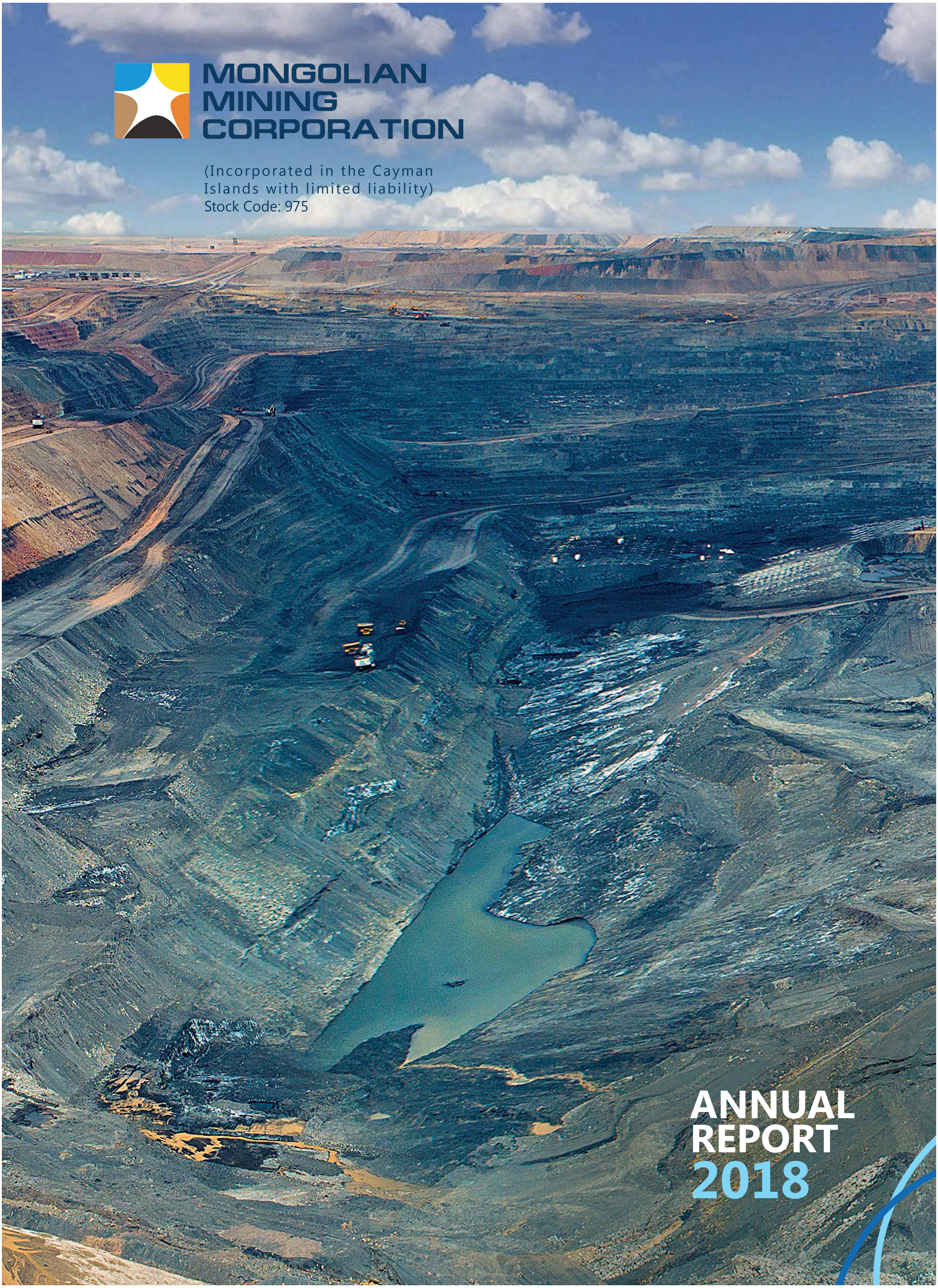
MONGOLIAN MINING CORPORATION

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



ANNUAL REPORT 2018

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COMPANY PROFILE

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

MISSION, VISION AND VALUES

OUR MISSION:

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

OUR VISION:

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

OUR VALUES AND OBJECTIVES:

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-Executive Directors
Od Jambaljamts
Enkhtuvshin Gombo
Enkhtuvshin Dashtseren

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Cheung Yuet Fan

INDEPENDENT AUDITOR

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

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Cheung Yuet Fan

LEGAL ADVISERS

Davis Polk & Wardwell
8th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

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

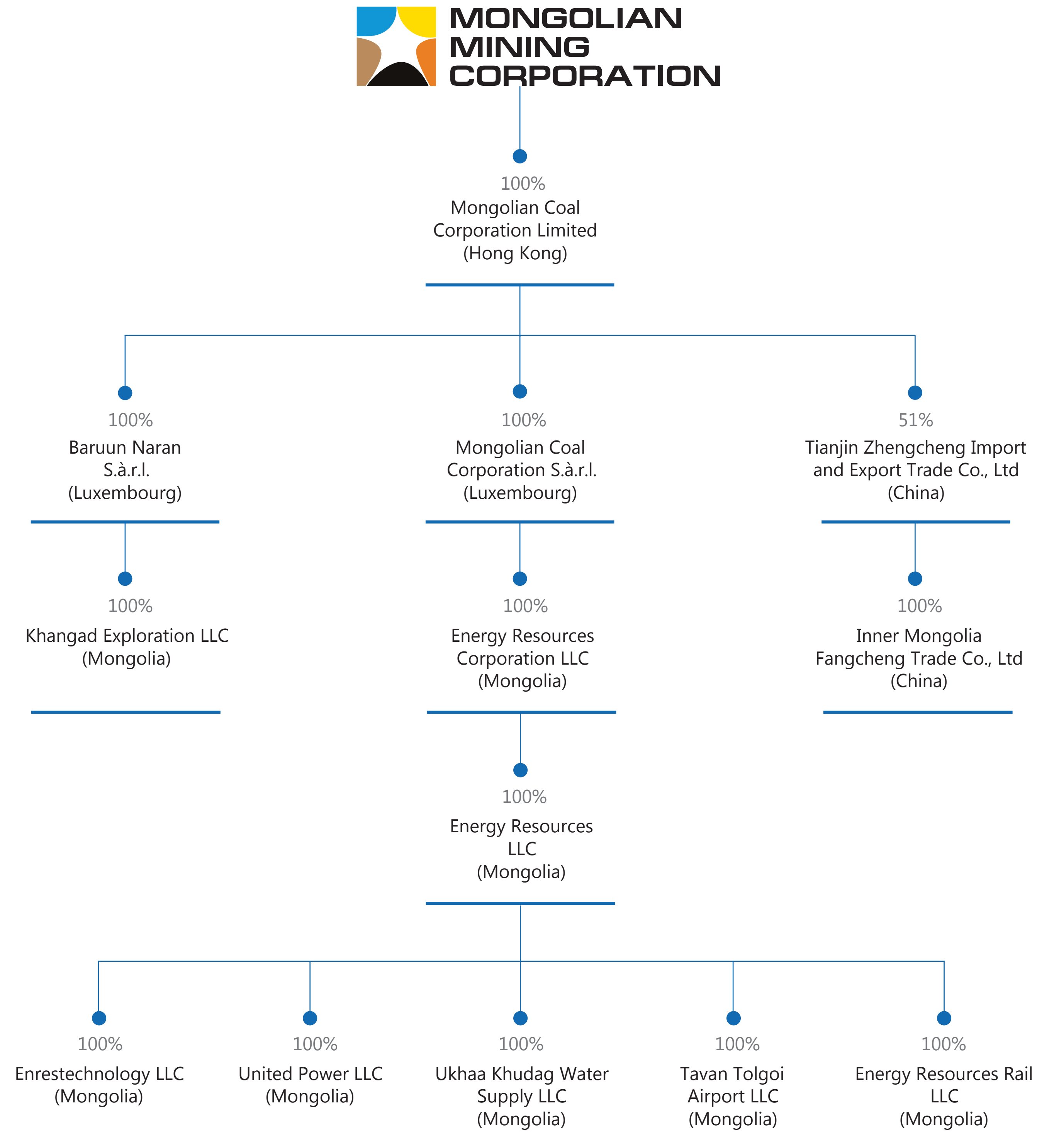
COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

