THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Mongolian Mining Corporation (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

MONGOLIAN MINING CORPORATION

(In Provisional Liquidation)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

CONTINUING CONNECTED TRANSACTIONS, REVISION OF ANNUAL CAPS AND NOTICE OF EGM

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 4 to 17 of this circular.

A letter of recommendation from the Independent Board Committee is set out on page 18 of this circular and a letter of recommendation from Somerley, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 32 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on Wednesday, 14 June 2017 at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 40 to 41 of this circular. A form of proxy for use at the EGM is also enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn).

Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed (i.e. before 10:30 a.m. on Monday, 12 June 2017) for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

26 May 2017

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In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"associate(s)"	has the same meaning ascribed to it under the Listing Rules
"BN mine site"	the Group's Baruun Naran coal deposit located in the Khankhongor soum, Umnugobi aimag
"Board"	the board of Directors
"Company"	Mongolian Mining Corporation (Stock code: 975), an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"connected person"	has the same meaning ascribed to it under the Listing Rules
"DAF"	"Delivered at Frontier", a trade term requiring seller to deliver goods to a named destination
"December Agreement"	the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement entered into between NIC and Energy Resources dated 28 December 2016 in relation to the provision of domestic transportation of fuel, site storage and fueling services by NIC to the Group
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held at 10:30 a.m. on Wednesday, 14 June 2017 at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering and, if thought fit, approving the Fuel Supply Agreement with NIC and the Revised Annual Caps
"EGM Notice"	the notice convening the EGM as set out on pages 40 to 41 of this circular

"Energy Resources"	Energy Resources LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company
"Fuel Supply Agreement with NIC"	the Fuel Supply Agreement entered into between NIC and Energy Resources dated 11 May 2017 in relation to the supply of fuel products and other related services by NIC to the Group
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors formed to advise the Independent Shareholders as to the fairness and reasonableness of the transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps
"Independent Shareholder(s)"	Shareholder(s) other than Lotus Amsa and its associates relating to the Fuel Supply Agreement with NIC
"Latest Practicable Date"	22 May 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"Lotus Amsa"	Lotus Amsa Limited, a company incorporated in Jersey, is wholly-owned by Dr. Oyungerel Janchiv, a non-executive Director, and is interested in approximately 1.1% of the issued share capital of the Company as at the Latest Practicable Date
"MNT"	togrok or tugrik, the lawful currency of Mongolia
"NIC"	NIC LLC, a company incorporated in Mongolia with limited liability, is an associate of Dr. Oyungerel Janchiv, a non-executive Director
"Old Fuel Supply Agreement with NIC"	the Fuel Supply Agreement entered into between NIC and Energy Resources dated 18 October 2013 in relation to the supply of fuel products and related services by NIC to the Group for a term of three years from 1 January 2014 to 31 December 2016
"Revised Annual Caps"	the revised annual caps for the December Agreement and the Fuel Supply Agreement with NIC
"SFO"	the 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
"Shareholder(s)"	the registered holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"UHG mine site"	the Group's Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield
"USD"	United States Dollars, the lawful currency of the United States of America
"VAT"	refundable value added tax
"%"	per cent.

For the purpose in this circular, unless otherwise indicated, the exchange rate of USD1.00 = MNT2,411.55 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such a rate or at any other rates.

References to time and dates in this circular are to Hong Kong time and dates.

MONGOLIAN MINING CORPORATION

(In Provisional Liquidation)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

Executive Directors:
Mr. Odjargal Jambaljamts *(Chairman)*
Dr. Battsengel Gotov *(Chief Executive Officer)*

Non-Executive Directors:
Dr. Oyungerel Janchiv
Mr. Od Jambaljamts
Mr. Gankhuyag Adilbish

Independent Non-Executive Directors:
Dr. Khashchuluun Chuluundorj
Mr. Unenbat Jigjid
Mr. 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

26 May 2017

To the Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS

INTRODUCTION

The purpose of this circular is to provide the Shareholders with information regarding certain resolutions to be proposed at the EGM. These resolutions include, among others, (i) further information in respect of the Fuel Supply Agreement with NIC and the Revised Annual Caps; (ii) a letter from Somerley to the Independent Board Committee and the Independent Shareholders containing advice on the Fuel Supply Agreement with NIC and the Revised Annual Caps; and (iii) the recommendation from the Independent Board Committee in respect of the Fuel Supply Agreement with NIC and the Revised Annual Caps. The resolutions will be proposed at the EGM and are set out in the EGM Notice as contained in this circular.

CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS

Introduction

Reference is made to the announcement of the Company dated 18 October 2013 and the circular of the Company dated 8 November 2013 in relation to the Old Fuel Supply Agreement with NIC.

Reference is made to the announcement of the Company dated 11 May 2017 whereby it was announced that on 11 May 2017 Energy Resources and NIC entered into the Fuel Supply Agreement with NIC pursuant to which NIC conditionally agreed to supply fuel products and provide other related services including fueling and storage services to the Group for the mining activities and site operations at the UHG mine site, BN mine site and any other location the Company may request.

Reference is also made to the announcement of the Company dated 28 December 2016 whereby it was announced that on 28 December 2016 Energy Resources and NIC entered into the December Agreement pursuant to which NIC agreed to provide domestic fuel transportation, storage and fueling services to the Group.

Given the continuing connected transactions contemplated under the December Agreement and the Fuel Supply Agreement with NIC are (i) entered into by Energy Resources as purchaser and NIC as supplier; (ii) transactions entered into within a 12-month period; and (iii) similar in nature, the continuing connected transactions under the December Agreement and the Fuel Supply Agreement with NIC would have to be aggregated for the purpose of considering the Company's disclosure obligations pursuant to Rule 14A.81 of the Listing Rules. Further, the Revised Annual Caps are set to include the aggregate maximum transaction amounts of the December Agreement and the Fuel Supply Agreement with NIC.

Continuing Connected Transactions under the Fuel Supply Agreement with NIC

Date

11 May 2017

Parties

Energy Resources as purchaser

NIC as supplier

Principal terms

NIC conditionally agreed to supply fuel products and provide other related services including fueling and storage services for the mining activities and site operations at the UHG mine site, BN mine site and any other location the Company may request. The Fuel Supply Agreement with NIC is non-exclusive in nature such that the Group will not be prohibited from purchasing fuel products and related services from third parties, affording the Group with the flexibility to engage other fuel suppliers.

In broad terms, the supply of fuel products and related services by NIC comprises the following:

– supply diesel (summer and winter grade) at the UHG mine site and the BN mine site for both mining and non-mining use;

– provide fueling and distribution services for mining and non-mining machinery and equipment at mine pit using own fueling trucks;

– provide fueling service for the trucks, and non-mining vehicles at fuel stations; and

– store a normal and emergency reserve of diesel for the Group at its own storage facilities.

Term of the Fuel Supply Agreement with NIC

The Fuel Supply Agreement with NIC will be effective for a period of three years commencing from 15 June 2017 to 31 May 2020 conditional upon the obtaining of the requisite approval from the Independent Shareholders at the EGM.

Consideration and pricing bases

The maximum consideration payable by the Group to NIC under the December Agreement and the Fuel Supply Agreement with NIC is USD218,071,404 inclusive of VAT, other applicable taxes and all other costs associated with the goods and services provided by NIC, which is the sum of the Revised Annual Caps for the three years ending 31 May 2020.

The pricing for fuel products is based on "cost plus margin" principle and is calculated by a pre-determined formula which consists of four major parts, (i) fuel import price at Mongolian border which is determined by fuel purchase agreements executed between NIC and international fuel suppliers; (ii) taxes and fees set by the Government of Mongolia which are the same for all fuel importers; (iii) transportation and logistics as well as storage costs (on a per tonne basis) and fueling services cost (on a per litre basis); and (iv) a fixed margin of 3% to be added to all the components stated in (i) to (iii) above. According to the formula, over 85% of the fuel pricing is directly attributable to fuel import price and taxes and fees which are charged at cost by NIC, and approximately 15% is supplier's operation costs and profit.

