products. From 1996 to 2008, she was the chief executive officer of Petrovis LLC. Since 2008, Dr. Janchiv has been the chairperson of Petrovis LLC, the largest petroleum import and distribution company in Mongolia. She is also the largest shareholder of Petrovis Matad Inc. which is the largest shareholder of Petro Matad Limited which is listed on the Alternative Investment Market of the London Stock Exchange. Since September 2012, Dr. Janchiv has been the deputy chair of Petro Matad Limited and she was appointed as the acting chairperson of Petro Matad Limited in November 2014 and non-executive director of the board of Petro Matad Limited in August 2015. Dr. Janchiv was awarded a diploma of engineer-economist for the petroleum and gas industry and a PhD by the Gubkin State University of Oil and Gas in Moscow, Russia.

Board of Directors

Od Jambaljamts
Non-executive Director

Aged 52, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Corporate Governance Committee. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within the MCS Group. He was appointed as the president of Ulaanbaatar Chamber of Commerce in March 2015. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in a diversity of fields. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts is also a director of MCS (Mongolia) Limited, MCS Mining Group Limited and MCS Global Limited since July 2012 and director of Trimunkh Limited since July 2011, all of which are controlling shareholders of the Company. Mr. Jambaljamts was awarded a bachelor's degree in international relations by the Institute for International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

Gankhuyag Adilbish
Non-executive Director

Aged 39, is a non-executive Director of the Company. Mr. Adilbish was appointed as a non-executive Director of the Company on 13 October 2014. He is also a member of the Audit Committee. Mr. Adilbish joined the MCS Group in 1999 as a financial analyst of MCS International LLC, the former holding company of MCS Holding LLC, a controlling shareholder of the Company and was subsequently appointed as the deputy managing director of MCS Electronics LLC, a then subsidiary of MCS Holding LLC in 2000. Mr. Adilbish became the vice president and chief financial officer of MCS Holding LLC in 2005 and was appointed as the managing director of MCS Holding LLC from 2009 to September 2015. In 2011, Mr. Adilbish was appointed as a director of MCS (Mongolia) Limited and MCS Mining Group Limited, both of which are controlling shareholders of the Company. He also sits on the board of directors of a number of other subsidiaries of MCS Holding LLC and its joint venture companies. In addition, Mr. Adilbish has been the Chief Financial Officer of the Company between 2010 and 2011. Mr. Adilbish is the director of Tugs Investment Limited. He was awarded a bachelor's degree in finance and economics by the National University of Mongolia in 1999.

Board of Directors

Khashchuluun Chuluundorj
Independent Non-executive Director

Aged 50, is an independent non-executive Director of the Company. Dr. Khashchuluun was appointed as an independent non-executive Director on 8 January 2016. He is the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Dr. Khashchuluun is a professor at the Department of Economics, a member of the Academic Council and the board of directors of the National University of Mongolia. He serves as an executive director of the Mongolia Oil Shale Association and is engaged in managing a number of non-governmental organizations and research consulting activities. Since 2015, Dr. Khashchuluun has been serving as a member of the working group on Long-term Development Strategy for Mongolia 2016-2030 and a member of the board of directors of Ulaanbaatar City Development Corporation. Dr. Khashchuluun was elected to the board of the National University of Mongolia in 2014 and served as a visiting professor at the Russian University of Economics, Russia in 2015. He joined the National University of Mongolia as a lecturer of Political Economy in 1989. He was a member of the National Committee for Millennium Challenge Account Mongolia from 2005 to 2007, a member of the Committee of Long-term Development Plan of Mongolia in 2006, a selected Eisenhower Fellowships Fellow from Mongolia in 2007, a member of the board of Open Society Forum in 2008 and a member of the board of directors of Erdenes MGL LLC, a state owned enterprise for strategic mining deposits from 2011 to 2012. From 2009 to 2012, Dr. Khashchuluun worked as the chairman of National Development and Innovation Committee of Mongolia, a government agency in charge of national development strategy and investment policy. From 2010 to 2011, he was appointed as the inaugural chairman of the board of directors to lead the establishment of Development Bank of Mongolia, and from 2006 to 2012, he was a member of the board of directors of the Central Bank of Mongolia. From 2004 to 2009, Dr. Khashchuluun worked as a Dean of the School of Economic Studies of the National University of Mongolia, the largest national school of economics and business administration in Mongolia. He also served as a member of the President's Economic Advisory Council from 2006 to 2008 and a member of the Policy Council of the Ministry of Trade and Industry from 2005 to 2007. Dr. Khashchuluun managed government efforts on the introduction of private-public partnership concept and adoption of the Law on Concession, Law on Innovation and Law on Economic Development Planning, and revision of Law on Budget to adopt development policies, introduction of Regional Development Index for fiscal transfers, and private sector support policies. Dr. Khashchuluun was awarded a bachelor's degree in economics by the Moscow State University, Moscow, Russia in 1989, a master's degree in economics from the Graduate School of Economics, Yokohama City University, Yokohama, Japan in 1996 and a doctorate degree in international economics by the Graduate School of Economics, Keio University, Tokyo, Japan in 2003.

Board of Directors

Unenbat Jigjid
Independent Non-executive Director

Aged 54, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Corporate Governance Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. During the period from 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. Mr. Jigjid was a director of Resources Investment Capital from October 2010 to November 2013. Mr. Jigjid has been an executive director of the Corporate Governance Development Center in Mongolia since 2009 and was appointed as the Head of the Center on 30 March 2015. He is also a member of the supervisory board of the Bank of Mongolia and the board of Micro Finance Development Fund. From October 2010, Mr. Jigjid serves as a director of Golomt Bank. He has been the board member of Open Society Forum in Mongolia since March 2011. On 26 April 2013, Mr. Jigjid was appointed as an independent non-executive director of APU Company, a company listed on the Mongolian Stock Exchange. On 30 April 2015, Mr. Jigjid was appointed as a non-executive director of Mongolia Telecom JSC, a company listed on the Mongolian Stock Exchange and on 6 November 2015, he was appointed as the executive director and secretary general of the Mongolian Bankers Association. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

Board of Directors

Chan Tze Ching, Ignatius
Independent Non-executive Director

Aged 60, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and member of the Corporate Governance Committee. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan was appointed as a member of the board of directors of the Community Chest of Hong Kong in September 1999. From 28 November 2012 to 20 June 2014, Mr. Chan was appointed as an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**" or "**Stock Exchange**"). From 1 March 2011 to 19 June 2016, Mr. Chan was appointed as a member of the Sponsorship and Development Fund of The Open University of Hong Kong. He was appointed as the deputy chief executive of the Bank of China (Hong Kong) Limited in 2008, senior advisor of The Bank of East Asia Limited in March 2009, member of the Council of Hong Kong Red Cross in April 2010, senior advisor of CVC Capital Partners Limited in November 2010, member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission from 19 October 2012 to 18 October 2015, reappointed as a member of the Hong Kong Tourism Board with effect from 1 April 2017, Deputy Chairman of the Council of the Hong Kong Polytechnic University in April 2014 and was further appointed as Chairman of the council on 1 January 2016. Mr. Chan was appointed as Board Adviser of Hong Kong New Territories General Chamber of Commerce on 28 May 2013. He is also an Honorary Advisory Vice President of The Hong Kong Institute of Bankers from 14 February 2011 and was reappointed with effect from 1 January 2017. Mr. Chan was appointed as a Member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region from 1 January 2014 to 31 December 2015, a member of the Financial Reporting Council (FRC) from 1 December 2014 to 30 November 2016 and a member of the Standing Committee on Judicial Salaries and Conditions of Service on 1 January 2017. Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited from 11 December 2009 and an independent non-executive director of Hong Kong Exchanges and Clearing Limited from 23 April 2009 to 23 April 2015, the shares of which are listed on the Stock Exchange. Mr. Chan was appointed as a non-executive director of Rizal Commercial Banking Corporation (RCBC) on 28 November 2011, the shares of which are listed on the Philippines Stock Exchange. He was also appointed as a non-independent non-executive director of Affin Holdings Berhad from 6 August 2013 to 5 August 2016, the shares of which are listed on Bursa Malaysia. Mr. Chan was awarded bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

Senior Management

Oyunbat Lkhagvatsend | President and Deputy Chief Executive Officer

Aged 40, is the President and Deputy Chief Executive Officer of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013 and the Chief Executive Officer of Energy Resources Rail LLC on 8 February 2011. Mr. Lkhagvatsend has about 14 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the chief executive officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

Senior Management

Ulemj Baskhuu | Executive Vice President and Chief Financial Officer

Aged 38, is an Executive Vice President and Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company's Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

Uurtsaikh Dorjgotov | Executive Vice President and Chief Legal Counsel

Aged 53, is an Executive Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Program of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

Baasandorj Tsogoo | Vice President and Chief Operating Officer

Aged 55, is the Vice President and Chief Operating Officer of the Company. Mr. Tsogoo was appointed as the Company's Chief Operating Officer on 1 January 2017. He was also appointed as Chief Executive Officer of United Power LLC, Tavan Tolgoi Airport LLC, and Enrestechnology LLC on 10 February 2013, 1 April 2013, and 1 December 2015, respectively. Since 1994, Mr. Tsogoo served at various managerial positions within the MCS Group of companies and worked in highly successful projects in Mongolia, such as the Taishir Hydropower Plant project. Mr. Tsogoo holds a bachelor's degree in civil and hydropower engineering from the Agricultural Institute in Irkutsk, Russia and a master's degree in business administration from the National Academy of Governance in Mongolia.

Tuvshinbayar Tagarvaa | Vice President and Chief Marketing Officer

Aged 43, is the Vice President and Chief Marketing Officer of the Company. Mr. Tagarvaa was appointed as the Company's Chief Marketing Officer with effect from 1 April 2017. Since 2003, Mr. Tagarvaa served at various managerial positions within the MCS Group of companies and joined the Group in 2011 as an Executive General Manager for Transportation and Logistics which was instrumental in the successful implementation of the Company's efforts to improve efficiency and cost of transportation and logistics while ensuring a stable supply of coal products exported by the Company. Mr. Tagarvaa holds a bachelor's degree and a master's degree in business administration from the Institute of Finance and Economics of Mongolia.

Company Secretary

NG Sin Yee, Clare, aged 56, was appointed as the Company Secretary of the Company in July 2010. Ms. Ng is a director of the Corporate Services Department of Tricor Services Limited. She is a Fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the UK. Before joining the Tricor Group, Ms. Ng has worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 28 years of experience in company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong.

Chairman's Statement

Dear Shareholders,

After prolonged period of depressed market situation, international coking coal spot prices drastically jumped over USD300 per tonne in the fourth quarter of 2016 driven by elevated demand from China. As such, coking coal has been named by industry research sources as one of the best performing commodities in 2016.

The combination of reduced coal production in China and supply-chain disruptions both within China and in seaborne markets, along with a lift in Chinese steel production, has resulted in an improved market situation with Free-on-Board ("**FOB**") Australia benchmark contract prices for premium HCC settled at USD200 per tonne in the fourth quarter of 2016 and USD285 per tonne in the first quarter of 2017. The coking coal market underwent pricing corrections after China eased restrictions on production of the steel-making material. However, according to the main coking coal indexes, the current prices still remain at levels almost twice as higher compared to the prices reported a year ago.

Recently, the Chinese government reaffirmed its commitment to tackle chronic overcapacity in the coal sector by closing small and inefficient coal mines, and announced the target to slash 150 million tonnes per annum ("**Mtpa**") of coal production capacity in 2017. At the same time, actions were taken by Chinese regulators to balance coal production with an aim to avoid pricing volatility. Also, it was reported that officials in China have encouraged large state-owned thermal and coking coal producers to enter into long term supply contracts with end-users. As such, one may expect that in the absence of major unpredictable supply disruptions during 2017, the coking coal prices in China will stabilize at current reported level, subject to typical seasonal fluctuations.

With improved market conditions, the Company will aim to maximize its production and sales volumes in 2017. The ultimate intention is to ramp up production output in a safe manner by fully utilizing existing capacity, whilst managing working capital requirements and focusing on maintaining cost reductions achieved through improvements on operational efficiency and productivity.

In 2016, in light of the prolonged depressed market conditions, and to better protect the interests of all stakeholders, the Company has initiated a dialogue with its creditors about a possible restructuring arrangement in relation to its debt facilities. The Company engaged in open and transparent communication with broader investment community and relevant financial institutions with the ultimate goal to achieve acceptable outcomes, and in the long term, beneficial to all its stakeholders.

Significant progress was made and the management shall remain absolutely focused on completing this process under proposed restructuring arrangements. Therefore, I believe

Chairman's Statement

that the efforts undertaken by the management will soon yield positive outcomes and enable the Company to resolve its financial issues and improve its balance sheet.

The Company will continue to pursue its long term development objectives by exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures arrangements, including continuing communication with consortium partners regarding on-going negotiation process with the Government of Mongolia ("**GoM**") in relation to the Tavan Tolgoi coalfield in Mongolia. The ultimate benefit to Mongolia is seen from the significant improvement of the competitive position of Mongolian coal in international markets by resolving transportation and logistics issues by completing required infrastructure projects and also consolidating commercial operations within the Tavan Tolgoi coalfield under a public-private-partnership ("**PPP**") model. However, any final outcomes of this transaction remain highly uncertain given the complex nature of negotiations, involving multiple stakeholders and including the regulators.

On behalf of the Board, I would like to express my sincere gratitude for the continuing long-term support of our shareholders. Also, I would like to convey my appreciation of all efforts made by our staff to pursue our vision to become a leading mining company in the region.

Odjargal Jambaljamts
Chairman

22 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

INDUSTRY OVERVIEW

CHINESE STEEL, COKE AND COKING COAL SECTORS' PERFORMANCE

Following the first ever contraction in two decades reported in 2015, Chinese annual steel production increased by 1.2% to 808.4 million tonnes ("**Mt**") in 2016 and China retains its position as the largest crude steel producer in the world, according to World Steel Association ("**WSA**"). However, as economic transition cuts demand for steel, its domestic crude steel consumption has declined by 0.4% to 687.1 Mt in 2016, according to estimates provided by China Coal Resource ("**CCR**").

In 2015, according to CCR, steelmakers in China shipped a record of 112.4 Mt of steel overseas, sending the global market into a tailspin as profits and prices collapsed, causing trade frictions. Chinese steel producers continued to push their excessive production to export markets with 109.0 Mt steel exported in 2016. Although this represents 3.0% reduction compared to previous year, such volume is comparable with entire steel production reported by Japan, the second largest steel producer in the world.

As a part of measures taken for supply side reform policy, Chinese government remains determined to remove excessive steel production capacity. In 2016, according to National Development and Reform Commission ("**NDRC**"), China closed down 72.7 Mt of surplus steel capacity which exceeds its planned target of 45.0 Mt. Chinese officials reaffirmed their plans to cut steel industry capacity by 140 Mt from 2016 to 2020, closer to the higher limit of 100-150 Mt target range set previously. World Steel Dynamics ("**WSD**") forecasts the capacity cuts will happen on a bigger and faster scale than that, falling by 215 Mt to 850 Mt by the end of 2018.

According to CCR, Chinese coke production increased by 0.3% to 447.6 Mt in 2016 from 446.3 Mt recorded in 2015. Following crude steel production patterns, the coke consumption reached 442.0 Mt in 2016 or 0.3% increase compared to 440.7 Mt reported in 2015. Also, Chinese coke export continued to grow and increased to 10.2 Mt in 2016 from 9.9 Mt recorded in 2015, representing 3.6% year-on-year increase.

According to National Bureau of Statistics ("**NBS**"), China's combined raw coal output dropped by 9.4% from the preceding year to 3.4 billion tonnes ("**Bt**") in 2016. Chinese officials cut over 290 Mt of coal production capacity in 2016, exceeding their original target of 250 Mt. In line with supply side reform policy, the coking coal production in China has been reduced to 433.7 Mt, declining by 12.6% from previous year, whilst the coking coal consumption increased by 1.2% to 533.9 Mt in 2016.

Chinese officials are expected to continue curbing overcapacity in the coal industry according to the official road map outlined in the 13th Five-Year Plan with 800 Mt of outdated coal production capacity to be eliminated and replaced by 500 Mt of advanced coal capacity. According to the NDRC and the National Energy Administration ("**NEA**"), the domestic coal production in China is expected to be capped at 3.9 Bt by 2020 and the number of coal mines in China will be controlled at around 6,000 where the larger mines with capacity above 1.2 Mtpa will account for over 80% and smaller mines with capacity below 0.3 Mtpa will account for less than 10% of total coal mines in operation.

Fixed asset investment ("**FAI**") in China's coal mining and washing industry fell to Renminbi ("**RMB**")303.8 billion in 2016, representing a 24.2% decline compared to the preceding year.

Driven by pricing improvements resulting from rebalancing supply and demand dynamics in 2016, Chinese coal mining and washing industry reported a combined profit of RMB109.1 billion, representing a 223.6% year-on-year increase, according to NBS.

CHINESE COKING COAL IMPORTS AND MONGOLIAN COAL EXPORTS DYNAMICS

China, as the largest steel producer in the world, accounts for about 65% of iron ore and 21% of seaborne metallurgical coal which are the main steel making ingredients, traded internationally, according to a joint report published by Westpac Banking Corp and Australia's Department of Industry, Innovation, Science.

With production limits officially imposed on domestic production, Chinese coking coal imports increased to 59.3 Mt in 2016, representing a 23.2% year-on-year increase compared to 48.1 Mt imported in 2015, according to CCR. For imported coking coal, Australia retained its leading position in 2016, although its market share decreased to 45.2% from 53.8% in 2015. Mongolia remains as the second largest supplier of coking coal to China and its market share has grown to 39.7% in 2016 from 26.3% in 2015.

As such, Australia and Mongolia continue to dominate the coking coal volumes imported to China with a combined market share reaching 84.9% in 2016 compared to 80.1% reported for 2015.

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

Countries	2016	2015	Change	Market Share
Australia	**26.8**	25.9	**3.7%**	**45.2%**
Mongolia	**23.6**	12.7	**85.8%**	**39.7%**
Canada	**5.2**	5.7	**-9.2%**	**8.8%**
Russia	**2.6**	3.2	**-18.8%**	**4.4%**
USA	**0**	0.1	**-100.0%**	**0.0%**
Others	**1.1**	0.5	**116.1%**	**1.9%**
Total	**59.3**	48.1	**23.2%**	**100.0%**

Source: CCR

Notes:

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

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

According to the data from Mongolian National Statistics Office, Mongolia reported record high volumes for its coal exports to China which reached 25.8 Mt in 2016, representing a 78.3% increase compared to 14.5 Mt reported in previous year. In particular, during the second half of 2016, the export volume from Mongolia jumped to 16.2 Mt resulting in a 68.1% increase from the first half of 2016, following the increased demand from China.

OPERATING ENVIRONMENT

LEGAL FRAMEWORK

MINING AND EXPLORATION RELATED LEGISLATION

On 1 February 2016, the GoM issued Resolution No. 81 which revised the pricing determinants for mineral products exported by mining license holders from Mongolia used for royalty calculations. For coal exports, two sources are identified: (i) contract price; and (ii) market index source as indicated under the website of http://www.sxcoal.com.

Mining license holders exporting coal are allowed to pay their royalties based on their actual contract pricing, which shall be adjusted with reference to the closest border crossing point used for export from Mongolia. If mining license holders fail to comply with the respective requirements for royalty calculation based on their contractual prices, the royalty payable will be calculated according to the benchmark reference price which will be determined by the relevant authorities, based on the information obtained from the market index source.

On 28 March 2016, the GoM issued Resolution No. 179 which adopted a template for the community cooperation agreement as stipulated under the Minerals Law, with such community cooperation agreement to be entered between exploration and mining license holders and aimag (province) governors representing the local authorities. The community cooperation agreement is designed to cover various aspects of the community engagement, including matters related to the environmental protection, employment creation and infrastructure development.

The Group remains committed to a sustainable business model with a strong focus on community development by way of implementing various programs. Currently, the management is engaging in open and transparent discussions at the joint committee established together with the governor's office of Umnugobi province and community representatives for the purpose of drafting the community cooperation agreement, which is expected to be finalized and entered within the first half of 2017.

LABOUR RELATIONS, OCCUPATIONAL HEALTH AND SAFETY RELATED LEGISLATION

On 20 April 2016, Trilateral National Committee for Labour and Social Agreement (Confederation of Mongolian Trade Union, Mongolian Employers Federation and the GoM) approved Resolution No. 4 and agreed to increase the minimum monthly wage from Mongolian Togrog ("**MNT**")192,000 to MNT240,000 effective from 1 January 2017. The Group does not expect any impact on its financial position, because its existing internal remuneration policies sufficiently cover the adopted minimum monthly wage requirements.

TAXATION, ACCOUNTING AND FINANCIAL REPORTING RELATED LEGISLATION

During 2016, the excise and customs duties of imported gasoline and diesel were reduced by the GoM using its 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.

On 5 October 2016, the GoM issued Resolution No. 109 and decreased excise duty for diesel, which are imported through Sukhbaatar, Zamiin-Uud and Altanbulag border ports, from MNT520,000 to MNT280,000, and decreased excise duty for gasoline from MNT400,000 to MNT260,000 per tonne.

On 30 November 2016, the GoM issued Resolution No. 166 and further decreased excise duty for imported diesel, which are imported through Sukhbaatar, Zamiin-Uud and Altanbulag border ports, up to MNT180,000 per tonne and decreased excise duty for gasoline up to MNT160,000 per tonne.

Moreover, on 25 January 2017, the GoM issued Resolution No. 34 and decreased excise duty for gasoline with octane rate up to 90 from MNT160,000 to MNT50,000 per tonne and gasoline with octane rate above 90 from MNT160,000 to MNT30,000 per tonne. It also decreased excise duty for diesel, that are imported through Sukhbaatar, Zamiin-Uud and Altanbulag border ports, from MNT180,000 to MNT70,000 per tonne.

Such decrease of excise duty on imported gasoline and diesel enables the Group to reduce its costs related to fuel consumed by the Group's operations in Mongolia, to the extent possible in connection with imported fuel price fluctuations, subject to international oil prices movements.

POLITICAL ENVIRONMENT

The parliamentary election of Mongolia was held on 29 June 2016 and the opposition party, Mongolian People's Party ("**MPP**"), clinched a landslide victory, gaining 65 seats out of 76 seats in the Parliament. The Democratic Party took 9 seats while the remaining 2 seats went to the Mongolian People's Revolutionary Party and an independent candidate.

Following the election results declared by the General Election Committee and officially presented to the President of Mongolia, Mr. Elbegdorj Tsakhia, the first session of the newly elected Parliament was called. On 5 July 2016, Mr. Enkhbold Miyegombo, the Head of the MPP, was elected as the Speaker of the Parliament. On 8 July 2016, Mr. Erdenebat Jargaltulga was appointed by the Parliament as the Prime Minister to lead the newly formed cabinet, consisting of 16 ministers.

Having majority seat by one party at the Parliament may increase the decision making efficiency of the Parliament, but there can be no assurances that it will have any negative or positive impact on the operations of the Company.

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 31 December 2014 and two Coal Resource updates.

This most recent Coal Resource estimate has been made in accordance with the requirement of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). Compared to the previous JORC Coal Resource update stated as at 30 November 2015, the last update stated as at 31 December 2016 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 December 2015 and 31 December 2016. No further exploration data was incorporated.

Exploration activities conducted in the process of preparing the three preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2016, 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 models was conducted by Mr. Gary Ballantine, employed by the Group at that time 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.

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

Table 2. UHG mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 31 December 2016 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	2	3	5	5	10
BHWE to 100m	70	23	17	93	110
From 100m to 200m	92	48	26	140	166
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	16	92	108
Below 400m	40	44	30	84	114
Sub-Total above 300m	255	138	69	393	462
Sub-Total below 300m	97	79	45	176	222
Total	**352**	**217**	**115**	**569**	**684**
Total (Rounded)	**350**	**220**	**110**	**570**	**680**

Management Discussion and Analysis

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 9 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 estimates of the Coal Resource set out in Table 2 presented in this annual report are considered to be a true reflection of the UHG Coal Resource as at 31 December 2016, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

(ii) Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 26 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

BARUUN NARAN (BN) DEPOSIT

The BN deposit is covered by two mining licenses. Mining License 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 license respectively.

No further drilling was conducted at the BN deposit in 2016, 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, the then Executive General Manager of Exploration and Geology. External peer review was provided by Mr. Todd Sercombe of GasCoal Pty Ltd. Mr. Brett Larkin from Geocheck Pty Ltd was also involved in external peer review, specifically with regard to the geostatistical analysis required to be prepared under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014). These peer reviews confirmed compliance of the Group's work to update the Coal Resource estimations in compliance with requirements of the JORC Code (2012).

Summary of the updated 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 (Notes):

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**

Management Discussion and Analysis

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

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 9 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 estimates of the Coal Resource set out in Table 3 and Table 4 presented in this annual report are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 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 was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 26 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 life-of-mine ("**LOM**") pit shell crest and maximum pit depth, with updates on basis of research and analyses made since timing of the previous JORC (2012) Coal Reserve estimate, as provided by Mr. John Latilla of AMC Consultants Pty Ltd ("**AMC**");

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

Following pit optimisation works to determine the economic pit limits, practical pit designs were then created, and mineable in situ coal within the pit shell was converted to run-of-mine ("**ROM**") and product coal quantities. Raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 30 November 2015 based upon an as-received basis with 5% total moisture, are shown in Table 5. Between 1 December 2015 and 31 December 2016, the stated Coal Reserve has been depleted by approximately 3.5 Mt as result of mining activity.

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

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

Notes:

(i) The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report has been compiled by Mr. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RPM 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 the 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 to 50.7%, 56.7% and up to 64.0% reduction in forecasted mine gate revenue assumptions for HCC, washed semi-soft coking coal ("**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 2016, 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 a 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. An updated JORC Coal Resources Report has been prepared as of 30 June 2015. However, coal reserves have not yet been updated based on this coal resources estimate.

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 the 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 2016 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 (Notes):

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 RPM 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.

Management Discussion and Analysis

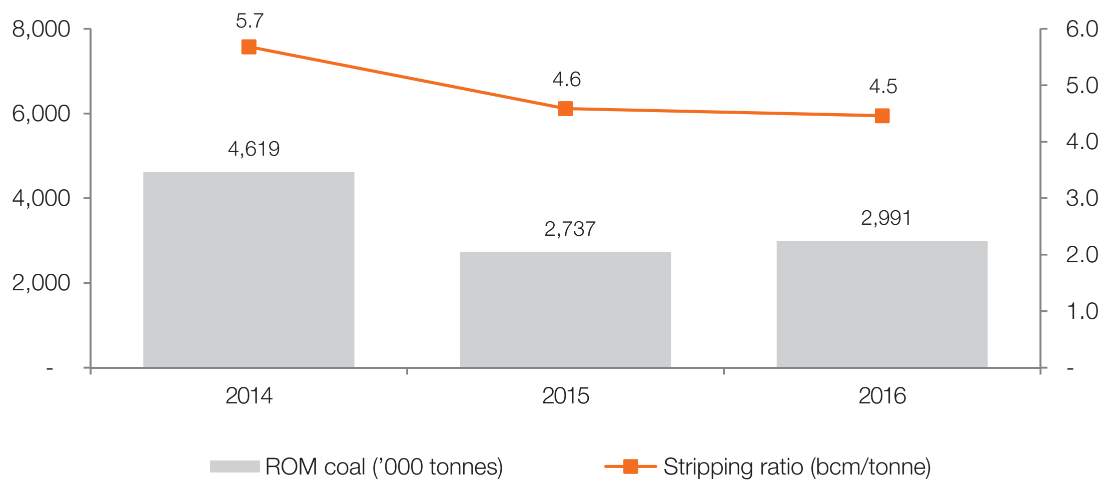
PRODUCTION AND TRANSPORTATION

COAL MINING

In 2016, the Group has produced 3.0 Mt ROM coal as shown in Figure 1, all coal has been extracted from UHG mine whilst mine operation at BN remained suspended. Following market development during the reporting period, ROM coal production increased to 2.1 Mt in the second half of the year, representing an increase of 126.8% compared to 0.9 Mt reported for the first half of the year. To access the coal, approximately 13.3 million bcm of overburden was removed, resulting in an actual stripping ratio of 4.5 bcm per ROM tonne in 2016.

The successful introduction of Seam 0B coal in ROM coal feed blend to the coal handling and preparation plant ("**CHPP**") for HCC production was the main contributing factor to maintain lower stripping ratio. Seam 0B coal lies partially uncovered at the bottom of the existing pit and was previously considered only as a source for thermal coal production. Following a more thorough investigation conducted by the Group's technical services, including drill hole chip sampling and trench sampling, a significant proportion of Seam 0B has been identified as suitable for HCC production. Approximately 919 thousand tonnes ("**kt**") of Seam 0B coal was delivered for processing to CHPP, representing 30.4% of the total ROM coal tonnes feed in 2016.

Figure 1. The Group's annual ROM coal production volumes (in kt) and actual stripping ratio (in bcm of overburden per ROM tonne of coal) for 2014-2016:

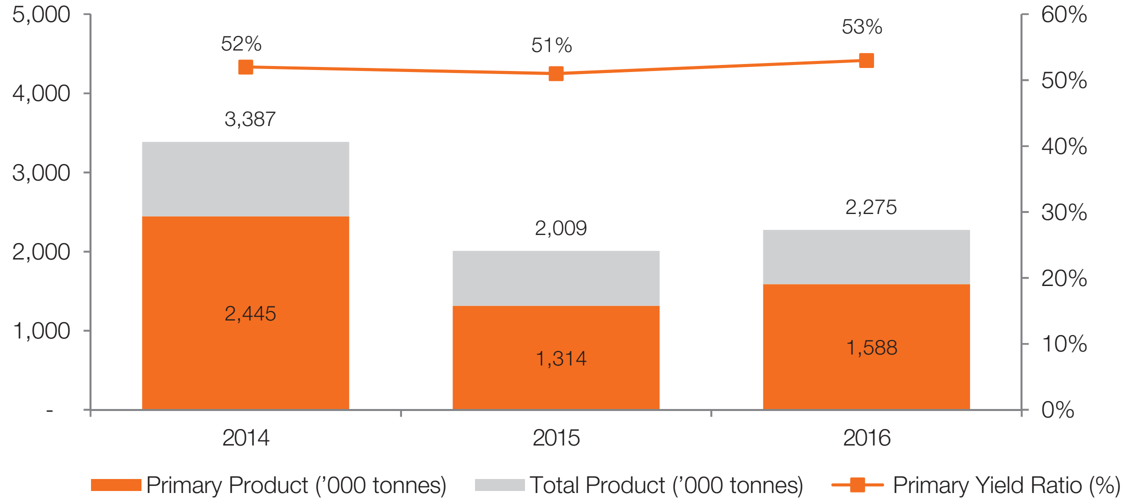


COAL PROCESSING

ROM coal volume processed by CHPP was 3.0 Mt in 2016, which are all ROM coal feed sourced from UHG deposit. This resulted in 1.6 Mt of HCC, the primary product, at yields of 52.5%, and 0.7 Mt of middlings, the secondary product, at a yield of 22.7%.

Following successful initial test trials in 2015, incorporating Seam 0B into ROM feed blend for HCC production, a full scale operation incorporating this concept was executed in 2016.

Figure 2. The Group's annual total and primary processed coal production volumes (in kt) for 2014-2016:



TRANSPORTATION AND LOGISTICS

In 2016, a total of 1.5 Mt of HCC was hauled from the UHG to the Tsagaan Khad ("**TKH**") coal stockpile and trans-shipping facility adjacent to the Gashuun Sukhait ("**GS**") and Ganqimaodu ("**GM**") Sino-Mongolian border crossing. This was achieved by solely utilizing the Group's own fleet of double-trailer trucks.

All middlings produced 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.

Total of 1.6 Mt of coal products were exported by transportation from TKH via GS to GM, utilizing predominately third party contractors. Also, 0.1 Mt of HCC was exported by direct transportation from UHG to GM, which started in the second half of 2016, after obtaining the required permits from Mongolian and Chinese authorities for the Group's own trucks.

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENT

The Group has an internal rating scale for environmental incidents based on their severity, which was last updated in April 2015. Accordingly, the risk rating scale uses five classifications which are low, minor, moderate, high and extreme. More specific classifications are developed for each environmental risk subjects including spills, waste disposal, land disturbance, air emissions, fatal injury and others. In 2016, the Group recorded no environmental incidents with "high" or above classifications. Five incidents occurred with "low" and "minor" classifications which were related to spillage of tailings and fuel. For all incidents, full investigations were carried out to identify the root causes, and corrective and preventive actions were taken to prevent re-occurrences.