GROUP STRUCTURE
(as at 31 December 2018)



DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Odjargal Jambaljamts, aged 53, is an executive Director and Chairman of the board (the "**Board**") of directors (the "**Directors**") of the Company. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is also the Chairman of the Nomination Committee and member of the Remuneration Committee. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC (a controlling shareholder of the Company, and together with its subsidiaries, the "**MCS Group**"). Mr. Jambaljamts has been a director of Starain Limited since January 2011, director of Novel International Investment Limited and director of Novel Holdings Group Limited since March 2012. He was appointed as a director of MCS (Mongolia) Limited, MCS Mining Group Limited and MCS Global Limited since July 2012, of which MCS Mining Group Limited is a controlling shareholder of the Company. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at the Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

Battsengel Gotov, aged 46, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. He joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. Since 2004, Dr. Gotov has served at various managerial positions in the MCS Group. He was appointed as the Chief Executive Officer of Khangad Exploration LLC on 7 December 2012. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation, and stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov is a board member of the Mongolian National Mining Association. He was appointed as a member of the Mineral Resources Policy Council on 7 October 2014. He was also appointed as the chairman and board member of the Mongolian Coal Association in May 2016. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

Od Jambaljamts, aged 54, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Corporate Governance Committee. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within the MCS Group. He was appointed as the president of Ulaanbaatar Chamber of Commerce in March 2015 and was re-designated as a member of its board in January 2017. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in a diversity of fields. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts is also a director of MCS (Mongolia) Limited, MCS Mining Group Limited and MCS Global Limited since July 2012 and director of Trimunkh Limited since July 2011, of which MCS Mining Group Limited is a controlling shareholder of the Company. Mr. Jambaljamts was awarded a bachelor's degree in International Relations by the Institute for International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

Enkhtuvshin Gombo, aged 47, is a non-executive Director of the Company. Ms. Enkhtuvshin was appointed as a non-executive Director of the Company on 30 September 2017. She is also a member of the Audit Committee. Ms. Enkhtuvshin is the vice president of MCS Holding LLC, a controlling shareholder of the Company. Ms. Enkhtuvshin joined MCS Holding LLC in 2003 as a financial analyst, and was subsequently appointed the head of the Planning Unit under the Finance Department in 2006. Ms. Enkhtuvshin became the vice president and director of the Finance Department of MCS Holding LLC in 2008. Since her appointment by MCS Holding LLC, she successfully organized the first international auditing within the MCS Group and established a strong financial team, good relationships with international financial organizations as well as with commercial banks. In addition, Ms. Enkhtuvshin has previously served as a non-executive Director and a member of the Audit Committee of the Company for the period from its initial public offering on 13 October 2010 to 12 October 2014. Ms. Enkhtuvshin was awarded a bachelor's degree in Banking and Finance by the Economics College of Mongolia in 1994. In 1997, she was awarded a master's degree in International Banking and Finance at Birmingham University Business School, Birmingham, United Kingdom.

Enkhtuvshin Dashtseren, aged 43, is a non-executive Director of the Company. Mr. Dashtseren was appointed as a non-executive Director of the Company on 4 January 2018. Mr. Dashtseren is the vice president of MCS Holding LLC, a controlling shareholder of the Company. Mr. Dashtseren joined the MCS Group in 1997 as a financial manager of MCS International LLC, and was appointed as the chief financial officer and vice president of the Finance Department of MCS Group in 2002. Mr. Dashtseren was subsequently appointed as the vice president of Corporate Strategy of MCS Group in 2005. Mr. Dashtseren served as the executive vice president of the Sales and Marketing Department of the Company from 2008 to 2014 and as advisor to the Chairman of the Board until his departure in 2016. During his past tenure with the Company, Mr. Dashtseren had a broad scope of responsibilities in strategic market planning, business development, sales forecasting, marketing, pricing and training of sales personnel. Mr. Dashtseren was the senior sales executive and key person for the sales and marketing of the coal mined at the Ukhaa Khudag mine developed by the Company. He was instrumental in developing an extensive marketing strategy and research for potential coal markets with major focus on the Chinese market. Mr. Dashtseren was awarded a bachelor's degree in Finance and Management by the National University of Mongolia in 1997 and also studied at the London Metropolitan University in London, United Kingdom.

Unenbat Jigjid, aged 56, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Corporate Governance Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. During the period from 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. Mr. Jigjid was a director of Resources Investment Capital from October 2010 to November 2013. Mr. Jigjid has been an executive director of the Corporate Governance Development Center in Mongolia since 2009 and was appointed as the Head of the Center on 30 March 2015. He is also a member of the supervisory board of the Bank of Mongolia and the board of Micro Finance Development Fund. From October 2010, Mr. Jigjid serves as a director of Golomt Bank. He has been the board member of Open Society Forum in Mongolia since March 2011. On 26 April 2013, Mr. Jigjid was appointed as an independent non-executive director of APU JSC, a company listed on the Mongolian Stock Exchange. On 30 April 2015, Mr. Jigjid was appointed as a non-executive director of Mongolia Telecom JSC, a company listed on the Mongolian Stock Exchange and on 6 November 2015, he was appointed as the executive director and secretary general of the Mongolian Bankers Association. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