In order to ensure that the DAF price is competitive, the Group has internal control measures in place to ensure that such price will not be higher than the average DAF price of the top five fuel importers, who together constitute over 90% of the fuel supplier market share in Mongolia.

Furthermore, the Company considered all relevant costs within the price components quoted by other fuel suppliers such as railway transportation cost, loading/unloading cost at railway station, transportation cost to the Group's site, transportation tariff, warehouse storage cost, cost of fueling as to which were the lowest in the market. Based on the bid evaluation report as well as comparing the terms between the Fuel Supply Agreement with NIC and those offered by the other independent contracted fuel supplier (Shunkhlai LLC), the Board is of the view that the cost components, such as operation cost and cost of fueling of mining equipment at pit quoted by NIC are significantly lower than those offered by Shunkhlai LLC. After such comparison, the Board is of the view that the cost components and profit margin of the Fuel Supply Agreement with NIC are fair and reasonable.

Also, the Company will compare prices offered by NIC with other third party suppliers on a monthly basis, to ensure that the actual fuel price and other cost components charged by NIC will be no less favourable than those charged by third parties during the term of the Fuel Supply Agreement with NIC.

The maximum consideration payable by the Group to NIC was determined after arm's length negotiation between the Company and NIC based on the aforesaid pre-determined formula and taking into account the annual volume of fuel required for the mine operation in the coming three years having regard to the mining production plans of the Group; the fee quotation and costs structure of the services to be provided as submitted by NIC; and the business development plan of the Group.

Payment terms

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 NIC. No mobilization and de-mobilization payments are to be made by the Group.

Late payment penalty shall be incurred on delayed payments calculated from the first delayed date at a rate of 1.5% per month.

NIC shall pay delay penalty to the Company at the rate of 0.5% of outstanding amount per day for each delayed services without considering the reasons for the delay.

Maximum delay penalty for NIC is up to 50% of the total amount of payments for total effective period of the Fuel Supply Agreement with NIC in addition to any insurance coverage.

Revision of Annual Caps

Given the continuing connected transactions contemplated under the December Agreement and the Fuel Supply Agreement with NIC are (i) entered into by Energy Resources as purchaser and NIC as supplier; (ii) transactions entered into within a 12-month period; and (iii) similar in nature, the continuing connected transactions under the December Agreement and the Fuel Supply Agreement with NIC would have to be aggregated for the purpose of considering the Company's disclosure obligations pursuant to Rule 14A.81 of the Listing Rules. Further, Revised Annual Caps are set to include the aggregate maximum transaction amounts of the December Agreement and the Fuel Supply Agreement with NIC.

Historical transaction amounts

The historical transaction amount (excluding VAT) in respect of transactions under the December Agreement for the three months ended 31 March 2017 was USD194,179. Related services (transportation, logistics, storage and fueling services) were acquired in accordance with the December Agreement. The Company has not entered or will not enter into any transactions in relation to purchase of fuel products from NIC before 15 June 2017.

The approximate historical fuel transaction amounts under the Old Fuel Supply Agreement with NIC are set out as follows:

Financial Year	Annual caps (including VAT)	Historical transaction amounts (excluding VAT)
Financial year ended 31 December 2014	USD202,808,966	USD38,015,480
Financial year ended 31 December 2015	USD254,580,068	USD12,975,749
Financial year ended 31 December 2016	USD326,980,902	USD18,946,513

Revised annual caps

Due to the entering into of the Fuel Supply Agreement with NIC, the original annual caps for the continuing connected transactions under the December Agreement would need to be revised. The Company estimated that the Revised Annual Caps for the continuing connected transactions under the December Agreement and the Fuel Supply Agreement with NIC are as follows:

Financial year	Original annual caps	Proposed annual caps for the Fuel Supply Agreement with NIC	Revised annual caps	Period covered
Financial year ending 31 December 2017	USD4,825,142	USD25,180,130 covering 6 months 15 days from 15 June to 31 December 2017	USD30,005,272	12 months from 1 January 2017 to 31 December 2017

Financial year	Original annual caps	Proposed annual caps for the Fuel Supply Agreement with NIC	Revised annual caps	Period covered
Financial year ending 31 December 2018	USD4,825,142	USD73,350,372	USD73,350,372	12 months from 1 January 2018 to 31 December 2018
Financial year ending 31 December 2019	USD4,825,142	USD79,803,049	USD79,803,049	12 months from 1 January 2019 to 31 December 2019
Financial year ending 31 December 2020	–	USD34,912,771	USD34,912,771	5 months from 1 January 2020 to 31 May 2020

The Revised Annual Caps were determined with reference to (i) the annual volume of fuel required for the mine operation in the coming three years having regard to the mining production plans of the Group; (ii) the tender offer submitted by NIC; (iii) the historical transaction amounts in respect of fuel supply transactions with NIC under the Old Fuel Supply Agreement with NIC for the three financial years ended 31 December 2016; (iv) the historical transaction amount in respect of December Agreement for the three months ended 31 March 2017; (v) the original annual caps set for the transaction under the December Agreement; and (vi) buffer to accommodate possible increase in production, possible inflation, future fluctuations in exchange rates, and possible changes in fuel price, etc..

Given the depressed market condition for the coking coal products during the last few years, the Company deliberately adjusted its production plan and suspended its operations at certain times during the period for cash conservation and efficiency purposes. However, starting from the third quarter of 2016, this prolonged market slowdown has taken a better turn as a result of the Chinese government's measures to implement supply side reform policies, leading to improved pricing for coal products. In line with such market rebound, the Company has increased its coal mining production output from 0.9 million tonnes in the first half of 2016 to 2.1 million tonnes in the second half of 2016. The Company intends to further increase its mine production output and aims to reach over 9.0 million tonnes in 2017 compared to 3.0 million tonnes mined in 2016. Mine production increase naturally results in increased fuel consumption volume as variable component is directly linked to production volume.

The mining production volume considered for the purpose of annual caps calculation is assumed to be approximately 1.0 million tonnes per month for the next three-year period starting from June 2017, and the transaction amount from 15 June 2017 to December 2017 is estimated to be around USD30 million, compared to USD73.4 million covering full year transaction amount in 2018. In short, the transaction amount in 2017 covers the period from 15 June 2017 to December 2017 and the transaction amount in 2018 covers the full year of 2018. Moreover, in line with the mining plan applied for the annual caps calculation, stripping ratio for 2018 is expected to be around 3.6 cubic meter per tonne compared to 3.0 cubic meter per tonne for the seven months from June to December 2017. The increase in stripping ratio results in higher fuel consumption in 2018.

Looking at the historical numbers, the cost of fuel consumed in coal mining production was approximately 15% compared to the Company's cost of revenue of self-produced coal, excluding idling cost and inventory provision during the last three years. Similarly, if the Company reaches its mining production volume applied in the annual caps calculation and derives its annual sales volume accordingly, the cost of revenue is estimated to be within the range of USD340 million to USD450 million in the coming years covered by the annual caps calculation, resulting in the annual transaction amount under the Fuel Supply Agreement with NIC to be less than 18% compared to the Company's cost of revenue. This would result in the cost of fuel consumed in coal mining production to be approximately 15% compared to the Company's cost of revenue of self-produced coal, and approximately 18%, if 20% buffer has been incorporated into the annual caps calculation.

A buffer is considered to be 20% of the transaction amount to accommodate (i) possible production increase more than the Company has planned; (ii) increase in fuel price; (iii) increase in fuel consumption due to expansion of mine pit, hence increase in hauling distance; (iv) possible interest for overdue payments; and (v) possible fluctuations in both inflation and currency exchange rates, given the Company purchases its fuel denominated in MNT which is subject to exceptionally large fluctuation. For instance, during the term of the Old Fuel Supply Agreement with NIC, yearly average DAF fuel price at border fluctuated significantly from USD1,071 per tonne in 2014 to USD474 per tonne in 2016. Moreover, due to the coking coal market downturn in the last few years, cash settlements with our suppliers were delayed several times, resulting in late payment penalties. In light of the above reasons, the Directors consider that it is reasonable to incorporate 20% buffer to the annual caps calculation in order to accommodate unpredictable political and economic factors in the future. It is noted that such buffer was also adopted by the Company when setting the annual caps under the Old Fuel Supply Agreement with NIC.