Management Discussion and Analysis

During the reporting period, approximately 3.0 million man-hours were recorded as worked by employees, contractors and sub-contractors of the Group. During 2016, one occurrence of Lost Time Injury ("**LTI**") was recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.3 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 2016, the Group continued to deliver Occupational Health, Safety and Environment ("**OHSE**") specific training to employees, contractors, sub-contractors and visitors, with delivery of 7,264 training sessions to individuals, totalling 19,283 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

The prolonged market slowdown in the first half of the year took a better turn as a result of the Chinese government's measures to implement supply side reform policies, in particular, the steps undertaken by NDRC to impose regulations limiting total annual operating time to 276 days which reduced the coal mines output in China and resulted in supply shortage leading to improved pricing for coal products in the second half of 2016. Following this positive market development, the Group's coal sales volume almost doubled in the second half of the year compared with the volumes reported for the first half of the year.

The Group strove to maintain its relationship with its existing end-user customers' base with long term strategic value, while continuing to focus on liquidity and credit risk management. The Group's existing customers mostly comprise of steel mills and coke plants located in Inner Mongolia and Hebei areas, including Baotou Iron and Steel Co. Ltd, Jianlong Janeboat Steel Co., Ltd, Qiananshi Jiujiang Wire Co., Ltd and Tangshan Dafeng Coking Co., Ltd.

Besides maintaining sales through its existing sales and distribution channels, the Group continued to expand its end-user customers' base in 2016 and has subsequently started supplying HCC to new customers such as Chifeng Jiu Lian Coal Chemical Co., Ltd and Chifeng Defeng Coking Co. Ltd in Inner Mongolia province, Jiuquan Iron and Steel in Gansu province, Hebei Iron and Steel Group Company, Tangshan Dongfang Gas and Coking Coal Co., Ltd, Tangshan Lanhai Industrial Co. Ltd, Tangshan Yongshun Gas and Coking Co. Ltd, in Hebei province and also two major steel makers in Liaoning province.

The Group sold a total of 1.6 Mt of self-produced coal products in 2016, of which 1.5 Mt was HCC and 0.1 Mt was middlings. HCC sales volume in 2016 increased by 29.2% compared to 1.2 Mt HCC sold in 2015.

OUTLOOK AND BUSINESS STRATEGIES IN 2017

The combination of reduced coal production in China after imposing 276 working days per annum limit for coal mines, supply-chain disruptions both within China and in seaborne markets, along with a lift in Chinese steel production, has resulted in an improved market situation with FOB Australia benchmark contract prices for premium HCC settled at USD200 per tonne in the fourth quarter of 2016 and USD285 per tonne in the first quarter of 2017. Industry sources predict that FOB Australia quarterly benchmark contract prices in the second and third quarters of 2017 may end up close to current spot prices currently trading around USD160 per tonne, with a growing sense of market stability after a peak in prices seen at the end of last year.

International coking coal spot prices were fluctuating around quarterly benchmark contract price during the first half of 2016, indicating relatively well balanced supply and demand equilibrium. However from the third quarter of 2016, markets started to observe certain market mismatches and spot prices drastically jumped over USD300 per tonne in the fourth quarter of 2016 driven by the elevated demand from China. Coking coal prices in China followed similar trends observed in the seaborne market, although the price increase magnitude was at a lesser extent and also phased over a few months.

The coking coal market underwent pricing corrections after China eased restrictions on production of steel-making materials and Chinese production recovered after the government scaled back limits to allow mines operate 330 days per year from the previous 276 days. It was reported that most of China's large coal producers, both thermal and coking coal miners, suggested to the government to reinstate 276 working-day regulations at all coal mines after the winter period ends, in a bid to underpin price and ease anticipated supply pressure. However, NDRC signaled that such drastic measures would not be introduced this year. Instead, Chinese officials restated their commitment to continue with implementing supply side reform policy, including eliminating overcapacity in the coal industry, and vowed to cut more than 150 Mtpa of excess capacity this year. Meanwhile, actions were taken to balance coal production with an aim to avoid pricing volatility and it was reported that NDRC has encouraged large state-owned thermal and coking coal producers to enter into long term supply contracts with end-users. As such, one may expect that in absence of major unpredictable supply disruptions during 2017, the coking coal prices in China will stabilize at current levels reported, subject to typical seasonal fluctuations.

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.

With improved market conditions, the Company will aim to maximize its production and sales volumes in 2017. The ultimate intention is to ramp up production output in a safe manner by fully utilizing existing capacity, whilst managing working capital requirements and continuing to focus on cost control.

Management Discussion and Analysis

Reducing environmental footprint from our operations shall also remain as the main priority, including minimising power and water usage rates.

The management shall continue to maximize transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume shall be achieved by adopting aggressive marketing strategy to expand market penetration with direct access to ultimate end-user customers.

The Company achieved significant progress in its dialogue with its creditors about a possible restructuring arrangement in relation to its debt facilities. The management will remain absolutely focused in completing this process under the proposed restructuring arrangements with the ultimate goal to achieving outcomes acceptable and in the long term beneficial to all of its stakeholders. For details and progress of the proposed restructuring arrangements, please refer to the announcements published by the Company from time to time.

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 the 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. On 15 December 2016, the Consortium received an official letter from the working group established by the GoM, formed after the parliamentary election of Mongolia in June 2016, for the purpose of continuing negotiations in relation to the Tavan Tolgoi coalfield development. 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.

Management Discussion and Analysis

FINANCIAL REVIEW

REVENUE

During the year ended 31 December 2016, the Group sold approximately 1.6 Mt of coal products and generated a total revenue of USD120.0 million, compared to 1.5 Mt and USD99.5 million in the year ended 31 December 2015. As a result of improving market sentiment and higher coking coal prices in China towards the last quarter of 2016, USD88.9 million or 74.1% of the total revenue was booked during the second half of 2016. There were no sales of coal products procured from third party sources in the year ended 31 December 2016, compared to 0.3 Mt in the year ended 31 December 2015.

The Group's pricing reflects the current price trend in the coking coal market. The average selling price ("**ASP**") for HCC was USD77.2 per tonne for the year ended 31 December 2016, compared to USD63.2 per tonne in the year ended 31 December 2015. In line with the coking coal market rebound in the second half of 2016, the Group's ASP for HCC reached USD92.8 per tonne in the second half of 2016, compared to USD52.2 per tonne in the first half of 2016, representing an increase of 77.8%.

For the year ended 31 December 2016, the Group derived individually more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD15.7 million, USD14.8 million, USD13.4 million and USD13.4 million, respectively. In 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.

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 2016, the total cost of revenue of USD120.3 million was only associated with self-produced coal, representing a decrease of 27.3% compared to USD165.6 million during the year ended 31 December 2015, which included costs relating to both self-produced coal of USD132.7 million and procured coal from Chinese third parties of USD23.4 million.

The total cost of revenue of USD120.3 million for the reporting period, includes inventory provision and idling costs. The USD4.3 million inventory provision was booked due to weak prospects of net realizable value of low grade coal inventories. The Group temporarily suspended operations at certain times during the reporting period for cash conservation and efficiency purposes. Therefore at certain periods production was held at limited levels, and as a result, idling costs were recorded, which was approximately USD25.7 million, including depreciation and amortisation of USD9.9 million.

Table 7. Total and individual costs of revenue of self-produced coal:

	Year ended 31 December	
	2016	2015
	(USD'000)	(USD'000)
Cost of self-produced coal	**116,031**	132,701
Idling cost	**25,664**	52,872
Cost of self-produced coal excluding idling cost	**90,367**	79,829
Mining cost	**33,802**	34,830
Variable cost	**14,969**	15,960
Fixed cost	**16,316**	16,598
Depreciation and amortisation	**2,517**	2,272
Processing cost	**12,963**	13,084
Variable cost	**4,985**	5,216
Fixed cost	**1,453**	2,664
Depreciation and amortisation	**6,525**	5,204
Handling cost	**2,209**	1,185
Transportation cost	**20,683**	15,387
Logistic cost	**3,465**	2,690
Variable cost	**1,888**	1,416
Fixed cost	**1,439**	1,169
Depreciation and amortisation	**138**	105
Site administration cost	**6,440**	6,261
Transportation and stockpile loss	**670**	862
Royalties and fees	**10,135**	5,530
Royalty	**7,607**	3,509
Air pollution fee	**1,333**	1,127
Customs fee	**1,195**	894

The mining cost 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 2016, the Group's mining costs were approximately USD33.8 million (2015: USD34.8 million). Mining unit cost was USD11.5 per ROM tonne for the year ended 31 December 2016, compared to USD15.5 per ROM tonne for the year ended 31 December 2015, representing a decrease of 25.8%, which was due to the successful negotiation and revision of the agreement with the Company's mining contractor. Major amendments include adjustment in the mining fleet rate, indexing project base fee to market coal price and reducing plant rates which, in aggregate, helped the Group reduce its mining unit cost.

Management Discussion and Analysis

The Group identified components of the mine in accordance with the mine plan, and accounting of mining unit cost 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 2016 was 2.4 bcm per tonne, compared to 2.5 bcm per tonne for the year ended 31 December 2015. 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 capitalized in the balance sheet as mining structure.

Table 8. Total unit mining cost per ROM tonne:

	Year ended 31 December	
	2016 (USD/ ROM tonne)	2015 (USD/ ROM tonne)
Mining cost	**11.5**	15.5
Blasting	**1.0**	1.3
Plant cost	**2.3**	3.5
Fuel	**1.8**	2.3
National staff cost	**0.7**	1.4
Expatriate staff cost	**0.3**	0.6
Contractor fee	**4.5**	5.2
Ancillary and support cost	**0.03**	0.2
Depreciation and amortisation	**0.9**	1.0

Note: The above mining cost does not include idling cost

The processing cost primarily includes costs associated with operations of CHPP including power and water costs. During the year ended 31 December 2016, the Group's processing cost was approximately USD13.0 million (2015: USD13.1 million), of which approximately USD6.5 million was related to the depreciation and amortisation of the CHPP, USD2.4 million were costs related to power generation and distribution, and USD1.0 million were costs incurred for water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne decreased from USD5.8 per ROM tonne for the year ended 31 December 2015 to USD4.4 per ROM tonne for the year ended 31 December 2016, representing a decrease of 24.1%. The decrease was mainly attributable to the higher utilization and MNT depreciation.

Table 9. Total processing cost and unit processing cost per ROM tonne:

	Year ended 31 December			
	2016	2015	**2016**	2015
	(USD'000)	(USD'000)	**(USD/ROM tonne)**	(USD/ROM tonne)
Total	**12,963**	13,084	**4.4**	5.8
Consumables	**719**	671	**0.3**	0.3
Maintenance and spares	**857**	812	**0.3**	0.4
Power	**2,446**	2,956	**0.8**	1.3
Water	**963**	777	**0.3**	0.3
Staff	**626**	1,767	**0.2**	0.8
Ancillary and support	**827**	897	**0.3**	0.4
Depreciation and amortisation	**6,525**	5,204	**2.2**	2.3

Note: The above processing cost 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 course reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2016, the Group's handling cost was approximately USD2.2 million (2015: USD1.2 million). Unit handling cost was USD1.4 per tonne for the year ended 31 December 2016 (2015: USD1.0 per tonne).

Transportation costs include costs related to the direct or indirect transportation (via TKH) of coal products from UHG to GM, including fees paid to third party transportation contractors. During the year ended 31 December 2016, the Group's transportation costs, excluding idling cost, were USD20.7 million (2015: USD15.4 million). On a unit cost basis, the Group's combined average transportation costs from UHG to GM decreased from USD13.5 per tonne in the year ended 31 December 2015, to USD12.9 per tonne in the year ended 31 December 2016. The transportation cost in the long haul section (UHG-TKH), where own fleet was used, decreased from USD7.4 per tonne in the year ended 31 December 2015, to USD6.5 per tonne in the year ended 31 December 2016, due to higher transportation volume. In the short-haul (TKH-GM) section, where the Group utilized fleet from third party contractors, the transportation costs were USD6.7 per tonne in the year ended 31 December 2016, which was USD0.6 higher than the year ended 31 December 2015. The Group started direct transportation between UHG and GM using its own fleet during the second half of 2016, in order to mitigate the shortage of third party contractors in the short haul section. The unit transportation cost in UHG-GM section was USD8.5 per tonne during the year ended 31 December 2016.

The logistics costs are mainly related to costs associated with operating product stockpiles at UHG and TKH. For the year ended 31 December 2016, the Group's logistics cost was approximately USD3.5 million (2015: USD2.7 million).

The site administration cost during mine operations is primarily related to the site support facilities such as the airstrip operations, and also the overall supervision and joint management of the Group's mining, processing, transportation and logistics operations. For the year ended 31 December 2016, the Group's site administration cost was approximately USD6.4 million (2015: USD6.3 million).

Management Discussion and Analysis

For the year ended 31 December 2016, the Group recorded a total transportation loss of around USD0.2 million, which was negligible in 2015, and unrealized inventory loss of USD0.5 million for ROM coal and washed coal product stockpiles, which was USD0.8 million in 2015. 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, TKH, and inland China stock. 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.

Governmental royalties and fees are related to royalties, air pollution fees and customs 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 and Heavy Industry of Mongolia. Starting from 1 February 2016, the contract prices were allowed to be used for calculating royalty rates pursuant to Resolution No. 81 of the GoM. The Group's effective royalty rate for the year ended 31 December 2016, was approximately 5.0% for coal exported from Mongolia based on customs clearance documentation (2015: 5.4%).

GROSS LOSS/PROFIT AND GROSS LOSS/PROFIT MARGIN

The Group's gross loss for the year ended 31 December 2016, was approximately USD0.3 million, compared to the gross loss of approximately USD66.1 million recorded for the year ended 31 December 2015. The decrease in gross loss position was largely due to an increase in ASP following a surge of coking coal price in the second half of 2016 and the continuing cost management.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs of USD17.7 million for the year ended 31 December 2016 (2015: USD8.6 million) are associated with the inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution costs were higher compared to the same period in the year ended 31 December 2015, due to higher sales volume realized under inland China sales activities.

GENERAL AND ADMINISTRATION EXPENSES

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, depreciation and amortisation of office equipment and other expenses. For the year ended 31 December 2016, the Group's general and administrative expenses decreased by approximately USD17.4 million or 57.0% from USD30.5 million for the year ended 31 December 2015, to approximately USD13.1 million for the year ended 31 December 2016.

NET FINANCE COSTS

Net finance costs for the year ended 31 December 2016 was approximately USD121.5 million (2015: USD99.0 million). Net finance costs comprised of interest expense and other credit facilities related expenses, and approximately USD45.8 million foreign exchange net loss, which is mainly due to the depreciating MNT.

The Group has triggered the event of default under the secured interest-bearing borrowings from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (collectively, the "**Lenders**") with a principal amount of USD93,000,000 (the "**BNP and ICBC Facility**") as disclosed in the announcements of the Company dated since 23 March 2016, which also constituted an event of default under the Group's other certain indebtedness that contain cross-default provisions, including the senior notes issued by the Company with a principal amount of USD600,000,000 on 29 March 2012 ("**Senior Notes**"). Accrued interest expenses in respect of the BNP and ICBC Facility totaled USD7.9 million for the year ended 31 December 2016, which is inclusive of 2% per annum default interest calculated starting from 22 March 2016, in addition to the accumulated interest payables of USD0.3 million for the prior period. Accrued interest in respect of the Senior Notes totaled USD55.7 million for the year ended 31 December 2016, in addition to the accumulated interest payables of USD13.6 million for the prior period. As announced by the Group on 3 November 2016, such accrued and unpaid interest of USD77.5 million of the BNP and ICBC Facility and the Senior Notes are included in the restructuring of the Group's certain indebtedness. Further details of the restructuring can be found in the Group's announcement made on 3 November 2016 and in the paragraph headed "Indebtedness" under the Management Discussion and Analysis section on pages 41 and 42 of this annual report.

INCOME TAX EXPENSES

The Group's income tax expenses for the year ended 31 December 2016 was approximately USD2.7 million. The Group did not have income tax expenses 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.

LOSS FOR THE PERIOD

As a result, the losses attributable to equity shareholders of the Company for the year ended 31 December 2016, amounted to approximately USD154.2 million (2015: USD187.8 million). Major contributing factors of the Group's net loss position are the depressed ASP and lower sales volume of coking coal products due to tough market conditions in China in the first half of 2016, and high net finance costs.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended 31 December 2016, the Company's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

	Year ended 31 December	
	2016	2015
	USD'000	USD'000
Net cash generated from/(used in) operating activities	**29,350**	(14,184)
Net cash generated from/(used in) investing activities	**44,262**	(36,236)
Net cash used in financing activities	**(61,561)**	(151,709)
Net increase/(decrease) in cash and cash equivalents	**12,051**	(202,129)
Cash and cash equivalents at beginning of the year	**702**	202,856
Effect of foreign exchange rate changes	**(485)**	(25)
Time deposits with original maturity over three months	**–**	50,000
Cash and cash equivalents at end of the year	**12,268**	50,702

Note: USD44.3 million generated from investing activities comprises of USD6.6 million incurred for payments of deferred stripping activity, USD53.5 million generated from interest income and release of time deposit, USD0.4 million generated from disposal of property, plant and equipment and USD3.0 million used for payment of payable 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 2016 was 43.9% (31 December 2015: 57.0%). All borrowings are denominated in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro and Hong Kong Dollar ("**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.

FIXED ASSETS REVALUATION

The fixed assets of the Group are held by the Group's subsidiaries located in Mongolia, and due to functional currency of these subsidiaries being MNT, the value of fixed assets is recorded at historical costs of its acquisition denominated in MNT at the time of recognition of fixed assets. However, the presentation currency of the Group is USD and at each reporting period, the value of fixed assets of the Group is translated into USD using the foreign exchange rates prevailing at the balance sheet dates.

Due to substantial depreciation of MNT against USD for the last few years, the value of the fixed assets of the Group diminished significantly. For instance, the majority of the Group's capital investments were made during the period from 2010 to 2012 when the historical average USD rate was around 1,325.94 as published by the Bank of Mongolia. However, MNT rate has been significantly depreciated against USD and reached 2,489.53 as of 31 December 2016, representing a depreciation of 87.8% compared to the 2010-2012 historical average rate or a depreciation of 108.3% compared to the historical high of 1,195.27 during the period since 2010. Moreover, global inflation occurred in prices of equipment, spare parts and workforce, and there have been changes in asset utilization and its physical condition since the capital investments were made. Also the tax regime in Mongolia has been changing. For instance, under the revision of the Value-Added Tax Law of Mongolia, which became effective from 1 January 2016, Value-Added Tax ("**VAT**") of 10% paid on imported or purchased goods, works and services for the purpose of establishment of fixed assets is excluded from the list of deductibles from the VAT taxable amount, and regulated to be capitalized into the book value of establishment of fixed assets. Previously, VAT imposed on purchase of fixed assets was recorded as VAT receivables in the accounting book and further deducted from respective tax payables or reimbursed back to an entity upon the Tax Authority inspection and approval.

Based on the above reasons, the Group has changed its accounting policy of property, plant and equipment from cost model to revaluation model in accordance with International Accounting Standard ("**IAS**") 16 Property, Plant and Equipment, and engaged Duff & Phelps Corporation, the premier global valuation and corporate finance advisor, to revalue its major fixed assets including immovable assets and major infrastructure assets together with related machinery equipment as at the year ended 31 December 2016. In addition, such revaluation was done at the end of this reporting period because the Parliament adopted an amendment to the Accounting Law of Mongolia effective from the 1 January 2016 allowing entities to use dual-currencies for their accounting which would eliminate further balance sheet impacts arising from changes of the MNT value.

As the result of the fixed assets revaluation, the carrying amount of the evaluated assets was increased and other comprehensive income of USD341.8 million was recognized as a revaluation surplus in equity side of the balance sheet for the year ended 31 December 2016. The asset revaluation surplus is an accounting related adjustment and a non-cash item and therefore, does not have any impact on the cash flow of the Group. In addition, going forward annual depreciation amount will increase as result of asset revaluation surplus.

Management Discussion and Analysis

INDEBTEDNESS

As of 31 December 2016, the Company had USD693.0 million outstanding principal payments incurred under (i) USD600.0 million Senior Notes and (ii) USD150.0 million BNP and ICBC Facility.

During the reporting period, the Group has settled and repaid certain indebtedness. Under the Group's loan agreements with European Bank for Reconstruction and Development ("**EBRD**"), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("**FMO**") and Deutsche Investitions-und Entwicklungsgesellschaft mbH ("**DEG**") (together as the "**Parallel Lenders**"), the outstanding principal amount was USD51.8 million as at 30 June 2016. The Group announced on 25 July 2016 that the Group endorsed to the Parallel Lenders certain promissory notes with a total amount of approximately MNT105.6 billion, and in return the obligations under the borrowings were discharged in their entirety and the relevant security thereunder was released on the date of the announcement. Moreover, the revolving credit facility granted by the Trade and Development Bank of Mongolia and short-term loan granted by Golomt Bank of Mongolia had been fully repaid as at 31 December 2016.

The Senior Notes bear a fixed interest rate of 8.875% per annum payable semi-annually and was issued in 2012 for 5 years, unless earlier redeemed. As of 31 December 2016, the outstanding principal amount was USD600.0 million. The Group published an announcement on 14 March 2016 in regards to a formation of the steering committee (the "**Steering Committee**") for potential restructuring of the Senior Notes and announced that the Group would likely not be able to pay the interest due and payable in 2016.

On 5 March 2014, the Company entered into the BNP and ICBC Facility Agreement for a coal pre-export loan facility of USD150.0 million. The loan bears an interest rate of LIBOR plus 6.00% per annum, and was repayable in 10 quarterly installments starting from September 2014 and ending in December 2016. 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. On 23 March 2016, the Group published an announcement stating an event of default had occurred under the BNP and ICBC Facility Agreement and cross-default under the Senior Notes due to failure to make certain repayment of principal installments and interests and replenish certain collection account. On 26 April 2016, the Group received notice from the agent under the BNP and ICBC Facility Agreement (the "**Agent**") on acceleration and demand of the BNP and ICBC Facility Agreement ("**Acceleration Notice**") and a notice from the shared security agent ("**Shared Security Agent**") on enforcement under the intercreditor agreement ("**Intercreditors Agreement**") entered into between the Company, certain of its subsidiaries, the original lenders under the BNP and ICBC Facility Agreement, the trustee of the Senior Notes and the Shared Security Agent thereunder as referenced to the Group's announcement dated 23 March 2012. On 29 April 2016, the Group published an announcement stating that a default of interest payment of the Senior Notes had continued for a period of 30 consecutive calendar days and, as such, an event of default under the Senior Notes had been triggered. On 8 July 2016, an indicative terms of the restructuring (the "**Debt Restructuring**")was proposed by the Company (the "**Debt Restructuring Proposal**").

On 19 July 2016, the Grand Court of the Cayman Islands ("**Cayman Court**") appointed Mr. Simon Conway of PwC Corporate Finance Recovery (Cayman) Limited and Mr. Christopher So Man Chun of PricewaterhouseCoopers Ltd. as joint provisional liquidators ("**JPLs**") of the Company on a soft touch basis to assist the Company and its Directors with the implementation of the Debt Restructuring pursuant to the terms of an order of the Cayman Court made on that date. The relevant announcements in regards to the appointment of the JPLs and the process afterwards were duly announced by the Company in due course.

On 3 November 2016, the Company announced that the Steering Committee, the Lenders and QGX Holding Ltd. ("**QGX**") have provided their support for the key commercial terms of the updated Debt Restructuring Proposal ("**Updated Debt Restructuring Proposal**"). On 21 December 2016, the Company announced that the Company and the JPLs entered into restructuring support agreements (collectively, the "**RSAs**") with certain consenting noteholders ("**Consenting Noteholders**"), QGX and the Lenders pursuant to which such Consenting Noteholders, QGX and the Lenders agreed to support the proposed Debt Restructuring. Each of the RSAs was approved by an order of the Cayman Court on 21 December 2016. Under the terms of the RSAs, the Consenting Noteholders, QGX and the Lenders have undertaken to work in good faith with the Company to implement the Debt Restructuring as soon as possible. Further developments regarding the Debt Restructuring can be found in the paragraph headed "Other and Subsequent Events" under the Management Discussion and Analysis section on pages 44 to 45 of this annual report.

CREDIT RISK

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

As at 31 December 2016, the Group had approximately USD11.8 million in trade receivables, which includes receivables from sales agents and bills receivables issued by the customers, USD46.9 million in other receivables and no allowance of doubtful debts. As at 31 December 2015, the Group had USD2.0 million in trade receivables and USD92.3 million in other receivables, as well as USD0.4 million for allowance of doubtful debts.

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

With regard to other receivables of USD46.9 million, this amount is mainly related to USD16.5 million VAT and other tax receivables, and USD29.6 million of other deposits and prepayments. For the VAT receivables, based on the Tax Authority inspection and approval of the VAT tax refund, the Group offset USD8.5 million against its other tax payments and payables to certain suppliers. The remaining amounts are other receivables in the ordinary course of business. Management believes that there is no issue in the collectability of such receivables.

FOREIGN EXCHANGE RISK

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2016 and 31 December 2015 amounted to USD1.4 million and USD50.2 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2016 and 31 December 2015 amounted to nil and USD101.8 million, respectively.

Management Discussion and Analysis

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

The Company pledged Collection and Cash Collateral accounts with BNP Paribas Hong Kong and certain coal stockpiles under the BNP and ICBC Facility Agreement as at 31 December 2016.

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

The total principal amount of indebtedness covered with the above pledges is USD693.0 million as at 31 December 2016.

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

CONTINGENT LIABILITIES

As at 31 December 2016, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd. and Kerry Mining (Mongolia) Limited ("**KMM**") on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in 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 dated 27 November 2012 entered into by the same parties as the Share Purchase Agreement, the specified semi-annual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

FINANCIAL INSTRUMENTS

The Company has a share option scheme, adopted on 17 September 2010 ("**Share option Scheme**"), in which the Board is authorized, 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 directors 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 2016, USD1.2 million was recognized in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

CAPITAL COMMITMENTS AND CAPITAL EXPENDITURES

As at 31 December 2016, the Group had contracted USD0.5 million for capital commitments (as at 31 December 2015: USD0.5 million):

Table 11. Capital commitments:

	As at 31 December 2016 USD'000	As at 31 December 2015 USD'000
Contracted for	**510**	525
Authorized but not contracted for	**–**	–
Total	**510**	525

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

	Year ended 31 December	
	2016 USD'000	2015 USD'000
CHPP	**–**	59
Water supply facility	**–**	124
Others	**276**	277
Total	**276**	460

OPERATING LEASE COMMITMENTS

As at 31 December 2016, the Company had contracted obligations consisting of operating leases which totaled approximately USD0.2 million due within one year. Lease terms range from one to five years, with fixed rentals.

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2016, the Company did not hold any significant investments. Save as disclosed in this annual report, 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 2016, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

OTHER AND SUBSEQUENT EVENTS

The Company announced on 23 January 2017, that approximately 96.06% of the Noteholders of the Senior Notes supported the Company and entered into the Noteholder RSA as at 4:00 p.m. New York time on 20 January 2017.

Management Discussion and Analysis

On 20 February 2017, the Company announced that it has filed applications with the Cayman Court and the High Court of Hong Kong (the "**Hong Kong Court**") in relation to seeking orders (the "**Convening Orders**") and the hearings at which such orders are considered (the "**Convening Hearings**") granting permission for the Company to convene meetings of the Noteholders for the purpose of considering, and if thought fit, approving (with or without modification) the schemes of arrangement in the Cayman Islands and in Hong Kong (the "**Cayman Scheme**" and "**Hong Kong Scheme**", respectively). On 8 March 2017, the Company announced that it has filed the draft scheme of arrangement, the draft explanatory statement and certain supporting documents with the Cayman Court (in respect of the Cayman Scheme) and with the Hong Kong Court (in respect of the Hong Kong Scheme) ahead of the Convening Hearings. On 14 March 2017, the Company announced that both the Cayman Court and the Hong Kong Court have granted the Convening Orders. On 21 March 2017, the Company announced that the Cayman Court granted an order by way of consent authorizing the Company to proceed with the dissemination of the scheme documents.

For the details and progress of the restructuring, please refer to the announcements published by the Company from time to time.

EMPLOYEES

As at 31 December 2016, the number of employees of the Group was 1,442, compared with 1,797 employees as at 31 December 2015.

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

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice, and share the newly gained experience with co-workers. The immediate management shall be responsible for the support and supervision of the process. During the year ended 31 December 2016, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2016, a total of 383 employees attended different professional trainings, out of which 45 employees attended mining heavy equipment operator training, 274 employees attended mine maintenance training and 64 employees attended professional development training.

For the year ended 31 December 2016, the amount of staff costs was USD13.4 million, compared to USD26.6 million in 2015.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The Company has entered into the following continuing connected transactions (the "**CCTs**") in the ordinary course of business with certain of its connected persons. Set out below is a summary of the CCTs entered into the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") recorded for the year ended 31 December 2016 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules.

(1) POWER SYSTEM OPERATION AND MAINTENANCE AGREEMENT

PRINCIPAL TERMS

On 30 December 2014, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including: (i) UHG Power Plant and electricity distribution facilities operation and maintenance; (ii) heating facilities operation and maintenance; (iii) diesel generators operation and maintenance; and (iv) supply of electricity and heating to end customers and contractors of the Group and billing for the consumption to the Group. The agreement is for a term of three years commencing from 1 January 2015 to 31 December 2017.

CONNECTED PERSON

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which directly owns a 39.16% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

CONSIDERATION

The total consideration payable under this agreement, which equals to the sum of the annual caps for the three years ending 31 December 2017, is MNT86,332,146,634 (then equivalent to approximately USD45,815,832) payable on a monthly basis within 60 days upon receipt of valid invoice from MCS International LLC. The consideration was determined on an arm's length basis between the Group and MCS International LLC after taking into account (i) the negotiated fixed and variable charges; (ii) negotiated energy tariff; (iii) anticipated electricity production volume after considering production and business expansion; (iv) scheduled major overhauls of the power plant equipment; (v) VAT and other taxes; and (vi) contingencies that would be applicable and payable for the services of MCS International LLC under the agreement. Annual cap for this agreement is MNT28,692,727,071 (then equivalent to approximately USD15,227,018) for the year ended 31 December 2016.

Transactions (excluding VAT) in the total amount of MNT12,003,422,022 (equivalent to approximately USD5,596,210) was made by the Group for the year ended 31 December 2016 under this agreement.

(2) FUEL SUPPLY AGREEMENT WITH NIC LLC

PRINCIPAL TERMS

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a fuel supply agreement with NIC LLC, pursuant to which NIC LLC agreed to supply fuel products including diesel fuel, lubricants and other types of fuel to the Group and provide other related services at the UHG mine site and BN mine site. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

CONNECTED PERSON

NIC LLC is an associate of Dr. Oyungerel Janchiv, a non-executive Director and therefore, NIC LLC is a connected person of the Company.

CONSIDERATION

The maximum consideration payable under this agreement is USD784,369,936 payable on a monthly basis within 60 days upon receipt of valid invoice from NIC LLC. The consideration was determined by the tender proposal submitted by NIC LLC which is based on market rate of fuel products. Annual cap for this agreement is USD326,980,902 for the year ended 31 December 2016.

Transactions (excluding VAT) in the total amount of MNT40,638,754,408 (equivalent to approximately USD18,946,513) was made by the Group for the year ended 31 December 2016 under the agreement.

(3) FUEL SUPPLY AGREEMENT WITH SHUNKHLAI LLC

PRINCIPAL TERMS

On 18 October 2013, Transgobi LLC, an indirect wholly-owned subsidiary of the Company, entered into a fuel supply agreement with Shunkhlai LLC, pursuant to which Shunkhlai LLC agreed to supply fuel products including diesel fuel, gasoline and other types of fuel to the Group and provide other related services at the UHG mine site and TKH site for the Group's coal transportation and logistics operations. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

CONNECTED PERSON

Shunkhlai LLC is an associate of Mr. Batsaikhan Purev, who has resigned from his position as non-executive Director with effect from 30 November 2015. For the year ended 31 December 2016, Mr. Batsaikhan Purev is considered as a person who was a director of the Company in the last 12 months and therefore, Shunkhlai LLC is a connected person of the Company.

CONSIDERATION

The maximum consideration payable under this agreement is USD169,373,021 payable on a monthly basis within 60 days upon receipt of valid invoice from Shunkhlai LLC. The consideration was determined by the tender proposal submitted by Shunkhlai LLC which is based on market rate of fuel products. Annual cap for this agreement is USD61,382,370 for the year ended 31 December 2016.

Transactions (excluding VAT) in the total amount of MNT3,423,957,575 (equivalent to approximately USD1,596,310) was made by Transgobi LLC for the year ended 31 December 2016 under the agreement.