Khashchuluun Chuluundorj, aged 52, is an independent non-executive Director of the Company. Dr. Khashchuluun was appointed as an independent non-executive Director on 8 January 2016. He is the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Dr. Khashchuluun is a professor at the Department of Economics, a member of the Academic Council of the National University of Mongolia. He serves as an executive director of the Mongolia Oil Shale Association and is engaged in managing a number of non-governmental organizations and research consulting activities. Since 2015, Dr. Khashchuluun has been serving as a member of the working group on Long-term Development Strategy for Mongolia 2016-2030 and a member of the board of directors of Ulaanbaatar City Development Corporation. Dr. Khashchuluun served as a visiting professor at the Russian University of Economics, Russia in 2015. He joined the National University of Mongolia as a lecturer of Political Economy in 1989. He was a member of the National Committee for Millennium Challenge Account Mongolia from 2005 to 2007, a member of the Committee of Long-term Development Plan of Mongolia in 2006, a selected Eisenhower Fellowships Fellow from Mongolia in 2007, a member of board of Open Society Forum in 2008 and a member of the board of directors of Erdenes MGL LLC, a state owned enterprise for strategic mining deposits from 2011 to 2012. From 2014 to 2017, Dr. Khashchuluun was a member of the board of directors of the National University of Mongolia. From 2009 to 2012, Dr. Khashchuluun worked as the chairman of National Development and Innovation Committee of Mongolia, a government agency in charge of national development strategy and investment policy. From 2010 to 2011, he was appointed as the inaugural chairman of the board of directors to lead the establishment of Development Bank of Mongolia, and from 2006 to 2012, he was a member of the board of directors of the Central Bank of Mongolia. From 2004 to 2009, Dr. Khashchuluun worked as a Dean of the School of Economic Studies of the National University of Mongolia, the largest national school of economics and business administration in Mongolia. He also served as a member of the President's Economic Advisory Council from 2006 to 2008 and a member of the Policy Council of the Ministry of Trade and Industry from 2005 to 2007. Dr. Khashchuluun managed government efforts on the introduction of private-public partnership concept and adoption of the Law on Concession, Law on Innovation and Law on Economic Development Planning, and revision of Law on Budget to adopt development policies, introduction of Regional Development index for fiscal transfers, private sector support policies. Dr. Khashchuluun was appointed as an independent director of MIK Holding JSC in June 2017, the shares of which are listed on the Mongolian Stock Exchange. He was also appointed as an independent director of Practical Insurance LLC and Ulaanbaatar Development Corporation JSC in April 2017 and January 2017 respectively. He was re-designated as the chairman of the board of Practical Insurance LLC since May 2018. Dr. Khashchuluun was appointed as an independent member of the Monetary Policy Council of Bank of Mongolia in June 2018. He was appointed as an independent director of each of MMFG Group and Invescore Financial Group in January and November 2018 respectively. Dr. Khashchuluun was awarded a bachelor's degree in economics by the Moscow State University, Moscow, Russia in 1989, a master's degree in economics from the Graduate School of Economics, Yokohama City University, Yokohama, Japan in 1996 and a doctorate degree in international economics by the Graduate School of Economics, Keio University, Tokyo, Japan in 2003.

Chan Tze Ching, Ignatius, aged 62, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and member of the Corporate Governance Committee. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan was appointed as a member of the board of directors of the Community Chest of Hong Kong in September 1999 and was re-appointed on 19 June 2017. From 28 November 2012 to 20 June 2014, Mr. Chan was appointed as an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**" or "**Stock Exchange**"). From 1 March 2011 to 19 June 2016, Mr. Chan was appointed as a member of the Sponsorship and Development Fund of The Open University of Hong Kong. He was appointed as the deputy chief executive of the Bank of China (Hong Kong) Limited in 2008, senior advisor of The Bank of East Asia Limited in March 2009, member of the Council of Hong Kong Red Cross in April 2010, senior advisor of CVC Capital Partners Limited in November 2010, member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission from 19 October 2012. He was re-appointed as a member of the Hong Kong Tourism Board on 1 April 2017, Deputy Chairman of the Council of the Hong Kong Polytechnic University in April 2014 and was further appointed as Chairman of the council on 1 January 2016. He was re-appointed as a member of the Council of Hong Kong Red Cross on 18 November 2016 and a member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission on 19 October 2015. Mr. Chan was appointed as Board Adviser of Hong Kong New Territories General Chamber of Commerce on 28 May 2013. He is also an Honorary Advisory Vice President of The Hong Kong Institute of Bankers from 14 February 2011 and was re-appointed on 1 January 2017. Mr. Chan was appointed as a member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region from 1 January 2014 to 31 December 2015 and was re-appointed on 1 January 2017. Mr. Chan was appointed as a member of the Financial Reporting Council (FRC) on 1 December 2014 and was re-appointed on 1 December 2016. He was appointed as a member of the Standing Committee on Judicial Salaries and Conditions of Service on 1 January 2017. Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited from 11 December 2009 and appointed as an independent non-executive director of Hong Kong Exchanges and Clearing Limited from 23 April 2009 and was re-appointed on 24 April 2015, the shares of which are listed on the Stock Exchange. Mr. Chan was appointed as a non-executive director of Rizal Commercial Banking Corporation (RCBC) on 28 November 2011, the shares of which are listed on the Philippines Stock Exchange. He was appointed as a non-independent non-executive director of Affin Holdings Berhad from 6 August 2013 and was re-appointed on 6 August 2016, the shares of which are listed on Bursa Malaysia. Affin Holdings Berhad's listing on the Malaysian stock exchange was replaced by Affin Bank Berhad on 2 February 2018. He was appointed as a non-independent non-executive director of Affin Bank Berhad on 1 December 2017, the shares of which are listed on Bursa Malaysia on 2 February 2018. He was also appointed as a chairman of PRASAC Microfinance Institution on 14 March 2017. Mr. Chan was awarded the bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Oyunbat Lkhagvatsend, aged 42, is the President and Deputy Chief Executive Officer of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013 and the Chief Executive Officer of Energy Resources Rail LLC on 8 February 2011. Mr. Lkhagvatsend has about 14 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the chief executive officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

Ulemj Baskhuu, aged 40, is an Executive Vice President and the Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company's Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

Uurtsaikh Dorjgotov, aged 55, is an Executive Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Program of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

Baasandorj Tsogoo, aged 57, is the Vice President and Chief Operating Officer of the Company. Mr. Tsogoo was appointed as the Company's Chief Operating Officer on 1 January 2017 and Chief Executive Officer of United Power LLC, Tavan Tolgoi Airport LLC, and Enrestechnology LLC on 10 February 2013, 1 April 2013, and 1 December 2015, respectively. Since 1994, Mr. Tsogoo served at various managerial positions within the MCS Group of companies and worked in highly successful projects in Mongolia, such as the Taishir Hydropower Plant project. Mr. Tsogoo holds a bachelor's degree in civil and hydropower engineering from the Agricultural Institute in Irkutsk, Russia and a master's degree in business administration from the National Academy of Governance in Mongolia.