Also, it shall be noted that fuel consumption is linked to actual coal mining production volume and sales volume in the next three years and it would be dependent on coking coal market environment and coking coal price. Therefore, under the Fuel Supply Agreement with NIC, the Company has no legal commitments to purchase fuel volume considered for the annual cap calculations.

Internal Control Measures

The Company has comprehensive internal control system to ensure that the terms of the continuing connected transactions are fair and reasonable, and the continuing connected transactions are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include:

– The Group has strict internal control measures for evaluation and selection of suppliers and tendering process. The bidding and selection process is organized according to the internal procurement procedures of the Group. All pre-qualified bidders were invited to join the tendering process. Proposals submitted by the bidders were reviewed by the Group's tendering team, who then prepared a bid evaluation report in respect of past experience and commercial, legal, technical and financial aspects of the Group in order for the Board and senior management to evaluate the bid documents submitted by the bidders. The winning supplier/service provider will be selected based on favourable price quotation, overall scope of services, etc..

Based on the statistical information provided by the Agency of Mineral Resources and Petroleum Authority, Mongolia has imported 93.1% of its fuel products from Russia in 2016. Diesel fuel comprised over 50% of the overall import volume. And out of this 93.1% imported fuel products, most of which derives from the supply of Rosneft Oil Company ("**Rosneft**"), the largest fuel supplier to Mongolia. Due to Rosneft's dominating position in fuel products supply industry, the DAF price offered by Rosneft is considered as the benchmark price. On this basis, the Company further monitors the DAF price through (i) obtaining it from other independent contracted fuel suppliers, and (ii) obtaining such information of each fuel importing company from the Customs Office of Mongolia by sending official request if there are any concern over the DAF price. As the Fuel Supply Agreement with NIC is non-exclusive, the Company reserves its right to choose the supplier offering the best price. Further, the Company compares the prices offered by NIC with other third party suppliers monthly to ensure that the actual fuel price charged by NIC will be no less favorable than those charged by third parties.

Price components being indicated as other factors, including transportation costs and mark up percentages, are also tracked and checked by comparing the respective price components of other independent contracted fuel suppliers.

At the end of each month, the fuel supplier provides the Company with the price calculation for fuel to be supplied in the next month. The procurement and contract management section is responsible for checking the DAF price using any of the abovementioned methods and review any error in the components of the pricing formula. Based on such review, the financial planning department will then approve the price.

The Company continuously tracks and compares price components offered by the fuel supplier against the price components received from the third parties by obtaining the DAF price from other independent contracted fuel suppliers. If there are any concerns over the DAF price, the Company will obtain the DAF price for each fuel importing company from the Customs Office of Mongolia by sending official request. If the fuel supplier is offering higher prices, the Company will not be prohibited from purchase fuel products and related services from third parties, affording the Company with flexibility to engage other fuel suppliers.

For the purpose of monitoring other factors, Company constantly obtains information of other factors from other independent contracted fuel suppliers.

– The controlling department of the Company regularly monitors the actual amounts incurred for the continuing connected transactions for the purpose of ensuring the relevant annual caps are not exceeded.

– The internal control and risk management team of the Company organizes and runs internal control tests regularly to evaluate the completeness and effectiveness of the internal control measures in relation to continuing connected transactions.

– The internal audit department conducts annual review of the continuing connected transactions and reports its findings to the Audit Committee of the Company.

– The Board conducts annual review on the implementation of the continuing connected transactions and conducts review of financial statements which include the disclosure and analysis of the implementation of the continuing connected transactions every six months. The review mainly includes a review on whether the Company and the connected parties have fulfilled the continuing connected transactions agreements during the relevant year or six months and whether the actual transaction amounts incurred between the Company and the connected parties are within the annual caps approved by the Shareholders.

– The independent non-executive Directors conduct annual review of the continuing connected transactions and provide annual confirmations in the Company's annual report on whether the continuing connected transactions are conducted (i) in the Company's ordinary course of business; (ii) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (iii) in accordance with the terms of the relevant agreements; and (iv) in the interests of the Company and the Shareholders as a whole.

– The Audit Committee of the Company conducts review of the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the implementation of the continuing connected transactions and opine on the continuing connected transactions as disclosed in such financial statements and reports, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps.

To assist the Company in complying with the applicable rules listed in Chapter 14A of the Listing Rules, the external auditors of the Company perform work in accordance with the regulations in the "Hong Kong Standard on Assurance Engagements 3000 – "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"" and with reference to the "Practice Note 740 – Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public

Accountants, on the Company's continuing connected transactions and issue a letter in respect of the continuing connected transactions disclosed in the Company's annual report in accordance with the applicable accounting standards and the Listing Rules.

Reasons For and Benefits of the Continuing Connected Transactions under the Fuel Supply Agreement with NIC

The UHG mine site and the BN mine site require for their operation the use of large scale mining machineries and equipment, which in turn needs a substantial amount of diesel fuel to operate. The mine sites also requires diesel fuel for the operation of the transportation infrastructure and various other machineries and equipment located at the mines. The Old Fuel Supply Agreement with NIC expired on 31 December 2016. In order to obtain good proposals for long term cooperation which enables the Group to secure stable supplies of fuel products and related services for the mining activities and site operations at the UHG and BN mine sites, the Group organized and conducted a national competitive bid process in June 2016 for the selection of a supplier of fuel products and related services. The Company selected five fuel importers (three of which are third parties independent to the Group) (including NIC, Shunkhlai LLC, M-Oil, Magnai Trade LLC and Trafigura LLC) that hold above 5% of Mongolian fuel market share and invited them to submit bids. Only two bidders (NIC and Shunkhlai LLC) responded to the bid.

NIC was the only bidder who provided an offer for fuel supply for mining and site operations. Thus the Company engaged into arm's length negotiations with NIC and achieved substantial results as follows:

a) Profit rate has been decreased from 4% to 3%;

b) Operations cost has been decreased from MNT55,000 per tonne of fuel to MNT 50,000 per tonne of fuel; and

c) Financing cost of MNT44 per liter of fuel has been eliminated.

NIC's tender price for diesel at the time for receipt was MNT1,632 (equivalent to approximately USD0.81) per liter for non-mining consumption, MNT1,673 (equivalent to approximately USD0.83) per liter for mining consumption which considers fueling service of MNT 36 (equivalent to approximately USD0.02) per liter at UHG mine site. The negotiated price calculated with the same DAF price and taxes and fees would be MNT1,558 (equivalent to approximately USD0.78) per liter for non-mining consumption, and MNT1,599 (equivalent to approximately USD0.80) per liter for mining consumption.

The cost components and profit margin negotiated and agreed with NIC are the lowest in the market compared with other fuel agreements entered into by the Company with other fuel suppliers, and fixed for the three years of contract duration.

Moreover, the bidder's proposal has been evaluated in detail with respect to the legal aspect, experience, financial capability, soundness of technical proposal and commercial offer. On the basis of the collective results, NIC received the highest scores.

Further, NIC has 72 years of experience in petroleum industry. NIC holds 55% of the domestic market of refined petroleum products and partakes in 61% of total petroleum imports. NIC is the only fuel company with a national distribution network of storage terminals and distribution facilities, including 19 regional storage depots, 400 gas stations and 38 depots. Accordingly, NIC was selected as the successful bidder who can supply quality fuel and provide reliable services which meet high quality standards while incorporating international standards, methods and offer cost effective solutions.

The Directors consider that it is beneficial to the Company to enter into the continuing connected transactions with NIC as the transactions will ensure a stable source of fuel supply for the mining activities and site operation of the Group.

The negotiations with NIC in relation to the Fuel Supply Agreement with NIC had not been concluded before the expiry of the Old Fuel Supply Agreement with NIC, the Group has since then purchased fuel in the open market. The Company had separately entered into the December Agreement on 28 December 2016 for the provision of domestic fuel transportation, storage and fueling services by NIC to the Group for the fuel purchased in the open market.