(4) SERVICE AGREEMENT

PRINCIPAL TERMS

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a service agreement with Uniservice Solution LLC ("**USS**"), a subsidiary of MCS Holding LLC, pursuant to which USS agreed to provide office and camp supporting services to the Group for a term of three years commencing from 1 January 2014 to 31 December 2016.

CONNECTED PERSON

As at the date of this annual report, USS is a subsidiary of MCS Holding LLC which directly owns a 39.16% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, USS is a connected person of the Company.

CONSIDERATION

The maximum consideration payable under this agreement is MNT72,957,978,408 (then equivalent to approximately USD43,026,555) payable on a monthly basis within 60 days upon receipt of valid invoice from USS. The consideration was determined based on the size of the location where services are to be provided, the number of employees utilising the camp site, the temporary ger camp located at the UHG mine site and BN mine site, and on an arm's length basis between the Company and USS based on the bid submitted by USS. Annual cap for this agreement is MNT24,319,326,136 (then equivalent to approximately USD14,342,185) for the year ended 31 December 2016.

Transactions (excluding VAT) in the total amount of MNT6,167,370,185 (equivalent to approximately USD2,875,338) was made by the Group for the year ended 31 December 2016 under the agreement.

(5) SECURITY SERVICE AGREEMENT

PRINCIPAL TERMS

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a security service agreement with M Armor LLC (previously MCS Armor LLC), a subsidiary of MCS Holding LLC, pursuant to which M Armor LLC agreed to provide security services, safeguarding and services for prevention of unlawful conducts and violations at the Ulaanbaatar office, UHG mine site, BN mine site, TKH site and other premises of the Group and vehicle inspection and safety assurance services for the Ulaanbaatar office of the Company on a day-to-day basis. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

CONNECTED PERSON

As at the date of this annual report, M Armor LLC is a subsidiary of MCS Holding LLC which directly owns a 39.16% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, M Armor LLC is a connected person of the Company.

CONSIDERATION

The maximum consideration payable under this agreement is MNT12,933,103,680 (then equivalent to approximately USD7,627,225) payable on a monthly basis within 60 days upon receipt of valid invoice from M Armor LLC. The consideration was determined on an arm's length basis between the Company and M Armor LLC based on the bid submitted by M Armor LLC. Annual cap for this agreement is MNT4,311,034,560 (then equivalent to approximately USD2,542,408) for the year ended 31 December 2016.

Transactions (excluding VAT) in the total amount of MNT3,587,097,519 (equivalent to approximately USD1,672,369) was made by the Group for the year ended 31 December 2016 under the agreement.

(6) DOMESTIC TRANSPORTATION OF FUEL, SITE STORAGE, AND FUELING SERVICES AGREEMENT

PRINCIPAL TERMS

On 28 December 2016, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with NIC LLC, whereby NIC LLC agreed to provide services including: (i) receipt of fuel from the laces or border points designated by Energy Resources LLC; (ii) fuel transportation by train from the designated places to Sainshand and storage of fuel thereat; (iii) fuel transportation by truck from Sainshand to UHG storage; and (iv) fuel distribution to the machines, facilities, and equipment in the mining zone of Energy Resources LLC by either its fuel station or site service facility. The agreement is for a term of three years commencing from 1 January 2017 to 31 December 2019.

CONNECTED PERSON

NIC LLC is an associate of Dr. Oyungerel Janchiv, a non-executive Director and therefore, NIC LLC is a connected person of the Company.

CONSIDERATION

The maximum consideration payable by the Group to NIC LLC under this agreement, which equals to the sum of the annual caps for the three years ending 31 December 2019, is MNT36,000,096,000 (then equivalent to approximately USD14,475,426) payable on a monthly basis within 15 days upon receipt of valid invoice from NIC LLC. The consideration was determined after arm's length negotiation between the Company and NIC LLC taking into account the annual volume of fuel required for UHG mine operation; and the fee quotation; and costs structure of the services to be provided submitted by NIC LLC.

Services under this agreement are commencing from 1 January 2017 and estimated annual cap for each of the three financial years ending 31 December 2019 is MNT12,000,032,000 (then equivalent to approximately USD4,825,142). As such, no payment was made by the Group for the year ended 31 December 2016 under the agreement.

(7) SERVICE AGREEMENT

PRINCIPAL TERMS

On 28 December 2016, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with USS, a subsidiary of MCS Holding LLC, pursuant to which USS agreed to provide (i) catering, camp management, laundry cleaning, and maintenance services for camps, offices and industrial facilities and operational sites of the Group; and (ii) cleaning, maintenance, cloakroom attendance for Ulaanbaatar office for a term of three years commencing from 1 January 2017 to 31 December 2019.

CONNECTED PERSON

As at the date of this annual report, USS is a subsidiary of MCS Holding LLC which directly owns a 39.16% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, USS is a connected person of the Company.

CONSIDERATION

The maximum consideration payable by the Group to USS under the Service Agreement is MNT34,162,230,051 (equivalent to approximately USD13,736,431) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by USS. Invoices will be issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of a valid invoice from USS. No advance payment and no mobilization and de-mobilization payments are to be made by the Group. The consideration was determined after arm's length negotiation between the Company and USS taking into account the size of the location where services are to be provided and the number of employees utilising the camp site, the temporary ger camp located at the operational sites and the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by USS.

Services under this agreement are commencing from 1 January 2017 and estimated annual cap for each of the three financial years ending 31 December 2019 is MNT11,387,410,017 (then equivalent to approximately USD4,578,810). As such, no payment was made by the Group for the year ended 31 December 2016 under the agreement.

(8) SECURITY SERVICES AGREEMENT

PRINCIPAL TERMS

On 28 December 2016, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with M Armor LLC, a subsidiary of MCS Holding LLC, pursuant to which M Armor LLC agreed to provide guard services for all premises and facilities of the Group, body guard service, and safeguarding and services for prevention of unlawful conduct and violations services to the Group for a term of three years commencing from 1 January 2017 to 31 December 2019.

CONNECTED PERSON

As at the date of this annual report, M Armor LLC is a subsidiary of MCS Holding LLC which directly owns a 39.16% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, M Armor LLC is a connected person of the Company.

CONSIDERATION

The maximum consideration payable by the Group to M Armor LLC under the Security Services Agreement is MNT16,063,469,250 (equivalent to approximately USD6,459,026) inclusive of VAT, other applicable taxes and all other costs undertaken by M Armor LLC. Invoices will be issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of valid invoice from M Armor LLC. The consideration was determined after arm's length negotiation between the Company and M Armor LLC taking into account the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by M Armor LLC, estimated number of security guards required and labour costs.

Services under this agreement are commencing from 1 January 2017 and estimated annual cap for each of the three financial years ending 31 December 2019 is MNT5,354,489,750 (then equivalent to approximately USD2,153,009). As such, no payment was made by the Group for the year ended 31 December 2016 under the agreement.

The independent non-executive Directors reviewed the CCTs of the Group set out in items (1) to (5) above pursuant to Rule 14A.55 of the Listing Rules.

In the opinion of the independent non-executive Directors, the CCTs set out in items (1) to (5) above were entered into by the Group:

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

(ii) on normal commercial terms or better; and

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

The Board has received a letter from the auditor of the Company confirming the matters set out in Rule 14A.56 of the Listing Rules that in respect of the disclosed CCTs as set out in items (1) to (5) above:

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

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

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

(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (5), nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the annual cap disclosed in the announcements made by the Company in respect of each of the disclosed CCTs.

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

Tsogttsetsii soum, Umnugobi province

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental, Social and Governance Report

This report summarizes our Environmental, Social and Governance ("**ESG**") performance, highlights and accomplishments which we believe are crucial for the long-term sustainability of our business. The report covers the period from 1 January 2016 to 31 December 2016 and has been prepared in accordance with the ESG Reporting Guide set out in Appendix 27 of the Listing Rules, with reference to the Global Reporting Initiative — Sustainability Reporting Guidelines (G4) at the core level. The information contained in this ESG report covers the operations of our subsidiaries in Mongolia.

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

For MMC, sustainable development is about creating value in the society whilst managing financial and operational risks of the Company. Our actions and decisions go beyond sectorial and legislative requirements to ensure that we are accountable for the social, economic and environmental impacts of our mining activities and continue to grow while making lasting contributions to the development of the country.

Our Sustainable Development Policy and Corporate Social Responsibility ("**CSR**") Policy define and guide our approach towards sustainability and our responsibility towards diverse stakeholders. At the core of our approach are the needs and expectations of the future generations, we must adequately consider the utilization of natural resources and believe that the benefits of economic activity must appropriately account for their respective social and environmental consequences. We believe that our operations give us the opportunity to bring long-lasting positive changes to the community where we work. We work in compliance with all the applicable international and local legislations and standards at each and every level of our operation, ensure to put the health and safety of our employees and communities first, and seek to minimize our impacts on the environment.

Our governance framework clearly defines the role and approaches our Board and management should take in overseeing the performance in sustainability. Transparency, accountability, respect for the rule of law and respect for human rights are all crucial in sustaining meaningful and long-term engagement with our stakeholders.

BUSINESS INTEGRITY

CODE OF CONDUCT

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

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

HUMAN RIGHTS

We are committed to conducting our business in a manner that respects the rights of everyone affected by our business activities and addressing the impacts of our operations. We uphold the United Nations Universal Declaration of Human Rights, the International Labour Organization Declaration on Fundamental Principles and Rights and Work as well as the United Nations Guiding Principles for Business and Human Rights. We comply with all applicable laws of Mongolia while respecting all internationally recognised human rights declarations and guidelines.

At our operational sites and offices, we aim to ensure that equal opportunity is offered to all our employees irrespective of race, gender, nationality, age, religious belief, social origin, political views, union affiliation, pregnancy, disability or any other basis. We respect freedom of association and freedom of speech, therefore designated feedback boxes are placed at our mine site to allow employees to express their opinions and report any breaches of ethical conduct and behaviour. Where our employees wish to be represented by trade unions or work councils, we cooperate in good faith with the bodies that our employees collectively choose to represent them within the appropriate national legal frameworks.

We respect the rights of people in communities where we operate and seek to identify adverse human rights impacts and take appropriate steps to address and remedy them. Moreover, we maintain continuous engagement based on dialogues and mutual trust for their rights to access land, access to water, freedom of movement and freedom of expression. Our community grievance handling mechanism allows the host community members to freely submit their complaints and grievances to the Company's management and respective departments or units.

In the value chain, we seek to establish relationships with suppliers and contractors which share our principles and values while promoting awareness of human rights protection.

As part of our Human Rights Program effective since 2010, we continue to provide trainings on Voluntary Principles on Security and Human Rights to our security service providers and relevant staff. No human rights violations were recorded at our sites and offices during the reporting period.

FORCED LABOUR AND CHILD LABOUR

MMC endeavours to provide a conducive work environment that is characterized by equality and mutual respect. The Company does not tolerate the use of child or forced labour, and/or exploitation of children in any of its operations and facilities. Specifically, we do not employ a person who is under the national legal age of employment and in line with our Recruitment policy, we employ people aged 18 or older. The Company strictly follows the Mongolian Law on Child Protection adopted in 2016 and works in full compliance with other relevant documents and legislation including the Convention on the Rights of the Child, ratified by Mongolia in 1990, the Minimum Age Convention ratified in 2002, and the Worst Forms of Child Labour Convention, which was ratified in 2001. In addition to the above, we strictly adhere to our principles that an employee should have the right to leave the work premises after completing the standard workday and to terminate employment after giving reasonable notice.

Our recruitment officers are trained to ensure that no child is employed at any of our sites and facilities. In the year under review, the Company has not employed any person under the age of 18.

TRANSPARENCY

Ensuring maximum transparency that is commercially viable is of vital importance for us to gain and maintain the trust of our stakeholders. We report our financial, operational and sustainable development performances in accordance with all the applicable legislations in a timely manner. We are also one of the active supporters of the Extractive Industry Transparency Initiative ("**EITI**") in Mongolia and have been disclosing our payments to the government since the commencement of our mining operations in 2009.

In 2016, the Company continued to have an active participation in EITI national council meetings and disclosed all relevant information including payments to the government, spending on community development projects, tax payments to the local government, sponsorships and environmental issues, among others. We believe that direct and two-way communication is essential in ensuring that our information reaches various stakeholders in a transparent manner. Our project related information is disclosed to our host communities every year as part of our Public Consultation and Disclosure Plan.

FAIR OPERATING PRACTICES

We are committed to the highest standards of corporate governance and ethical business conducts and, strongly believe that bribery, corruption, extortion, fraud, unfair supply chain practices and other similar behaviours that violate the rule of fair play would negatively affect the Company's image and future performance. The Code and other guidelines clearly prohibit bribery, extortion, fraud and corruption in all forms of business dealings. We also strive to implement socially responsible supply chain practices and anti-corruption practices by working closely with our suppliers, host communities and relevant government agencies. A system is in place to ensure that our procurement and operational practices are free from unfair business dealings, suspicious payments and financings related to terrorism or money laundering. All of our Codes, systems and policies are in full conformity with applicable legislation relating to the area including the Mongolian Law on Combating Money Laundering and Terrorism Financing enacted in 2013, the Law on Combating Terrorism enacted in 2004, the Law on Anti-corruption enacted in 2006, as well as the Criminal Code of Mongolia effective since 2002.

We have an independent internal audit function as well as a Donation/Sponsorship Committee which strives to prevent all kinds of unfair dealings or making of payments in kind (gifts or favours) to influence individuals and/or business decisions.

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

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

OUR PEOPLE

Employees are our greatest asset and we continually seek to maximise their value through cultivating work environment and opportunities to promote the personal and professional development of them. By working so, we strive to build a sense of commitment and achievement among all our people in the work we do.

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

- Provide equal employment opportunities and respect the rights of our people;
- Recruit based on skills and experience and support local employment wherever possible, in line with our community development strategy. Our aim is to recruit and maintain at least 30% of our workforce from the local communities;
- Offer compensation and benefit schemes that are competitive within the Mongolian mining industry;
- Provide challenging yet exciting work environment where our employees can realize their full potential and develop their skills; and
- Ensure that our employees are aware of and follow the ethical working standards and other internal procedures of the Company through the Code.

Our Human Resources ("**HR**") activities are in full compliance with the Mongolian Labour Law and other relevant legislation. We have passed the state labour inspections with outstanding results every year since 2012, compared to any other mining company that operates in Mongolia. In 2014, we were officially informed that no formal labour inspections will be carried out from 2015 to 2017 due to our exceptional HR performance. Nonetheless, we continue to have a strong focus on development at all levels within the Company as well as further strengthening of our HR system.

HIGHLIGHTS OF 2016

- Reviewed and modified the organizational structure to enhance leadership effectiveness and improve organizational integration and communication;
- Updated policies and procedures across all aspects of HR management to establish clear authorities, remove duplication and increase capability; and
- Established a heavy machinery training centre in Tsogttsetsii soum and started to run professional training courses for the local community members and individuals who aspire to become heavy equipment operators.

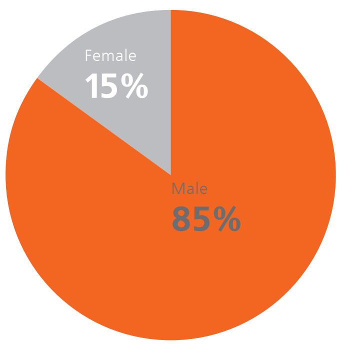
NON-DISCRIMINATION AND EQUAL OPPORTUNITY

MMC's Policy of Equal Opportunity is reflected in the Code and all relevant documents of the Company including Recruitment Policy, Benefits Policy, Training and Development Policy, promotions and compensation scheme and other aspects. We do not tolerate discrimination based on race, gender, nationality, age, religious belief, social origin, political views, union affiliation, pregnancy, disability or any other nature and abide by Mongolian Labour Law and all applicable legislations with respect to non-discrimination. Moreover, we strive to engage in good practice efforts that go beyond the mandatory legal requirements. Our internal rules and guidelines clearly reflect the policy to conduct all types of HR activities based on principles of non-discrimination.

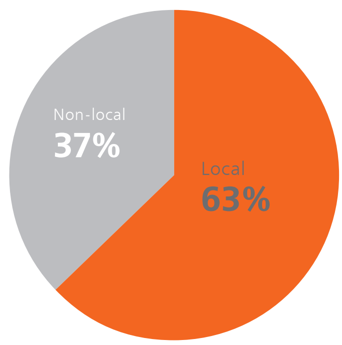
All of our employees enter into written employment contracts with the Company which detail, among other things, their duties and responsibilities, remuneration, as well as the grounds for termination of employment. We employ people on the basis of job requirements and matching skills, but seek to provide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

As of 31 December 2016, we had a total of 1,442 employees of which approximately 63% were hired from the local communities. The percentage of our local employees has steadily increased over the past years (see Table 13), signifying our strong commitment to the host communities.

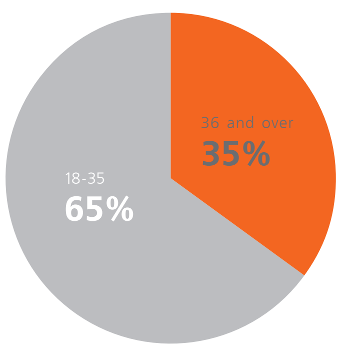
Figure 3. HR statistics



Percentage of employees by gender (2016)



Percentage of local employees (2016)



Employee age demographic (2016)

Female employees by positions (2016)

Table 13. HR statistics

MMC	12/31/2015	**12/31/2016**
1. Total number of employees	1,797	**1,442**
2. Number of female employees	259	**219**
3. Number of female employees in management position	40	**34**
4. Percentage of local employees	45%	**63%**

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

In 2016, female employees made up 15% of our total workforce. Out of all female employees working at MMC, approximately 27% held technical positions, 57% were specialists (analysts, engineers, geologists, etc.) and 16% were managers and executives. In line with our overall HR policy and guiding principles, the Company keeps a strong focus on increasing the representation of women in the total workforce through upgraded systems and training programs.

In the reporting period, we recorded no cases of discrimination at our mine sites and offices.

EMPLOYEE REMUNERATION AND BENEFITS

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

Our employee benefits include:

- Performance bonus and incentives schemes;
- Parental and other types of paid leave;
- Stand-by allowance;
- Free-of-charge comprehensive medical check-ups;
- Assistance with housing costs;
- Access to low interest loans;
- Monetary allowances for phone use and transportation;
- Subsidies for a range of health and wellness activities;
- Compensation for damages caused by industrial accident, acute poisoning or occupational disease;

- Personal accident insurance;
- International health insurance, and
- Others (employee events, one-off allowances etc.).

The benefits are offered to all employees irrespective of their position and length of employment with the Company. We also provide all types of one-off allowances in full conformity with the local legislations. In the reporting period, the Company spent approximately MNT170 million for employee benefits and allowances.

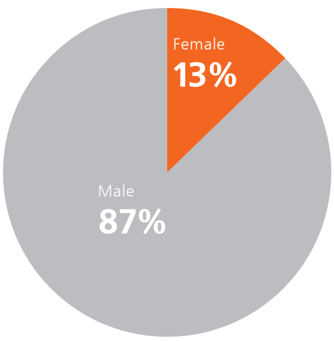
Our bonus and incentives plan is tied to the Company's financial performance and individual employee and team performances, and is aimed at retaining top performing employees.

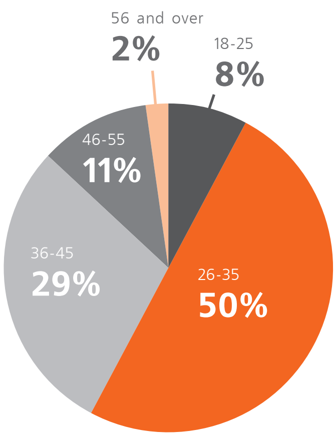
EMPLOYEE TURNOVER

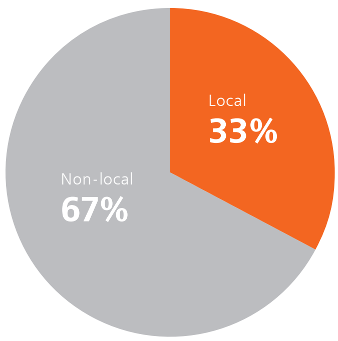
The Company's Employee Relocation Policy and commitment to sound employment practices play an important role in keeping the employee turnover rate at minimum. The policy enables all of our employees working on-site to have access to a housing project and get financial assistance from us where appropriate. Since 2013, approximately 650 employees have been relocated to "Tsetsii" town with their families. We pay special attention to the families of resettled employees, providing them with all kinds of direct and indirect assistances and carry out targeted social development programs.

In 2016, our total employee turnover rate stood at 20%. In response to the challenging coal market conditions and economic downturn, the Company continued to take steps towards streamlining the organization which resulted in a slight reduction in employee numbers in the first half of the reporting period. However, the Company hired 102 employees in the second half of the year, making the total number of employees 1,442 by the year end.

Figure 4. Employee turnover statistics







TRAINING AND DEVELOPMENT

Training and development are essential for our success and we aim to provide the organization with a capable, engaged and productive workforce. We remain committed to invest in our workforce, making sure that they are well trained and have ample opportunities to develop. Employees are therefore offered a wide range of training, skills and career development opportunities that promote safety, professional competency and personal growth.

We invest consistently in the training of mining professionals due to the lack of suitably skilled personnel at both the local and national level, thus job specific trainings form a big part of our overall training platform. In 2016, we established a heavy machinery training centre in Tsogttsetsii soum where we operate and started to run professional training courses for the local community members and individuals who wish to work for mining companies.

The Company mainly focuses on conducting in-house trainings rather than outsourcing, with an aim to reduce costs and improve operational efficiency. During the year under review, we conducted 18 types of training programs, of which, 14 were in professional and vocational fields such as heavy equipment operation and maintenance while the remaining four involved corporate skills training. A total of 383 employees participated in professional and vocational skills training for 2,490 man-hours with average training hours per employee being 6.5 hours.

Table 14. Training highlights

2016 Training highlights	
Total number of employees in professional and vocational training sessions	**383**
By training type	
Mine maintenance training	274
Professional development training	64
Heavy machinery operator training	45
By gender	
Male	363
Female	20
By position	
Operational employees	328
Supervisors	34
Managers and senior officers	21

Environmental, Social and Governance Report

HEALTH, SAFETY AND ENVIRONMENT

Our integrated Health, Safety and Environment ("**HSE**") Policy ensures that we constantly strengthen our company-wide safety communication and remain committed to our principle of "Zero Harm" to our people and host communities as well as minimal adverse impact on the environment. Our HSE Management System ("**MS**") and processes are designed to provide our employees and contractors the necessary directions to practise safe work behaviours and make each individual accountable for the implementation of the policies and its accompanying elements, rules and procedures. We have a formally approved HSE structure and HR in place to ensure the continual improvement of the HSE MS according to the requirements of ISO 14001:2004 and OHSAS 18001:2007 standards. Within the framework of the HSE Policy, we are committed to the following HSE objectives:

- Identify, assess and manage the potential risks to employees, contractors, communities and the environment;
- Comply with all applicable national and international standards and legal requirements;
- Enforce an accountability mechanism that ensures each and every employee contributes to a safe and healthy workplace, and prevention of all types of environmental pollution;
- Provide relevant HSE training for employees, contractors and our local community on a regular basis;
- Ensure that the Company management at all levels are HSE role models and lead by example;
- Take all necessary measures to prevent industrial accidents and environmental incidents. Investigate the root cause and take swift action to rectify the situation in the event of any accident or incidents and ensure no recurrence;
- Ensure that assessment, reporting and management of any potential HSE risks are the duties of all employees;
- Review the HSE MS on a regular basis and take measures to rectify any non-conformance;
- Review and assess the HSE performance of individual employees on a regular basis; and
- Support and reward the practice of receiving HSE risk reports from the local community members and actively involve them in risk prevention measures.

We work to ensure that the HSE MS is implemented throughout the entire life-cycle of our project and involves all of our contractors, sub-contractors and suppliers. Our business units periodically review their management systems against corporate standards and are responsible for integrating sustainability issues into day-to-day operations, project development and decision-making.

HSE MS REVIEW AND IMPROVEMENT

The review and improvement of our integrated documentation system continued throughout the reporting period to ensure that it meets the Mongolian applicable legislations, such as the Law on Occupational Health and Safety, the Law on Disaster Protection, the Environmental Protection Law of Mongolia and the Law on Environmental Impact and Assessment, as well as international standards for Safety OSHAS 18001:2007 and Environment ISO14001:2015. As part of the OHSE MS requirements, a pack of OHSE MS documents was updated and approved by the Company's Chief Operational Officer, Order A/44 dated 26 December 2016, and has been effective since then.

In 2016, a total of 38 OHSE procedures have been reviewed, updated and approved as planned in our Document Development Plan, which include 10 core procedures in OHSE MS, three general procedures in OHSE operation, four procedures in occupational health, 18 procedures in occupational safety, two procedures in medical emergency and two procedures in environment area. Legal compliance evaluation was conducted at the project site by the State Specialized Inspection Authority in 2016 and covered the following seven areas. All of the areas were assessed and scored "low risk", with the overall evaluation score totalling 88.8%.

1. Waste water treatment plant – 100%
2. Mining operation – 96.8%
3. Drinking water quality – 88.5%
4. Occupational health – 83.5%
5. Occupational safety – 82.7%
6. Entity or personnel which use lifting equipment – 80.8%
7. Labour relations – 88.8%

OCCUPATIONAL HEALTH AND SAFETY

IMPLEMENTATION AND CONTROL

We strive to develop a culture in which all incidents are preventable. In the reporting period, workplace occupational hygiene and safety environment inspections were carried out 198 times at various workplace locations. All identified hazards and OHSE MS non-conformances were investigated in order to discover and eliminate root causes. 82% of non-conformities were corrected through immediate corrective actions and 84% of the reported hazards were eliminated. Risk assessment and job safety analysis were periodically conducted during the reporting period to minimize or eliminate work-related hazards and to enhance awareness of daily safety routines among the employees.

We have 24/7 stand-by medical and emergency response teams working on-site to ensure that any accidents and emergencies are responded immediately. The site based emergency response team also responds to fire and other emergency calls within the local community. Our employees are a part of the local communities in which we operate, and any public health issues confronting the community affect our workforce as well. As the local health authorities often lack the resources to deal with major public health challenges, we work in close partnerships with the local communities, public health authorities and other stakeholders to improve education on, protection from and prevention of public health risks and widespread diseases.

HIGHLIGHTS OF 2016

- No fatality was recorded;
- No occupational illnesses were recorded;
- No complaints on environment related issues were received;
- No fines were imposed for OHS compliance breaches; and
- Achieved a record low number of LTIFR.

OHS PERFORMANCE

In 2016, we aimed to reduce the OHS incident rate by 20% from the previous year and set the targets as below:

– Class 1 incidents (Fatality or permanent disability)	0
– LTIFR	0.49
– Total recordable injury frequency ("**TRIFR**")	3.44

The below table and corresponding graphs show our performances on the set OHS incident targets.

Table 15. 2016 Safety statistics

	2015	**2016**
Total man-hours worked	3,330,938	**2,971,720**
Fatalities	0	**0**
TRIFR	2.70	**4.37**
LTIFR	0.60	**0.34**
Legal compliance	87.2%	**88.7%**
Severity (total lost workdays/total hours worked*1000000)	28.2	**18.5**
Safety inductions (number of employees and contractors covered)	5,202	**5,629**

Figure 5. TRIFR and LTIFR, 2011-2016

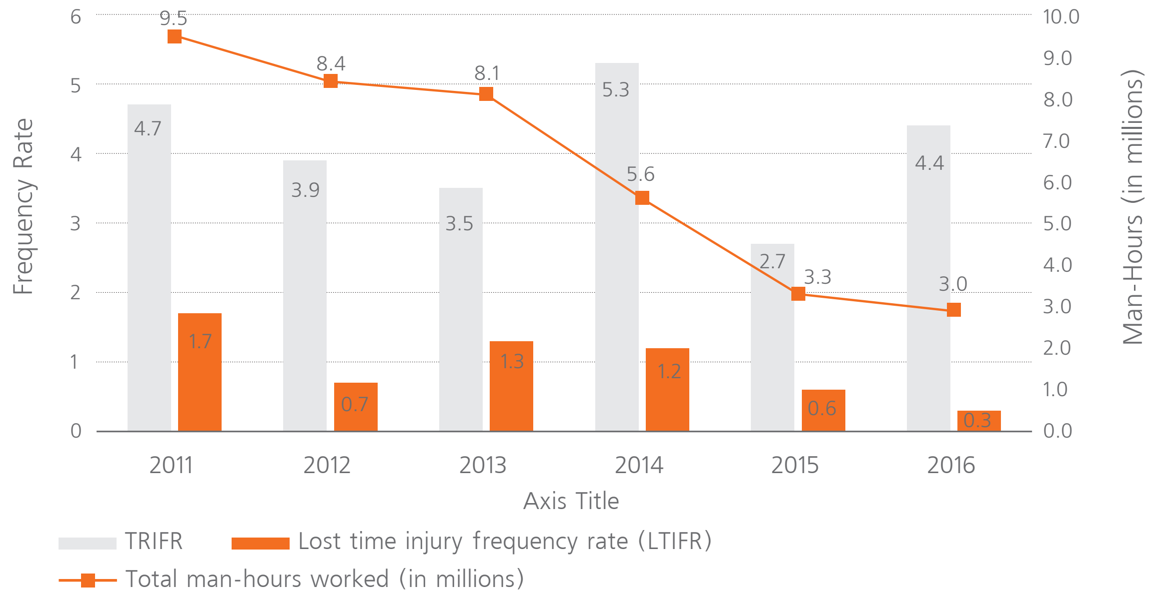
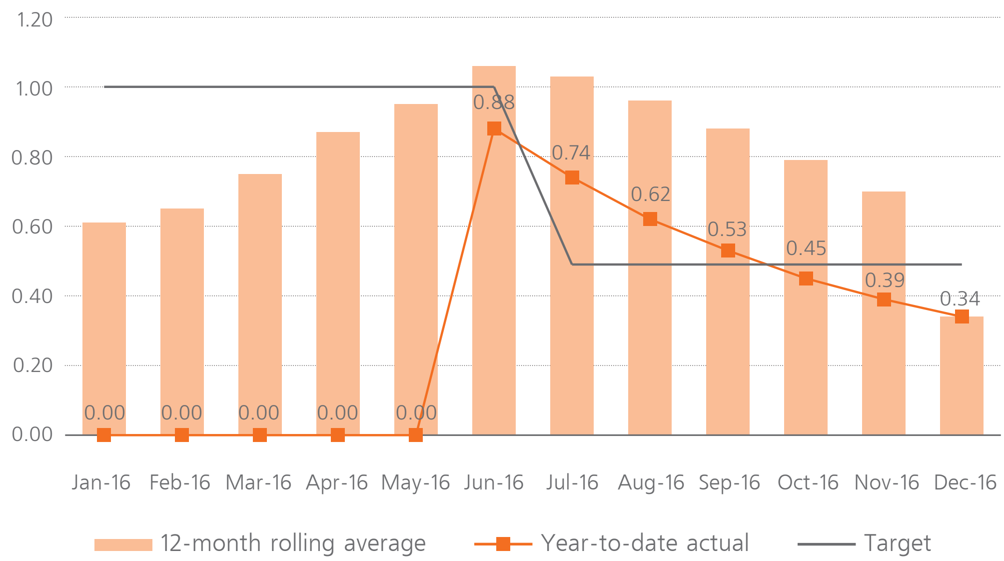


Figure 6. LTIFR (year-to-date) and 12-month rolling average



Within all operations under the management of the Group, approximately 2.97 million man-hours were worked by employees, contractors and sub-contractors in 2016. During the reporting period, one incident of LTI was recorded, resulting in an overall LTIFR of 0.34, a decrease of 43.3% from last year.

The reported LTIFR represents the Company's best reported performance in any half or full year of operation thus far, and demonstrates our on-going commitment to achieve the overarching goal of "Zero Harm".

This performance was underpinned by the development, implementation and periodic review of the world class OHSE MS. In line with the system, a total of 7,264 training sessions were delivered and 19,283 man-hours of OHSE specific training materials were delivered to employees, contractors and visitors. Rescue actions and corresponding corrective actions were performed immediately and on schedule, throughout the reporting period.

OCCUPATIONAL HEALTH

Workplace occupational hygiene monitoring was periodically conducted across all operational areas throughout the year. The monitoring was conducted for workplace temperature, excessive noise, adequate lighting, whole of body vibration, respirable and irrespirable dust particulate, and gas monitoring for oxygen and other toxic gases in the atmosphere. Site safety inspections were performed across all operations, with a total of 140 inspections being successfully completed. Several minor incidents of non-conformances were identified and corrective action plans were developed and implemented.