Tuvshinbayar Tagarvaa, aged 45, is the Vice President and Chief Marketing Officer of the Company. Mr. Tagarvaa was appointed as the Company's Chief Marketing Officer with effect from 1 April 2017. Since 2003, Mr. Tagarvaa served at various managerial positions within the MCS Group of companies and joined the Group in 2011 as an Executive General Manager for Transportation and Logistics which was instrumental in the successful implementation of the Company's efforts to improve efficiency and cost of transportation and logistics while ensuring a stable supply of coal products exported by the Company. Mr. Tagarvaa holds a bachelor's degree and a master's degree in business administration from the Institute of Finance and Economics of Mongolia.

COMPANY SECRETARY

Cheung Yuet Fan, aged 53, is the Company Secretary of the Company. Ms. Cheung is a director of Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional services provider specializing in integrated business, corporate and investor services. The Company has engaged Tricor as external service provider and appointed Ms. Cheung as the Company Secretary of the Company since 30 October 2017.

Ms. Cheung has over 28 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Prior to joining Tricor, Ms. Cheung worked in the corporate secretarial department of Deloitte Touche Tohmatsu in Hong Kong and in various Hong Kong listed companies in the role of company secretary and corporate governance areas. She is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Ms. Cheung obtained a bachelor of arts degree in accountancy from City Polytechnic of Hong Kong (now known as City University of Hong Kong).

CHAIRMAN'S STATEMENT

Dear Shareholders,

International coking coal markets remained strong in 2018, supported by a lift in global steel production along with supply-side reform policies implemented by authorities continuing to limit coal production output in China. According to industry reports, worldwide steel production registered a 4.6% increase in 2018 with 1,808.6 million tonnes ("**Mt**") produced, up from 1,729.8 Mt in 2017. China, the top steel producer, produced 928.3 Mt of crude steel in 2018, registering a 6.6% increase from 870.9 Mt in 2017. China's market share was 51.3% in 2018 compared to 50.3% in 2017. As such, China remains the largest producer of crude steel in the world, accounting for more than 50% of the global production. Notably, India's crude steel production was up by 4.9% and stood at 106.5 Mt in 2018, overtaking Japan to become the second largest producer of crude steel in the world.

Chinese regulators have continued enforcing strict pollution control guidelines and at the same time undertaking supply-side reform by closing excess capacity in industrial sectors, including coal and steel production, which has a positive impact on supply and demand balance, resulting in improved market environment for steel making raw materials such as coking coal. With higher environmental standards imposed in China and increased focus on efficiency requiring higher quality coal products, we worked closely with our customers by providing higher quality coal products suitable for tighter industry standards.

The coking coal imports of China decreased to 64.9 Mt in 2018, representing a 7.2% year-on-year decrease compared to 69.9 Mt in 2017. However, among the top five coking coal suppliers to China, Mongolia was the only country which was able to increase the coking coal tonnages imported in 2018. Australia retained its leading position with a 43.6% market share as the largest coking coal supplier to China in 2018, closely followed by Mongolia with a 42.7% market share. Australia and Mongolia continued to dominate in coking coal imports to China, and increased their combined market share to 86.3% from 81.9% reported for 2017.

It is expected that the major infrastructure projects undertaken within the "One Belt One Road" initiative envisioned and led by China will continue to support the increase in steel production in the Northern and Western China regions bordering with Mongolia. Therefore, our priority will be to continue to expand our sales and distribution network in China and strengthen relationship with customers by delivering high-quality products to ultimate end-user customers in Inner Mongolia, Gansu and Xinjiang, which are located in close proximity to our operating mines.

I am pleased to report that our run-of-mine ("**ROM**") coal production has reached 10.9 Mt in 2018, a historical high recorded since the inception of our commercial coal mining operations in 2009. At the same time, increased production and sales volumes supported by strong pricing for our products has resulted in a record high revenue of USD590.7 million and adjusted EBITDA of USD218.3 million reported in 2018. The profit attributable to equity shareholders of the Company in 2018 amounted to USD82.8 million, thus, after excluding extraordinary items, increased by 72.5% compared to 2017.

The Group's ultimate intention is to ramp up production output in a safe manner by fully utilising existing capacity, whilst adopting prudent financial policies, managing working capital requirements and focusing on maintaining cost reductions achieved through improvements to operational efficiency and productivity. Reducing environmental footprint from our operations shall also remain as the main priority, including minimising power and water usage rates. We shall continue to maximise transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume will be achieved by adopting an aggressive marketing strategy to expand market penetration with direct access to ultimate end-user customers. Moreover, we will continue to pursue our long-term development objectives by exploring opportunities to diversify and expand our business operations through potential strategic cooperation and joint venture arrangements.

In 2018, we received international certification after successful implementation of an Integrated Management System ("**IMS**") covering international standards ISO 9001:2015 (Quality management), ISO 14001:2015 (Environmental management) and OHSAS 18001:2007 (Occupational Health and Safety management) becoming the first mining company in Mongolia to achieve such certification. This reflects our ongoing commitment to deliver quality products to our customers in the most responsible way. We shall remain absolutely focused on maintaining our strong commitment to safety, environment and socially responsible operations. This also includes our commitment to equal opportunity principle. In 2018, female employees made up 14% of our total workforce which is higher than the national industry average of 12% in Mongolia. Compared to 2017, the number of our female employees increased by around 20%.

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

Odjargal Jambaljamts
Chairman

15 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

China's crude steel production reached a new record high of 928.3 Mt in 2018, representing a 6.6% increase from 2017, according to the World Steel Association. This was mainly attributable to the strong domestic demand supported by solid economic growth in China maintained at 6.6% in 2018.

Chinese steel consumption increased by 11.8% to 852.2 Mt in 2018 according to the estimates from Shanxi Fenwei Energy Information Services Co., Ltd ("**Fenwei**"). Elevated international trade tensions and increased domestic consumption led to the decrease in steel exports from China to 69.5 Mt in 2018, or a 8.1% decline compared to the 2017 level.

At the same time, Chinese regulators have announced that, in line with the supply side reform policy, they have fulfilled the annual target to cut steel production capacity by 30 Mt in 2018, thus phasing out a total of 150 Mt of outdated steel production capacity, ahead of the original deadline for cutting up to 150 Mt excessive steel production capacity by 2020 as set by the official road map outlined in the 13th Five-Year Plan.

According to the National Bureau of Statistics ("**NBS**"), coke production in China increased by 1.6% on a year-on-year basis to 438.2 Mt in 2018, while coke consumption increased by 11.5% on a year-on-year basis to 482.0 Mt, according to Fenwei's estimates. Also, coke exports from China increased to 9.8 Mt in 2018, representing 21.0% year-on-year increase.

China's coking coal consumption was 510.9 Mt in 2018, representing a 0.7% decrease from the level reported for 2017. Further, coking coal production in China reduced by 2.4% year-on-year to 434.8 Mt.