Information on the Group

The Group is principally engaged in mining, processing, transportation and sale of coking coal in Mongolia.

Energy Resources, an indirect wholly-owned subsidiary of the Company, is principally engaged in the operation of the UHG mine site.

Information on NIC

NIC, an associate of Dr. Oyungerel Janchiv, a non-executive Director, is principally engaged in import, marketing and distribution of petroleum products in Mongolia.

Listing Rules Implications

As at the Latest Practicable Date, NIC was a wholly-owned subsidiary of Petrovis Oil LLC, which is a wholly-owned subsidiary of Petrovis Oil AG and Dr. Oyungerel Janchiv, a non-executive Director, held approximately 33.34% interest in Petrovis Oil AG. As such, NIC is an associate of Dr. Oyungerel Janchiv and a connected person of the Company and the transactions contemplated under the Fuel Supply Agreement with NIC constitute continuing connected transactions of the Company.

Given the continuing connected transactions contemplated under the December Agreement and the Fuel Supply Agreement with NIC are (i) entered into by Energy Resources as purchaser and NIC as supplier; (ii) transactions entered into within a 12-month period; and (iii) similar in nature, the continuing connected transactions under the December Agreement and the Fuel Supply Agreement with NIC would have to be aggregated for the purpose of considering the Company's disclosure obligations pursuant to Rule 14A.81 of the Listing Rules. Further, the Revised Annual Caps are set to include the aggregate maximum transaction amounts of the December Agreement and the Fuel Supply Agreement with NIC.

As the applicable percentage ratios in respect of the Revised Annual Caps for the continuing connected transactions under the December Agreement and the Fuel Supply Agreement with NIC, on an aggregated basis, exceed 5%, the transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of the interests of Dr. Oyungerel Janchiv in NIC, Dr. Oyungerel Janchiv has abstained from voting on the relevant resolutions of the Board approving the continuing connected transactions under the Fuel Supply Agreement with NIC and the Revised Annual Caps.

Lotus Amsa and its respective associates will abstain from voting on the relevant resolutions in relation to the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps to be proposed at the EGM.

The Board (excluding the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular after taking into account the advice from the Independent Financial Adviser) is of the view that the terms of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are fair and reasonable; such continuing connected transactions are on normal commercial terms or better and were entered into in the ordinary and usual course of business of the Group; and the entering into of the continuing connected transactions under the Fuel Supply Agreement with NIC and the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole.

An Independent Board Committee has been formed to consider and advise the Independent Shareholders on (i) whether the terms of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are fair and reasonable; (ii) whether the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC are on normal commercial terms or better and were entered into in the ordinary and usual course of business of the Group; (iii) whether the entering into of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps at the EGM. The Company has appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

EXTRAORDINARY GENERAL MEETING

The EGM Notice is set out on pages 40 to 41 of this circular to consider the resolutions relating to, inter-alia, the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps.

RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the terms of continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are fair and reasonable; such continuing connected transactions are on normal commercial terms or better and were entered into in the ordinary and usual course of business of the Group; and the entering into of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend all the Independent Shareholders to vote in favour of the relevant ordinary resolutions set out in the EGM Notice.

The Independent Board Committee comprising all the independent non-executive Directors was formed to advise the Independent Shareholders on the terms of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps. Having considered the information contained in this letter and the advice of the Independent Financial Adviser as set out on pages 19 to 32 of this circular, the Independent Board Committee considers that the terms of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are fair and reasonable; such continuing connected transactions are on normal commercial terms or better and were entered into in the ordinary and usual course of business of the Group; and the entering into of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Fuel Supply Agreement with NIC and the Revised Annual Caps.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee set out on page 18 of this circular, the letter of advice from Somerley set out on pages 19 to 32 of this circular and the additional information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Mongolian Mining Corporation
(In Provisional Liquidation)
Odjargal Jambaljamts
Chairman

26 May 2017

To the Independent Shareholders
Mongolian Mining Corporation

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS

We refer to the circular of the Company dated 26 May 2017 ("**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein, unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the terms of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the relevant Revised Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we have appointed Somerley as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board on pages 4 to 17 of the Circular, which sets out information in connection with the Fuel Supply Agreement with NIC and the Revised Annual Caps. We also wish to draw your attention to the letter from Somerley to the Independent Board Committee and Independent Shareholders which contains its advice in respect of the Fuel Supply Agreement with NIC and the Revised Annual Caps as set out on pages 19 to 32 of this Circular.

Having considered the information contained in the letter from the Board and taking into account the advice and recommendation of Somerley, we consider that the terms of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the relevant Revised Annual Caps are fair and reasonable; such continuing connected transactions are on normal commercial terms or better and were entered into in the ordinary and usual course of business of the Company; and entering into of the continuing connected transactions and the relevant Revised Annual Caps are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Fuel Supply Agreement with NIC and the Revised Annual Caps.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Khashchuluun Chuluundorj	**Unenbat Jigjid**	**Chan Tze Ching, Ignatius**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

26 May 2017

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
AND REVISION OF ANNUAL CAPS**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the supply of fuel products and the provision of fueling services by NIC to the Group under the Fuel Supply Agreement with NIC, and the Revised Annual Caps. The Revised Annual Caps incorporate the annual caps for the December Agreement, details of which are contained in the announcement of the Company dated 28 December 2016, and the Fuel Supply Agreement with NIC, details of which are contained in the circular to Shareholders dated 26 May 2017 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

As at the Latest Practicable Date, NIC was a wholly-owned subsidiary of Petrovis Oil LLC, which is a wholly-owned subsidiary of Petrovis Oil AG, and Dr. Oyungerel Janchiv, a non-executive Director, held approximately 33.3% interest in Petrovis Oil AG. As such, NIC is an associate of Dr. Oyungerel Janchiv and a connected person of the Company, and the transactions contemplated under the Fuel Supply Agreement with NIC constitute continuing connected transactions of the Company. Lotus Amsa, a company wholly-owned by Dr. Oyungerel Janchiv, is interested in approximately 1.1% of the issued share capital of the Company. Accordingly, Lotus Amsa and its associates will abstain from voting on the resolutions to be proposed at the EGM to approve the Fuel Supply Agreement with NIC and the Revised Annual Caps. Dr. Oyungerel Janchiv has abstained from voting on the relevant resolutions of the Board approving the Fuel Supply Agreement with NIC and the Revised Annual Caps.

Given the continuing connected transactions contemplated under the December Agreement and the Fuel Supply Agreement with NIC are (i) entered into by Energy Resources as purchaser and NIC as supplier; (ii) transactions entered into within a 12-month period; and (iii) similar in nature, the continuing connected transactions under the December Agreement and the Fuel Supply Agreement with NIC would have to be aggregated for the purpose of considering the Company's disclosure obligations pursuant to Rule 14A.81 of the Listing Rules. Further, the Revised Annual Caps are set to include the aggregate maximum transaction amounts of the December Agreement and the Fuel Supply Agreement with NIC.

As the applicable percentage ratios in respect of the Revised Annual Caps for the continuing connected transactions under the December Agreement and the Fuel Supply Agreement with NIC, on an aggregated basis, exceed 5%, the transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, has been established to advise the Independent Shareholders on whether the terms of the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, we have not acted as an independent financial adviser to the independent board committee and/or independent shareholders of the Company. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, NIC, and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information, facts and opinions were true, accurate and complete in all material aspects and will remain so up to the timing of the EGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, or to doubt the truth, accuracy or completeness of the information provided. We have not conducted any independent investigation into the business, affairs and financial position of the Group or NIC, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Fuel Supply Agreement with NIC (including the Revised Annual Caps), we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for the Fuel Supply Agreement with NIC and the Revised Annual Caps

The Group is principally engaged in the mining, processing, transportation and sale of coking coal. It owns two open-pit coking coal mines at the UHG mine site and the BN mine site, both located in South Gobi, Mongolia. As stated in the Group's 2016 annual report, UHG mine site and BN mine site were estimated to contain 680 million tonnes and 330 million tonnes of measured, indicated and inferred coal resources respectively as at 31 December 2016 and 30 June 2015, respectively.