In 2016, a total of 684 employees were given medical help by our on-site medical team and over 70% of our site employees underwent medical examination and screening which was a part of a periodic data collection for employee medical record. In addition, all employees were vaccinated against certain contagious diseases. To effectively prioritize and implement workplace improvement, a general ergonomic risk analysis and accompanying health survey were conducted and involved about 850 employees. The results and reports of the analysis were delivered to the related personnel for further improvement.

In 2016, all applicable areas of the mine operation were audited by the Specialized Inspection Agency of Umnugobi province, to assess the level of effectiveness of the implementation of the legislation in the area of occupational safety and hygiene. The inspection report indicated that the Company operation was at low risk with respect to occupational health and safety.

ENVIRONMENTAL STEWARDSHIP

Maintaining responsible environmental stewardship is another essential stepping-stone to our long term success. We have robust environmental management systems and practices through which we assess and identify potential environmental risks, conduct routine monitoring, and report the performance results to minimize the adverse impact of our operations on the environment. At each and every stage of our operations, we strive to promote the efficient use of resources, the reduction and prevention of pollution and the enhancement of biodiversity protection. As a responsible miner, we strive to meet, and where possible, exceed the regulatory requirements in our environmental performance.

Major environmental challenges for MMC operations are the reduction of dust emissions, the efficient use of water and land resources, responsible management and handling of biodiversity issues and the prevention of all forms of environmental pollution and incidents.

Individual management plans are devised based on the results of the Environmental and Social Impact Assessment conducted previously during project development. The following six environmental management plans are in place to ensure that we are accountable for our environmental footprint: Dust Management Plan, Erosion and Sediment Control Plan, Waste Management Plan, Hazardous Waste Management Plan, Tailings Storage Facility ("**TSF**") Management Plan, Mining Closure and Reclamation Plan, and Monitoring Plan. The implementation of environmental management plans are reviewed annually against various key performance indicators. Based on the outcomes of the review, corrective actions are taken for continuous improvement.

HIGHLIGHTS OF 2016

- No critical environmental incidents were recorded at our operations;
- Gobi endemic trees were planted and propagated from their seeds and cuttings as part of the biodiversity protection efforts;
- 1.3 hectares of stockpiled topsoil was re-vegetated as part of the top soil handling management activities;
- A water collecting artificial pond was built near Tsagaankhad camp area in order to provide additional water resources for wild animals; and
- Disinfection and technical reclamation works were done at Tgasaankhad camp waste water disposal area.

ENVIRONMENTAL INCIDENTS

The main types of potential environmental incidents that can potentially result from our operations are noise and dust exceeding the allowed limits, hydrocarbon spills, improper use and storage of chemical substances and hazardous materials, wildlife deaths, improper disposal of waste and other incidents that negatively impact the environment. All occurrences of environmental incidents are investigated, remedied, monitored and reported by our environment team to prevent recurrence in the future. We have an internal rating scale for incidents based on their severity, which was last updated in 2015. Accordingly, the risk rating scale uses five classifications which are "low", "minor", "moderate", "high" and "extreme". More specific classifications are developed for each environmental risk subjects including spills, waste disposal, land disturbance, air emissions, fauna injury and others.

In 2016, we recorded no environmental incidents with a risk rating of "high" or above. Five incidents occurred with a risk rating of "low" and "minor", which were spillage of tailings and fuel. For all incidents, full investigations were carried out strictly in line with applicable laws and standards to identify the root causes, followed by corrective and preventive actions to prevent re-occurrences.

BIODIVERSITY

Mining activities have potential impact on the surrounding flora and fauna throughout the mine life cycle. Therefore, we find it crucial to understand the biodiversity elements of the region in which we operate and plan our actions accordingly. Our aim is to minimize and manage the potential environmental impacts based on our project biodiversity action plan. It is a regulatory requirement under the relevant Mongolian law to have in place active management plans in the field which are reviewed annually and inclusive of a set of budgets for planned activities. As part of the biodiversity action plan, we have been conducting flora and fauna monitoring since 2011.

The Company has also organized wild animal conservation activities annually since 2009. In January 2016, the Company's environmental team placed 300kg of natural salt marsh in several locations in "Tsetsii" mountain to provide alternative source of food for hoofed mountain animals in the region, including the Siberian ibex and argali (wild sheep) during the harsh winter months.

As part of the biodiversity conservation activities, a water collecting artificial pond was built in the area approximately 3 km west of the Tsagaankhad camp with a purpose to provide additional water resource for wild animals.

Water collecting artificial pond

Artificial pond for wild animals

As part of the conservation of endangered and endemic plant species in the Gobi region, trial plantings have been conducted by our environmental team since 2013. For instance, plants unique to the region *Olgaea leucophylla* and *Caryoptheris mongolica*, were planted in our nursery area and have been growing well since then. In 2016, another trial was successfully done to transplant those two endangered species to a different place. The purpose of our experimental trials is to cultivate the rare species of plant native to the Gobi region and ensure their further use in mine reclamation activities.

LAND

Securing access to land and managing it responsibly are essential components of our commitment to sustainable development and our ability to maintain social license to operate. Therefore, we support sustainable development of land resources through effective planning and cooperation with respective stakeholders. We want to ensure that in the future, disturbed land becomes available for other uses such as grazing and housing. Our Land Management Plan provides a sound framework for rehabilitation and other land management activities which involve levelling and contouring, reshaping, adding topsoil and land re-vegetating to restore the land for future use. Our policies and activities relating to land management activities are in full compliance with the applicable legislation and regulations including the Law of Mongolia on Land and the Law of Mongolia on Subsoil. Specifically, sewage water discharge into land and related aspects are regulated by the Mongolian Law on Water and a national standard MNS 4945:2015. Sewage water is treated in a waste water treatment plant prior to discharge into soil. Moreover, a sample of treated water is tested against the national standard on sewage water quality (MNS 4943: 2011) by the Central Environmental and Metrological Laboratory of Mongolia. In accordance with the stated standards and legislations, we do not discharge any types of non-hazardous and hazardous wastes into the land.

Stockpiled topsoil re-vegetation was continued as part of our topsoil management activities. Such efforts are aimed at maintaining microbe and nutrient content of the soil and preventing potential risks to plant performance. Certain types of rare plant species were used for re-vegetation which include *Medicago falcata* and *Sand Esparsette*, perennial plant species that support soil nutrition, and *Sudan grass*, species that support perennial plant growing. *Ulmus pumila* and *Elaeagnus moorcrofti*, endemic trees specific to Gobi region, were planted on top soil stockpiles for cultivation of green area. *Onobrychis arenaria* and *Medicago falcate* are perennial plant species which support soil nutrient cycling and are well adapted to the local climate. In the first half of 2016, the vegetation cover percentage of the re-vegetated area was approximately 70%. It is higher than the analogue sites due to improved regular irrigation and caring activities.

Overall care for and maintenance of the re-vegetated areas were carried out continuously throughout the reporting period.

First year of stockpile re-vegetation (2015)

Second year of stockpile re-vegetation (2016)

The Company organizes voluntary environmental protection activities on a regular basis. On the National Tree Planting Day, the Company employees planted over 1,800 trees in and around the UHG project mine site and 200 seedlings were donated to local organizations.

In 2016, soil restoration activities continued on the disturbed land near the site power plant. A total of approximately 200 region-specific trees were planted in the area. This type of land rehabilitation offers numerous benefits including the absorption of emissions and noise created by vehicles and provision of shelter and habitat for small mammals and invertebrates.

The 2.5 hectare nursery field established by the Company in 2009 continues to serve as a good source of environmental protection and reclamation activities. By continuously nurturing the field, we aim to determine the most suitable trees and plants for re-vegetation in the Gobi region and use for reclamation and other landscaping projects around the project site and the soum centre in the future. Currently, we have around 30,000 shrubs, trees and perennial plants of over 20 different endemic and non-endemic species growing in the nursery field. The species include elm, tamarisk, aspen tree, pine, spruce, saxaul and sea buckthorn.

In 2016, approximately 3,000 seedlings were harvested from the nursery field for use in various tree planting, landscaping and gardening projects. A number of Gobi native species were planted from their seed and cuttings for later use in seedling preparations.

WATER

We are committed to responsible use of water as it is a scarce and highly valuable resource in the arid Gobi region in which we operate. Access to water is critical to our continuity of operations and effective water management is considered an essential factor of our project and operational sustainability. A comprehensive Water Management Plan guides the actions of our management, employees and contractors with regard to the use and re-use of water. Specifically, this concerns the effective management of groundwater, taking into consideration its use by local herders. Aspects relating to water management and discharge into water are regulated by the Mongolian Law on Water and a national standard MNS 4945:2015. The Company ensures that all such activities are in full compliance with the stated regulations. We have cooperated with international organizations actively in the water management fields and have worked as a member of International Finance Corporation's South Gobi Water and Mining Industry Joint Roundtable project since 2013. Moreover, we signed a Voluntary Code of Practice on Responsible Water Management in February 2016, together with some major mining companies that operate in the South Gobi region.

The Company uses a combination of both groundwater and recycled water at the mine sites. As part of our water use and management, we have provided filtered water for the local communities at a subsidized rate since 2011, and welcome their participation in our periodic water monitoring activities.

At our operations, water is sourced from groundwater boreholes and is stored in two water reservoirs with a total storage volume of 56,000 m^3, covered by synthetic membrane to prevent evaporation. In 2016, a total of 618 megalitres ("**ML**") of groundwater was extracted and 115 ML of water was recovered during coal processing by the Belt filter press facility for re-use in further coal processing.

Activities that are aimed at preventing and reducing potential impacts on groundwater continued throughout the reporting period. These include:

- Monitoring of herder wells around the mine and Tsogttsetsii soum centre is conducted on a monthly basis.

- In 2013, the Company established a waste water treatment plant in the soum centre which has a capacity to treat 1,200m^3 of waste water per day. The facility's treatment capacity of contaminated water stands at up to 95%, making the treated water quality fully in compliance with the requirements of the national standards. In 2016, over 104 ML of domestic waste water was treated and re-used for purposes such as road and tree watering.

- A solid waste clean-up campaign was organized in the summer of 2016 and our environmental team members collected 2m^3 waste in the surrounding area of five herder wells located within 30 km radius of the UHG mine site.

The Company also conducts routine check and maintenance on herder wells located within 10km from the mine site along the unpaved road. This greatly improves the water quality of the wells and serves as a dust pollution control.

WASTE

Effective waste management practices are critical to mitigate the mining impacts on the environment and reduce the operational liabilities and long-term risks. Our mine sites operate within the framework of a comprehensive waste management system which involves handling and management of all kinds of day-to-day and industrial waste streams. These activities and related aspects are regulated by the Law of Mongolia on Waste as well as regulations and procedures on disposal and landfill of hazardous waste and requirements on waste containers and waste disposal sites, approved by the Mongolian Ministry of Environment.

The main purpose of our waste management policy is to minimize the waste generation and ensure safe handling, treatment and disposal of generated wastes. This is achieved through the implementation of waste management hierarchy:

- Waste reduction and avoidance at source;
- Waste segregation applied from the point of generation; and
- Waste recycling, waste reuse, storage, treatment and disposal at international standards.

Waste reduction and avoidance are primarily achieved through measures such as purchase restrictions that ensure the waste generated from suppliers is at minimum or less hazardous waste would be generated.

Waste recycling is realized through contract engagement with a small scale waste recycling facility, where scrap materials are used in making of products such as garbage bins, metal fences, sliding doors, wooden benches, blocks etc.. Waste treatment and disposal take place at a designated area on-site run by a company specialized in waste handling.

We have Hazardous Waste Management Policy which requires us to identify and assess the characteristics and risks associated with all types of hazardous wastes. Accordingly, we implement prevention control measures associated with the transport, storage, use, transfer and disposal of hazardous materials. Depending on their types, hazardous wastes are delivered back to the suppliers for re-use or appropriate disposal. For instance, plastic waste and waste paper are sent to designated recycling facilities in other provinces. Printer cartridges are sent back to suppliers for refill and reuse. Collecting and recycling of used oil is crucial for preventing oil contamination to soil and groundwater. Therefore, used oil is collected in a designated tank and sent to a recycling facility which produces fuel and other types of raw materials.

In 2016, the total amount of solid waste generated from the mine site activities was 3,029m^3 and the percentage of recycled waste was at 14%.

Table 16. Total hazardous and non-hazardous waste produced in UHG mine site

	2016
Total hazardous waste	**644.83m^3**
Production	2,274,832t
Intensity	0.0003m^3/t
Total non-hazardous waste	**2,604m^3**
Production	2,274,832t
Intensity	0.0012m^3/t

AIR QUALITY AND NOISE

Dust and air quality are significant issues to our neighbouring communities, and minimizing the effects of these impacts from our operations will remain a key focus for us. For the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the dust management plan of the project environmental and social management plan. These measures include:

- Regular spraying of the haulage roads at the mine site with treated waste water;
- Improved construction methodology of mine haulage roads and usage of carefully selected materials, to reduce propensity for dust generation;
- Building and maintenance of dedicated facilities for dust reduction, such as a 10-metre high special wire fence which surrounds our coal stockpile at Tsagaankhad. These and other similar facilities reduce wind speed and dust dispersion in the area;
- Better management of vehicle speeds; and
- Covering of truck loads.

There are a number of sources of noise that are typically associated with our mining operations. They include dump trucks, large earth-moving equipment such as excavators and coal transportation trucks. Blasting activities, which are an essential component of our mine operations, cause ground vibration as well as overpressure, and may occasionally be felt or heard by our closest neighbouring communities. We understand and acknowledge that noise and vibrations can impact the communities and take constructive measures to mitigate the potential impacts. We have a noise management plan according to which we identify and evaluate sources of noise and vibration on a regular basis. Some of the practical steps we undertake to minimize noise and vibration include:

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

Air quality monitoring is an integral part of our Dust Management Plan. Dust concentration, dust deposition, noise level and pollutant gases are main parameters for the monitoring. Portable tools such as Dust trak 8530, Casella Cel 240 and Testo XL 350 are used to monitor the air quality. Air quality monitoring measurements are conducted throughout the project area on a monthly basis.

We monitor PM2.5 dust level at 25 different sites in and around the UHG mine and Tsagaankhad area. During the reporting period, PM2.5 level measurements were conducted 119 times against the national MNS 4585:2016 standard, at certain points at UHG mine site, Tsogttsetsii soum and Tsagaankhad area. The average level of PM2.5 throughout the year stood below the acceptable value of national air quality standard (0.05 mg/m^3) at most of the measuring points.

Noise levels were measured at 10 monitoring points around the UHG mine site and the results were in full compliance with the national standard.

EMISSIONS

We review our emissions regularly and apply strict air quality control standards across our operations in accordance with the regulatory requirements of Mongolia. Stationary source monitoring is conducted regularly for chimney fume of the on-site power plant against the national standard (MNS 5919:2008) for maximum acceptable level of air pollutants in the exhaust gases. Other types of air emissions such as sulphur dioxide and nitrogen dioxide are regularly measured by the Metrological Laboratory of Umnugobi province against the national air quality standards (MNS 4585:2016), while measurements of gases such as sulphur dioxide, nitrogen dioxide and carbon monoxide at the UHG power plant are performed against the national air quality standards (MNS 5919:2008).

The following management measures are proposed for the project to minimize greenhouse gas ("**GHG**") emissions during operation of the UHG mine that will be implemented on project activities:

- Energy efficiency;
- Diesel efficiency;
- Fugitive emissions; and
- Blasting.

Direct measurement of GHGs at the emission source can give the most accurate and precise assessment of GHG emissions. This is typically not feasible at the mine site due to a number of reasons such as the amount of costs involved, the level of disruption to production and typically large number of trucks and plant equipment involved. Emission factors remove the need for site specific testing of emissions. The factors are expressed as the amount of GHG emissions per unit of activity and can be used to determine inventories for the site. This is much more feasible compared to testing each source individually, and it is one of the few ways that inventories for proposed sites can be calculated. The project's GHG performance intensity was 0.035t CO_2-e/t ROM, which is broadly consistent with majority of open cut coal mines.

Table 17. Emissions data

Emissions	2016
NOx	50.98t
SOx	0.366t
PM	3.70t

Total GHG emissions	2016
GHG/CO_2-e/t/	80,811.679t
Production	2,274,832t
Intensity	0.035t CO_2-e/t ROM
GHG removals by planted trees	1,851,500kg CO_2-e

With an effort to reduce GHG emission, we have been planting trees in and around the UHG project mine site since the commencement of mining operations in 2009. The Company also maintains special operational regime of the power plant to prevent high emission of pollutant gases.

USE OF RESOURCES

We recognize that the efficient and responsible use of natural resources is critical to the sustainability of our environment and we will continue to focus on reducing our energy and water consumption. Efficient and responsible use of resources including water, energy and raw materials are guided by the Minerals Law of Mongolia, Energy Law of Mongolia, Energy Conservation Law of Mongolia, Law on Renewable Energy and Law on Water. Accordingly, the Company has a formal Health, Safety and Environment Policy designed to ensure efficient use of energy and natural resources. We also have a Water Resources Management Plan that ensures efficient use of water resources and prevention of water pollution.

As the only Mongolian company engaged in coal processing, MMC has achieved an optimal utilization of coal reserves, resulting in comprehensive mining efficiency as well as savings on transportation turnover and associated energy consumption. In 2016, we produced 1.6 Mt of HCC, the primary product, at yields of 52.5%, and 0.7 Mt of middlings, the secondary product, at yields of 22.7%. By incorporating various seams into ROM coal feed, we ensure that at least 50% saving of natural coal reserves every year compared to raw coal production. Moreover, by introducing systematic efficiency management in coal production and processing, we are aiming to ensure a gradual increase of energy savings at all applicable fields of our operation. For instance, by implementing a project to increase the ultra-fine coal processing yields, we ensured 270,000 kilowatt ("**KW**") of energy saving in 2016, which constituted about 1-2% of our total energy consumption for coal processing.

The Company seeks to minimize the volume of water usage in its operations through the latest water efficient technologies and water recycling. The Company uses a combination of both groundwater and recycled water for its operations. To control and monitor water consumption, as well as the amount of extracted water, consumed water and treated waste water, we use integrated telemetry control system with real time data collection. Sewage is treated in a waste water treatment plant and is used for dust control on coal haulage roads. To date, the Company has undertaken several major technical projects that are aimed at reducing the groundwater use. For example, a Belt press facility was put into operation at UHG mine that dewaters the slurry from the CHPP in 2013. The new plant achieves water savings of up to 3.12 million m^3 per year. Furthermore, the dry cooling system of the UHG power plant ensures no water evaporation due to condensation reuse and as a result, the water usage of the power plant is at least twice as less than other power plants with the same capacity.

To comply with the Energy Conservation Law of Mongolia adopted in November 2015, the Company appointed energy efficiency manager in 2016, who is specifically in charge of the efficient use of resources and applicable technology. Given such recent adoption of the local law in energy conservation field, the legal requirements and their fulfillment criteria are still under development. However, a comprehensive energy efficiency guideline is expected to be developed in 2017 by the relevant authorities to be followed by all mining companies in the country. Accordingly, each company will be required to develop a detailed management plan on energy efficiency.

Table 18. Water and electricity consumption data

	2015	2016
Water consumption	578,312m^3	**732,753m^3**
Intensity	0.29m^3/t	**0.32m^3/t**
Electricity consumption	23,621,934(kWh)	**25,127,300(kWh)**
Intensity	11.56kWh/t	**11.57kWh/t**

ENVIRONMENTAL MONITORING

Environmental monitoring activities play an important role in our proactive approach towards environmental sustainability. It also serves as a tool for us in creating an effective dialogue with the host communities on our performance in environmental management area. Periodic monitoring and measuring of the environmental impact of our activities are conducted at a total of 97 specific points within the project impact area to ensure that they are within the nationally-accepted levels. Our monitoring activities include biodiversity studies and the monitoring of dust emissions, noise levels, air pollution, soil erosion, groundwater pollution and shallow water pollution. Our Environmental Monitoring Plans are approved by the national environmental authorities every year and monitoring activities are conducted on a monthly, quarterly and annual basis depending on their types. The sampling and measurements are performed in compliance with the national environmental standards, using the latest equipment and measurement devices. Samples are tested at accredited national and international laboratories.

Monitoring results are incorporated into our annual environmental reports which are submitted to national and local environmental authorities. We also aim to involve the local community members in our environmental monitoring activities throughout the year. For example, monitoring of herder wells around the UHG mine and Tsogttsetsii soum centre are conducted on a monthly basis and involve members from the closest communities.

ENVIRONMENTAL PROTECTION AWARENESS

We organize voluntary environmental protection activities and awareness campaigns for our employees on a regular basis. On the National Tree Planting Day, the Company employees planted over 1,000 trees along the paved road between the "Gallery" camp and the mine site.

A dedicated training and development unit delivers comprehensive training to all of our employees on MMC's HSE policies, procedures and guidelines, and emergency prevention and response measures. The trainings also cover environmental protection topics such as waste management, spill control, dust control, water and energy consumption.

Besides general induction, thematic trainings are organized to provide additional information on environmental protection for specific tasks such as topsoil stripping for dozer operators, and storage and handling of cleansing and disinfecting agents for cleaners. During the reporting period, environmental induction was organized for a total of 411 man-hours.

EXTERNAL AUDIT

In 2016, a number of external audits were performed by the relevant authorities on the Company's HSE performances at the UHG mine site, and all of the results ensured that our activities in applicable fields were in full compliance with the national standards and relevant legislation.

In October 2016, all areas of UHG operations were audited by the Local Specialized Inspection Agency of Umnugobi province to ensure the level of compliance with the national legislation on occupational safety and hygiene. The audit results came out as below:

- Waste water treatment plant – low risk; performance at 100%;
- Water purification facility – low risk; performance at 88.5%; and
- Power plant – low risk; performance at 100%.

Two non-compliances were identified during the audit of which one was related to disinfection of water reservoir and the other one being related to chemical and microbiological analysis on drinking water. Accordingly, corrective actions were taken and completed for both cases.

In August 2016, a team appointed by the Galba-Uush-Dolood's Gobi River Basin Authority conducted an inspection on the implementation of our Water Management Plan as part of the overall Environmental Management Plan for 2016. No non-conformity was identified through the audit.

PRODUCT RESPONSIBILITY

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

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

OUR COMMUNITY

MMC is proud of the contribution that it makes to the communities in which it operates as well as the country's socio-economic development. While respecting local cultures, performing structural actions and minimizing the impact of our actions, we strive to build quality relationships with our host communities and create lasting benefits.

In line with our sustainable development and CSR policies, we conduct socio-economic baseline studies as well as impact and risk assessments to determine both the positive and negative impacts of our operations to the community. Based on the findings of the assessments, we develop individual plans to mitigate any adverse impacts associated with our activities, and at the same time, initiate programs and investments that support positive impacts to the sustainable development of the region. Specifically, our community directed management plans are:

- Public Consultation and Disclosure Plan;
- Resettlement Action Plan;
- Grievance Management Plan;
- Cultural Heritage Management Plan;
- Economic and Physical Displacement Management Plan; and
- Community Health and Safety Management Plan.

Through our community investments, we seek to deliver long-term sustainable outcomes for the communities in which we operate and empower the local people to develop independently of the Company operations when our mining activities cease.

We generate economic value for the communities through employment, taxes and royalties, as well as purchase of local goods and services and infrastructure development. Over the course of the reporting period, we purchased goods and services worth of MNT137 million from the local communities, provided wages and employee benefits in excess of MNT26 billion, paid local taxes and fees in excess of MNT53 billion and spent MNT372 million for community development programs.

Through a joint committee, the Company is engaged in open and transparent discussion with the Governor's office of Umnugobi province and community representatives for the purpose of adopting a Community cooperation agreement, which is expected to be finalized and entered within the first half of 2017. The agreement is designed to define the level of tri-partite cooperation and cover various aspects of the community engagement, including aspects related to environmental protection, employment creation and infrastructure development.

HIGHLIGHTS OF 2016

- The first phase of MMC's Sustainable Livelihood Support Project was successfully completed;
- MMC's Representative office in Dalanzadgad, the provincial capital, was re-opened;
- The "Wind belt" project of the Company that supports vegetable gardening initiatives of the local communities successfully continued for the sixth consecutive year;
- "Zuzaakhai" kindergarten established by the Company was officially transferred to the local ownership;
- Financial support was provided to a new inter-soum hospital in Tsogttsetsii soum; and
- As part of the local Grievance Management Plan, Grievance and Donation Procedures were reviewed and updated.

COMMUNITY ENGAGEMENT

Effective community engagement depends on mutual trust, respect and effective communication between the Company and the host communities. We understand that our mining operations have significant economic, social and environmental impacts on local communities and in turn, the communities' concerns, needs, aspirations and activities impact our business in a multitude of ways. Thus, fostering robust relationships and building trust with local community members, local government and other stakeholders are pivotal in sustaining a successful business operation. Since its inception, MMC has strived to develop effective ways to engage with its local stakeholders and pioneered the first public consultation and discussion event in Umnugobi province. The event has been organized annually since then. Our consultation and engagement with communities occur in many forms, including but not limited to:

- Regular communications of our dedicated community engagement staff with affected herder households and resettled families;
- Regular meetings with local administration;
- Monthly meetings with Community Development Advisory Councils established in each impact soum to provide a better platform for dialogue between the Company and the local communities;
- Annual Public consultation and disclosure activities ("Open ger" events);
- Operation of information centres and hotlines;

- Publication of monthly environmental monitoring data on our monthly bulletin;
- Annual reports; and
- News bulletins.

At MMC, we are proud that numerous external monitoring and evaluations performed by both international and local experts identified our engagement practice as one of our strongest assets in the UHG project.

In 2016, we re-opened our representative office in Dalanzadgad city, Umnugobi province in order to provide the community members with improved access to information regarding our project activities, job opportunities, education support and community initiatives. It also serves as an additional point for locals to submit grievances or concerns.

GRIEVANCE MANAGEMENT

Our operations are required to have formal processes to accept, assess and resolve community concerns, complaints and grievances about the Company performance, activities or the behaviour of our people. As part of the resolution process, all complaints and grievances are required to be acknowledged, documented and investigated internally. We receive grievances via the internet, telephone, through face-to-face interviews and in writing. Upon receiving complaints and grievances, appropriate actions are taken and the complainants are advised of the outcome. In line with the grievance handling mechanism, we aim to respond to all complaints within 30 days of submission, and more quickly in urgent cases. All complaints are treated in a confidential manner, and in all cases, grievances are addressed without prejudice. Most importantly, the resolution of community complaints and grievances is reported to the public in our annual reports.

In 2016, a total of 30 requests were received and handled via our grievance mechanism, where 63% were requests for financial and material assistance, 7% were requests to visit UHG mine site and "Gallery" camp, 7% were requests to utilize deep wells of "Naimdai" valley area, 3.5% were requests to supply goods to the Company and the remaining were various requests about internship and employment opportunities, road maintenance and technical assistance from the engineering team.

The Company resolved all of the grievances within 30 days.

COMMUNITY INVESTMENT

Through community investment, we strive to create opportunities for "shared value" – an outcome that benefits both the Company and the community. Our contributions range from improving local infrastructure, access to quality education and ongoing development of a local workforce to capacity building of local small and medium enterprises ("**SMEs**"). Local procurement, implementation of community targeted programs, such as Sustainable Livelihood Support Program, "Good neighbourhood" program, or community health support programs aiming to bring sustainable positive impact to the local communities including herdsmen. In 2016, the Company spent approximately MNT2.4 billion on community investment and related activities.

Table 19. Community investment in 2016

Community investment direction	MNT
1. Local infrastructure development	1,766,211,277
2. Community development programs	372,447,374
Education support	105,032,707
Health support	258,073,574
Environmental protection	915,000
Sustainability livelihood	840,323
"Good neighbourhood" initiative	7,585,770
3. Grants and donations	75,620,813
4. Local procurement (Umnugobi province)	137,053,350
TOTAL	**2,351,332,814**

COMMUNITY DEVELOPMENT PROGRAMS

Based on the needs of the local communities identified through regional plans, consultation and our socio-economic baseline studies, we design and prioritise our community development programs. We implement wide range of programs in the areas of education, health and well-being, cultural heritage preservation and local business development to build strong and sustainable communities. All of them are intended to mitigate any adverse impacts associated with our mining activities and at the same time support any positive impact to contribute to the development of the region.

HEALTH SUPPORT PROGRAM

To strengthen the capacity of local health sector and improve the quality and accessibility of health care service and infrastructure for the community members, MMC contributed total of MNT306.4 million (MNT258.0 million in 2016) for the construction of a new inter-soum hospital in Tsogttsetsii soum, Umnugobi province. The financing was mainly used to purchase furniture and modern medical equipment for the new hospital. The inter-soum hospital provides quality health care services for the residents of Tsogttsetsii and other neighbouring soums in the region. It was officially opened in April 2016.

"WIND BELT" PROJECT

The Company continued its "Wind belt" project for the sixth consecutive year, which aims to support the vegetable gardening initiatives of the local community members and assist them in generating an additional source of income. In addition to properly manage the land and irrigation system, the Company organizes professional training programs on vegetable growing and provides the community members with seeds and supplies. During the reporting period, over 60 households of the Tsogttsetsii soum grew 20 types of fruits and vegetables in the area. In April 2016, the Company organized a community meeting jointly with the local government and discussed various ways of strengthening the collective actions among those who grow vegetables as part of the program.

SUSTAINABLE LIVELIHOOD SUPPORT PROGRAM

To create new economic opportunities for resettled and affected herders, the Company is implementing a Sustainable Livelihood Support Program that focuses on supporting start-ups and SMEs. Within the framework of the program, a total of 15 herder households received interest-free business loans from the Company to expand their businesses. As of the end of the reporting period, all of the herder households have fully paid off their business loans. As a result of the first phase of the program, four herder households purchased livestock to expand their farming business, three households established small eateries along to the coal haul road, four herder households expanded their vegetable gardening activities and the remaining households expanded their existing businesses which include carpentry, tire service and butcher shop.

"ZUZAAKHAI" KINDERGARTEN

To reduce the burden on local public services and respond to the growing demand for pre-school education from our employees and the local community, the Company established "Zuzaakhai" kindergarten in 2011, which has a capacity to provide pre-school education for 126 children. The kindergarten used to operate independently and the children of the Company employees' attended it at a subsidized rate. In 2016, the Company transferred the kindergarten along with all required furniture, equipment, toys and other supplies to the local government of Tsogttsetsii soum.

"GOOD NEIGHBOURHOOD" INITIATIVE

Within the framework of the "Good neighbourhood" initiative, the Company provides various types of in-kind assistance to the communities. During the period under review, the Company carried out the following activities:

- Free-of-charge thermal coal was provided to Dalanzadgad city power plant and Khanhongor soum of Umnugobi province during the harsh winter months;
- Gently-used office furniture and computers were donated to a number of local organizations including the police office of Tsogttsetsii soum, Mongolian Sustainable Development and Social Responsibility Council, a local non-governmental organization and a secondary school for disabled children;
- A welcoming event was organized to pay respect to about 100 elderly citizens of Tsogttsetsii soum and the local communities; and
- Free-of-charge seedlings and shrubs were provided to the local administration to use in various landscaping projects in and around Tsogttsetsii soum.

SOCIO-ECONOMIC CONTRIBUTION

Maintaining its position as one of the largest mining companies in Mongolia, MMC remains committed to contributing to the social and economic development of the host communities as well as the country as a whole. In addition to being one of the major employers and tax contributors of Mongolia, we remain committed to continue our cooperation with the local governments, communities and other stakeholders and play a part in improving local health access, quality education, employment and living standards.

JOB CREATION

Despite the challenging market and economic conditions, we continued our efforts to retain our employees and hired and trained local people where possible during the reporting period. As of the year ended 2016, MMC employed 1,442 employees, 63% of whom were locally hired. In addition to that, approximately 3,000 people were provided with direct employment through our major contractors within the scope of the UHG project.

TAX CONTRIBUTION

During the reporting period, MMC contributed MNT53 billion to the state and local budget through direct taxes and commissions, a significant amount given the size of the country's economy. Since our inception in 2009, the Company has paid over MNT818 billion in taxes and royalties.

PROCUREMENT

We recognize the value our operations brought to the local economy and encourage and develop local partnership wherever possible. As part of our sustainable development efforts, we aim to provide a strong base for the regional economic growth and cooperate with potential contractors in diverse ways. We follow ethical business practices in our purchasing and supply management and give priority to local businesses.

In the reporting period, MMC cooperated with about 117 suppliers and contractors, of which about 94% were local businesses in Mongolia. In 2016, we sourced products and services from 27 local businesses in Umnugobi province and our operation expenditures on goods and services such as transport, utilities, construction, food, etc. from the local suppliers totaled approximately MNT137.5 million. Local businesses are also supported through the Company's Sustainable Livelihood Support Program.