NBS reported that raw coal output in China increased by 5.2% from the preceding year to 3.6 billion tonnes in 2018. The National Coal Mine Safety Administration reported that China met the goal of de-capacity target of 150 Mt set in 2018 after closing 832 coal mines. The share of coal mines with annual capacity under 300 thousand tonnes ("**kt**") was reduced to 39.7% by the end of 2018. However, the country still has an outstanding annual capacity of 460 Mt operated by 3,113 coal mines each with an annual capacity under 300 kt. It is expected that the Chinese regulators will continue to phase out the outdated coal mines by adopting stringent rules and requirements related to environment, safety and efficiency in the coal industry.

China's coal mining and washing industry reported a combined profit of RMB288.8 billion in 2018, representing a 5.2% year-on-year increase, according to NBS. At the same time, improved and stabilised market conditions led to a 5.9% increase in fixed asset investment in China's coal mining and washing industry in 2018.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

The coking coal imports of China decreased to 64.9 Mt in 2018, representing a 7.2% year-on-year decrease compared to 69.9 Mt in 2017, according to Fenwei. Notably, among the top five coking coal suppliers to China, Mongolia was the only country which was able to increase the coking coal tonnages imported in 2018. Australia retained its leading position with a 43.6% market share as the largest coking coal supplier to China in 2018, closely followed by Mongolia with a 42.7% market share. Australia and Mongolia continued to dominate in coking coal imports to China, and increased their combined market share to 86.3% from 81.9% reported for 2017.

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

Countries	**2018**	2017	Change	Market Share
Australia	**28.3**	31.0	-8.7%	43.6%
Mongolia	**27.7**	26.3	5.3%	42.7%
Canada	**2.2**	4.3	-48.8%	3.4%
Russia	**4.4**	4.6	-4.3%	6.8%
USA	**2.0**	2.8	-28.6%	3.1%
Others	**0.4**	0.9	-55.6%	0.6%
Total	**64.9**	69.9	-7.2%	100.0%

Source: Fenwei

Notes:

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

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

According to the data from Mongolian National Statistics Office, Mongolia reported record high volume for its coal exports to China reaching 36.3 Mt in 2018, representing a 8.7% increase compared to 33.4 Mt reported in the previous year. The majority of Mongolian coal imports to China flow through the Ganqimaodu ("**GM**") and Ceke land-ports, both located in Inner Mongolia. Thus, according to the data released by the General Administration of Customs of China, coal imports via GM and Ceke land-ports reached 18.1 Mt and 14.2 Mt, respectively in 2018.

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

On 3 October 2018, the Government of Mongolia ("**GoM**") issued Resolution No. 300 to define topographic boundaries for certain "Mineral Deposits with Strategic Importance", which included, among others, the Tavan Tolgoi coal deposit. As per coordinates set by Resolution No. 300, the topographic boundaries for Tavan Tolgoi coal deposit shall include, among others, the areas covered by the UHG, BN and Tsaikhar Khudag ("**THG**") mining licenses held by the Group's operating subsidiaries.

According to the Minerals Law of Mongolia (the "**Minerals Law**"), only the Parliament of Mongolia has the right to designate mineral deposits as "Mineral Deposits with Strategic Importance", and there have been no changes made to Parliament Resolution No. 27 dated 6 February 2007 regarding this issue. Therefore, the Group does not expect any impact on its operations and obligations related to the UHG, BN and THG mining licenses held by its operating subsidiaries in Mongolia.

Transportation Infrastructure Development related legislation

On 31 October 2018, the GoM issued Resolutions No. 329 and No. 330 in relation to the "design-build-operate-transfer" concession agreements with Tal Nutgiin Zam LLC and Undrakh Gobi LLC.

Under the terms of the concession agreements, Tal Nutgiin Zam LLC shall build a 250 kilometre ("**km**") long paved road from Tavan Tolgoi to the Gashuunsukhait ("**GS**") border point in parallel with the existing UHG-GS paved road. Undrakh Gobi LLC shall build a 270 km long paved road connecting the existing Tavan Tolgoi – BN paved road to the Tsagaandel Uul border point. It is understood that, such transportation infrastructure, once being completed and commissioned, will support Mongolian coal exports from Tavan Tolgoi area by increasing throughput capacity and providing alternative access to the offshore markets.

However, as the Group is not involved in these projects, there can be no assurance that the paved roads will be constructed and operated in the near future.

Labour related legislation

On 18 August 2018, the national minimum wage was revised and increased by the National Trilateral Committee of Labor and Social Consensus to MNT320,000 for the year 2019 and to be further increased to MNT420,000 with effect from 1 January 2020. Consequently, any mandatory contributions charged by authorities and linked to minimum wage, such as social insurance premium for employees on maternity leave and contributions to disabled citizens' employment support fund, will increase accordingly.

The Group does not expect any material impact on its financial position from this revised requirement because its existing internal remuneration policies have sufficiently covered the adopted minimum monthly wage requirements.

Taxation, Accounting and Financial Reporting related legislation

On 20 June 2018, the GoM issued Resolution No. 182 regarding changes to fees charged for land possession and use rights. On 31 October 2018 and 17 December 2018, the Citizens' Representatives Councils of Tsogttsetsii soum and Khankhongor soum issued Resolutions No. 45 and 4/10 regarding changes to fees charged for land possession and use rights held in the respective soums. The Group's operating subsidiaries with land possession and use rights are in the process to update relevant agreements with the respective soum authorities.

The Group paid annually MNT398,900,000 as total fees for land possession and use rights held by its operating subsidiaries in Mongolia and the change in fees applicable is expected not to have any material impact on the Group's financial position.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

The UHG deposit sits within the 2,960 hectare Mining License MV-011952 ("**UHG mining license**"), granted to the Group effective for 30 years from 29 August 2006, extendable twice by 20-year periods. Since acquiring the UHG mining license, the Group has prepared three JORC compliant Coal Resource estimates, the most recent of which, stated as of 31 December 2014 and three Coal Resource updates.

The most recent Coal Resource estimate has been made in accordance with the requirements of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). The last update stated as at 31 December 2018 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2018 to 31 December 2018, and no further exploration data was incorporated.

Exploration activities conducted in the process of preparing the three preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2018, included:

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

JORC compliant Coal Resource estimate figures reported are based upon an in situ density, at an as-received moisture basis, are summarised in Table 2. No further exploration activities have been conducted within the UHG mining license area in 2018 and only geotechnical drilling has been conducted in the northern part of the pit. Total geotechnical drilling was 241.5m and the result has been reported to the Group's mining planning team.