The Group has, since 2012, suffered from a reduction in profitability due to, among others, a decline in demand of coking coal from China, the Group's principal market. The Group has triggered the events of default under certain of the Group's indebtedness positions in March 2016. As set out in the announcement of the Company dated 21 July 2016, joint provisional liquidators (the "**Joint Provisional Liquidators**") have been appointed to assist the Company and the Board with the implementation of the restructuring of the Group's debt. As at the Latest Practicable Date, relevant schemes to effect the debt restructuring have been approved by the scheme creditors and become effective as a matter of relevant laws. The above debt restructuring is expected to include the allotment and issuance of new Shares to participating scheme creditors, comprising 10% of the issued share capital of the Company as enlarged by the issue of the new Shares, as set out in the announcement of the Company dated 26 April 2017. Further, as set out in the announcement of the Company dated 5 May 2017, all winding up proceedings in the Cayman Islands in respect of the Company will come to an end within the month of June 2017, and the Joint Provisional Liquidators will apply for an order withdrawing the Company's winding up petition and discharging their appointment as Joint Provisional Liquidators within the month of June 2017 as per availability of the Cayman Court.

Independent Shareholders should note that Somerley's opinion and recommendation as set out in this letter relates solely to the Fuel Supply Agreement with NIC and the Revised Annual Caps, on the assumption that the Group carries on as a going concern. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. As advised by the Company, it will publish further announcements to update the Shareholders and potential investors on progress of discussions with its creditors as and when necessary.

Fuel Supply Agreement with NIC

The UHG mine site and the BN mine site require for their operation the use of large scale mining equipment, which in turn needs a substantial amount of diesel fuel to operate. The mine sites also require diesel fuel for the operation of transporting infrastructure and various other machinery and equipment located at the mines. Energy Resources, an indirect wholly-owned subsidiary of the Company, has been purchasing fuel products from NIC pursuant to the Old Fuel Supply Agreement with NIC, which was approved by the then independent shareholders of the Company at a shareholders' meeting held on 27 November 2013. Such agreement has expired on 31 December 2016.

To ensure a stable source of fuel supply for the mining activities of the Group in the coming three years, the Group has considered to source fuel from a supplier on the basis of a public tender process. Accordingly, it has conducted a national competitive bid process in June 2016 for the selection of a supplier of fuel products and related services, in the same manner as prior to the signing of the Old Fuel Supply Agreement with NIC in October 2013. According to management of the Group, the bidding and selection process was organised according to the internal procurement procedures of the Group. Five pre-qualified bidders who hold above 5% of fuel market share in Mongolia were invited to join the tendering process. Proposals submitted by the bidders were reviewed by the Group's tendering team, who then prepared a bid evaluation report in respect of past experience and commercial, legal, technical and financial aspects for the Group in order to evaluate the bid documents submitted by the bidders. The Directors have confirmed to us that NIC's bid was evaluated to be the most favourable in terms of consideration and the overall coverage of the services among the bidding proposals received.

The negotiation with NIC in relation to the fuel supply has been concluded, with the Fuel Supply Agreement with NIC entered into between the Group and NIC on 11 May 2017, for the supply of fuel products and related services for the Group's mining and site operations at the UHG mine site and the BN mine site, for the period from 15 June 2017 to 31 May 2020.

NIC is principally engaged in import, marketing and distribution of petroleum products in Mongolia. As set out in the letter from the Board in the Circular, NIC has 72 years of experience in the petroleum industry, and holds 55% of the domestic market of refined petroleum products and partakes in 61% of total petroleum imports. NIC is the only fuel company with a national distribution network of storage terminals and distribution facilities, including 19 regional storage depots, 400 gas stations and 38 depots. The Directors believe that NIC will be able to provide reliable fuel supply and site services that meet the Company's operational and safety requirements at the lowest cost to the Company.

The December Agreement

Given that negotiations with NIC in relation to the Fuel Supply Agreement with NIC had not been concluded before the expiry of the Old Fuel Supply Agreement with NIC on 31 December 2016, the Group has since then bought fuel in the open market. The Company separately entered into the December Agreement on 28 December 2016 as regards to the provision of domestic fuel transportation, storage and fueling services to the Group for the fuel purchased in the open market, as detailed in the announcement of the Company dated 28 December 2016. The transactions contemplated under it were subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As set out in such announcement, NIC was considered as the only potential service provider in terms of their technical capacity with a relevant large warehouse fuel storage facility, and capable infrastructure at the UHG mine site, to meet the operational and safety requirements of the Group.

The Fuel Supply Agreement with NIC is non-exclusive in nature, such that the Group will not be prohibited from purchasing fuel products from third parties, affording the Group with the flexibility to use other fuel suppliers. The December Agreement will remain in place concurrently to the Fuel Supply Agreement with NIC, which affords the Group with the option to buy fuel from suppliers other than NIC while using NIC as the fuel transportation and distribution provider. Independent Shareholders should also note that the December Agreement will not subsist if the Fuel Supply Agreement with NIC and the Revised Annual Caps are not approved at the EGM, as confirmed by the Company.

2. Principal terms of the Fuel Supply Agreement with NIC

Pursuant to the Fuel Supply Agreement with NIC, NIC conditionally agreed to supply fuel products and provide other related services, including fueling and storage services, for the mining activities and site operations at the UHG mine site, the BN mine site and any other location that the Company may request. The Fuel Supply Agreement with NIC is non-exclusive in nature such that the Group will not be prohibited from purchasing fuel products and related services from third parties, affording the Group with the flexibility to engage other fuel suppliers.

In broad terms, the supply of fuel products and related services by NIC comprises the following:

– Supply of diesel at the UHG mine site and the BN mine site for both mining and non-mining use;

– provide fueling and distribution services for mining and non-mining machinery and equipment at mine pit using fueling trucks;

– provide fueling service for the trucks and non-mining vehicles at fuel stations; and

– store a normal and emergency reserve of diesel for the Group at its own storage facilities.

The Fuel Supply Agreement with NIC will be effective for the period from 15 June 2017 to 31 May 2020, conditional upon the obtaining of the requisite approval from the Independent Shareholders at the EGM. The maximum consideration payable by the Group to NIC under the

December Agreement and the Fuel Supply Agreement with NIC is approximately USD218.1 million inclusive of VAT, other applicable taxes and all other costs associated with the goods and services provided by NIC, being the sum of the Revised Annual Caps for the three years ending 31 May 2020. The payment for the fuel supply and related services is to be made on a monthly basis within 60 days upon receipt of valid invoices from NIC.

The maximum consideration payable by the Group to NIC was determined after arm's length negotiation between the Company and NIC based on the pre-determined formula as set out below and taking into account the annual volume of fuel required for the mine operation in the coming three years having regard to the mining production plans of the Group; the fee quotation and cost structure of the services to be provided as submitted by NIC; and the business development plan of the Group.

Late payment penalty shall be incurred on delayed payments calculated from the first delayed date at a rate of 1.5% per month. NIC shall pay a delay penalty to the Company at the rate of 0.5% of the outstanding amount per day for each delayed service without considering the reasons for the delay. The maximum delay penalty for NIC is up to 50% of the total amount of payments for total effective period of the Fuel Supply Agreement with NIC in addition to any insurance coverage. We also note that NIC shall provide a credit line for fuel purchases in the amount of MNT30 billion (approximately USD12.4 million). Should the outstanding credit amount reach this threshold, NIC shall have the right to suspend the supply of fuel until the outstanding amount is reduced to a level below such credit line limit.