Suppliers are required to adhere to our social and HSE policies and procedures when doing business with us. In 2016, we developed Contractors and Suppliers Management Procedure which addresses all kinds of client-supplier relations and related aspects including but not limited to proper determination of the needs and requirements for execution of the contract works and services, development of terms of reference, hazard identification and risk assessment as well as monitoring of their work performance.

Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2016, the Company has complied with all the code provisions as set out in the CG Code, except for (i) code provision A.1.1 which states that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. The Board had only held two Board meetings during the year ended December 31, 2016 due to the ongoing Debt Restructuring of the Group, where at times multiple decisions were required to be made and calling Board meetings to consider, discuss and approve such decisions on time were not possible and practicable. Details in relation to this are set out under "Board and Board Committee Meetings and Attendance Records of Directors" below; and (ii) code provision C.3.3(e)(i) which requires the Audit Committee to meet, at least twice a year, with the Company's auditors. The Audit Committee only met with the Company's auditors once during the year ended 31 December 2016. It has been the practice of the Audit Committee to meet with the Company's auditors twice a year for the purpose of reviewing the discussing the consolidated interim results and interim report and consolidated annual results and annual report of the Group. However, the Company did not engage its external auditors to review the Group's consolidated interim results and interim report for the six months ended 30 June 2016 as the interim results were not required to be audited. The Group's consolidated interim results and interim report for the six months ended 30 June 2016 was reviewed by the Audit Committee together with the management of the Company. Accordingly, the Audit Committee only met with the Company's auditors once during the year ended 31 December 2016 to review and discuss the consolidated annual results and annual report of the Group for the year ended 31 December 2015.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

The Company has also established written guidelines (the "**Employees Written Guidelines**") of no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company for the year ended 31 December 2016.

BOARD OF DIRECTORS

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

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

EXECUTIVE DIRECTORS:

Mr. Odjargal Jambaljamts *(Chairman of the Board, Chairman of the Nomination Committee and member of the Remuneration Committee)*

Dr. Battsengel Gotov *(Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS:

Dr. Oyungerel Janchiv

Mr. Od Jambaljamts *(member of the Corporate Governance Committee)*

Mr. Gankhuyag Adilbish *(member of the Audit Committee)*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Khashchuluun Chuluundorj *(Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee)*

Mr. Unenbat Jigjid *(Chairman of the Corporate Governance Committee and member of the Audit Committee, the Nomination Committee and the Remuneration Committee)*

Mr. Chan Tze Ching, Ignatius *(Chairman of the Audit Committee and member of the Corporate Governance Committee)*

During the year ended 31 December 2016, Mr. Ochirbat Punsalmaa resigned from the position as independent non-executive Director and ceased to be a member of the Audit Committee and Nomination Committee and the Chairman of the Remuneration Committee with effect from 8 January 2016. Dr. Khashchuluun Chuluundorj was appointed as independent non-executive Director and also a member of the Audit Committee and Nomination Committee and the Chairman of the Remuneration Committee with effect from 8 January 2016.

The relationship between the members of the Board and the biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 14 of the annual report for the year ended 31 December 2016.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing the appropriate professional qualifications or accounting or related financial management expertise.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

The Company's Articles of Association (the "**Articles**") provides that all Directors appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

Under the Articles of the Company, at each annual general meeting ("**AGM**"), one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

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

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

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

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

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

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

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

During the year ended 31 December 2016, the Company provided to all Directors training materials prepared by qualified professionals and links to video released by the Stock Exchange on topics such as Updates on the New CG Code on Internal Controls and the New Environmental, Social and Governance Reporting Guide; Review of Listing Rules on Disclosure of Financial Information; Integrity Management and Corruption Prevention; Listing Enforcement Strategies: Current Themes and Case Studies; and Listing Compliance Update. Directors (including outgoing directors) namely Mr. Odjargal Jambaljamts, Dr. Battsengel Gotov, Dr. Oyungerel Janchiv, Mr. Od Jambaljamts, Mr. Gankhuyag Adilbish, Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius have read the relevant training materials. Dr. Khashchuluun Chuluundorj has also read again training materials provided by qualified professionals on topics such as Continuing Obligations of the Company and its Directors, Connected Transactions and Company's Operations and Business.

During the year ended 31 December 2016, Mr. Chan Tze Ching, Ignatius attended various training sessions including Economic & Market Outlook 2016; Asian Financial Forum; Economic Seminar: Investing in Emerging Markets and the Next Evolution in Asset Allocation; Economic Seminar: Economic Outlook – Realities, Risks and Perceptions; Financial Institutions Directors Education (FIDE) Programme: Module A (Banks); The 6th Economic and Financial Forum; RMB FIC Conference 2016; KPMG Independent Non-Executive Directors Forum; LME Metals Seminar Asia 2016; The 7th Forum for Senior Administration; Recent Developments in Fintech; Management Workshops; and Risk Consulting conducted by various authorities and qualified professionals.

BOARD COMMITTEES

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

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius (who possess the appropriate professional qualifications or accounting or related financial management expertise) , Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, and one non-executive Director, namely Mr. Gankhuyag Adilbish. Mr. Chan Tze Ching, Ignatius is the Chairman of the Audit Committee. Dr. Khashchuluun Chuluundorj has been appointed as a member of the Audit Committee when Mr. Ochirbat Punsalmaa resigned as member of the Audit Committee of the Company on 8 January 2016.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Audit Committee include the following:

- To review the financial statements and reports and to consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, the internal auditor or the external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and to make recommendations to the Board on the appointment, reappointment and removal of the external auditor;

- To review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures and the work of the internal audit function; and

- To review arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, risk management and internal controls or other matters of the Company.

During the year ended 31 December 2016, the Audit Committee held two meetings to review the interim and annual financial results and reports (for the six months ended 30 June 2016 and for the year ended 31 December 2015 respectively) and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor, engagement of non-audit services and relevant scope of works, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met with the external auditors once during the year ended 31 December 2016 which constitutes a deviation from code provision C.3.3(e)(i). Code Provision C.3.3(e)(i) requires the Audit Committee to meet, at least twice a year, with the Company's auditors. For the year ended 31 December 2016, the Audit Committee only met with the Company's auditors once to review and discuss the annual consolidated financial results and annual report of the Group for the year ended 31 December 2015. It has been the practice of the Audit Committee to meet with the Company's auditors twice a year for the purpose of reviewing the discussing the consolidated interim results and interim report and consolidated annual results and annual report of the Group. However, the Company did not engage its external auditors to review the Group's consolidated interim results and interim report for the six months ended 30 June 2016 as the interim results were not required to be audited. The Group's consolidated interim results and interim report for the six months ended 30 June 2016 were reviewed by the Audit Committee together with the management of the Company. Accordingly, the Audit Committee only met with the Company's auditors once during the year ended 31 December 2016 to review and discuss the consolidated annual results and annual report of the Group for the year ended 31 December 2015.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, namely Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, being independent non-executive Directors and Mr. Odjargal Jambaljamts, being executive Director. Dr. Khashchuluun Chuluundorj is the Chairman of the Remuneration Committee. Dr. Khashchuluun Chuluundorj has been appointed as the Chairman of the Remuneration Committee when Mr. Ochirbat Punsalmaa resigned as Chairman of the Remuneration Committee of the Company on 8 January 2016.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The primary functions of the Remuneration Committee include the following:

- To determine the remuneration packages of individual executive Directors and senior management;

- To make recommendation on the remuneration policy and structure for all Directors and senior management;

- To assess performance of executive Directors and approve the terms of executive Directors' service contracts; and

- To establish transparent procedures for developing the remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year ended 31 December 2016, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters.

Table 20. Remuneration by band of the senior management

	2016
HKD2,500,001 to HKD3,000,000	1
HKD3,000,001 to HKD3,500,000	3

Details of the remuneration of each of the Directors for the year ended 31 December 2016 are set out in note 10 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee consists of three members, namely Mr. Odjargal Jambaljamts, being executive Director, Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid being independent non-executive Directors. Mr. Odjargal Jambaljamts is the Chairman of the Nomination Committee. Dr. Khashchuluun Chuluundorj has been appointed as a member of the Nomination Committee when Mr. Ochirbat Punsalmaa resigned as member of the Nomination Committee of the Company on 8 January 2016.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include the following:

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

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc.. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year ended 31 December 2016, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for re-election at the AGM and to consider and recommend to the Board on the appointment of Dr. Khashchuluun Chuluundorj as independent non-executive Director. The Nomination Committee reviewed and discussed the measurable objectives for implementing diversity of the Board and considered an appropriate balance of diversity perspectives of the Board is maintained.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee consists of three members with a majority of independent non-executive Directors, namely Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being independent non-executive Directors, and Mr. Od Jambaljamts, being executive Director. Mr. Unenbat Jigjid is the chairman of the Corporate Governance Committee.

The Corporate Governance Committee was established by the Board for performing the functions set out in the code provision D.3.1 of the CG Code. The principal duties of the Corporate Governance Committee include the following:

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

During the year ended 31 December 2016, the Corporate Governance Committee met once to review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, compliance with the Model Code and Employees' Written Guidelines, and the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2016 is set out in the table below:

Table 21. Attendance records

Name of Director	Board Attendance in Person/ Number of Meetings	Board Attendance by Alternate/ Number of Meetings	Nomination Committee Attendance/ Number of Meetings	Remuneration Committee Attendance/ Number of Meetings	Audit Committee Attendance/ Number of Meetings	Corporate Governance Committee Attendance/ Number of Meetings	Annual General Meeting Attendance/ Number of Meetings
Odjargal Jambaljamts	2/2	N/A	1/1	1/1	N/A	N/A	1/1
Battsengel Gotov	2/2	N/A	N/A	N/A	N/A	N/A	1/1
Od Jambaljamts	2/2	N/A	N/A	N/A	N/A	1/1	0/1
Oyungerel Janchiv	1/2	1/2	N/A	N/A	N/A	N/A	0/1
Gankhuyag Adilbish	2/2	N/A	N/A	N/A	2/2	N/A	0/1
Ochirbat Punsalmaa (Resigned on 8 January 2016)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Khashchuluun Chuluundorj (Appointed on 8 January 2016)	2/2	N/A	1/1	1/1	2/2	N/A	0/1
Unenbat Jigjid	2/2	N/A	1/1	1/1	2/2	1/1	0/1
Chan Tze Ching, Ignatius	1/2	N/A	N/A	N/A	2/2	1/1	1/1

Apart from regular Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

CG Code provision A.1.1 stipulates that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. The Board only held two Board meetings during the year ended 31 December 2016 due to the ongoing Debt Restructuring of the Group, where at times multiple decisions were required to be made and calling Board meetings to consider such decisions on time were not possible and practicable. Despite the above, the management regularly provided information and reports to the Board regarding the latest status of the Company, and the Board members were informed and fully aware of the latest financial and operational status of the Company. During the year ended 31 December 2016, the Board issued 20 written resolutions. The Board will endeavour to hold at least four regular Board meetings in accordance with the CG Code in future.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

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

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

All divisions conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division.

The management, in coordination with division heads, assessed the likelihood of risk occurrence, provide treatment plans, monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2016, and considered that such systems are effective and adequate. The annual review also covered the financial reporting, internal audit function, adequacy of resources, staff qualifications and experiences, training programmes, accounting and budget of the Company, internal audit and financial reporting functions.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential and inside information, monitoring information disclosure and responding to enquiries.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

During the reporting period, "Risk Management Policy" has been revised and approved by the Board which is aimed to ensure responsible management of external and internal risks associated with the Company's business. The policy together with the "Internal Control Procedure" and other policies, procedures and work instructions establish the Company's risk management and internal control framework.

The Group's management, under the oversight of the Board, through the Audit Committee, is responsible for designing, implementing and monitoring the risk management and internal control systems.

Key risks and uncertainties relating to the Company's business and industry are categorized into (i) routine operational and technical risks; (ii) corporate risks; and (iii) external risks.

Specific risks are identified via executives, management and tool-box meetings and other communication channels, and included into Risk Register, which is maintained for each risk category and contains specific risk rating by evaluating (i) occurrence possibility; and (ii) impact significance with the controls and mitigation measures defined.

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

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

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

Corporate Governance Report

The management's approach in managing these risks is to reduce the likelihood and impact of such risks, through implementation of appropriate processes and internal control procedures that protect the Company from fraud, negligence, legal and other potential regulatory liabilities, including segregation of duties and dual authorizations. Moreover, the management identifies the major plausible risks inherent from the decision making process, attempt to mitigate and manage those risks, and then continually monitor the risk exposure it has accepted.

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

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

These types of risks are difficult to predict but can be the most devastating should they occur. The management projects these risks through risk assessment, stress testing and scenario planning.

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

The Chief Operating Officer is assigned with the task to manage the routine operational and technical risks including the identification of risks, coordination of the required monitoring, review, evaluation and mitigation actions required. While the Chief Financial Officer is assigned with the task to manage the corporate and external risks including identification of the risks, coordination of the monitoring, review, evaluation and mitigation actions required.

The Company endeavours to continuously improve its risk management and internal control system. In 2016, the Company provided training on "Three Lines of Defense" model to various levels of managers that helped to increase the managers' understanding of different levels of controls and enhanced their self-control roles as the first line of defense.

Further, the "Internal Control Procedure" was revised, which made the roles and responsibilities of the first line of defense clearer, and specified monitoring role of the second line of defense for which department and functional managers are responsible.

The Internal control system of the Company also features regular control self-assessments on technical compliances by operational units. Each operational unit made control self-assessments of their technical compliances throughout the year. There were control assessments using 59 checklists consisting total of 2,055 control questions, covering 44 Mongolian laws and regulations, 35 technical standards and 32 rules. The non-compliances were identified and follow-up work is being undertaken to correct the non-compliances. The risk of technical non-compliance is assessed at 5%, representing very low risk.

A notable achievement in 2016 is policies and procedures alignment, a campaign within which over 400 policies and procedures of the Company's operational subsidiary, Energy Resources LLC, have been revised and improvements made in control mechanisms. An electronic database of the documents with easy-to-control access rights is created which makes the policy and procedure documents readily available to authorized employees and enable better compliance and enforcement.

New procedures were developed to increase managers' leadership and workers' responsibility to improve operational performance, responsibility and safety, and a campaign is initiated to implement the new procedures and improve safety hazard identification, reporting and management throughout the operational division. This resulted in improvement in employees behaviors, attitudes, and identification and management of routine operational and technical risks, especially safety related risks.

There were two external audits during the reporting period from (i) the Specialized Inspection Agency of Umnugobi province and (ii) State Auditing department of Umnugobi province. Both audits assessed the Company's compliance risks as low.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board, through the Audit Committee, oversees the management in the design, implementation and monitoring of the risk management and internal control systems and it is responsible for reviewing their effectiveness. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board exercises its responsibility through the Audit Committee, which discusses with the management significant risks facing the Company and management's approach and plans to respond to the risks, to changes in its business and the external environment, and the Company's ability to respond. The Board annually reviews the adequacy and effectiveness of the risk management and internal control systems of the Company.

The Board has reviewed the risk management and internal control systems of the Company during the reporting period. The review is undertaken (i) based on on-going communications and discussions with the management about the Company's principal risks and the management's responses to the risks including the control mechanisms and (ii) through the internal and external audits' reviews.

A review of risk management and internal control systems of the Company was carried out for the reporting period. The review was made using the "Enterprise Risk Management-Integrated Framework" and the "Internal Controls Integrated Framework", both developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The effectiveness of the risk management and internal control systems are assessed by checking the relevant components and principles or elements were present in the design and were functioning. The risk management and internal control systems were assessed at the (i) entity level, (ii) functional level, and (iii) operational level. As the review of risk management and internal controls in all functional and operational units will take considerable time, one functional and one operational units were reviewed.

The Board is assisted by the Audit Committee in discharging their responsibilities to review the adequacy and effectiveness of the internal control process over financial reporting. During the year under review, there was no material weakness in the Group's internal controls over financial reporting and compliance of Listing Rules.

Further, the Internal Audit department also conducted several audit reviews addressing corporate statutory documents' maintenance; corporate information, data and intellectual property handover processes upon employment termination; processes for handling receivables from employees during employee termination; fixed assets disposal, write-off, and recording fixed assets movements where process level risk management and internal controls had been assessed and respective recommendations for improvement were made. Summary reports of all audit reviews were shared with the Audit Committee and executive management on a quarterly basis and implementation of the recommendations were tracked. There were no material deficiencies identified in the Company's risk management and internal control system.

The Board is of the view that the systems of risk management and internal control in place are adequate and effective, providing reasonable assurance that the structure and operation of controls are appropriate for the Group's operations. Improvement measures are continuously taken to strengthen the system of risk management and internal control so as to safeguard shareholders' investments and the Group's assets.

The Board also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions and considered them adequate.

THE PROCEDURES AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

With respect to procedures and internal controls for the handling and dissemination of inside information, the Group has:

– approved the "Written Guideline for Securities Transactions by Relevant Employees" for securities transactions by employees; and

– adopted the "Model Code" for securities transactions by Directors.

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

Further, the Company has:

– implemented "Disclosure Policy" that guides the Directors, officers, senior management and relevant employees of the Company in handling confidential and inside information and ensures material information to be promptly identified, assessed and escalated to the Board or its delegate for decision on disclosure and preservation of confidentiality of the information;

– established procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorised to act as the Company's spokespersons and respond to enquiries in allocated areas of issues;

- implemented "Communication Strategy Policy" that (i) ensures the Company's commitment to comply with the Listing Rules, (ii) ensures disclosure of timely and accurate information equally to all shareholders and market participants, (iii) identifies channels for disseminating information to stakeholders on a fair, timely and cost efficient manner.

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

- Corporate internal labor rules,
- Internal procedures for employment contract closure and off-boarding,
- Standard employment agreement,
- Standard non-disclosure agreement,
- Information technology policy and information security procedures, and
- Confidentiality procedure.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Directors have reviewed the trading and cash flow forecasts which take into consideration the uncertainties in the current operating environment. The material uncertainties considered by the Directors are set out on note 2(b) to the consolidated financial statements. The Directors are in the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 117 to 122.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2016 is set out below:

Service Category	Fees Paid/Payable
Audit services	USD428,000
Non-audit services including fees for tax return advisory	USD131,997
	USD559,997

COMPANY SECRETARY

Ms. Ng Sin Yee, Clare of Tricor Services Limited, external service provider has been engaged by the Company as the Company Secretary. The primary contact persons of the Company are Dr. Battsengel Gotov, executive Director and Chief Executive Officer and Ms. Uurtsaikh Dorjgotov, Executive Vice President and Chief Legal Counsel.

During the year ended 31 December 2016, Ms. Ng has complied with the professional training requirement of taking no less than 15 hours of relevant professional training as set out in Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels and a shareholders' communication policy is in place to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

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

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

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

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

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

PUTTING FORWARD ENQUIRIES TO THE BOARD

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

CONTACT DETAILS

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

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

Email: contact@mmc.mn

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. At the AGM, Directors (or their delegates, as appropriate) are available to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to its Articles. An up to date version of the Company's Articles is also available on the Company's website and the Stock Exchange's website.

Directors' Report

The Directors submit herewith their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with its registered office at P.O. Box 258, 18 Forum Lane, Camana Bay, Grand Cayman, KY1-1104, Cayman Islands. Its headquarters and principal place of business in Mongolia is located at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia, and its principal place of business in Hong Kong is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

OVERVIEW AND PERFORMANCE OF THE YEAR

A review of the business of the Group and analysis of the Group's performance using financial key performance indicator ("**KPI**") is provided in the Management Discussion and Analysis section on pages 34 to 45 and Financial Summary section on page 215 of this annual report.

The Group's total sales volume for the year ended 31 December 2016 was approximately 1.6 Mt of coal products generating total revenue of USD120.0 million, whilst in 2015 the total sales volume was 1.5 Mt of coal products with total revenue of USD99.5 million.

The Group's pricing reflects the current price trend in the coking coal market. The ASP for HCC was USD77.2 per tonne for the year ended 31 December 2016, compared to USD63.2 per tonne in the year ended 31 December 2015. In line with the coking coal market rebound in the second half of 2016, the Group's ASP for HCC reached USD92.8 per tonne in the second half of 2016, compared to USD52.2 per tonne in the first half of 2016, representing an increase of 77.8%.

During the year ended 31 December 2016, the total cost of revenue of USD120.3 million was only associated with self-produced coal, representing a decrease of 27.3% compared to USD165.6 million during the year ended 31 December 2015, which included costs relating to both self-produced coal of USD132.7 million and procured coal from Chinese third parties of USD23.4 million.

For the year ended 31 December 2016, the basic loss per share and diluted loss per share was 1.67 cents, decreased by 17.7% compared to the basic loss per share and diluted loss per share of 2.03 cents for the year ended 31 December 2015.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed to complying with Mongolian environmental laws, regulations and applicable international standards as part of our effort to minimize the adverse impact of our operations on the environment. Our integrated HSE MS helps achieve the targets set out in our HSE policy. These systems and processes provide our employees and contractors the necessary directions to practice safe work behaviours and make them accountable for the implementation of the HSE MS. Our environmental team continuously upgrades the HSE MS and its accompanying elements and procedures and ensures that our activities in relevant fields comply with national legislations and international standards. The HSE MS has been developed to align with requirements under the international management system standards ISO 14001:2004 (Environmental management system standard) and OHSAS 18001:2007 (Occupational health and safety management system standard).

We are required to comply with applicable national legislations including the Law on Environmental Protection (1995), Law on Environmental Impact Assessment (2012), Law on Natural Resources Use Fee (2012), Law on Water and Water Pollution Fee (2012), Law on Air (2012) and Law on Air Pollution Fee (2010), Law on Land (2002), Law on Soil Protection and Desertification Prevention (2012) and Law on Toxic and Hazardous Chemicals (2006). In line with these legislations, we submit an environmental management plan followed by an implementation report to the GoM on an annual basis. We get comprehensive inspections on environmental and occupational health activities by local, provincial and state inspection agencies on a regular basis and our compliance rate has been assessed to be satisfactory since the start of our mining operations. The details on our environmental management activities, compliance with relevant legislations and environmental impact mitigation measures can be found in the subsection headed "Health, Safety and Environment" set out in the Environmental, Social and Governance Report section on pages 61 to 77 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

Discussions on compliance with relevant laws and regulations which have a significant impact on the Group are set out in the subsection headed "Operating Environment-Legal Framework" under the Management Discussion and Analysis section on pages 20 to 21 of this annual report.

KEY RELATIONSHIPS WITH STAKEHOLDERS

In relation to the Company's key relationships with its employees, customers and suppliers, discussions on the Company's policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibility are provided in the Management Discussion and Analysis section on page 45 and the Environmental, Social and Governance Report section on pages 52 to 82 of this annual report.

RISK MANAGEMENT, KEY RISKS AND UNCERTAINTIES

A description of the possible risks and uncertainties that the Group may be facing is provided in the Management Discussion and Analysis section on pages 42 to 43 of this annual report.

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

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

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

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

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

PROSPECTS

A description of the likely future development in the Company's business is provided in the subsection headed "Outlook and Business Strategies in 2017" under the Management Discussion and Analysis section on pages 32 to 33 of this annual report.

SUBSEQUENT EVENTS

A description of particulars of important events affecting the Company that have occurred since the end of the financial period can be found in the paragraph headed "Other and Subsequent Events" under the Management Discussion and Analysis section on pages 44 to 45 of this annual report. Save as disclosed above, there have been no events subsequent to 31 December 2016 which require adjustment to or disclosure in the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 22.

Table 22. Sales and purchases attributable to the major customers and suppliers

	Percentage of the Group's total Revenue from sales of goods and rendering of services	Purchases
The largest customer	13.0%	
Five largest customers in aggregate	53.1%	
The largest supplier		44.5%
Five largest suppliers in aggregate		73.9%

Dr. Oyungerel Janchiv, a Director of the Company, holds interests in NIC LLC which is one of the five largest suppliers disclosed above. Each of MCS Mining Group Limited, the controlling shareholder of the Company and Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts, Directors of the Company, has interests in MCS International LLC and Uniservice Solution LLC which are two of the five largest suppliers disclosed above.

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

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2016 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 123 to 214.

TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividend, of USD154,248,000 (2015: loss of USD187,763,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 127.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2016. The Board does not recommend the payment of a dividend for the year ended 31 December 2016 (dividend for the year ended 31 December 2015: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2016 amounted to USD35,000 (2015: USD84,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment for approximately USD21,190,000. Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 24 to the consolidated financial statements. The borrowing amount totals USD93.0 million (2015: USD197.6 million) and all of it is in USD with variable rate (with a fixed margin over LIBOR).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 215.

DIRECTORS

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

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

NON-EXECUTIVE DIRECTORS
Dr. Oyungerel Janchiv
Mr. Od Jambaljamts
Mr. Gankhuyag Adilbish

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Ochirbat Punsalmaa (resigned on 8 January 2016)
Dr. Khashchuluun Chuluundorj (appointed on 8 January 2016)
Mr. Unenbat Jigjid
Mr. Chan Tze Ching, Ignatius

In accordance with the Articles, Mr. Odjargal Jambaljamts, being an executive Director, Dr. Oyungerel Janchiv, being a non-executive Director, and Mr. Chan Tze Ching Ignatius, being an independent non-executive Director, will retire from directorship by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 13.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in this annual report, as at 31 December 2016 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' PERMITTED INDEMNITY PROVISION

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKING

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

Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2016, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition.

Each of the Undertakers has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2016.

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

As at 31 December 2016, the interest and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Table 23. Interests in Shares

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	3,693,241,531 (L) 36,679,681 (S)	39.87% 0.40%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	3,497,356,251 (L) 142,984,588 (S)	37.76% 1.54%
Dr. Oyungerel Janchiv (Note 3)	Interest of controlled corporation	112,833,333 (L)	1.22%
Mr. Gankhuyag Adilbish (Note 4)	Interest of controlled corporation	11,819,579 (L) 11,819,579 (S)	0.13% 0.13%

(L) — Long position *(S) — Short position*

Notes:

(1) Mr. Odjargal Jambaljamts holds the entire interest of Novel Holdings Group Limited. Novel Holdings Group Limited directly holds 461,647,547 shares in the Company and is also interested in approximately 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Global Limited which in turn holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 39.16% of MCS Mining Group Limited which in turn holds 3,231,593,984 shares in the Company. MCS (Mongolia) Limited also directly holds approximately 60.84% interest of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 36,679,681 shares of the Company.

(2) Mr. Od Jambaljamts holds the entire interest of Trimunkh Limited. Trimunkh Limited directly holds 265,762,267 shares in the Company and is also interested in approximately 28.69% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Global Limited which in turn holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 39.16% of MCS Mining Group Limited which in turn holds 3,231,593,984 shares in the Company. MCS (Mongolia) Limited also directly holds approximately 60.84% interest of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 36,679,681 shares and Trimunkh Limited had a short position in 106,304,907 shares of the Company.

(3) Dr. Oyungerel Janchiv, through Lotus Amsa Limited which is 100% owned by her, held 112,833,333 shares in the Company.

(4) Mr. Gankhuyag Adilbish, through Tugs Investments Limited which is 100% owned by him, held 11,819,579 shares and had a short position in 11,819,579 shares in the Company.

Table 24. Interest in underlying Shares

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme**	**Approximate percentage of total issued share capital**
Dr. Battsengel Gotov	Beneficial owner	71,764,707 (L)	0.77%

(L) — Long position

Save as disclosed above, as at 31 December 2016, so far as was known to any Director or chief executive of the Company, none of the Directors nor the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date on 13 October 2010 (the "**Adoption Date**"). Share Options could be granted within a period of 10 years from the Adoption Date. Therefore, as at 31 December 2016, the remaining life of the Share Option Scheme was approximately 3 years and 10 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

ELIGIBILITY

The Directors may invite any person belonging to any of the following classes of participants to take up options to subscribe for Shares:

a. any employee or proposed employee (whether full time or part-time and including any executive Director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest;

b. any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

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

d. any customer of the Group or any Invested Entity;

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

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

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

GRANT OF OPTIONS

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

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

SUBSCRIPTION PRICE

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

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

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

c. the nominal value of the Shares.

EXERCISE OF OPTIONS

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

MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date. The total number of Shares available for issue under the Share Option Scheme is 359,712,250 Shares (including those granted but yet to be exercised), representing 3.88% of the issued Shares of the Company as at the date of this annual report.

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

MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

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

Under the Share Option Scheme, the Company granted three batches of Share Options to its Director and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66 and 3,000,000 and 32,200,000 Share Options were accepted by a Director and employees respectively. 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.

As a result of the rights issue completed on 29 December 2014, adjustments were made to the exercise prices and the number of shares falling to be issued upon the exercise of the Share Options in accordance with the terms of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the adjustment of share options under rule 17.03(13) of the Listing Rules. The exercise price of HKD6.66 for the Share Options granted on 12 October 2011 was adjusted to HKD4.53 and the exercise price of HKD3.92 for the Share Options granted on 28 November 2012 was adjusted to HKD2.67.

A total of 48,100,000 Options were outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise prices and the number of the shares falling to be issued under the outstanding Share Options were adjusted pursuant to Clause 11 of the Share Option Scheme (the "**Option Adjustments**") with effect from 1 January 2015, and such adjustments have been reviewed and confirmed by the independent financial adviser of the Company, Somerley Capital Limited. Please refer to the 2014 Annual Report of the Company for details of the adjustment.

Directors' Report

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.

Details of the movements in the number of Share Options of the Company during the year ended 31 December 2016 were as follows:

Table 25. Director

					Number of Share Options				
Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2016	Granted during the year ended 31 December 2016	Lapsed during the year ended 31 December 2016	Cancelled during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Balance as at 31 December 2016
Dr. Battsengel Gotov	12 October 2011	(Note 1)	HKD4.53	4,411,765	–	–	–	–	4,411,765
	28 November 2012	(Note 2)	HKD2.67	7,352,941	–	–	–	–	7,352,941
	10 June 2015	(Note 3)	HKD0.445	60,000,000	–	–	–	–	60,000,000
Total				71,764,706	–	–	–	–	71,764,706

Table 26. Employees of the Group other than Directors

				Number of Share Options				
Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2016	Granted during the year ended 31 December 2016	Lapsed during the year ended 31 December 2016	Cancelled during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Balance as at 31 December 2016
12 October 2011	(Note 1)	HKD4.53	34,062,500	–	–	–	–	34,062,500
28 November 2012	(Note 2)	HKD2.67	24,632,353	–	–	–	–	24,632,353
10 June 2015	(Note 3)	HKD0.445	94,750,000	–	8,000,000	–	–	86,750,000
Total			153,444,853	–	8,000,000	–	–	145,444,853

Notes:

1. The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:

    (1) first 25% of the Share Options granted – 12 October 2012 to 12 October 2019
    (2) second 25% of the Share Options granted – 12 October 2013 to 12 October 2019
    (3) third 25% of the Share Options granted – 12 October 2014 to 12 October 2019
    (4) fourth 25% of the Share Options granted – 12 October 2015 to 12 October 2019

2. The Share Options are subject to vesting scale in three tranches. The exercise periods are as follows:

   (1) first 25% of the Share Options granted – 28 November 2013 to 28 November 2020
   (2) second 25% of the Share Options granted – 28 November 2014 to 28 November 2020
   (3) third 50% of the Share Options granted – 28 November 2015 to 28 November 2020

3. The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:

   (1) first 25% of the Share Options granted – 10 June 2015 to 10 June 2020
   (2) second 25% of the Share Options granted – 10 June 2016 to 10 June 2020
   (3) third 25% of the Share Options granted – 10 June 2017 to 10 June 2020
   (4) fourth 25% of the Share Options granted – 10 June 2018 to 10 June 2020

4. As a result of the rights issue of the Company completed on 29 December 2014, the exercise prices and the number of the Shares falling to be issued upon full exercise of the outstanding Share Options were adjusted in accordance with the Option Adjustments with effect from 1 January 2015.

TREATMENT OF LAPSE OF THE SHARE OPTIONS

Pursuant to the Share Option Scheme, in the event that an employee ceases to be an employee of the Company before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine. The offer letter to grantees also states that any option shares that have not yet been vested according to the vesting scales shall be considered "Unvested Shares", and upon cessation of employment or services on behalf of the Company for any reason, no further vesting of the option will occur and any unvested portion of the option will terminate.