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

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

Table 2. UHG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2018 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	2	3	5	5	10
BHWE to 100m	62	23	17	85	102
From 100m to 200m	82	47	25	129	154
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	15	92	107
Below 400m	40	44	30	84	114
Sub-Total above 300m	237	137	68	374	442
Sub-Total below 300m	97	79	45	176	221
Total	**334**	**216**	**113**	**550**	**663**
Total (Rounded)	**330**	**220**	**110**	**550**	**660**

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, Executive General Manager and Head of Mining and Processing, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 11 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resource set out in Table 2 presented in this report are considered to be a true reflection of the UHG Coal Resource as at 31 December 2018, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

(ii) Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 28 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

Baruun Naran (BN) deposit

The BN deposit is covered by two mining licenses. Mining License MV-014493 ("**BN mining license**") of 4,482 hectares area was obtained through the acquisition of Baruun Naran Limited, formerly known as QGX Coal Ltd. on 1 June 2011, and is effective for 30 years from 1 December 2008. Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013, effective for 30 years. Both licenses are extendable twice, by 20-year periods.

During 2015, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 30 June 2015 for the BN and THG mining licenses. The estimation process applied more stringent requirements under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014), as compared to the previous JORC (2012) Coal Resource estimates prepared by McElroy Bryan Geological Services Pty Ltd, stated as of 30 June 2012 and 30 April 2013 for the BN mining license and the THG mining license respectively. The last update stated for BN and THG as at 31 December 2018 was made only on the basis of revised surface topography, to account for the depletion as a result of mining activity from 1 October 2017 to 31 December 2018, and no further exploration data was incorporated.

During 2018, 8,335.4m depth infill drilling was conducted at the BN deposit, which was focused on the H pit mining boundary. A total of 3,766 samples were collected and tested, confirming the coal quality and coal seam structure. The drilling was not conducted for resource update purposes.

The Coal Resource stated as at 30 June 2015 incorporated additional exploration data gained from the exploration drilling program conducted in 2014. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated Coal Resource statement as at 31 December 2018:

- total of 92 exploration boreholes at BN, with a total of 28,540m drilled, of which 14,780m were HQ-3, 9,640m were PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122mm diameter open boreholes;

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

- total of 8,720 (BN) and 3,824 (THG) coal samples collected and analysed; and

- total of 75 km of 2D seismic survey captured by Polaris over the BN mining license, and analysed by Velseis.

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

Summary of the updated Coal Resources statement as at 31 December 2018 for BN and THG mining license areas are shown in Table 3 and Table 4, respectively. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 3. BN mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2018 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to BHWE	10	2	1	12	13
BHWE to 100m	41	9	3	50	53
From 100m to 200m	62	11	5	73	78
From 200m to 300m	67	13	7	80	87
From 300m to 400m	70	16	9	86	95
Sub-Total above 300m	180	35	16	215	231
Sub-Total below 300m	70	16	9	86	95
Total	**250**	**51**	**25**	**301**	**326**
Total (Rounded)	**250**	**50**	**30**	**300**	**330**

Table 4. THG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2018 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to BHWE	–	–	2	–	2
BHWE to 100m	–	–	14	–	14
From 100m to 200m	–	–	19	–	19
From 200m to 300m	–	–	19	–	19
From 300m to 400m	–	–	19	–	19
Sub-Total above 300m	–	–	54	–	54
Sub-Total below 300m	–	–	19	–	19
Total	**–**	**–**	**73**	**–**	**73**
Total (Rounded)	**–**	**–**	**70**	**–**	**70**

Notes:

(i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, Executive General Manager and Head of Mining and Processing, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 11 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resource set out in Table 3 and Table 4 presented in this report are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2018, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

(ii) Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 28 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

Coal Reserves

Ukhaa Khudag (UHG) deposit

The Group engaged Glogex Consulting LLC ("**Glogex**") to prepare an updated JORC (2012) Coal Reserve statement as at 1 January 2019 for the UHG deposit. The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods. The last reserve statement was made on the basis of revised surface topography, to account for the depletion as a result of mining activity from 1 January 2018 to 1 January 2019.

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

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

- washability curves on seam ply basis, as prepared previously by Mr. John Trygstad of Norwest Corporation ("**Norwest**") for inclusion in the previous JORC (2012) Coal Reserve estimate, to individual coal seams based upon propensity for processing into coking and/or thermal products, with update made to reassign portion of Seam 0B and 0AU from thermal to coking coal production, based upon results observed during production trials in 2017;

- updated cost input assumptions, derived from recent historical operating performance at UHG mine on the basis of sustainable cost reductions made in response to difficult market conditions, and as forecast based upon negotiated reductions in cost for mining and blasting contractor services; and

- updated revenue input assumptions, derived from an updated market study prepared by Fenwei, which provided for medium to long term forecasting of expected Free-on-Transport ("**FOT**") pricing at UHG mine for hard coking, semi-soft coking and thermal coal products planned for production.

The ROM raw coal tonnages, resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2019 based upon an as-received basis with 2.97% total moisture, are shown in Table 5.

Table 5. UHG mining license JORC (2012) Coal Reserve estimate, as at 1 January 2019 (Notes):

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	Proved	Probable	Total
Coking	194	117	311
Thermal	11	2	13
Total	**205**	**119**	**324**

Notes:

(i) The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 17 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.

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

Baruun Naran (BN) deposit

The Coal Reserve statement for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2019. The LOM mining plan prepared to underpin the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by operating cost and coal revenue variance.

The pit optimisation algorithms used and included for implementation are as follows:

- limitation of open pit depth to 360m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla of AMC;
- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest;
- cost input assumptions based on stripping and blasting estimates derived from the current mining contractors;
- revenue input assumptions derived from an updated market study of the principal coking and thermal coal markets in China, completed by Fenwei.

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 6, with tonnage estimation based on an as-received basis with 4.5% total moisture. The last reserve statement was made on the basis of surface topography and reflects the depletion due to mining activity from 1 January 2018 to 1 January 2019.

Table 6. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2019 (Notes):

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	Proved	Probable	Total
Coking	163	12	175
Thermal	0	0	0
Total	**163**	**12**	**175**

Notes:

(i) The estimate of Coal Reserve presented in Table 6 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 17 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.