As set out in the letter from the Board, the pricing for fuel products is based on "cost plus margin" principal and is calculated by a pre-determined formula which consists of four major parts, (i) fuel import price at Mongolian border which is determined by fuel purchase agreements executed between NIC and international fuel suppliers; (ii) taxes and fees set by the Government of Mongolia; (iii) transportation and logistics as well as storage costs (on a per tonne basis) and fueling service costs (on a per litre basis); and (iv) a fixed margin of 3% to be added on top of components stated in above items (i) to (iii). According to the formula, over 85% of the fuel pricing is directly attributable to fuel import price and taxes and fees which are charged at cost by NIC. As stated in the letter from the Board, in order to ensure that the DAF price is competitive, the Group has internal controls in place to ensure that such price will not be higher than the average DAF price of the top five fuel importers, who together constitute over 90% of the fuel supplier market share in Mongolia. In addition, the Company noted that all other costs within the price component quoted by other fuel suppliers such as railway transportation cost, loading/unloading cost at railway station, transportation cost to the Group's site, transportation tariff, warehouse storage cost, and cost of fueling were the lowest in the market. The Company confirms that it will compare the prices offered by the NIC with other third party suppliers on a monthly basis, to ensure that the actual fuel price and other cost components charged by NIC will be no less favourable than those charged by the third parties during the term of the Fuel Supply Agreement with NIC.

For further details of the Fuel Supply Agreement with NIC, please see the section headed "Continuing Connected Transactions under the Fuel Supply Agreement with NIC" in the letter from the Board in the Circular.

Comparison of terms of the Fuel Supply Agreement with NIC with an independent third party

We have discussed with management of the Group and reviewed the bid evaluation report prepared by the Group's tendering team. We have also reviewed the five evaluation criteria (each with different weightings for arriving at an overall score), which reference past experience and commercial, legal, technical and financial aspects. We note that the Group's procurement group evaluated NIC's bid on the basis of the above criteria, and on this basis concluded NIC's suitability.

The pricing formula for fuel products is summarised in the section above. While the price components relating to the fuel and relevant taxes (which together comprise approximately 85% of the total costs, based on recent relevant fuel prices) are based on the actual cost charged by the relevant third party, all other components of the total price have been determined following negotiations between the parties, with reference to price quotations by other providers in the market, which have provided a breakdown of their fees and are based on a fixed price per unit. In order to substantiate the above, we have reviewed the current fuel supply contract between the Group and an independent third party fuel supplier, and note that such third party contract contained similar price components as under the Fuel Supply Agreement with NIC. The operation costs in such third party contract were higher as compared to those under the Fuel Supply Agreement with NIC, and the fixed margin of 3% charged by NIC is equal to or lower than the margin charged by the independent third party fuel supplier. Accordingly, we consider that the overall terms offered by NIC, on the basis of a similar pricing mechanism compared to other fuel suppliers, compare favourably to the terms offered by the independent third party, as outlined above.

Pricing basis of fuel products under the Fuel Supply Agreement with NIC

In relation to the pricing basis of the fuel products to be supplied under the Fuel Supply Agreement with NIC, in view of the fact that (i) it is cost-based (including taxes, levies and suppliers' costs components) which is the same for other fuel importers and (ii) the DAF price will not be higher than a market average, as set out in the section above, we consider that the pricing basis of the fuel products to be supplied under the Fuel Supply Agreement with NIC to be fair and reasonable.

3. Principal terms of the December Agreement

As set out in the announcement of the Company dated 28 December 2016, pursuant to the December Agreement, NIC agreed to provide following services to the Group for the period from 1 January 2017 to 31 December 2019:

– Receipt of fuel from the places or border points designated by Energy Resources;

– fuel transportation by train from the designated places to Sainshand and storage of fuel thereat;

– fuel transportation by truck from Sainshand to UHG storage; and

– fuel distribution to the machines, facilities and equipment in the mining zone of Energy Resources by either its fuel station or site service facility.

The maximum consideration payable by the Group to NIC under the December Agreement is approximately USD14.5 million, inclusive of all costs associated with the services provided by NIC. Invoices will be issued on a monthly basis and the Company is required to settle payment within 15 days upon receipt of valid invoice from NIC. No mobilisation and de-mobilisation payments are to be made by the Group. Interest shall be incurred on delayed payments calculated from the 31st day of such delay at a rate of 0.04% per day.

The annual caps for the December Agreement are approximately USD4.8 million for each of 2017, 2018 and 2019, and were determined based on the annual volume of fuel required for the UHG mine operation, the business development plan of the Group and other contingent costs. Details of the Revised Annual Caps are set out in the section headed "Revised Annual Caps".

4. Revised Annual Caps

(i) Review of historical figures

Set out below the historical transaction amounts and the relevant annual caps under the Old Fuel Supply Agreement with NIC for each of the three years ended 31 December 2014, 2015 and 2016 (the "**Review Period**"):

(USD million)	**For the year ended 31 December**		
	2014	**2015**	**2016**
Historical transaction amounts (excluding VAT)	38.0	13.0	18.9
Historical transaction amounts (including VAT)	41.8	14.3	20.8
Approved annual caps (including VAT)	202.8	254.6	327.0
Utilisation rate	20.6%	5.6%	6.4%

The above table shows that utilisation rates of the relevant annual caps under the Old Fuel Supply Agreement with NIC were at relatively low levels during the Review Period, being approximately 20.6%, 5.6% and 6.4% respectively. As advised by management of the Group, such low utilisation rates were principally due to (i) reduced mining activities and transportation volume, given a depressed market situation for coking coal products during the Review Period, principally as a result of a declining overall demand from China, and (ii) a decline in international gasoline prices since 2014 (albeit with a slight recovery since the beginning of 2016), and changes in excise and customs duties of imported gasoline and diesel charged by the Government of Mongolia. Accordingly, less fuel was purchased from NIC, as a result of reduced levels of production at the Group's UHG mine site and the BN mine site.

As set out above however, the historical transaction amounts increased from approximately USD14.3 million in 2015 to approximately USD20.8 million in 2016. As set out in the Company's 2016 annual report, following an increase in steel production in China in the second half of 2016, demand for coking coal improved in lockstep, with CME Australia benchmark contract prices for hard coking coal (the "**Australia Benchmark Prices**") of approximately USD200 per tonne in the fourth quarter of 2016. In line with such market rebound, the Group's coal production increased to approximately 2.1 million tonnes in the second half of 2016, representing an increase of approximately 126.8% compared to the first half of 2016, which had the effect of increasing the corresponding volume of fuel consumed.

The historical transaction amount under the December Agreement for the three months ended 31 March 2017 was approximately USD203,774 (inclusive of VAT), representing approximately 4.2% of the relevant annual cap for the year of 2017 of approximately USD4.8 million. Such low utilisation rate was mainly due to the fact that the Group did not engage NIC to provide extensive transportation services in the first quarter of 2017, because third party fuel suppliers delivered the fuel products to relevant operational sites of the Group direct, with NIC providing on-site fuel distribution services.

(ii) Assessment of the Revised Annual Caps

Set out below are the Revised Annual Caps for the period from 1 January 2017 to 31 May 2020:

(USD million)	**For the year ending 31 December 2017**	**For the year ending 31 December 2018**	**For the year ending 31 December 2019**	**For the five month period from 1 January 2020 to 31 May 2020**
Revised Annual Caps	30.0	73.4	79.8	34.9

In assessing the reasonableness of the Revised Annual Caps, we have reviewed and discussed with management of the Group bases and assumptions underlying the projections of the mining activities, transportation volume and fuel required for mine operations during the term of the Fuel Supply Agreement with NIC. As set out in the letter from the Board in the Circular, the Revised Annual Caps were determined with reference to (i) the annual volume of fuel required for the mine operation in the coming three years having regard to the mining production plans of the Group; (ii) the tender offer submitted by NIC; (iii) the historical transaction amounts in respect of fuel supply transactions with NIC under the Old Fuel Supply Agreement with NIC for the three financial years ended 31 December 2016; (iv) the historical transaction amount in respect of December Agreement for the three months ended 31 March 2017; (v) the original annual caps set for the transaction under the December Agreement; and (vi) a buffer to accommodate a possible increase in production, possible inflation, future fluctuations in exchange rates, and possible changes in fuel price.