The Directors determined that in the event that an employee ceases to be an employee of the Company before exercising the option in full, only unvested Share Options (but not all the outstanding Share Options) will lapse effective from 1 August 2013.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, for the year ended 31 December 2016, the Company has not entered into any equity-linked agreement.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2016 had the Company or any of its subsidiaries or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

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

As at 31 December 2016, so far as was known to the Directors and chief executive of the Company and based on the information publicly available, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 27. Interests in Shares and underlying Shares:

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
MCS Mining Group Limited (Note 1)	Beneficial owner	3,231,593,984 (L) 36,679,681 (S)	34.89% 0.40%
MCS (Mongolia) Limited (Note 1)	Interest of controlled corporation	3,231,593,984 (L) 36,679,681 (S)	34.89% 0.40%
MCS Global Limited (Note 1)	Interest of controlled corporation	3,231,593,984 (L) 36,679,681 (S)	34.89% 0.40%
MCS Holding LLC (Note 1)	Interest of controlled corporation	3,231,593,984 (L) 36,679,681 (S)	34.89% 0.40%
Novel Holdings Group Limited (Note 1)	Interest of controlled corporation/ Beneficial owner	3,693,241,531 (L) 36,679,681 (S)	39.87% 0.40%
Trimunkh Limited (Note 1)	Interest of controlled corporation/ Beneficial owner	3,497,356,251 (L) 142,984,588 (S)	37.76% 1.54%

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each Total number of Shares held	Approximate percentage of total issued share capital
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	3,693,241,531 (L) 36,679,681 (S)	39.87% 0.40%
Ms. Munkhsuren Surenkhuu (Note 1)	Interest of spouse	3,497,356,251 (L) 142,984,588 (S)	37.76% 1.54%
Kerry Mining (UHG) Limited ("**KMUHG**") (Note 2)	Beneficial owner	750,000,000 (L)	8.10%
KMM (Note 2)	Interest of controlled corporation	750,000,000 (L)	8.10%
Fexos Limited ("**Fexos**") (Note 2)	Interest of controlled corporation	756,890,120 (L)	8.17%
Kerry Holdings Limited ("**KHL**") (Note 2)	Interest of controlled corporation	756,890,120 (L)	8.17%
Kerry Group Limited ("**KGL**") (Notes 2 and 3)	Interest of controlled corporation	1,197,461,111 (L)	12.93%

(L) – Long position *(S) – Short position*

Notes:

(1) MCS Mining Group Limited is owned as to approximately 39.16% by MCS Holding LLC and approximately 60.84% by MCS (Mongolia) Limited. MCS Holding LLC is wholly-owned by MCS Global Limited which in turn is wholly-owned by MCS (Mongolia) Limited. MCS (Mongolia) Limited is owned as to approximately 49.84% by Novel Holdings Group Limited which in turn is wholly-owned by Mr. Odjargal Jambaljamts, and 28.69% by Trimunkh Limited which in turn is wholly-owned by Mr. Od Jambaljamts. MCS Mining Group Limited holds 3,231,593,984 shares and had a short position in 36,679,681 shares in the Company. Novel Holdings Group Limited and Trimunkh Limited each also directly held 461,647,547 shares and 265,762,267 shares in the Company, and Trimunkh Limited had a short position in 106,304,907 shares directly in the Company. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.

(2) (a) KMUHG is a direct wholly-owned subsidiary of KMM. Fexos controls more than one-third of the voting power of KMM. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL were deemed to be interested in the 750,000,000 shares that KMUHG was interested.

(b) Fexos controls more than one-third of the voting power of Kerry Asset Management Limited ("**KAM**"). Fexos, KHL and KGL were deemed to be interested in the 6,890,120 shares that KAM was interested.

(3) Out of KGL's corporate interest in 1,197,461,111 shares of the Company, KGL's wholly-owned subsidiaries (other than KHL) were interested in 440,570,991 shares of the Company, KHL (through companies that it controls more than one-third of the voting power) was interested in 756,890,120 shares of the Company.

Save as disclosed above, as at 31 December 2016, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the Shares or underlying Shares.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 33 to the consolidated financial statements. In respect of those related party transactions that constitute CCTs under the Listing Rules, the Company has complied with applicable disclosure requirements in accordance with the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2016, the non-exempt CCTs of the Group were USD30,686,740.

The details of non-exempt CCTs for the year ended 31 December 2016 are set out on pages 45 to 51 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

Details of pledge of assets of the Group as at 31 December 2016 are set out on page 43 under the section headed "Management Discussion and Analysis" of this annual report.

EMOLUMENT POLICY

The emolument policy of the Group is set to (1) recruit, retain and motivate qualified and experienced staff, including directors and senior management, (2) apply a responsible and sustainable remuneration practice that is determined by reference to the performance of the individual, the operational and financial results of the Group, and is in line with the market practice and conditions, (3) ensure that no individual participates in deciding his/her own remuneration, and (4) ensure that the base salary levels and annual incentives are competitive in the market and comparable to the similar jobs in the peer companies.

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

In addition to a base salary, the emolument of staff and directors and senior management is structured to include bonuses (such as a discretionary bonus), and benefits. The Company also has a Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company.

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

RETIREMENT SCHEME

The Group participates in retirement benefit schemes pursuant to the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 7% of the eligible employees' salaries. Based on collective agreement signed in 2013 and outcome of meeting with officials from Ministry of Mining, Labour Union and the employers' representatives of mining industry, each employee who retires from mining industry shall receive payment equal to double of the minimum wage of the industry multiplied by the number of years worked in the mining industry.

The Group has no other retirement schemes beyond the retirement contributions described above. Particulars of the retirement scheme are set out in note 7 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

On 9 June 2011, MCS Mining Group Limited, the controlling shareholder of the Company, entered into a share charge over the Shares with Standard Bank Plc ("**SB Charged Shares**") in respect of 334,483,750 Shares of the Company and on 27 November 2012, 15 March 2013, 5 April 2013, 10 April 2013 and on 3 December 2013 entered into further share charge of 465,516,250, 83,337,955, 100,000,000, 83,000,000 and 45,172,994 Shares, respectively, in respect of the SB Charged Shares, whereby MCS Mining Group Limited granted security over the SB Charged Shares in favour of Standard Bank Plc. On 18 December 2013, Standard Bank Plc resigned as security agent and BNP Paribas Hong Kong Branch was appointed as replacement security agent. On 17 December 2014, MCS Mining Group Limited entered into a share charge over the Shares with BNP Paribas Hong Kong Branch in respect of 1,667,266,423 Shares of the Company. On 18 November 2016, MCS Mining Group Limited entered into a Deed of Release with BNP Paribas Hong Kong Branch whereby the total number of 2,778,777,372 pledged shares of the Company held by MCS Mining Group Limited was released from BNP Paribas Hong Kong Branch.

On 18 November 2011, MCS Mining Group Limited entered into a share charge over the Shares with International Finance Corporation ("**IFC**") in respect of 36,679,681 Shares of the Company and on 28 December 2011, IFC exercised its conversion right to convert loan into 19,706,308 Shares, whereby MCS Mining Group Limited granted shares in favour of IFC.

ISSUE OF EQUITY SECURITIES

No additional shares were issued during the year ended 31 December 2016.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

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

The over-allotment option was fully exercised on 18 October 2010 in respect of an aggregate of 107,914,000 shares and accordingly the lower public float percentage of the Company accepted by the SEHK is approximately 22.3%. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules.

Directors' Report

CHANGES IN DIRECTORS' INFORMATION

Change in information of Directors during the year ended 31 December 2016, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

The two executive Directors, namely Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, have entered into new service agreements with the Company for a fixed term of one year commencing from 12 October 2016 at a director's fee of USD250,000 per annum respectively. The Company has issued new letters of appointment to the three non-executive Directors, namely Mr. Od Jambaljamts, Dr. Oyungerel Janchiv and Mr. Gankhuyag Adilbish, and the three independent non-executive Directors, namely Mr. Unenbat Jigjid, Dr. Khashchuluun Chuluundorj and Mr. Chan Tze Ching, Ignatius, for a fixed term of three years commencing from 12 October 2016 each at a director's fee of HKD75,000 per annum respectively. Mr. Chan Tze Ching, Ignatius, is also entitled to an additional remuneration of HKD150,000 for serving as the Chairman of the Audit Committee of the Company.

Mr. Chan Tze Ching, Ignatius has been appointed as member of the Standing Committee on Judicial Salaries and Conditions of Service with effect from 1 January 2017.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2016. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 31 May 2016.

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

On behalf of the Board

Odjargal Jambaljamts
Chairman

Hong Kong, 22 March 2017

Independent Auditor's Report
to the Shareholders of Mongolian Mining Corporation
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 123 to 214, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2(b) to the consolidated financial statements, which discloses that the Group had net current liabilities of approximately USD921,826,000 as at 31 December 2016 and made a loss of USD153,992,000 for the year then ended. These conditions, along with other matters as set forth in note 2(b), in particular the proposed debt restructuring, 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 and creditors and the Group's ability to generate sufficient cash flows from future operations to enable it to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Assessing impairment and revaluation of mining related assets

Refer to notes 2(c), 2(h), 3(a), 14 and 15 to the consolidated financial statements and the accounting policies on pages 132, 136, 152, 171 and 176.

The Key Audit Matter	How the matter was addressed in our audit
The Group's mining related assets are the most quantitatively significant items in the consolidated statement of financial position and mainly comprise property, plant and equipment, construction in progress, intangible assets and long-term prepayments relating to the Group's mining operations located in Mongolia, which are considered by management to represent a single separately identifiable cash generating unit ("**CGU**"). In previous years these non-financial assets were stated at cost less accumulated depreciation and impairment losses. In 2016, the Directors of the Company decided that the adoption of revaluation model for two classes of property, plant and equipment, namely (1) buildings and plant; and (2) machinery and equipment, would result in the consolidated financial statements providing more reliable and relevant information on the Group's financial position and financial performance. Accordingly, the Group has changed its accounting policy for the above-mentioned two classes of assets from the cost model to the revaluation model, whereby the related assets are measured at their fair values at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group revalued these two classes of assets and recognised a revaluation surplus of USD342 million as at 31 December 2016 based on a valuation report issued by an external appraiser.	Our audit procedures to assess impairment and revaluation of mining related assets included the following: • assessing the design and implementation of the Group's key controls over the revaluation of buildings and plant and machinery and equipment; • assessing the experience, competence, objectivity and independence of the external appraiser engaged by the Group to assess the fair values of buildings and plant and machinery and equipment; • engaging our internal valuation specialists to assist us in evaluating the methodology applied in the revaluation of buildings and plant and machinery and equipment with reference to the requirements of the prevailing accounting standards; • assessing the valuations prepared by the external appraiser by comparing the replacement costs adopted in the valuations with the market prices of comparable items, on a sample basis and evaluating the accounting treatment in respect of the revaluation of buildings and plant and machinery and equipment with reference to the requirements of the prevailing accounting standards; • evaluating the design and implementation of key internal controls over the estimations of the recoverable amounts of mining related assets;

Assessing impairment and revaluation of mining related assets

Management has taken into account both external and internal sources of information in assessing whether there were any indicators that mining related assets may be impaired or that previously recognised impairment may be reversed, after taking into account the revaluation of the two assets classes noted above.

Management performs an impairment assessment of mining related assets at the end of each reporting period. As at 31 December 2014, the Group recognised impairment of its mining rights in the amount of USD190 million which reflected downward pressures on the prices of certain coking coal products. As at 31 December 2015 and 2016, management concluded that no further impairment or reversal of previously recognised impairment was necessary.

Management determines the recoverable amount of mining related assets by assessing the value in use of the CGU to which the assets have been allocated by using discounted cash flow techniques when indicators of impairment are identified. The preparation of a discounted cash flow forecast involves the exercise of significant management judgement in the selection of assumptions, in particular in estimating future commodity prices and the discount rate applied as well as in determining internal assumptions relating to future sales and future operating costs.

We identified assessing impairment and revaluation of mining related assets as a key audit matter because the impairment assessment and revaluation involve significant management judgement in the selection of assumptions which could be subject to management bias.

- assessing the allocation of assets and liabilities by management to the mining CGU and the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards;

- challenging the key assumptions and estimates used to in the discounted cash flow forecast as at 31 December 2016, including those relating to future commodity prices, future sales, future operating costs and the discount rates applied, which included involving our internal valuation specialists to assist us in comparing these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and in considering the key assumptions and estimates based on our knowledge of the Group and the industry in which it operates;

- comparing the key assumptions and estimates included in the discounted cash flow forecast prepared in the prior year with the current year's performance to assess the reliability management's forecasting process and making enquiries of management as to the reasons for any significant variances identified;

- performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions and estimates and whether there were any indicators of management bias; and

- assessing the disclosures in the consolidated financial statements in respect of the impairment and revaluation of mining related assets with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

(Expressed in United States dollars)

	Note	2016 USD'000	2015 USD'000
Revenue	4	**120,028**	99,485
Cost of revenue	5	**(120,346)**	(165,604)
Gross loss		**(318)**	(66,119)
Other revenue		**(2,808)**	848
Other net income/(loss)	6	**4,116**	(1,082)
Selling and distribution costs	7(c)	**(17,654)**	(8,589)
General and administrative expenses		**(13,133)**	(30,520)
Loss from operations		**(29,797)**	(105,462)
Finance income	7(a)	**1,186**	5,084
Finance costs	7(a)	**(122,705)**	(104,106)
Net finance costs	7(a)	**(121,519)**	(99,022)
Share of losses of associates		**(5)**	(15)
Share of losses of joint venture		**(21)**	(87)
Loss before taxation	7	**(151,342)**	(204,586)
Income tax	8	**(2,650)**	16,873
Loss for the year		**(153,992)**	(187,713)
Attributable to:			
Equity shareholders of the Company		**(154,248)**	(187,763)
Non-controlling interests		**256**	50
Loss for the year		**(153,992)**	(187,713)
Basic loss per share	9	**(1.67) cents**	(2.03) cents
Diluted loss per share	9	**(1.67) cents**	(2.03) cents

The notes on pages 129 to 214 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 30(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

(Expressed in United States dollars)

	Note	2016 USD'000	2015 USD'000
Loss for the year		**(153,992)**	(187,713)
Other comprehensive income for the year (after reclassification adjustments)	12		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(47,504)**	(22,632)
Surplus on revaluation of plants, buildings, and machinery and equipment	14, 15, 26	**341,819**	–
Total comprehensive income for the year		**140,323**	(210,345)
Attributable to:			
Equity shareholders of the Company		**140,067**	(210,395)
Non-controlling interests		**256**	50
Total comprehensive income for the year		**140,323**	(210,345)

The notes on pages 129 to 214 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016

(Expressed in United States dollars)

	Note	**2016 USD'000**	2015 USD'000
Non-current assets			
Property, plant and equipment, net	14	**776,464**	540,714
Construction in progress	15	**79,976**	55,164
Lease prepayments	16	**53**	68
Intangible assets	17	**509,221**	510,380
Interest in associates	19	**32**	45
Interest in joint venture		**58**	95
Other non-current assets	20	**61,917**	50,582
Deferred tax assets	26(b)	**35,341**	46,629
Total non-current assets		**1,463,062**	1,203,677
Current assets			
Assets held for sale		**131**	55
Inventories	21	**42,181**	45,829
Trade and other receivables	22	**58,751**	93,857
Cash and cash equivalents	23	**12,268**	50,702
Total current assets		**113,331**	190,443
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	24(b)	**93,000**	197,631
Senior notes	27	**599,692**	–
Trade and other payables	25	**342,196**	213,429
Current taxation	26(a)	**269**	144
Total current liabilities		**1,035,157**	411,204
Net current liabilities		**(921,826)**	(220,761)
Total assets less current liabilities		**541,236**	982,916

The notes on pages 129 to 214 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016

(Expressed in United States dollars)

	Note	2016 USD'000	2015 USD'000
Non-current liabilities			
Senior notes	27	–	597,634
Provisions	29	**13,585**	13,567
Deferred tax liabilities	26(b)	**150,176**	102,483
Other non-current liabilities		**46,166**	79,441
Total non-current liabilities		**209,927**	793,125
NET ASSETS		**331,309**	189,791
CAPITAL AND RESERVES			
Share capital	30(c)	**92,626**	92,626
Reserves		**238,085**	96,823
Total equity attributable to equity shareholders of the Company		**330,711**	189,449
Non-controlling interests		**598**	342
TOTAL EQUITY		**331,309**	189,791

Approved and authorised for issue by the board of directors on 22 March 2017.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 129 to 214 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(Expressed in United States dollars)

			Attributable to equity shareholders of the Company							
	Note	Share capital USD'000 (Note 30(c))	Share premium USD'000 (Note 30(e)(i))	Other reserve USD'000 (Note 30(e)(ii))	Exchange reserve USD'000 (Note 30(e)(iii))	Property revaluation reserve USD'000 (Note 30(e)(iv))	Accumulated losses USD'000	Total USD'000	Non-controlling interest USD'000	Total equity USD'000
At 1 January 2015		92,626	748,527	30,539	(312,162)	–	(162,984)	396,546	292	396,838
Changes in equity for 2015:										
Loss for the year		–	–	–	–	–	(187,763)	(187,763)	–	(187,763)
Other comprehensive income	12	–	–	–	(22,632)	–	–	(22,632)	–	(22,632)
Total comprehensive income		–	–	–	(22,632)	–	(187,763)	(210,395)	–	(210,395)
Contribution from non-controlling interests		–	–	–	–	–	–	–	50	50
Equity-settled share-based transactions	28	–	–	3,298	–	–	–	3,298	–	3,298
At 31 December 2015		92,626	748,527	33,837	(334,794)	–	(350,747)	189,449	342	189,791
At 1 January 2016		**92,626**	**748,527**	**33,837**	**(334,794)**	**–**	**(350,747)**	**189,449**	**342**	**189,791**
Changes in equity for 2016:										
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(154,248)**	**(154,248)**	**256**	**(153,992)**
Other comprehensive income	12	**–**	**–**	**–**	**(47,504)**	**341,819**	**–**	**294,315**	**–**	**294,315**
Total comprehensive income		**–**	**–**	**–**	**(47,504)**	**341,819**	**(154,248)**	**140,067**	**256**	**140,323**
Equity-settled share-based transactions	28	**–**	**–**	**1,195**	**–**	**–**	**–**	**1,195**	**–**	**1,195**
At 31 December 2016		**92,626**	**748,527**	**35,032**	**(382,298)**	**341,819**	**(504,995)**	**330,711**	**598**	**331,309**

The notes on pages 129 to 214 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

(Expressed in United States dollars)

	Note	**2016 USD'000**	2015 USD'000
Cash flows from operating activities			
Loss before taxation		**(151,342)**	(204,586)
Adjustments for:			
Depreciation and amortisation	7(c)	**32,707**	39,179
Impairment loss on trade and other receivables	7(c)	**(436)**	8,512
Provision losses on coal inventories		**4,315**	6,122
Share of losses of associates and joint venture		**26**	102
Gain on disposal of property, plant and equipment and assets held for sale	7(c)	**(524)**	(62)
Net finance costs	7(a)	**121,519**	99,022
Equity-settled share-based payment expenses	7(b)	**1,195**	3,298
Employee benefit accrued		**(447)**	520
Changes in working capital:			
Increase in inventories		**(667)**	(7,562)
Decrease in trade and other receivables		**33,277**	42,298
Increase/(decrease) in trade and other payables		**34,224**	(50,893)
(Increase)/decrease in other non-current assets and other non-current liabilities		**(44,494)**	50,270
Cash generated from/(used in) operations		**29,353**	(13,780)
Income tax paid	26(a)	**(3)**	(404)
Net cash generated from/(used in) operating activities		**29,350**	(14,184)
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(9,655)**	(42,459)
Proceeds from disposal of property, plant and equipment and assets held for sale		**430**	884
Payment for acquisition of an associate, net of cash acquired		**–**	(84)
Interest received		**3,487**	5,423
Other cash flows generated from investing activities		**50,000**	–
Net cash generated from/(used in) investing activities		**44,262**	(36,236)
Financing activities			
Proceeds from borrowings		**–**	15,000
Repayment of borrowings		**(56,596)**	(96,818)
Interest paid		**(4,965)**	(69,891)
Net cash used in financing activities		**(61,561)**	(151,709)
Net increase/(decrease) in cash and cash equivalents		**12,051**	(202,129)
Cash and cash equivalents at beginning of the year		**702**	202,856
Effect of foreign exchange rate changes		**(485)**	(25)
Cash and cash equivalents at end of the year	23	**12,268**	702

The notes on pages 129 to 214 form part of these financial statements.

Notes to Consolidated Financial Statements

1 CORPORATE INFORMATION

Mongolian Mining Corporation (the "**Company**") was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as the "**Group**") are 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 SIGNIFICANT ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

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

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. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

As at 31 December 2016, the Group had net current liabilities of approximately USD921,826,000 and made a loss of USD153,992,000 for the year then ended. These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the going concern assumption.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in evaluating whether the going concern basis in preparing the consolidated financial statements is appropriate. The Directors have concluded that there are material uncertainties surrounding going concern as below:

1) The Group is due to redeem the senior notes issued by the Company with a principal amount of USD600,000,000 on 29 March 2017 (“**Senior Notes**”, see Note 27). The Group was due to repay the secured interest-bearing borrowings from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (collectively, the “**Lenders**”) with a principal amount of USD93,000,000 (the “**BNP and ICBC Facility**”) within the year ended 31 December 2016 (see Note 24). The Group is in payment default of interest under the Senior Notes and also in payment default of the BNP and ICBC Facility. In addition, the Group is overdue in repaying promissory notes of USD72,216,000 to QGX Holding Ltd. (“**QGX**”) (see Note 25(v)). The Group commenced debt restructuring negotiations with the holders of the Senior Notes (“**Noteholders**”), Lenders, and QGX (collectively “**Creditors**”) (“**Debt Restructuring**”) in 2016. In November 2016, the Company obtained support from certain holders of the Senior Note (the “**Steering Committee**”), the Lenders and QGX for the key commercial terms of the updated debt restructuring proposal (“**Updated Debt Restructuring Proposal**”). The Steering Committee, the Lenders and QGX entered into restructuring support agreements (collectively, the “**RSAs**”) with the Company and the appointed joint provisional liquidators (“**JPLs**”) with respect to the Debt Restructuring on 21 December 2016. Following the order granted by the Grand Court of the Cayman Islands (“**Cayman Court**”) on 21 December 2016 (Cayman Islands time), all provisions of the RSAs have become effective in accordance with their terms.

2) The Debt Restructuring is not yet effective as at the issuance date of the consolidated financial statements. In February 2017, the applications were filed with the Cayman Court and the High Court of Hong Kong (the “**Hong Kong Court**”) in relation to seeking orders (the “**Convening Orders**”) to grant permission for the Company to convene meetings of Noteholders for the purpose of considering, and if thought fit, approving (with or without modification) the schemes of arrangement in the Cayman Islands and in Hong Kong (the “**Cayman Scheme**” and “**Hong Kong Scheme**”, respectively). As at the issuance date of the consolidated financial statements, the outcome of the Debt Restructuring is subject to (including but not limited to): a) the on-going discussions with the Creditors and consequentially, the execution of definitive legal documentation to effect the terms and provisions of the Updated Debt Restructuring Proposal as agreed with its Creditors in a form and substance satisfactory to all parties; b) sanction of the Cayman Scheme by the Cayman Court and the sanction of the Hong Kong Scheme by the Hong Kong Court; and c) the conditions in the Cayman Scheme and Hong Kong Scheme are satisfied.

3) Given the volatility of coal product price, future trading may not be in line with the assumptions in the Group’s latest forecasts, the achievability of which is dependent upon the current economic environment and the sustainability of the price of coking coal in the market.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

The Directors consider that, among all the above-mentioned matters and conditions, the key determining factor lies with the Debt Restructuring and it is the material uncertainty in the going concern assumption.

Based on the most recent developments on Debt Restructuring, the Group's business plan and cash flow forecast, and the assumed ongoing support from its Creditors, the Directors expect to have sufficient financial resources to cover its operating costs and to meet its financing commitments following the Debt Restructuring becoming effective. The Directors have identified a number of management initiatives that would mitigate the liquidity and solvency pressure including:

- As at 4:00 p.m. New York time on 20 January 2017, the Lenders, QGX, and approximately 96.06% of the Noteholders entered into RSA, pursuant to which they have undertaken to work in good faith with the Company to implement the Debt Restructuring as soon as possible. The Company has also filed applications with the Cayman Court and the Hong Kong Court seeking the Convening Orders to convene meetings of the Noteholders for the purpose of considering, and if thought fit, approving the Cayman Scheme and the Hong Kong Scheme. As announced by the Company on 14 March 2017, both the Cayman Court and the Hong Kong Court have granted the Convening Orders. Based on the progress of the negotiations with the Creditors, and considering the commercial basis of this restructuring, the Directors have no reason to believe that the Debt Restructuring will not be achieved.

- The Group is managing capital expenditure to minimum levels.

- The Group continues to seek prepayments at reaching with new coal off-take agreements, and negotiates business terms with suppliers to ease cash flow demands.

Although there is a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, the Directors, after making a balanced evaluation, are satisfied that if the above measures are successful the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 December 2016. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments that would result in the going concern basis of preparation being considered inappropriate.

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in associates and a joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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

– Financial instruments classified as available-for-sale or as trading securities (see Note 2(f));

– Buildings and plants as well as machinery and equipment (see Note 2(h));

– Derivative financial instruments (see Note 2(g)).

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

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

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

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

(c) CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Previously, the Group's two classes of non-financial assets, namely buildings and plants as well as machinery and equipment, were stated at cost less accumulated depreciation and any impairment losses. The Directors are in the opinion that the adoption of revaluation model for these two classes of non-financial assets would result in the consolidated financial statements providing more reliable and relevant information on the Group's financial position and financial performance by better reflecting their values to the Group. Accordingly, the Group has changed its accounting policy for these two classes of non-financial assets with effect from 31 December 2016, which is to measure them at valuation, being their fair values at the date of the revaluation less any subsequent accumulated depreciation (Note 2(h)). The revaluation surplus is recognised in assets revaluation reserve in equity. The initial application of a policy to account for some classes of property, plant and equipment as well as construction in progress under revaluation model has been dealt with in accordance with IAS 16 *Property, Plant and Equipment*, and the opening balance of equity has not adjusted and comparatives are not restated.

(d) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) SUBSIDIARIES AND NON-CONTROLLING INTERESTS (continued)

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

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

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

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

(e) ASSOCIATES AND JOINT VENTURES

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) ASSOCIATES AND JOINT VENTURES (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale (see Note 2(x)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

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

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities which do not fall into categories of investments in securities held for trading neither dated debt securities are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position as cost less impairment losses (see Note 2(k)).

When the investments are derecognised or impaired (see Note 2(k)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) DERIVATIVE FINANCIAL INSTRUMENTS

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

(h) PROPERTY, PLANT AND EQUIPMENT

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

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

- machinery and equipment.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) PROPERTY, PLANT AND EQUIPMENT (continued)

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

– motor vehicles;

– office equipment; and

– mining properties.

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

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

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

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

In open pit mining operations, the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Stripping costs incurred during the development phase of a mine are capitalised as stripping activity asset forming part of the cost of constructing the mining properties.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) PROPERTY, PLANT AND EQUIPMENT (continued)

Stripping costs incurred during the production phase of a surface mine are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred (Note 2(l)), unless the stripping activity can be shown to give rise to probably future economic benefits from the mineral property by improving the access to the ore body, the component of the ore body for which assess has been improved is identifiable and the costs associated with that component can be reliably measured, in which case the stripping costs would be capitalised as stripping activity asset included in property, plant and equipment – mining properties.

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

Construction in progress represents property, plant and equipment under construction and equipment pending installation. Except for those stated at their revalued amount as aforementioned, other construction in progress items are initially recognised at cost less impairment losses (Note 2(k)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (Note 2(w)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

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

	Depreciable life
– Buildings and plants	10-40 years
– Machinery and equipment	10 years
– Motor vehicles	5-10 years
– Office equipment	3-10 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

(i) INTANGIBLE ASSETS

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

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

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

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) CLASSIFICATION OF ASSETS LEASED TO THE GROUP

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) ASSETS ACQUIRED UNDER FINANCE LEASES

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) OPERATING LEASE CHARGES

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iv) LEASE PREPAYMENTS

Lease prepayments represent the costs of acquiring the land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(k)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) IMPAIRMENT OF ASSETS

(i) IMPAIRMENT OF INVESTMENT IN DEBT AND EQUITY SECURITIES AND OTHER RECEIVABLES

Investment in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associate and joint ventures accounted for under the equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(k)(ii).
- For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) IMPAIRMENT OF ASSETS (continued)

(i) IMPAIRMENT OF INVESTMENT IN DEBT AND EQUITY SECURITIES AND OTHER RECEIVABLES (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) IMPAIRMENT OF OTHER ASSETS

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

– property, plant and equipment;

– construction in progress;

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) IMPAIRMENT OF ASSETS (continued)

(ii) IMPAIRMENT OF OTHER ASSETS (continued)

- lease prepayments;
- intangible assets;
- other non-current assets (excluding receivables); and
- investment in subsidiaries, associates and joint ventures in the Company's statement of financial position.

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

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) IMPAIRMENT OF ASSETS (continued)

(iii) INTERIM FINANCIAL REPORTING AND IMPAIRMENT

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

(l) INVENTORIES

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated future sales price of the product the Group expects to realise when such item is sold or processed, less estimated costs to complete and bring the product to sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(m) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) EMPLOYEE BENEFITS

(i) SHORT-TERM EMPLOYEE BENEFITS AND CONTRIBUTIONS TO DEFINED CONTRIBUTION RETIREMENT PLANS

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued for the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) SHARE-BASED PAYMENTS

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value is measured at grant date using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) EMPLOYEE BENEFITS (continued)

(ii) SHARE-BASED PAYMENTS (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(iii) TERMINATION BENEFITS

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) INCOME TAX (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interests in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) INCOME TAX (continued)

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) OBLIGATIONS FOR RECLAMATION

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in Mongolia. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure, which is included in the mining properties. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) SALE OF GOODS

Revenue associated with the sale of coal is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) INTEREST INCOME

Interest income is recognised as it accrues using the effective interest method.

(v) TRANSLATION OF FOREIGN CURRENCIES

The presentation currency of the Group is USD. The functional currency of the Company and the investment holding companies is USD and the functional currency of other group entities located in Mongolia is Mongolian Togrog ("**MNT**"). Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations in Mongolia are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into USD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) NON-CURRENT ASSETS HELD FOR SALE

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale the non-current asset is not depreciated or amortised.

(y) RELATED PARTIES

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) RELATED PARTIES (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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. In addition to those disclosed in Note 28 about equity-settled share-based payment transactions and in Note 32(c) about the environmental contingencies, other significant accounting estimates and judgements were summarised as follows:

(a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

(i) FAIR VALUE OF BUILDINGS AND PLANTS, MACHINERY AND EQUIPMENT CLASSIFIED AS PROPERTY, PLANT AND CONSTRUCTION IN PROGRESS

As set out in Note 2(c), the Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and construction in progress were revalued by an external appraiser as at 31 December 2016 (see Notes 14 and 15). Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgement is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity.

(ii) RESERVES

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (continued)

(ii) RESERVES (continued)

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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (continued)

(ii) RESERVES (continued)

- 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.

(iii) USEFUL LIVES OF PROPERTY, PLANTS AND EQUIPMENT

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

(iv) IMPAIRMENT OF 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 asset 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (continued)

(v) OBLIGATION FOR RECLAMATION

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

(vi) 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.

(vii) 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (continued)

(viii) 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.

(ix) 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (continued)

(ix) CAPITALISED STRIPPING COSTS (continued)

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 strip ratio. When the current strip ratio is greater than the life-of-component ratio, a portion of the stripping costs is capitalised to the existing mine properties.

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

(x) 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(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) (v), (vi) and (vii).

4 REVENUE

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

	2016 **USD'000**	2015 USD'000
Self-produced coal		
Washed hard-coking coal ("**HCC**")	**119,313**	75,594
Washed thermal coal	**715**	1
Trading of coal procured from Chinese third party sources	**–**	23,890
	120,028	99,485

Revenue during the year ended 31 December 2016 include approximately USD69,783,000 (2015: USD37,997,000) which arose from sales of HCC to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

During the year ended 31 December 2016, the Group had four customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD15,657,000, USD14,798,000, USD13,440,000 and USD13,360,000, respectively. 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.

Details of concentrations of credit risk arising from these customers are set out in Note 31(b).

5 COST OF REVENUE

	2016 USD'000	2015 USD'000
Mining costs	**33,802**	34,830
Processing costs	**12,963**	13,084
Transportation costs	**20,683**	15,387
Provision losses on coal inventories (Note 21(b))	**4,315**	6,122
Others (Note (i))	**22,919**	43,309
Cost of revenue during mine operations	**94,682**	112,732
Cost of revenue during idled mine period (Note (ii))	**25,664**	52,872
Cost of revenue	**120,346**	165,604

Notes:

(i) Others include royalty tax on the coal sold (2015: Others also include cost of coal procured from Chinese third party sources).

(ii) Cost of revenue during idled mine period for the year ended 31 December 2016 includes USD18,149,000 (2015: USD34,390,000) of mining contractor costs and depreciation expense related to idled plant and equipment.