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

Production and Transportation

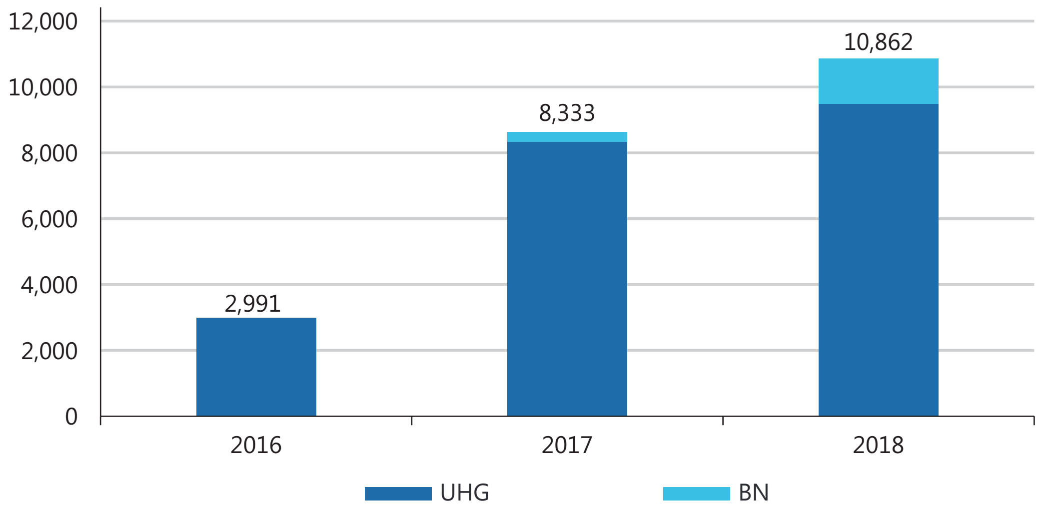
Coal Mining

The UHG mine has produced 9.5 Mt of ROM coal in 2018, which represents a historical high in annual output since its commissioning in April 2009. To access coal, a total of 44.3 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 4.67 bcm per ROM tonne for the period.

The BN mine has produced 1.4 Mt of ROM coal in 2018, which also represents a historical high in annual output since its commissioning in February 2012. To access coal, a total of 9.7 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 6.98 bcm per ROM tonne for the period.

Thus, the Group's total ROM coal production reached 10.9 Mt in 2018, representing a 30.3% increase from 8.3 Mt reported for 2017. The Group's combined annual mine production from UHG and BN mines for the last three years is shown in Figure 1.

Figure 1. The Group's annual ROM coal production volumes (in kt) for 2016-2018:



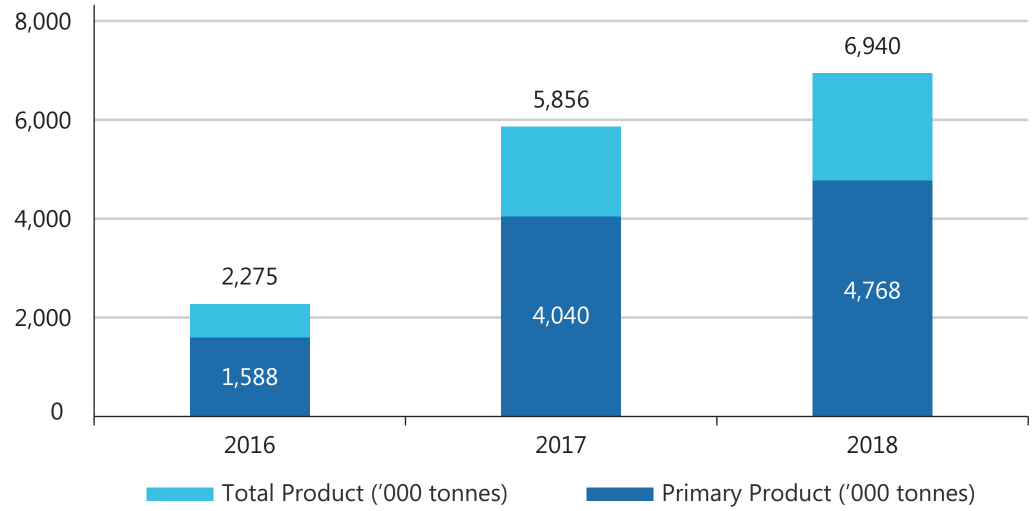
Coal Processing

The Group has processed a total of 10.0 Mt of ROM coal in 2018, which represents a 25% increase from 8.0 Mt processed in 2017. During this period, the Group processed 8.9 Mt and 1.1 Mt ROM coal sourced from UHG and BN mines, respectively.

The Group's coal handling and preparation plant ("**CHPP**") has produced 4.8 Mt of washed coking coal as a primary product at 47.5% yield, and 2.2 Mt of washed thermal coal ("**middlings**") as a secondary product at 21.6% yield. Processing yield levels for primary and secondary products are driven by various factors, including, ROM coal feed ash, washing properties, blended ratios, and are also based on the setting for target ash content of the products.

The Group's washed coal production for the last three years are shown in Figure 2.

Figure 2. The Group's annual processed coal production volumes (in kt) for 2016-2018:



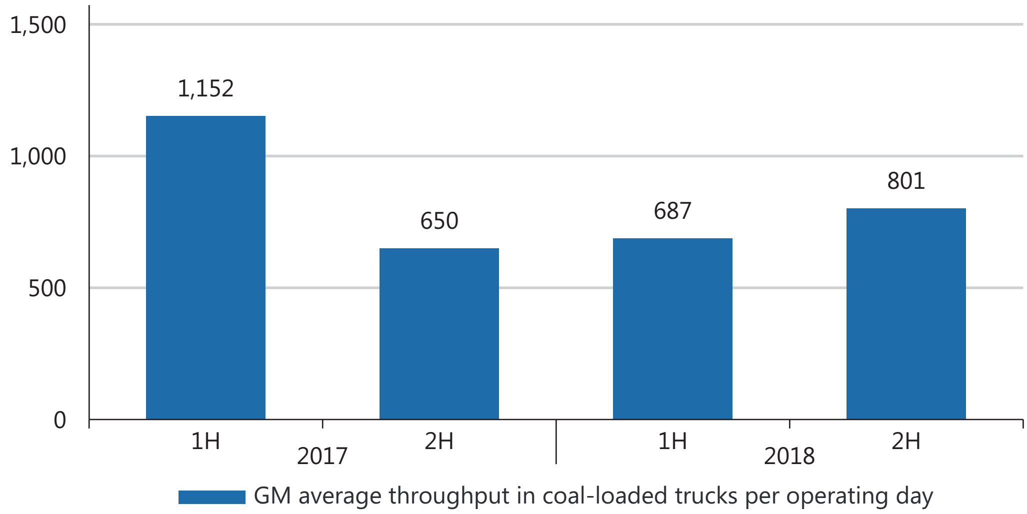
Transportation and Logistics

In 2018, the Group's coal export transportation via GS-GM border crossing point from Mongolia to China reached 4.7 Mt, representing an increase by 6.8% from 4.4 Mt reported for preceding year. The transportation of coal products was performed by utilising the Group's own trucking fleet and also supplemented by third party contractors.

The Group has the required flexibility and logistics infrastructure to transport its coal products by trucks after clearance by Mongolian Customs either at UHG or at Tsagaan Khad ("**TKH**"), subject to regulatory arrangements, available capacity and commercial viability. As such, during the reporting period, 2.9 Mt coal products were cleared for export by Mongolian Customs from TKH and the remaining 1.8 Mt coal products were shipped after clearance directly from UHG.

The cross-border logistic bottleneck remained as the main factor limiting potential increase for coal export volumes from Mongolia to China via GS-GM border crossing point, as shown in Figure 3.