As set out in the Company's 2016 annual report, international coking coal spot prices drastically jumped in the fourth quarter of 2016, driven by elevated demand from China. According to our research, consensus forecasts made by industry analysts (as extracted from Bloomberg) forecast relevant prices to decrease by approximately 32.3% in 2018 and subsequently increase by 2.2% and 4.3% in 2019 and 2020, respectively, albeit still being approximately twice as high as in mid-2016. As advised by management of the Group, it is expected that the Group will increase its production and sales volumes in 2017 by increasing its mining activities, on the basis of an improved coking coal market situation, and remain stable in 2018 to 2020, off the back of a stabilised coking coal price.

We have reviewed and discussed with management of the Group the methodology for forecasting an increase in production volumes in 2017. Such forecast is primarily made with reference to the ability of the Group to ramp up its production on the basis of the increased coking coal price. We have reviewed the mining production volumes in 2016 and the first quarter of 2017, and noted that the Group has been in the process of increasing its production since the second half of 2016, with production of hard coking coal in the first quarter of 2017 representing an increase of approximately 212.3% when compared to the same period in 2016. As a secondary check, we have made reference to a report published by the Joint Provisional Liquidators in August 2016, which sets out projections for the Group's hard coking coal output, amounting to 4.5 million tonnes in 2017 and 6.1 million tonnes in both 2018 and 2019, under a conservative scenario. It was assumed, under a conservative scenario, among others, that (i) the current operating structure of the Group remains unchanged, and (ii) sales volumes will increase on the basis of a growth in hard coking coal demand from China. The above report also makes reference to the view that China landborne hard coking coal imports are expected to rise by approximately 75% between 2016 to 2022, which is based on a third-party mining, metals and energy-focused research and consultancy firm. The estimated production volumes in 2017 pursuant to the Joint Provisional Liquidator's report are in line with the Group management forecasts as reflected in the Revised Annual Caps. The forecast by management of the Group for the years 2018 and 2019 for the total yearly hard coking coal output is based on the 2017 forecast, and assumes comparable outputs in 2018 and 2019 on the basis of the Group's coal processing capacity, similar to the forecast made by the Joint Provisional Liquidators, as mentioned above. Management of the Group confirms that the production forecasts made when estimating the Revised Annual Caps are broadly in line with the forecasts made by the Joint Provisional Liquidators. Proportional to the estimated increases in production volumes, the Directors projected a corresponding increase in fuel consumption, in line with the increased mining activities, when setting the Revised Annual Caps.

The assumed fuel price for 2017 is based on the most recent DAF fuel price at border, and the rate schedules and formula under the Fuel Supply Agreement with NIC. In addition, the Revised Annual Caps factor in year-on-year growth in a range of approximately 5% to 10% as regards unit fuel price in 2018 to 2020. We have researched consensus forecasts made by industry analysts (as extracted from Bloomberg) in relation to relevant fuel forecasts and note that the abovementioned growth rate is generally in line with consensus forecasts for relevant prices in 2017 to 2020, and on this basis we consider the assumed growth rates reasonable.

The annual caps also take into account services under the December Agreement for the period from 1 January 2017 to 31 May 2017, before the Fuel Supply Agreement with NIC is expected to come into effect. For this purpose, relevant transportation and other services charges are calculated in accordance with the tariffs and formula as set out in the December Agreement, the components of which were determined with reference to general market rates. We understand from the Company that NIC is the only supplier having the ability to store the fuel products and distribute them to the Group's mining facilities, and that the transportation charges by NIC are on terms no less favourable than those changed by other service providers. We have reviewed and discussed the calculation of the relevant services charges with management of the Group and reviewed transportation charges supplied by other services providers in the market that were procured by the Group, on a sample basis. The prices quoted for the transportation charges were in general less favourable than those offered under the December Agreement.

In estimating the Revised Annual Caps, the Directors have also taken into account a buffer of 20% of the transaction amount, to accommodate a possible increase in production volumes and, correspondingly, fuel consumption, expected future inflation in Mongolia, fluctuations in exchange rates, and possible changes in fuel prices. The Company also considers that the buffer takes into account the potential for an increase in fuel consumption due to expansion of mine pits, hence increase of hauling distance. We have discussed with the management of the Group the abovementioned factors which give rise to the buffer. In addition to our research as regards fuel price forecasts as discussed above, we note that the annual inflation rate in Mongolia between 2012 and 2016 was approximately 7.5%, and the Mongolian Togrog has depreciated against the US dollar by more than 30% in the past three years, according to statistics published by the Central Bank of Mongolia. The Group purchases its fuel denominated in Mongolian Togrog, the pricing of which the Company considers to be sensitive to fluctuations in both inflation and currency exchange rates. The same buffer of 20% was adopted by the Company when setting the annual caps under the Old Fuel Supply Agreement with NIC, and the Company considers it appropriate to retain such level of buffer when in estimating the Revised Annual Caps. In light of the above uncertainties surrounding the future transaction amount, in particular the exceptionally large fluctuation in currency and the relative high inflation rate in the past according to our research, we concur with the Company's assessment and consider it reasonable for the Company to incorporate a buffer for arriving at the Revised Annual Caps.

5. Internal control measures, reporting requirements and conditions of the continuing connected transactions

Internal control measures by the Company

As set out in the letter from the Board in the Circular, the Company has a number of internal control measures in place as regards to its continuing connected transactions, which include:

– The controlling department of the Company regularly monitors the actual amounts incurred for the continuing connected transactions for the purpose of ensuring the relevant annual caps are not exceeded

– The internal control and risk management team of the Company organises and runs internal control tests regularly to evaluate the completeness and effectiveness of the internal control measures in relation to continuing connected transactions

– The internal audit department conducts an annual review of the continuing connected transactions and reports its findings to the Audit Committee of the Company

– The Board conducts annual review on the implementation of the continuing connected transactions and conducts review of financial statements which include the disclosure and analysis of the implementation of the continuing connected transactions every six months

Requirements under the Listing Rules

Pursuant to Listing Rules 14A.55 to 14A.59, the continuing connected transactions contemplated under the Fuel Supply Agreement with NIC are subject to the following annual review requirements:

(a) The independent non-executive Directors must review the continuing connected transactions under the Fuel Supply Agreement with NIC every year and confirm in the annual report whether the transactions have been entered into:

(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 Shareholders as a whole;

(b) The Company must engage its auditors to report on the continuing connected transactions under the Fuel Supply Agreement with NIC every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions under the Fuel Supply Agreement with NIC:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions under the Fuel Supply Agreement with NIC involve the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions under the Fuel Supply Agreement with NIC; and

(iv) have exceeded the Revised Annual Caps;

(c) the Company must allow, and ensure that the counterparties to the continuing connected transactions under the Fuel Supply Agreement with NIC allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the continuing connected transactions under the Fuel Supply Agreement with NIC as set out in paragraph (b);

(d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the continuing connected transactions under the Fuel Supply Agreement with NIC, in particular, (i) the restriction of the value of the continuing connected transactions under the Fuel Supply Agreement with NIC by way of the Revised Annual Caps; and (ii) the requirements under the Listing Rules on the ongoing review by the independent non-executive Directors and auditors of the Company on the terms of the continuing connected transactions and the Revised Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the continuing connected transactions and assist in safeguarding the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Fuel Supply Agreement with NIC is on normal commercial terms and entered into in the ordinary and usual course of business of the Group. We further consider that the transactions contemplated under the Fuel Supply Agreement with NIC and the Revised Annual Caps are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the Fuel Supply Agreement with NIC and the Revised Annual Caps.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the SFC and a responsible officer of Somerley, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over nine years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENTS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up.