6 OTHER NET INCOME/(LOSS)

	2016 USD'000	2015 USD'000
Receipt of compensation (Note(i))	**12,981**	–
Gain on disposal of subsidiaries (Note (ii))	**2,772**	–
Write-off of prepayments in relation to demobilized mining properties (Note(iii))	**(11,832)**	–
Others	**195**	(1,082)
Other net income/(loss)	**4,116**	(1,082)

Notes:

(i) Compensation received from the Government of Mongolia ("**GoM**") for waiver of certain contractual rights in relation to the termination of a Build-Operate-Transfer Concession Agreement (the "**Concession Agreement**") signed on 6 May 2013, relating to the railway base infrastructure between Ukhaa Khudag ("**UHG**") coking coal mine and Gashuun Sukhait ("**GS**") border check point of Mongolia (the "**UHG-GS Railway**").

(ii) During the year ended 31 December 2016, the Group transferred its entire investment in Tavan Tolgoi Power Plant Water Supply LLC ("**TTPPWS**"), a wholly-owned subsidiary of the Group, to a third party for consideration of MNT12.5 billion as a part of the settlement of its certain overdue obligations. The transaction was completed and share transfer registered on 8 July 2016.

(iii) As a part of efforts to decrease immediate costs being borne by the Group, some fleets under mining contract were demobilized from the Group's projects. According to contract clause, related prepayments cannot be claimed back from the mining contractor. Therefore USD11,832,000 prepayments were written off during the year ended 31 December 2016.

7 LOSS BEFORE TAXATION

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

(a) NET FINANCE COSTS:

	2016 USD'000	2015 USD'000
Interest income	(1,186)	(5,084)
Finance income	(1,186)	(5,084)
Interest on bank and other borrowings	16,379	22,276
Interest on liability component of senior notes (Note 27)	57,724	54,978
Transaction costs	2,488	4,136
Unwinding interest on – Accrued reclamation obligations (Note 29)	338	854
Net interest expense	76,929	82,244
Foreign exchange loss, net	45,776	21,862
Finance costs	122,705	104,106
Net finance costs	121,519	99,022

Note:

* No borrowing costs have been capitalised for the years ended 31 December 2016 and 2015.

(b) STAFF COSTS:

	2016 USD'000	2015 USD'000
Salaries, wages, bonuses and benefits	10,775	20,961
Retirement scheme contributions	1,382	2,322
Equity-settled share-based payment expenses (Note 28)	1,195	3,298
	13,352	26,581

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the 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.

7 LOSS BEFORE TAXATION (continued)

(c) OTHER ITEMS:

	2016 USD'000	2015 USD'000
Selling and distribution costs (Note(i))	**17,654**	8,589
Depreciation and amortisation	**32,707**	39,179
Provision for impairment losses on trade and other receivables (Note 22(b))	**(436)**	8,512
Provision for impairment loss on non-financial assets (Note (ii))	**–**	–
	(436)	8,512
Operating lease charges: minimum lease payments		
– hire of plant and machinery	**262**	705
– hire of other assets (including property rentals)	**510**	962
	772	1,667
Net gain on disposal of property, plant and equipment and assets held for sale	**(524)**	(62)
Auditors' remuneration		
– audit services	**428**	536
– tax and other services	**132**	9
	560	545
Cost of inventories (Note(iii))	**120,346**	165,604

7 LOSS BEFORE TAXATION (continued)

(c) OTHER ITEMS: (continued)

Notes:

(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 of the coking coal market's volatility and the operating losses sustained by the Group during the year ended 31 December 2016, 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 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.

– 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 2016 and the year end of 2015 followed the same mechanism based on as coal product price consensus and life-of-mine ("**LOM**") production plan.

– Coal prices

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

7 LOSS BEFORE TAXATION (continued)

(c) OTHER ITEMS: (continued)

Notes: (continued)

(ii) Impairment of non-financial assets (continued)

Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2016 is consistent with that at the year end of 2015, which was also updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate. The treatment was consistent among estimations made at the year end of 2016 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, and the contractual duration of mining rights and the selling price of the coal extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves.

– Operating costs

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

– Capital expenditure

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

– Discount rate

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

7 LOSS BEFORE TAXATION (continued)

(c) OTHER ITEMS: (continued)

Notes: (continued)

(ii) Impairment of non-financial assets (continued)

Post-tax discount rate of 20% was applied to the future cash flows projection at the year end of 2016 (2015: 20%). The directors believe that the post-tax discount rate was match with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2016, and has not resulted in the identification of an impairment loss for the year ended 31 December 2016. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2016 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
1% decrease in long-term coal price	*31,000*
1% decrease in the estimated production volume	*30,000*
1% increase in the estimated operating costs	*41,000*
One percentage point increase in post-tax discount rate	*79,000*
20% increase in the estimated capital expenditure	*15,000*

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.

(iii) Cost of inventories

Cost of inventories includes USD34,954,000 (2015: USD50,475,000) 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 USD670,000 (2015: USD862,000).

8 INCOME TAX

(a) INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME REPRESENTS:

	2016 USD'000	2015 USD'000
Current tax		
Provision for the year (Note 26(a))	**615**	647
Exemption of withholding tax obligation in prior years (Note(b)(v))	**–**	(7,647)
Deferred tax		
Origination and reversal of temporary difference (Note 26(b))	**2,035**	(9,873)
	2,650	(16,873)

(b) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING LOSS AT APPLICABLE TAX RATES:

	2016 USD'000	2015 USD'000
Loss before income tax	**(151,342)**	(204,586)
Notional tax on loss before taxation	**3,246**	(21,504)
Tax effect of non-deductible items (Note (iii))	**4,789**	(5,880)
Tax effect of non-taxable items (Note (iv))	**(5,436)**	15,819
Tax losses not recognised	**51**	2,339
Exemption of withholding tax obligation in prior years (Note (v))	**–**	(7,647)
Actual tax expenses	**2,650**	(16,873)

Notes:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate 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 2016 and 2015. 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 2016 and 2015.

(iii) Non-deductible items mainly represent the non-deductible expenses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2016 and 2015.

8 INCOME TAX (continued)

(b) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING LOSS AT APPLICABLE TAX RATES: (continued)

(iv) Non-taxable items mainly represent the net unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2016 and 2015.

(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.

9 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 USD154,248,000 (2015: USD187,763,000) and the 9,262,591,250 ordinary shares (2015: 9,262,591,250 ordinary shares) in issue during the year. In calculating basic loss per share, the weighted average number of shares outstanding during the years ended 31 December 2016 and 2015 were calculated as if the bonus elements without consideration included in the rights issue had existed from the beginning of the comparative year.

(b) DILUTED LOSS PER SHARE

For the years ended 31 December 2016 and 2015, 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 (see Note 28) are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2016 and 2015.

10 DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed are as follows:

	Year ended 31 December 2016					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	9	241	–	17	–	267
Battsengel Gotov	9	194	17	15	534	769
Non-executive directors						
Oyungerel Janchiv	9	–	–	–	–	9
Od Jambaljamts	9	–	–	–	–	9
Gankhuyag Adilbish	9	–	–	–	–	9
Independent non-executive directors						
Ochirbat Punsalmaa	0.3	–	–	–	–	0.3
Khashchuluun Chuluundorj	9	–	–	–	–	9
Unenbat Jigjid	14	–	–	–	–	14
Chan Tze Ching, Ignatius	29	–	–	–	–	29
Total	97	435	17	32	534	1,115

10 DIRECTORS' REMUNERATION (continued)

	Year ended 31 December 2015					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	16	251	328	40	–	635
Battsengel Gotov	16	205	328	37	833	1,419
Non-executive directors						
Oyungerel Janchiv	16	–	–	–	–	16
Batsaikhan Purev	15	–	–	–	–	15
Od Jambaljamts	16	–	–	–	–	16
Gankhuyag Adilbish	16	–	–	–	–	16
Independent non-executive directors						
Ochirbat Punsalmaa	21	–	–	–	–	21
Unenbat Jigjid	24	–	–	–	–	24
Chan Tze Ching, Ignatius	51	–	–	–	–	51
Total	191	456	656	77	833	2,213

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2016	2015
Directors	**1**	2
Non-directors	**4**	3
	5	5

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

The emoluments of the directors are disclosed in Note 10. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2016	2015
Basic salaries, allowances and benefits in kind	**931**	645
Discretionary bonuses	**51**	714
Retirement scheme contributions	**66**	92
Equity-settled share-based payment expenses (Note 28)	**483**	689
	1,531	2,140

The emoluments of the remaining individuals with the highest emoluments are within the following band:

	2016	2015
HKD2,500,001 to HKD3,000,000	**1**	–
HKD3,000,001 to HKD3,500,000	**3**	–
HKD5,000,001 to HKD5,500,000	**–**	1
HKD5,500,001 to HKD6,000,000	**–**	2

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

Note:
These represent the estimated value of share options granted to the key management under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(q)(ii) and, in accordance with that policy, included adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "***Share Option Scheme***" in the Directors' Report and Note 28.

12 OTHER COMPREHENSIVE INCOME

	2016 USD'000	2015 USD'000
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**117,812**	(3,822)
– net investment	**(166,897)**	41,646
Surplus on revaluation of plants, buildings, and machinery and equipment:	**341,819**	–
Reclassification adjustments for amounts transferred to profit or loss:		
– disposal of net investment	**1,581**	(15,192)
	294,315	22,632

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2016 and 2015.

13 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.

Notes to Consolidated Financial Statements

14 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Cost:						
At 1 January 2015	237,034	156,064	38,946	4,592	280,951	717,587
Additions	–	1,521	621	23	19,344	21,509
Transfer to assets held for sale	(55)	–	–	–	–	(55)
Disposals	(4,033)	(2,695)	(1,404)	(322)	–	(8,454)
Exchange adjustments	(12,509)	(7,933)	(2,143)	(277)	(15,773)	(38,635)
At 31 December 2015	220,437	146,957	36,020	4,016	284,522	691,952
Representing:						
Cost	220,437	146,957	36,020	4,016	284,522	691,952
Adoption of revaluation – 2015	–	–	–	–	–	–
At 1 January 2016	**220,437**	**146,957**	**36,020**	**4,016**	**284,522**	**691,952**
Additions	**–**	**78**	**368**	**648**	**20,096**	**21,190**
Transfer to assets held for sale	**(141)**	**–**	**–**	**–**	**–**	**(141)**
Disposals	**(1,141)**	**(276)**	**(4,709)**	**(421)**	**–**	**(6,547)**
Surplus on revaluation	**228,507**	**189,744**	**–**	**–**	**–**	**418,251**
Exchange adjustments	**(43,680)**	**(28,310)**	**(6,540)**	**(866)**	**(59,155)**	**(138,551)**
At 31 December 2016	**403,982**	**308,193**	**25,139**	**3,377**	**245,463**	**986,154**
Representing:						
Cost	**–**	**–**	**25,139**	**3,377**	**245,463**	**273,979**
Adoption of revaluation – 2016	**403,982**	**308,193**	**–**	**–**	**–**	**712,175**
Accumulated amortisation and depreciation:						
At 1 January 2015	23,005	41,783	24,733	3,695	29,445	122,661
Charge for the year	9,658	16,807	7,262	290	4,708	38,725
Transfer to assets held for sale	(1)	–	–	–	–	(1)
Written back on disposals	(243)	(1,352)	(1,110)	(283)	–	(2,988)
Exchange adjustments	(842)	(2,514)	(1,445)	(674)	(1,684)	(7,159)
At 31 December 2015	31,577	54,724	29,440	3,028	32,469	151,238
Representing:						
Accumulated depreciation	31,577	54,724	29,440	3,028	32,469	151,238
Adoption of revaluation – 2015	–	–	–	–	–	–
At 1 January 2016	**31,577**	**54,724**	**29,440**	**3,028**	**32,469**	**151,238**
Charge for the year	**8,957**	**14,019**	**3,987**	**254**	**5,069**	**32,286**
Transfer to assets held for sale	**(10)**	**–**	**–**	**–**	**–**	**(10)**
Written back on disposals	**(129)**	**(146)**	**(3,456)**	**(336)**	**–**	**(4,067)**
Adjustment on revaluation	**24,531**	**39,312**	**–**	**–**	**–**	**63,843**
Exchange adjustments	**(7,221)**	**(12,773)**	**(5,910)**	**(586)**	**(7,110)**	**(33,600)**
At 31 December 2016	**57,705**	**95,136**	**24,061**	**2,360**	**30,428**	**209,690**
Representing:						
Accumulated depreciation	**–**	**–**	**24,061**	**2,360**	**30,428**	**56,849**
Adoption of revaluation – 2016	**57,705**	**95,136**	**–**	**–**	**–**	**152,841**
Carrying amount:						
At 31 December 2016	**346,277**	**213,057**	**1,078**	**1,017**	**215,035**	**776,464**
At 31 December 2015	188,860	92,233	6,580	988	252,053	540,714

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Notes:

(a) Majority part of the Group's property, plant and equipment are located in Mongolia.

(b) Mining properties as at 31 December 2016 include stripping activity assets carrying book value of USD190,400,000 (2015: USD225,233,000) and application fee for the mining rights of USD651,000 (2015: USD770,000) in relation to the Group's mine deposits.

(c) The addition of mining properties for the year ended 31 December 2016 include the increase in reclamation provision of USD2,805,000(2015: increase in reclamation provision of USD454,000) (see Note 29).

(d) As at 31 December 2016, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2016 is approximately USD4,855,000 (2015: USD6,467,000). The Directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.

(e) Fair value measurement of property, plant and machinery

(i) Fair value hierarchy

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

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

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

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

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(i) Fair value hierarchy (continued)

	Fair value as at 31 December 2016 USD'000	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Buildings and plants	346,277	–	–	346,277
Machinery and equipment	213,057	–	–	213,057
Buildings and plants , machinery and equipment under construction	77,544	–	–	77,544
Total	636,878	–	–	636,878

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

As at 31 December 2016, buildings and plants as well as machinery and equipment were revalued and such valuation was carried out by a firm of external appraisers, Duff and Phelps Corporation, who has among their staff fellows of the American Society of Appraisers, Royal Institute of Charted Surveyors, Chartered Certified Accountant, Chartered Financial Analyst and Financial Risk Manager with recent experience in the mining property valuation worldwide including valuation of coal mines. The Group's property manager and the chief financial officer have discussion with the appraisers on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

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

The markets approach may not be used to value specialized property due to the fact that active market for it does not exist. As required by International Valuation Standards ("**IVS**"), depreciated replacement cost approach is used where there is insufficient market data to arrive at market value by means of market-based evidence.

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(i) Fair value hierarchy (continued)

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

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

- Reproduction cost new ("**RCN**") estimation for the buildings and structures were calculated using indexing method;
- Indices were applied to the historical cost. The indices were obtained from recognised sources such as: Chinese indices (Rider Levett Buckhall), FM Global, BMT Construction costs, Bureau of Labor Statistics of the Department of Labor, AUS Consultants, etc.;
- Physical depreciation was applied using straight line method based on the economic useful life of production, auxiliary, administrative facilities, land improvements, transfer devices;
- There was no any functional obsolescence revealed.

– Machinery and equipment:

- Machinery RCN was estimated based on the actual machinery quotations received from purchase department of the Company. These estimates were adjusted with installation expenses, engineering expenses and interest during construction. Estimated RCN was compared to indexed historical cost and considered to be relevant. Additionally, unitary reproduction cost (USD/kg of equipment weight) of major and most expensive equipment appraised such as crushers, screens, spirals and flotation cells was compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Processing plant modules unitary cost parameter (USD/ton of processing capacity) is in the middle of the range of recently constructed coal processing plants;
- Engineering and general administrative expenses estimated as average of several recently constructed coal mines and equal to 7% of RCN;
- Interest during Construction estimated equal to 7.8% of RCN based on the actual interest paid during Processing Plant module 1 construction.

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(ii) Information about Level 3 fair value measurements

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

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

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

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

	2016 **USD'000**	2015 USD'000
Buildings and plants	**142,301**	188,860
Machinery and equipment	**62,625**	92,233
Buildings and plants, machinery and equipment under construction (Note 15)	**41,774**	52,131
	246,700	333,224

15 CONSTRUCTION IN PROGRESS

	2016 USD'000	2015 USD'000
At 1 January	**55,164**	58,421
Additions	**12**	184
Disposal	**(2,806)**	(443)
Revaluation gain	**35,770**	–
Exchange adjustments	**(8,164)**	(2,998)
At 31 December	**79,976**	55,164

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

16 LEASE PREPAYMENTS

	2016 USD'000	2015 USD'000
Cost:		
At 1 January	**78**	83
Exchange adjustments	**(15)**	(5)
At 31 December	**63**	78
Accumulated amortisation:		
At 1 January	**10**	10
Charge for the year	**1**	2
Exchange adjustments	**(1)**	(2)
At 31 December	**10**	10
Net book value:	**53**	68

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in Mongolia, with original lease period from 15 years to 60 years.

17 INTANGIBLE ASSETS

	Acquired mining right USD'000	Software USD'000	Total USD'000
Cost:			
At 1 January 2015	701,557	4,738	706,295
Exchange adjustments	–	(263)	(263)
At 31 December 2015	701,557	4,475	706,032
At 1 January 2016	**701,557**	**4,475**	**706,032**
Exchange adjustments	**–**	**(887)**	**(887)**
At 31 December 2016	**701,557**	**3,588**	**705,145**
Accumulated amortisation and impairment loss:			
At 1 January 2015	195,203	3	195,206
Amortisation charge for the year	–	452	452
Exchange adjustments	–	(6)	(6)
At 31 December 2015	195,203	449	195,652
At 1 January 2016	**195,203**	**449**	**195,652**
Amortisation charge for the year	**–**	**420**	**420**
Exchange adjustments	**–**	**(148)**	**(148)**
At 31 December 2016	**195,203**	**721**	**195,924**
Carrying amount:			
At 31 December 2016	**506,354**	**2,867**	**509,221**
At 31 December 2015	506,354	4,026	510,380

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

18 INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong	1 share of HKD1 each	100%	–	Investment holding
Mongolian Coal Corporation S.à.r.l	Luxembourg	6,712,669 shares of USD10 each	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	19,800,000 shares of USD1 each	–	100%	Investment holding
Energy Resources LLC	Mongolia	160,850,185 shares of USD2 each	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia	15,300,000 shares of MNT1,000 each	–	100%	Railway project management
Transgobi LLC	Mongolia	9,122,642 shares of MNT1,000 each	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia	5,795,521 shares of MNT1,000 each	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia	374,049,073 shares of MNT1,000 each	–	100%	Coal plant management
Ukhaa Khudag Water Supply LLC	Mongolia	96,016,551 shares of MNT1,000 each	–	100%	Water exploration and supply management
United Power LLC	Mongolia	100,807,646 shares of MNT1,000 each	–	100%	Power supply project management
Gobi Road LLC	Mongolia	50,000 shares of MNT1,000 each	–	100%	Construction of road

18 INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company: Direct	Equity attributable to the Company: Indirect	Principal activities
Khangad Exploration LLC	Mongolia	34,532,399 shares of USD1 each	–	100%	Exploration and development of coal mine
Baruun Naran S.à.r.l	Luxembourg	24,918,394 shares of EUR1 each	–	100%	Investment holding
Energy Resources Mining LLC	Mongolia	72,001,000 shares of USD1 each	–	100%	Mining and technical management
Tianjin Zhengcheng Import and Export Trade Co., Ltd.	China	2,035,998 shares of RMB1 each	–	51%	Trading of coals and machinery equipment

19 INTEREST IN ASSOCIATES

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company: Group's effective interest	Equity attributable to the Company: Held by a subsidiary	Principal activity
International Technical College LLC	Incorporated	Mongolia	913,500 shares of MNT 1,000 each	33.33%	33.33%	Technical education service (Note 1)
Gashuun Sukhait Road LLC	Incorporated	Mongolia	100,000 shares of MNT 1,000 each	40.00%	40.00%	Paved road maintenance service (Note 2)

Note 1: The investment in International Technical College LLC enables the Group to be equipped with the long-term availability of skilled technical workforce.

Note 2: The principal activities of Gashuun Sukhait Road LLC are supplying safety, readiness, protection, repair and maintenance service for paved road operations from UHG to GS. The investment in Gashuun Sukhait Road LLC enables the Group to monitor the usage situation of the aforementioned paved road.

19 INTEREST IN ASSOCIATES (continued)

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	International Technical College LLC		Gashuun Sukhait Road LLC	
	2016	2015	**2016**	2015
	USD'000	USD'000	**USD'000**	USD'000
Gross amounts of the associates:				
Current assets	**2**	4	**505**	937
Non-current assets	**55**	83	**45**	12
Current liabilities	**9**	13	**510**	899
Equity	**48**	74	**40**	50
Revenue	**3**	22	**4,044**	2,669
(Loss)/profit from continuing operations	**(14)**	(44)	**–**	4
Total comprehensive income	**(14)**	(44)	**–**	4
Reconciled to the Group's interests in the Associates:				
Gross amounts of net assets of the associate	**48**	75	**40**	50
Group's effective interest	**33%**	33%	**40%**	40%
Group's share of net assets of the associate	**16**	25	**16**	20
Carrying amount in the consolidated financial statements	**16**	25	**16**	20

20 OTHER NON-CURRENT ASSETS

	2016 USD'000	2015 USD'000
Prepayments in connection with construction work, equipment purchases and others	**60,499**	48,813
Financial assets available-for-sale (Note (i))	**1,418**	1,769
	61,917	50,582

Note:

(i) On 14 January 2011, the Group invested in International Medical Centre LLC (the "**International Medical Centre**") and had 25.5% interest in International Medical Centre, an entity incorporated in Mongolia with issued and paid up capital of MNT22,522,500,000 (16,500,000 shares of MNT1,365 each). The principal activities of International Medical Centre are the provision of health care, diagnostic and treatment services. As the capital injection by other investors in January 2014, interest had by the Group in International Medical Centre changed to 16.46%. With no significant influence thereafter, the Group accounted for its interest in International Medical Centre as financial assets available-for-sale at using the cost method in the consolidated financial statements.

21 INVENTORIES

(a) INVENTORIES IN THE CONSOLIDATED BALANCE SHEET COMPRISE:

	2016 USD'000	2015 USD'000
Coal	**37,606**	39,434
Materials and supplies	**15,012**	12,517
	52,618	51,951
Less: Provision on coal inventories	**(10,437)**	(6,122)
	42,181	45,829

21 INVENTORIES (continued)

(b) THE ANALYSIS OF THE AMOUNT OF INVENTORIES RECOGNISED AS AN EXPENSE AND INCLUDED IN PROFIT OR LOSS IS AS FOLLOWS:

	2016 USD'000	2015 USD'000
Carrying amount of inventories sold	**90,367**	106,610
Write down of inventories	**4,315**	6,122
	94,682	112,732

As at 31 December 2016, certain of the Group's borrowings were secured by the Group's coal inventory of USD26,358,000 (31 December 2015: USD33,276,000) (see Note 24).

During the year ended 31 December 2016, USD4,315,000 (year ended 31 December 2015: USD6,122,000) has been recognised as provision for coal inventories and expensed in profit or loss as cost of revenue. This provision was due to the decrease in the estimated net realisable value of coal products as a result of decreasing selling price.

22 TRADE AND OTHER RECEIVABLES

	2016 USD'000	2015 USD'000
Trade receivables (Note (a))	**11,807**	1,976
Other receivables (Note (c))	**46,944**	92,317
	58,751	94,293
Less: allowance for doubtful debts (Note (b))	**–**	(436)
	58,751	93,857

(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:

	2016 USD'000	2015 USD'000
Within 90 days	**11,786**	631
90 to 180 days	**–**	734
180 to 365 days	**–**	175
Over 365 days	**21**	–
	11,807	1,540

22 TRADE AND OTHER RECEIVABLES (continued)

(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 (Note 2(k)(i)).

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

	2016 USD'000	2015 USD'000
At 1 January	**436**	10,135
Provision for impairment losses	–	8,512
Amounts reversed	**(436)**	–
Amounts written off	–	(18,211)
At 31 December	–	436

As at 31 December 2016, no allowance for doubtful debts (2015: USD436,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

Receivables that were past due but not impaired relate to a number of independent customers that have good track record with the Group, or had reached payment schedules with the Group before the authorised issue of this financial report. Therefore, management anticipates full recovery of its remaining outstanding trade receivables; therefore, no further loss provisions have been recorded in respect of the Group's trade receivables.

22 TRADE AND OTHER RECEIVABLES (continued)

(c) OTHER RECEIVABLES

	2016 USD'000	2015 USD'000
Amounts due from related parties (Note (i))	1	456
Prepayments and deposits (Note (ii))	29,623	25,462
VAT and other tax receivables (Note (iii))	16,542	20,752
Amounts due from the GoM in relation to the termination of the Concession Agreement (Note (iv))	–	41,952
Others (Note (v))	778	3,695
	46,944	92,317

Notes:

(i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 33(a)).

(ii) At 31 December 2016 and 2015, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Mongolian Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts. Further details are stated in Note 31(b).

(iv) It represented the compensation amount receivable from the GoM upon the termination of the Concession Agreement, which was settled by issuance of MNT denominated promissory notes by the Ministry of Finance ("**MOF**") to the Group.

(v) At 31 December 2016, this item mainly represented miscellaneous receivables due from other companies. At 31 December 2015, this item mainly represented the interest receivables on deposit.

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

23 CASH AND CASH EQUIVALENTS

	2016 USD'000	2015 USD'000
Cash in hand	**5**	13
Cash at bank	**12,263**	50,689
Cash at bank and in hand	**12,268**	50,702
Less: time deposits with original maturity over three months	**–**	(50,000)
Cash and cash equivalents in the consolidated cash flow statement	**12,268**	702

As at 31 December 2016, certain of the Group's borrowings were secured by the Group's cash at bank of USD1,800 (31 December 2015: USD39,000) (see Note 24).

24 BORROWINGS

(a) THE GROUP'S LONG-TERM INTEREST-BEARING BORROWINGS COMPRISE:

	2016 USD'000	2015 USD'000
Bank loan		
– secured	**93,000**	144,818
– unsecured	**–**	40,000
Less: Current portion of long-term borrowings less amortised transaction costs	**(93,000)**	(182,631)
Less: Unamortised transaction costs	**–**	(2,187)
	–	–

As at 31 December 2016, the Group's current portion of long-term interest-bearing borrowings under the BNP and ICBC Facility of USD93,000,000 (31 December 2015: USD93,000,000), bearing interest of LIBOR + 6.00% per annum, were secured by the Group's cash at bank (see Note 23) and inventory (see Note 21).

As stated in Note 2(b), the BNP and ICBC Facility is under the Debt Restructuring negotiated by the Group with the Lenders.

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

	2016 USD'000	2015 USD'000
Within 1 year or on demand	**93,000**	184,818

24 BORROWINGS (continued)

(b) THE GROUP'S SHORT-TERM INTEREST-BEARING BORROWINGS COMPRISE:

	2016 USD'000	2015 USD'000
Bank loans		
– Unsecured	–	15,000
Current portion of long-term borrowings		
– Bank loan	93,000	184,818
Less: Unamortised transaction costs	–	(2,187)
	93,000	197,631

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 2016.

25 TRADE AND OTHER PAYABLES

	2016 USD'000	2015 USD'000
Trade payables (Note (i))	104,579	39,287
Receipts in advance (Note (ii))	41,038	40,016
Amounts due to related parties (Note (iii))	14,680	11,565
Payables for purchase of equipment	2,643	2,691
Security deposit on construction work	355	978
Interest payable (Note (iv))	81,846	18,961
Other taxes payables	8,777	3,310
Promissory notes (Note (v))	72,216	72,230
Others (Note (vi))	16,062	24,391
	342,196	213,429

25 TRADE AND OTHER PAYABLES (continued)

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:

	2016 **USD'000**	2015 USD'000
Within 90 days	**27,458**	14,122
90 to 180 days	**3,831**	2,153
180 to 365 days	**2,514**	14,019
Over 365 days	**70,776**	8,993
	104,579	39,287

Based on the service agreement reached with mining contractor on 20 November 2015, settlement of USD78,465,000 payables as at 31 December 2015 would be deferred to the year ending 31 December 2017 and repaid on a 12-month average basis. Accordingly, USD78,465,000 balance was presented as Other Non-current Liabilities as at 31 December 2015.

(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 (see Note 33(a)).

(iv) Interest payables as at 31 December 2016 include 2% default interest calculated on the BNP and ICBC Facility starting from 22 March 2016, accrued and unpaid coupon under the Senior Notes and accrued and unpaid interest payables under the promissory notes issued to QGX. The interest and coupon payables are included under the Debt Restructuring negotiated by the Group with the Lenders, the Noteholders and QGX.

(v) On 27 November 2012, the Company issued two promissory notes to QGX each in the amount of USD52,500,000, and bear interest at a rate of 8.0% per annum as at 31 December 2016. The original maturity date was 22 November 2013 and it has been extended several times since then, the latest extension of the maturity date of the two promissory notes was granted until 15 April 2016. As stated in Note 2(b), the promissory notes are under the Debt Restructuring negotiated by the Group with QGX.

(vi) Others represent 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.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) TAX PAYABLE IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION REPRESENTS:

	2016 USD'000	2015 USD'000
At 1 January	**144**	68
Provision for the year (Note 8(a))	**615**	647
Offsetting with other tax receivables	**(277)**	(321)
Income tax paid	**(3)**	(404)
Exchange adjustments	**(210)**	154
At 31 December	**269**	144

(b) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Revaluation of other properties	Tax losses USD'000	Unrealised profits on intra-group transactions USD'000	Depreciation and amortisation USD'000	Unrealised foreign exchange differences on long-term borrowings USD'000	Allowance for doubtful debts USD'000	Fair value adjustments in relation to the Acquisition USD'000	Total USD'000
Deferred tax arising from:								
At 1 January 2015	–	21,688	(147)	5,412	7,679	2,380	(100,684)	(63,672)
Credited/(charged) to profit or loss (Note 8(a))	–	14,440	(657)	888	(3,107)	(1,691)	–	9,873
Credited/(charged) to reserves	–	(1,389)	94	(336)	(386)	(38)	–	(2,055)
At 31 December 2015	–	34,739	(710)	5,964	4,186	651	(100,684)	(55,854)
At 1 January 2016	–	34,739	(710)	5,964	4,186	651	(100,684)	(55,854)
Credited/(charged) to profit or loss (Note 8(a))	–	662	109	1,200	(3,897)	(109)	–	(2,035)
Credited/(charged) to reserves	(48,359)	(6,952)	142	(946)	(289)	(542)	–	(56,946)
At 31 December 2016	(48,359)	28,449	(459)	6,218	–	–	(100,684)	(114,835)

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED (continued)

	2016 USD'000	2015 USD'000
Net deferred tax assets recognised in the consolidated balance sheet	**35,341**	46,629
Net deferred tax liabilities recognised in the consolidated balance sheet	**(150,176)**	(102,483)
	(114,835)	(55,854)

(c) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD406,116,000 as at 31 December 2016 (2015: USD341,188,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the new amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated.

Expiry of unrecognised tax losses of Group entities located in Mongolia:

	2016 USD'000	2015 USD'000
Year of expiry		
2016	–	7,646
2017	**10,666**	13,303
2018	**465**	31
2019	**100**	125
	11,231	21,105

In relation to group entities located in the jurisdictions other than Mongolia, the tax losses amounting to USD394,885,000 as at 31 December 2016 do not expire under current tax legislations (31 December 2015: USD320,083,000).

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(d) DEFERRED TAX LIABILITIES NOT RECOGNISED

At 31 December 2016, temporary differences relating to the undistributed profits of subsidiaries amounted to nil (2015: nil). Deferred tax liabilities of nil (2015: nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27 SENIOR NOTES

	USD'000
At 1 January 2015	595,906
Interest charged during the year (Note 7(a))	54,978
Interest payable	(53,250)
At 31 December 2015	597,634
At 1 January 2016	597,634
Interest charged during the year (Note 7(a))	57,724
Interest payable	(55,666)
At 31 December 2016	599,692

On 29 March 2012, the Company issued the 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 bear interest at 8.875% per annum, payable semi-annually in arrears, and are due to be redeemed in 2017. As stated in Note 2(b), the Senior Notes are under the Debt Restructuring negotiated by the Group with the Noteholders.

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.à.r.l. owned by Mongolian Coal Corporation Limited. The Senior Notes are initially guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Energy Resources Corporation LLC, Energy Resources LLC, 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.

27 SENIOR NOTES (continued)

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 2016 was nil (2015: 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.

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme ("**Share Option Scheme**") which was adopted on 17 September 2010 whereby the board of directors of the Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group.

Under the Share Option Scheme, the Company may grant options to employees and directors, suppliers, customers and professional advisers of the Group to subscribe for shares of the Company. The exercise price of the options is determined by the board of directors of the Company at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and will expire on 12 October 2020.