3. DISCLOSURE OF INTERESTS

(a) Directors and chief executive

As at the Latest Practicable Date, the following Directors and chief executive of the Company had interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange:

Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of issued Shares held	Approximate percentage of total issued share capital of the Company
Mr. Odjargal Jambaljamts *(Note 1)*	Interest of controlled corporation	3,693,241,531	35.89%
Mr. Od Jambaljamts *(Note 2)*	Interest of controlled corporation	3,497,356,251	33.98%

Name of Director	Capacity	Number of issued Shares held	Approximate percentage of total issued share capital of the Company
Dr. Oyungerel Janchiv *(Note 3)*	Interest of controlled corporation	112,833,333	1.10%
Dr. Battsengel Gotov *(Note 4)*	Beneficial owner	111,764,707 *(Note 6)*	1.09%
Mr. Gankhuyag Adilbish *(Note 5)*	Interest of controlled corporation	11,819,579	0.11%

Short positions in the Shares and underlying Shares

Name of Director	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Mr. Odjargal Jambaljamts *(Note 1)*	Interest of controlled corporation	36,679,681	0.36%
Mr. Od Jambaljamts *(Note 2)*	Interest of controlled corporation	142,984,588	1.39%
Mr. Gankhuyag Adilbish *(Note 5)*	Interest of controlled corporation	11,819,579	0.11%

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 in 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 in the Company 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) The Company granted to Dr. Battsengel Gotov a total of 111,764,707 share options under the share option scheme (the "**Share Option Scheme**") granted by the Company on 12 October 2011, 28 November 2012, 10 June 2015 and 8 May 2017.

(5) 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.

(6) This represents the total number of underlying Shares held pursuant to share options under the Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company nor their respective associates 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 (a) 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 he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as was known to the Directors and chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and 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, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any option in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in the Shares and underlying Shares

Name of Shareholder	Capacity	Number of issued Shares held	Approximate percentage of total issued share capital of the Company
MCS Mining Group Limited *(Note 1)*	Beneficial owner	3,231,593,984	31.40%

Name of Shareholder	Capacity	Number of issued Shares held	Approximate percentage of total issued share capital of the Company
MCS (Mongolia) Limited *(Note 1)*	Interest of controlled corporation	3,231,593,984	31.40%
MCS Global Limited *(Note 1)*	Interest of controlled corporation	3,231,593,984	31.40%
MCS Holding LLC *(Note 1)*	Interest of controlled corporation	3,231,593,984	31.40%
Novel Holdings Group Limited *(Note 1)*	Interest of controlled corporation/Beneficial owner	3,693,241,531	35.89%
Trimunkh Limited *(Note 1)*	Interest of controlled corporation/Beneficial owner	3,497,356,251	33.98%
Ms. Batmunkh Dashdeleg *(Note 1)*	Interest of spouse	3,693,241,531	35.89%
Ms. Munkhsuren Surenkhuu *(Note 1)*	Interest of spouse	3,497,356,251	33.98%
Kerry Mining (UHG) Limited ("**KMUHG**") *(Note 2)*	Beneficial owner	750,000,000	7.29%
Kerry Mining (Mongolia) Limited ("**KMM**") *(Note 2)*	Interest of controlled corporation	750,000,000	7.29%
Fexos Limited ("**Fexos**") *(Note 2)*	Interest of controlled corporation	756,890,120	7.35%
Kerry Holdings Limited ("**KHL**") *(Note 2)*	Interest of controlled corporation	775,780,883	7.54%
Kerry Group Limited ("**KGL**") *(Note 2)*	Interest of controlled corporation	1,216,351,874	11.82%

Short positions in the Shares and underlying Shares

Name of Director	**Capacity**	**Number of issued Shares held**	**Approximate percentage of total issued share capital of the Company**
MCS Mining Group Limited *(Note 1)*	Beneficial owner	36,679,681	0.36%
MCS (Mongolia) Limited *(Note 1)*	Interest of controlled corporation	36,679,681	0.36%
MCS Global Limited *(Note 1)*	Interest of controlled corporation	36,679,681	0.36%
MCS Holding LLC *(Note 1)*	Interest of controlled corporation	36,679,681	0.36%
Novel Holdings Group Limited *(Note 1)*	Interest of controlled corporation	36,679,681	0.36%
Trimunkh Limited *(Note 1)*	Interest of controlled corporation/Beneficial owner	142,984,588	1.39%
Ms. Batmunkh Dashdeleg *(Note 1)*	Interest of spouse	36,679,681	0.36%
Ms. Munkhsuren Surenkhuu *(Note 1)*	Interest of spouse	142,984,588	1.39%

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 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.

(c) Out of KGL's corporate interest in 1,216,351,874 shares of the Company, KGL's wholly-owned subsidiaries (other than KHL) were interested in 440,570,991 shares of the Company, KHL (through its subsidiaries and companies that it controls more than one-third of the voting power) was interested in 775,780,883 shares of the Company.

Other than as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

4. DIRECTORS' INTEREST IN SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or is proposing to enter into any service contract with the Company or any member of the Group which may not be terminated by the Company or the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) was considered by the Company to have interests in business which compete, or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules, other than those business in which such directors have been appointed to represent the interests of the Company and/or other members of the Group.

6. EXPERT'S QUALIFICATION AND CONSENT

(a) Somerley is a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.

(b) As at the Latest Practicable Date, Somerley did not have any shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

(d) The letter and recommendation given by Somerley are given as of the date of this circular for incorporation herein.

(e) Somerley had no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up. No contract or arrangement subsisted as at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Group.

8. GENERAL

(a) The registered office of the Company is situated at P.O. Box 258, 18 Forum Lane, Camana Bay, Grand Cayman, KY1-1104, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text in case of any discrepancy.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the Company's principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong during normal business hours on any weekday (except for public holidays) from the date of this circular up to and including the date of the EGM:

(a) the Fuel Supply Agreement with NIC;

(b) the letter from the Independent Board Committee, the text of which is set out on page 18 of this circular;

(c) the letter from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 32 of this circular;

(d) the written consent of Somerley referred to in paragraph 6(c) above; and

(e) the memorandum and articles of association of the Company.

MONGOLIAN MINING CORPORATION

(In Provisional Liquidation)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "Meeting") of Mongolian Mining Corporation (the "Company") will be held at 10:30 a.m. on Wednesday, 14 June 2017 at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

"**THAT**

(a) the entering into of the Fuel Supply Agreement with NIC (as defined in the circular of the Company dated 26 May 2017 (the "Circular") of which this notice forms part) entered into between Energy Resources LLC and NIC LLC (a copy of the Fuel Supply Agreement with NIC was tabled at the meeting marked "A" and signed by the Chairman for the purpose of identification) pursuant to which NIC LLC supplies fuel products and provides other related services for the mining activities and site operations at the UHG mine site and BN mine site to the Company and its subsidiaries (the "Group") and the transactions contemplated thereunder and the relevant Revised Annual Caps for the continuing connected transactions under the Fuel Supply Agreement with NIC and the December Agreement (as defined in the Circular) be and is hereby approved, ratified and confirmed; and

(b) any one of the Director of the Company be and is hereby authorized to execute all documents, do all acts and things and take all steps which in his/her opinion he/she may consider necessary, desirable and expedient for the implementation of and giving effect to the Fuel Supply Agreement with NIC and the transactions contemplated thereunder."

Yours faithfully,
For and on behalf of the Board
Mongolian Mining Corporation
(In Provisional Liquidation)
Odjargal Jambaljamts
Chairman

Hong Kong, 26 May 2017

Notes:

(a) A member entitled to attend and vote at the Meeting may appoint a proxy or, if holding two or more shares, more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(b) To be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof must be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the Meeting (i.e. before 10:30 a.m. on Monday, 12 June 2017) or adjournment thereof.

(c) For determining the entitlement to attend and vote at the Meeting, the Register of Members will be closed from Friday, 9 June 2017 to Wednesday, 14 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 8 June 2017.

(d) References to time and dates in this notice are to Hong Kong time and dates.

(e) If typhoon signal number 8 or above remains hoisted or a black rainstorm warning signal is in force at 9:00 a.m. on the date of the Meeting, the Meeting will be postponed. Shareholders are requested to visit the website of the Company at www.mmc.mn for details of alternative meeting arrangements. The Meeting will be held as scheduled when an amber or red rainstorm warning signal is in force. Shareholders should make their own decision as to whether they would attend the Meeting under bad weather conditions bearing in mind their own situation and if they should choose to do so, they are advised to exercise care and caution.