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) THE TERMS AND CONDITIONS OF THE GRANTS ARE AS FOLLOWS:

Grant Date	Number of options '000	Vesting conditions	Contractual life of options
12 October 2011	8,800	12 October 2011 to 12 October 2012	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2013	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2014	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2015	12 October 2011 to 12 October 2019
28 November 2012	5,688	28 November 2012 to 28 November 2013	28 November 2012 to 28 November 2020
28 November 2012	5,688	28 November 2012 to 28 November 2014	28 November 2012 to 28 November 2020
28 November 2012	11,374	28 November 2012 to 28 November 2015	28 November 2012 to 28 November 2020
10 June 2015	38,688	10 June 2015	10 June 2015 to 10 June 2020
10 June 2015	38,688	10 June 2015 to 10 June 2016	10 June 2015 to 10 June 2020
10 June 2015	38,687	10 June 2015 to 10 June 2017	10 June 2015 to 10 June 2020
10 June 2015	38,687	10 June 2015 to 10 June 2018	10 June 2015 to 10 June 2020
Total share options	212,700		

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) THE MOVEMENT OF THE NUMBER AND WEIGHTED AVERAGE EXERCISE PRICES OF SHARE OPTIONS ARE AS FOLLOWS:

	2016		2015	
	Weighted average exercise Price HKD	**Number of options '000**	Weighted average exercise Price HKD	Number of options '000
Outstanding at 1 January (Note (i))	**1.21**	**225,210**	3.09	70,735
Granted during the year	**–**	**–**	0.45	154,750
Forfeited during the year	**0.45**	**(8,000)**	4.53	(275)
Outstanding at 31 December	**1.50**	**217,210**	1.21	225,210
Exercisable at 31 December	**2.01**	**145,960**	2.09	102,530

Note:

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

A total of 48,100,000 Options are outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise price and the number of the Shares falling to be issued under the outstanding Share Options have been adjusted pursuant to Clause 11 of the Share Option Scheme (the "**Option Adjustments**"), with effect from 1 January 2015, and such adjustments have been reviewed and confirmed by the independent financial adviser of the Company, Somerley Capital Limited, as follows:

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) THE MOVEMENT OF THE NUMBER AND WEIGHTED AVERAGE EXERCISE PRICES OF SHARE OPTIONS ARE AS FOLLOWS (continued):

Date of grant	Exercise period	Original Subscription Price (HKD)	Original number of Shares subject to Options	Adjusted Subscription Price (HKD)	Adjusted number of Shares subject to Options	Basis of additional Shares pursuant to the Option Adjustments
12 October 2011	12 October 2012 to 12 October 2019 12 October 2013 to 12 October 2019 12 October 2014 to 12 October 2019 12 October 2015 to 12 October 2019	6.66	26,350,000	4.53	38,750,000	8 additional Shares for every 17 Shares subject to Options
28 November 2012	28 November 2013 to 12 October 2020 28 November 2014 to 12 October 2020 28 November 2015 to 12 October 2020	3.92	21,750,000	2.67	31,985,294	8 additional Shares for every 17 Shares subject to Options

The options outstanding at 31 December 2016 had an exercise price of HKD4.53 or HKD2.67 or HKD0.445 (2015: HKD4.53 or HKD2.67 or HKD0.445) per share and a weighted average remaining contractual life of 3.4 years (2015: 4.4 years).

(c) FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS (continued)

Fair value of share options and assumptions:

	10 June 2015	28 November 2012	12 October 2011
Fair value at measurement date	HKD0.160~ HKD0.220	HKD1.8155~ HKD2.0303	HKD3.3793~ HKD3.7663
Share price	HKD0.445	HKD3.92	HKD6.66
Exercise price	HKD0.445	HKD3.92	HKD6.66
Expected life	5 years	4.5-5.5 years	4.5-6 years
Risk-free interest rate	1.19%	0.249%~0.298%	0.755%~1.054%
Expected volatility	60%	57.71%~59.43%	61.87%~63.43%
Expected dividends	–	–	–

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

29 PROVISIONS

	2016 USD'000	2015 USD'000
Accrued reclamation obligations	**13,585**	13,567
Others	**1,500**	1,500
	15,085	15,067
Less: Current portion	**(1,500)**	(1,500)
	13,585	13,567

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the end of each reporting period, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2016 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	2016 USD'000	2015 USD'000
At 1 January	**13,567**	12,995
Increase for reassessment of estimated costs (Note 14(c))	**2,805**	454
Accretion expense (Note 7(a))	**338**	854
Exchange adjustments	**(3,125)**	(736)
At 31 December	**13,585**	13,567

Accrued reclamation costs change during the years ended 31 December 2016 and 2015 result from the reassessment of estimated costs.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) MOVEMENTS IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital USD'000 (Note 30(c))	Share premium USD'000 (Note 30(e)(i))	Other reserve USD'000 (Note 30(e)(ii))	Accumulated losses USD'000	Total equity USD'000
At 1 January 2015		92,626	748,527	15,956	(232,526)	624,583
Changes in equity for 2015:						
Total comprehensive income		–	–	–	(74,562)	(74,562)
Equity-settled share-based transactions	28	–	–	3,298	–	3,298
At 31 December 2015		92,626	748,527	19,254	(307,088)	553,319
At 1 January 2016		**92,626**	**748,527**	**19,254**	**(307,088)**	**553,319**
Changes in equity for 2016:						
Total comprehensive income		**–**	**–**	**–**	**(67,781)**	**(67,781)**
Equity-settled share-based transactions	28	**–**	**–**	**1,195**	**–**	**1,195**
At 31 December 2016		**92,626**	**748,527**	**20,449**	**(374,869)**	**486,733**

(b) DIVIDENDS

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2016.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) SHARE CAPITAL

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 ordinary shares of USD0.01 each. On 18 May 2010, MCS Mining Group Limited acquired its initial share of one share of USD0.01. By an ordinary resolution passed at the annual general meeting held on 23 August 2010, the Company's authorised ordinary share capital was increased to USD60,000,000 by the creation of an additional 5,995,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

(d) ISSUANCE OF SHARES UNDER RIGHTS ISSUE

On 29 December 2014, 5,557,554,750 ordinary shares were issued pursuant to the rights issue on the basis of three rights shares for every two existing shares at HKD0.28 each. Total net consideration amounted to USD195,453,000, of which USD55,576,000 was credited to share capital and the remaining proceeds of USD139,877,000 was credited to the share premium account. The Company's authorised ordinary share capital was increased to USD150,000,000 by the creation of an additional 9,000,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2016 and 2015 (Note 30(e)(ii)).

Authorised:

	2016		2015	
	No. of shares '000	**USD'000**	No. of shares '000	USD'000
Ordinary shares	**15,000,000**	**150,000**	15,000,000	150,000

Ordinary shares, issued and fully paid:

	2016		2015	
	No. of shares '000	**USD'000**	No. of shares '000	USD'000
Ordinary shares	**9,262,591**	**92,626**	9,262,591	92,626

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) NATURE AND PURPOSE OF RESERVES

(i) SHARE PREMIUM

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) OTHER RESERVE

The other reserve comprises the following:

- the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and

- the portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(q)(ii).

(iii) EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's operations to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(v).

(iv) PROPERTY REVALUATION RESERVE

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in Note 2(h).

The property revaluation reserve of the group is distributable to the extent of USD341,819,000 (2015: nil).

(f) DISTRIBUTABILITY OF RESERVES

Pursuant to the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and reserved) of the Cayman Islands, share premium of the Company is distributable to the shareholders. Other than the share premium, there is no other amount available for distribution to equity shareholders of the Company as at 31 December 2016.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(g) CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2016 was 43.9% (2015: 57.0%).

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) CREDIT RISK

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

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

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) CREDIT RISK (continued)

Trade receivables are presented net of allowance for doubtful debts. In order to minimise the credit risk, the credit management committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit management committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes an allowance for doubtful debts that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the balance sheet date, the Group believes that adequate allowance for doubtful debts has been made in the consolidated financial statements. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as two customers accounted for 99.8% (2015: 90.5%) of the total trade receivables as at 31 December 2016.

The Group closely monitors the amount due from related parties.

VAT receivables include amounts that have been accumulated to date in various subsidiaries. According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties payable to the GoM against VAT amounts receivable from the GoM. In July 2009, the Mongolian Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT and any VAT amounts impacted is prospective from the effective date of the law on 16 August 2009. On 10 November 2010, the GoM defined finished mineral products as products which qualify for claiming back VAT. During the year ended 31 December 2016, the Group offset current income tax and other tax payable, air pollution fee, royalty tax payable and payables due to suppliers owing of USD1,471,000, USD550,000, USD1,691,000 and USD4,780,000, respectively, against its VAT receivable balance. Based on currently available information, the Group anticipates full recoverability of amounts due on account primarily relating to finished mineral products at 31 December 2016. Verification by the Mongolian Taxation Authority of the collectability of the funds is conducted on a regular basis and any outstanding VAT receivable amounts at 31 December 2016 will be available to the Group to offset future taxes and royalty tax or will be refunded by the Mongolian Taxation Authority.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 22.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) FOREIGN CURRENCY EXCHANGE RISK

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. The currencies giving rise to this risk are primarily RMB, USD and HKD.

(i) EXPOSURE TO CURRENCY RISK

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in United States Dollars)					
	2016			2015		
	Renminbi USD'000	**United States Dollars USD'000**	**Hong Kong Dollars USD'000**	Renminbi USD'000	United States Dollars USD'000	Hong Kong Dollars USD'000
Trade and other receivables	**8,158**	**24,472**	**187**	2,103	–	–
Cash at bank and in hand	**1,375**	**14**	**3**	9	50,141	–
Trade and other payables	**(17,155)**	**(100,881)**	**(6)**	(9,519)	(110,470)	(588)
Short-term borrowings and current portion of long-term borrowings	**–**	**–**	**–**	–	(101,818)	–
Long-term payables	**–**	**(43,884)**	**–**	–	–	–
Net exposure arising from Recognised assets and liabilities	**(7,622)**	**(120,279)**	**184**	(7,407)	(162,147)	(588)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) FOREIGN CURRENCY EXCHANGE RISK (continued)

(ii) SENSITIVITY ANALYSIS

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(v) as at the respective balance sheet dates would decrease/(increase) loss after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

Loss/profit for the year	**2016** **USD'000**	2015 USD'000
5% increase in RMB	**79**	(284)
5% decrease in RMB	**(79)**	284
5% increase in USD	**(4,199)**	(6,095)
5% decrease in USD	**4,199**	6,095
5% increase in HKD	**9**	(29)
5% decrease in HKD	**(9)**	29

(d) INTEREST RATE RISK

The Group's interest rate risk arises primarily from short-term borrowings, long-term borrowings and convertible bond. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the profile of the Group's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the balance sheet date. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 24.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) INTEREST RATE RISK (continued)

	2016 USD'000	2015 USD'000
Net fixed rate borrowings:		
Borrowings	–	55,000
Senior notes	599,692	597,634
Promissory notes	72,216	72,230
Less: Bank deposits	–	(50,000)
	671,908	674,864
Net floating rate borrowings:		
Borrowings	93,000	142,631
Less: Bank deposits	(12,263)	(689)
	80,737	141,942
Total net borrowings:	752,645	816,806

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and decreased/increased retained earnings by approximately USD820,000 (31 December 2015: USD1,737,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's loss after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. The Company's objective is to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2016 Contractual undiscounted cash outflow					
	Within 1 year USD'000	**After 1 year but within 2 years USD'000**	**After 2 years but within 5 years USD'000**	**After 5 years USD'000**	**Total contractual undiscounted cash flow USD'000**	**Balance sheet carrying amount USD'000**
Borrowings (Note 24)	**93,000**	**–**	**–**	**–**	**93,000**	**93,000**
Trade and other payables (Note 25)	**367,074**	**–**	**–**	**–**	**367,074**	**342,196**
Senior notes (Note 27)	**600,000**	**–**	**–**	**–**	**600,000**	**599,692**
	1,060,074	**–**	**–**	**–**	**1,060,074**	**1,034,888**

	2015 Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 24)	199,818	–	–	–	199,818	197,631
Trade and other payables (Note 25)	218,930	–	–	–	218,930	213,429
Senior notes (Note 27)	53,250	626,625	–	–	679,875	597,634
	471,998	626,625	–	–	1,098,623	1,008,694

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(f) FAIR VALUE MEASUREMENT

(i) FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

FAIR VALUE HIERARCHY

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

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

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

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

Fair value of the Group's financial instruments, including redemption option embedded in senior notes and conversion option embedded in convertible notes which is categorised into Level 3 of the fair value hierarchy was valued by the directors with the reference to a valuation report issued by an external appraiser.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(f) FAIR VALUE MEASUREMENT (continued)

(i) FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

	Fair value at 31 December 2016 USD'000	Fair value measurements as at 31 December 2016 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Assets				
– Redemption option embedded in senior notes	–	–	–	–

	Fair value at 31 December 2015 USD'000	Fair value measurements as at 31 December 2015 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Assets				
– Redemption option embedded in senior notes	–	–	–	–

During the year ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date in which they occur.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(f) FAIR VALUE MEASUREMENT (continued)

(i) FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

	Valuation techniques	Significant unobservable inputs	Expected volatility
Redemption option embedded in senior notes	Binomial model	Expected volatility	38%

The fair value of redemption option embedded in senior notes is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2016, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's loss by USD100,000.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2016 USD'000	2015 USD'000
Redemption option embedded in senior notes:		
At 1 January	–	–
Changes in fair value recognised in profit or loss during the period	–	–
At 31 December	–	–

The changes in fair value arising from the remeasurement of the redemption option and conversion option embedded in senior notes are presented in "finance costs/income" in the consolidated statement of comprehensive income.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(f) FAIR VALUE MEASUREMENT (continued)

(ii) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT OTHER THAN FAIR VALUE

In respect of cash and cash equivalents, trade and other receivables, and trade and other payables, the carrying amounts approximate fair value due to the relatively short-term nature of these financial instruments.

In respect of borrowings, the carrying amounts are not materially different from their fair values as at 31 December 2016. The fair values of borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The aggregate carrying values of other financial liabilities carried on the consolidated balance sheet are not materially different from their fair values as at 31 December 2016.

32 COMMITMENTS AND CONTINGENCIES

(a) CAPITAL COMMITMENTS

Capital commitments outstanding at respective balance sheet dates not provided for in the financial statements were as follows:

	2016 **USD'000**	2015 USD'000
Contracted for	**510**	525
Authorised but not contracted for	**–**	–
	510	525

32 COMMITMENTS AND CONTINGENCIES (continued)

(b) OPERATING LEASE COMMITMENTS

(i) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
	USD'000	USD'000
Within 1 year	**209**	1,570
After 1 year but within 5 years	**–**	123
	209	1,693

(ii) The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

(c) ENVIRONMENTAL CONTINGENCIES

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 29 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) TRANSACTIONS WITH RELATED PARTIES

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the year. During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS (Mongolia) Limited ("**MCS**")	Shareholder of MMC
MCS Holding LLC	Subsidiary of MCS
MCS Estates LLC	Subsidiary of MCS
Unitel LLC	Subsidiary of MCS
Uniservice Solution LLC	Subsidiary of MCS
MCS Property LCC	Subsidiary of MCS
MCS International LLC	Subsidiary of MCS
M Armor LLC	Subsidiary of MCS
Goyo LLC	Subsidiary of MCS
Sky Resort LLC	Subsidiary of MCS
Chinggis Eco Tour LLC	Subsidiary of MCS
Shangri-La Ulaanbaatar LLC	Subsidiary of MCS

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2016 are as follows:

	2016 **USD'000**	2015 USD'000
Ancillary services (Note (i))	**10,210**	13,650
Purchases of equipment (Note (ii))	**–**	25
Sales of property, plant and equipment (Note (iii))	**264**	46
Lease of property, plant and equipment (Note (iv))	**481**	703

Notes:

(i) Ancillary services represent expenditures for support services such as cleaning and canteen expense paid to Uniservice Solution, MCS International, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, were applicable.

(ii) Purchases of equipment represent expenditure relating to equipment and construction service provided by MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.

33 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) TRANSACTIONS WITH RELATED PARTIES (continued)

Notes: (continued)

(iii) Sales of property, plant and equipment represent sale to the Group's associate, MCS and its affiliates. The sales are carried out at comparable or prevailing market rates, where applicable.

(iv) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from Shangri-La Ulaanbaatar LLC, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

The directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

AMOUNTS DUE FROM/(TO) RELATED PARTIES

	2016 USD'000	2015 USD'000
Other receivables (Note 22(c)(i))	**1**	456
Other accruals and payables (Note 25(iii))	**(14,680)**	(11,565)

(b) KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 10, and certain of the highest paid employees as disclosed in Note 11, is as follows:

	2016 USD'000	2015 USD'000
Salaries and other emoluments	**1,464**	1,537
Discretionary bonus	**68**	1,369
Retirement scheme contributions	**98**	185
Equity-settled share-based payment expenses	**1,017**	1,568
	2,647	4,659

(c) APPLICABILITY OF THE LISTING RULES RELATING TO CONNECTED TRANSACTIONS

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Directors' Report.

34 ULTIMATE CONTROLLING PARTY

As at 31 December 2016, the directors consider the ultimate controlling party of the Group to be MCS (Mongolia) Limited, which was incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 USD'000	2015 USD'000
Non-current assets			
Interests in subsidiaries		**1,321,266**	1,329,033
Total non-current assets		**1,321,266**	1,329,033
Current assets			
Trade and other receivables		**7,705**	300
Cash at bank and in hand		**4,518**	19
Total current assets		**12,223**	319
Current liabilities			
Short-term borrowings and current portion of long-term borrowings		**93,000**	90,992
Senior notes		**599,692**	–
Trade and other payables		**154,064**	87,407
Total current liabilities		**846,756**	178,399
Net current liabilities		**(834,533)**	(178,080)
Total assets less current liabilities		**486,733**	1,150,953
Non-current liabilities			
Senior notes		**–**	597,634
Total non-current liabilities		**–**	597,634
NET ASSETS		**486,733**	553,319
CAPITAL AND RESERVES	30(a)		
Share capital		**92,626**	92,626
Reserves		**394,107**	460,693
TOTAL EQUITY		**486,733**	553,319

Approved and authorised for issue by the board of directors on 22 March 2017.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

36 MAJOR NON-CASH TRANSACTIONS

(a) According to the relevant tax regulations in Mongolia, the income tax payable can be offset by the VAT receivables. During the year ended 31 December 2016, the Group offset the VAT receivables of USD1,471,000 (2015: USD244,000), USD550,000 (2015: USD1,271,000), USD1,691,000 (2015: USD4,162,000) and USD4,780,000 (2015: USD22,349,000) with income tax and other tax payable, air pollution fee, royalty tax payable and payables due to suppliers, respectively.

(b) On 11 March 2016, the Group entered into the Deed of Termination and Release (the "**DTR**") with European Bank for Reconstruction and Development ("**EBRD**"), Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V. ("**FMO**"), and Deutsche Investitions – und Entwicklungsgesellschaft mbH ("**DEG**") (collectively the "**Parallel Lenders**") regarding the repayment of secured interest-bearing borrowings (see Note 24) with outstanding principal amount of USD51,818,000. Pursuant to the DTR, the Group endorsed to the Parallel Lenders certain promissory notes issued by MOF (see Note 22(c)(iv)) with total amount of MNT105.6 billion and in return the obligations under the borrowings were to be discharged in their entirety and the relevant security thereunder were to be released after 121 calendar days plus 2 business days from the signing of the DTR (the "**Timing Condition**"). The Timing Condition has been fulfilled on 25 July 2016 and the obligations in respect of the borrowings from the Parallel Lenders have been discharged its entirety and the relevant security thereunder has been released.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Summary

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	2016	2015	2014	2013	2012
	USD'000	USD'000	USD'000	USD'000	USD'000
Revenue	**120,028**	99,485	328,307	437,339	474,480
Cost of revenue	**(120,346)**	(165,604)	(335,510)	(361,485)	(420,400)
Gross (loss)/profit	**(318)**	(66,119)	(7,203)	75,854	54,080
Other revenue	**(2,808)**	848	3,319	592	1,121
Other net income/(expense)	**4,116**	(1,082)	34,171	7,073	5,418
Selling and distribution expenses	**(17,654)**	(8,589)	(56,445)	–	–
Administrative expenses	**(13,133)**	(30,520)	(30,916)	(52,410)	(48,183)
Impairment loss	**–**	–	(190,000)	–	–
(Loss)/profit from operations	**(29,797)**	(105,462)	(247,074)	31,109	12,436
Finance income	**1,186**	5,084	3,911	9,551	39,561
Finance costs	**(122,705)**	(104,106)	(98,431)	(95,095)	(50,994)
Share of losses of associates	**(5)**	(15)	(19)	(1,087)	(362)
Share of losses of joint venture	**(21)**	(87)	(70)	–	–
(Loss)/profit before taxation	**(151,342)**	(204,586)	(341,683)	(55,522)	641
Income tax	**(2,650)**	16,873	58,978	(2,551)	(3,183)
Loss for the year	**(153,992)**	(187,713)	(282,705)	(58,073)	(2,542)
Attributable to:					
Equity shareholders of the Company	**(154,248)**	(187,763)	(282,837)	(58,073)	(2,542)
Non-controlling interests	**256**	50	132	–	–
Basic loss per share	**(1.67) cents**	(2.03) cents	(5.95) cents	(1.26) cents	(0.07) cents
Diluted loss per share	**(1.67) cents**	(2.03) cents	(5.95) cents	(1.26) cents	(0.07) cents

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2016	2015	2014	2013	2012
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets and liabilities					
Total assets	**1,576,393**	1,394,120	1,682,825	1,898,870	2,177,277
Total liabilities	**1,245,084**	1,204,329	1,285,987	1,337,903	1,425,264
Net assets	**331,309**	189,791	396,838	560,967	752,013
Total equity	**331,309**	189,791	396,838	560,967	752,013
Equity attributable to equity shareholders of the Company	**330,711**	189,449	396,546	560,967	752,013
Non-controlling interests	**598**	342	292	–	–

Glossary and Technical Terms

"Adoption date"	13 October 2010, the date the Share Option Scheme became unconditional and effective
"AGM"	Annual general meeting
"ASP"	Average selling price
"BAP"	Biodiversity Action Plan
"bcm"	Bank cubic metres
"BHWE"	Base Horizon of Weathering Elevation
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the Tavan Tolgoi formation
"BN mine"	The area of the BN deposit that can be mined by open pit mining methods
"Board"	The Board of Directors of the Company
"CG Code"	The Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	The People's Republic of China
"CHPP"	Coal handling and preparation plant
"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "we", "us", "our" or "Mongolian Mining Corporation"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010

Glossary and Technical Terms

"CSR"	Corporate Social Responsibility
"Director(s)"	Director(s) of the Company
"EITI"	Extractive Industry Transparency Initiative
"EUR"	Euro, the currency unit of the European Monetary Union
"Fexos"	Fexos Limited
"FOT"	Free-on-Transport
"Ganqimaodu" or "GM"	The China side of the China-Mongolia border crossing
"Gashuun Sukhait" or "GS"	The Mongolia side of the China-Mongolia border crossing
"GoM"	Government of Mongolia
"Group", "our Group"	The Company together with its subsidiaries
"HCC"	Hard coking coal
"HKD"	Hong Kong Dollar
"HR"	Human resources
"HSE"	Health, safety and environment
"IASs"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRSs"	International Financial Reporting Standards
"JORC"	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KAM"	Kerry Asset Management Limited
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited

Glossary and Technical Terms

"km"	Kilometres
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"KPI"	Key performance indicator
"kt"	Kilotonnes
"Listing Date"	13 October 2010
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"LOM"	Life-of-Mine
"LTIFR"	Lost Time Injury Frequency Rate
"LTI"	Lost Time Injury
"MBGS"	McElroy Bryan Geological Services Pty Ltd.
"middlings"	Thermal coal by-product of washed coking coal production
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mt"	Million tonnes

Glossary and Technical Terms

"NBS"	National Bureau of Statistics of China
"Norwest"	Norwest Corporation
"Offer Date"	12 October 2011, 28 November 2012 and 10 June 2015, the dates of offer of a total of 37,500,000, 22,750,000 and 154,750,000 Share Options, respectively, to its Director and certain employees under the Share Option Scheme adopted by the Company
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"Parliament"	Parliament of Mongolia
"probable coal reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
"raw coal"	Generally means coal that has not been washed and processed
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	Ordinary share(s) of USD0.01 each in the share capital of the Company

Glossary and Technical Terms

"Share Options" or "Options"	The share options which were granted under the Share Option Scheme to eligible participants to subscribe for Shares of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
"SLSP"	Sustainable Livelihood Support Program
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"SSCC"	Semi-soft coking coal
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG and BN deposits
"the Schemes"	Defined contribution retirement benefit schemes in which the Group participates
"thermal coal"	Also referred to as "steam coal" or "steaming coal", thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"THG"	Tsaikhar Khudag
"TKH"	Tsagaan Khad
"tonne"	Metric tonne, being equal to 1,000 kilograms
"TRIFR"	Total Recordable Injury Frequency Rate

Glossary and Technical Terms

"Tsogttsetsii"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"UHG"	Ukhaa Khudag
"UHG deposit"	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	The aboveground (<300m) portion of our UHG deposit
"USD"	United States Dollar
"VAT"	Value added tax
"washed coal"	Coals that have been washed and processed to reduce its ash content
"WSA"	World Steel Association

Appendix I

Technical details of the UHG Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4. Similar technical details relevant to the underlying UHG Coal Resource estimate were previously published in the form of 'JORC Table 1' Sections 1, 2 and 3 in the MMC Annual Report 2014.

JORC (2012) TABLE 1

SECTION 4: ESTIMATION AND REPORTING OF ORE RESERVES

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• **Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.** • **Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.** • The Mineral Resource estimate used as the basis for this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation Ukhaa Khudag Coal Mine (Licence 11952A)", prepared by Mongolian Mining Corporation, Energy Resources LLC, Geology Department, November 2015. • The Competent Person for the Mineral Resource estimate was Mr. Lkhagva-Ochir Said, a full time employee of Mongolian Mining Corporation in the position of General Manager of Technical Services. Mr. Said graduated in 2005 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australian Institute of Mining and Metallurgy (#316005). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.

Criteria	Commentary
Site visits	• **Comment on any site visits undertaken by the Competent Person and the outcome of those visits.** • **If no site visits have been undertaken indicate why this is the case.** • A site visit to the UHG Mine was undertaken by the Competent Person in February 2012 and in January 2013. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the UHG Life of Mine (LOM) plan update study, equivalent to a Feasibility Study update, completed in May 2013. • The competent person did not believe a further site visit was warranted in 2015, as site conditions had not materially changed with mining progress that had occurred since the site visit of January 2013.
Study status	• **The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.** • **The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically.** • A LOM study update, equivalent to a Feasibility Study update was completed in May 2013. • A further update to the LOM plan was completed in February 2016, comprising pit optimization, strategic options scheduling, mine planning, scheduling and economic analysis of the preferred strategic option.
Cut-off parameters	• **The basis of the cut-off grade(s) or quality parameters applied.** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit Optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.

Criteria	Commentary
Mining factors or assumptions	• **The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design).** • **The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc.** • **The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.** • **The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).** • **The mining dilution factors used.** • **The mining recovery factors used.** • **Any minimum mining widths used.** • **The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.** • **The infrastructure requirements of the selected mining methods.** • Pit Optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste. • Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants ("AMC").

Criteria	Commentary
	• The mining factors used were: – Minimum coal mining thickness of 0.5 m. – Minimum parting mining thickness of 0.5 m. – Mineable coal section roof and floor loss of 100 mm. – Mineable coal section roof and floor dilution of 100 mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.46 t/m^3, and ash of 92%. – Relative density data in the geological model is based on an average in-situ moisture of 3.2% (ar). ROM moisture is assumed to be 5% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar) and thermal product coal moisture 5% (ar). • The application of "Affected Zones" with higher global losses, as per the 2013 LOM Study, were discontinued on the basis of actual mining coal recovery reconciliation results supplied by MMC for an 18 month period of sampling undertaken by MMC from January 2014 to June 2015. • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the BN mine. The infrastructure will be expanded as UHG production expands.

Criteria	Commentary
Metallurgical factors or assumptions	• **The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.** • **Whether the metallurgical process is well-tested technology or novel in nature.** • **The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.** • **Any assumptions or allowances made for deleterious elements.** • **The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.** • **For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. Coking coal seams 0C, 3A and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed. • The process generates primary coking coal product from a low cut point that will produce a 10.5% (ad) ash HCC and 9.5% (ad) SSCC product, and a secondary middlings product of 18% (ad) ash is produced from a variable high cut. • International coal processing consultant Norwest Corporation has generated ash-yield curves for all the coking coal seams. • A conventional Jig washing plant is planned for processing thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.

Criteria	Commentary
Environmental	• **The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.
Infrastructure	• **The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.** • All necessary infrastructure to support the UHG mine is in place at either the mine site or at the UHG mine industrial area. Power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.

Criteria	Commentary
Costs	• **The derivation of, or assumptions made, regarding projected capital costs in the study.** • **The methodology used to estimate operating costs.** • **Allowances made for the content of deleterious elements.** • **The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products.** • **The source of exchange rates used in the study.** • **Derivation of transportation charges.** • **The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.** • **The allowances made for royalties payable, both Government and private.** • Project capital cost estimates for mining plant and equipment have been provided by MMC. • Operating cost estimates have been provided from MMC's assessment of existing operating costs incurred in the operation and also from MMC's mining contractor. – Actual mining contractor coal mining costs were provided and applied in the study in $/bcm; however for presentation in Table 5.8 (*in Report No. ADV-MN-00132 'Statement of Open Cut Coal Reserves as at 30 November 2015 dated March 2016*) RPM converted to $/t ROM using the weight average relative density of coal in the pit shells). • Coal processing costs are based on those actually being incurred in the existing CHPP operation. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of UHG product coal. There are no private royalties payable.

Criteria	Commentary
Revenue factors	• **The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.** • **The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.** • Shanxi Fenwei Energy Consulting Co Ltd ("**Shanxi Fenwei**") completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China. • Based on the Shanxi Fenwei study and MMC's assessment of the current market prices for hard coking coal, semi soft coking coal, middlings coal product (6,300 kcal/kg nar) and thermal coal product (6,300 kcal/kg nar), long term (2021 - 2025) real prices of USD$78/t, USD$56/t, USD$18/t and USD$18/t respectively have been assessed and used in the study.
Market assessment	• **The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.** • **A customer and competitor analysis along with the identification of likely market windows for the product.** • **Price and volume forecasts and the basis for these forecasts.** • **For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.** • Shanxi Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets in Mongolia and China.

Criteria	Commentary
Economic	• **The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.** • **NPV ranges and sensitivity to variations in the significant assumptions and inputs. Price and volume forecasts and the basis for these forecasts.** • The inputs to the economic analysis of UHG are the project derived capital and operating cost estimates outlined above. The source of the inputs is real and the confidence satisfactory. The economic modelling is in real terms and a range of discount factors between 8% and 12% have been used in assessing NPV. • The NPV results produced from the economic modelling using a range of discount factors, as outlined above, have generated positive NPVs indicating the viability of the UHG mine. • The NPV has been assessed for variations of ±10% and ±20% in revenue. The results indicate that the project is not robust and that project value becomes stressed with decreases in the base coal sales prices.
Social	• **The status of agreements with key stakeholders and matters leading to social licence to operate.** • All key stakeholder agreements are in place providing a social license to operate.

Criteria	Commentary
Other	• **To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:** • **Any identified material naturally occurring risks.** • **The status of material legal agreements and marketing arrangements.** • **The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.** • All material legal agreements, marketing agreements and government agreements are in place to allow the UHG mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.
Classification	• **The basis for the classification of the Ore Reserves into varying confidence categories.** • **Whether the result appropriately reflects the Competent Person's view of the deposit.** • **The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.

Criteria	Commentary
Audits or reviews	• **The results of any audits or reviews of the Ore Reserve estimates.** • Internal peer by RPM of the Reserves estimate has been completed.
Discussion of relative accuracy/confidence	• **Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.** • **The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.** • **Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.** • **It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.** • Coal production at UHG commenced in April 2009, and since this time some 202 Mbcm of waste and 37 Mt of ROM coal has been mined to date until 30 November 2015. • Since the preparation of the last Reserves estimate effective as of 31 December 2012 the UHG mine has completed reconciliations of actual coal mined against the geological model for the period January 2014 to June 2015. • As a result of the reconciliations that have been undertaken and the observations made associated with the mining activities over this period of time, the mining modifying factors in this Reserves estimate have been adjusted to be less conservative particularly with respect to assumed losses incurred in the "affected zones", and in the assumed reassignment of coking coal to thermal coal.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