Figure 3. Average cross border throughput via GS-GM in coal-loaded trucks per operating day for 2017-2018:



According to the data compiled by the Group and its customers, a total of 208,398 coal-loaded trucks passed from Mongolia to China via GS-GM during 282 operating days in 2018, which represents a 20% decrease from 260,447 coal-loaded trucks passed during 291 operating days in 2017. The Group's coal products were transported by 56,143 and 55,794 coal-loaded trucks passing GS-GM in 2017 and 2018, respectively.

Occupational Health, Safety and Environment

On 26 September 2018, the Group received formal certification from AFNOR Group, an international standardisation and accreditation institution and a member of the International Organisation for Standardisation ("**ISO**"), for successful implementation of an IMS, which also includes international standards ISO 14001:2015 (Environment management) and OHSAS 18001:2007 (Occupational Health and Safety management).

During the reporting period, approximately 8.7 million man-hours were recorded as worked by employees, contractors and sub-contractors of the Group. During 2018, three occurrences of Lost Time Injury ("**LTI**") were recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.35 LTIs per million man-hours worked equivalent being recorded.

Risk assessment and safety analysis were conducted during the reporting period to minimise or eliminate work-related hazards and to enhance awareness of daily safety routines among the Group's employees. Routine working condition inspections and checks were performed, including heat, noise, lighting, vibration, dust and toxic gases monitoring.

The Group continued to deliver Occupational Health, Safety and Environment ("**OHSE**") specific training to employees, contractors, sub-contractors and visitors, with 15,492 training sessions to individuals, totaling 62,549 man-hours in 2018.

In 2018, the Umnugobi Province's Professional Inspection Agency conducted its periodical review on the Group's operations and issued an official evaluation report according to which the Group was evaluated at "low risk" level with a check list score of 86.0 out of 100.0.

The Group has an internal rating scale for environmental incidents based on their severity, which was last updated in April 2015. Accordingly, the risk rating scale uses five classifications which are low, minor, moderate, high and extreme. More specific classifications were developed for each environmental risk subjects including oil spills, waste disposal, land disturbance, air emissions, fatal injury and others.

In 2018, the Group recorded no environmental incidents with "high" or above classifications. Two incidents occurred with "low" and "minor" classifications which were related to oil spillage. For all these incidents, full investigations were carried out to identify the root causes, and corrective and preventive actions were taken to prevent re-occurrences.

Sales and Marketing

The Group maintained and increased its coal sales through its existing sales channels mainly in Inner Mongolia, Gansu, Hebei and Tianjin by further strengthening its relationship with its existing customers base.

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

In 2018, the Group sold a total of 4.7 Mt of self-produced coal products, representing a year-on-year increase by 6.6%, of which 3.9 Mt was HCC, 0.4 Mt was semi-soft coking coal ("**SSCC**"), and 0.3 Mt was middlings. HCC sales volume increased by 9.3% year-on-year compared to 3.6 Mt HCC sold in 2017, SSCC sales volume significantly increased to 0.4 Mt in 2018 from 8 kt in 2017.

During the reporting period, the Group signed a long-term cooperation agreement with Shenhua Inner Mongolia Coal and Coking Co., Ltd (later changed to "China Energy Coal and Coking Co., Ltd") and strengthened its relationship with one of the largest coke producers in Inner Mongolia, which is located in close proximity to the Group's UHG and BN mines.

With increased environmental standards imposed in China and focus on efficiency requiring higher quality coal products, the Company worked closely with its customers by providing higher quality coal products suitable for tighter industry standards. As such, starting from the last quarter of 2018, the Group has adjusted contractual specifications for its HCC supplied to its customers by lowering indicative ash content at dry basis from 11.0% to 10.5%.

Also, the Group has tested production settings to produce middlings by reducing indicative ranges for targeted ash content at dry basis from 20.0% to 22.0% to 14.0% to 16.0% and increased typical gross calorific value as at received basis from 6,000 kcal/kg to 6,500 kcal/kg.

Such initiatives are also expected to have positive impact by lowering transportation and logistics tonnages, while maintaining revenue by achieving pricing premium for higher quality products supplied to the Group's customers.

OUTLOOK AND BUSINESS STRATEGIES IN 2019

International coking coal markets remained strong in 2018, supported by a lift in global steel production, along with supply-side reform policies implemented by authorities continuing to limit coal production output in China.

According to industry reports, worldwide steel production registered a 4.6% increase in 2018 with 1,808.6 Mt produced, up from 1,729.8 Mt in 2017. China, the top steel producer, produced 928.3 Mt of crude steel in 2018, registering a 6.6% increase from 870.9 Mt in 2017. China's market share was 51.3% in 2018 compared to 50.3% in 2017. As such, China remains the largest producer of crude steel in the world, accounting for more than 50% of the global production. India's crude steel production was up by 4.9% and stood at 106.5 Mt in 2018, overtaking Japan to become the second largest producer of crude steel in the world.

Chinese regulators have continued enforcing strong pollution control guidelines and at the same time undertaking supply-side reform by closing excess capacity in industrial sectors, including coal and steel production, which have positively impacted the supply and demand balance, resulting in improved market environment for steel making raw materials such as coking coal. It is expected that the major infrastructure projects undertaken within "One Belt One Road" initiative envisioned and led by China will continue to support increasing steel production in Northern and Western China which are in close proximity to the Group's operating mines. The Group's priority will be to continue to expand its own sales and distribution network in China and strengthen relations with customers by delivering high-quality products to ultimate end-user customers in Inner Mongolia, Gansu and Xinjiang.

The Group will aim to maximise its production and sales volumes in 2019, subject to resolving inefficient cross border logistics, which is the main obstacle to its ability to meet elevated demand from its customers. The ultimate intention is to ramp up production output in a safe manner by fully utilising existing capacity, whilst managing working capital requirements and continuing to focus on cost control. Reducing environmental footprint from its operations shall also remain as the main priority, including minimising power and water usage rates. The management will continue to maximise transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume will be achieved by adopting aggressive marketing strategy to expand market penetration with direct access to ultimate end-user customers.

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

FINANCIAL REVIEW

Revenue

The Group generated a total revenue of USD590.7 million from the sale of approximately 4.7 Mt of coal products during the year ended 31 December 2018, representing an increase of 24.0%, compared to USD476.4 million of total revenue generated from 4.4 Mt of coal products sold during the year ended 31 December 2017. The Group sold approximately 3.9 Mt of HCC during the year ended 31 December 2018, representing an increase of 9.3% compared to 3.6 Mt of HCC sold during the year ended 31 December 2017. This includes approximately 3.4 Mt and 0.5 Mt of HCC sold under FOT GM and C&F terms, respectively, for the year ended 31 December 2018 compared to 59.5 kt, 3.0 Mt and 0.6 Mt of HCC sold at DAP GM, FOT GM and C&F terms, respectively, for the year ended 31 December 2017. In addition, the Group sold approximately 0.4 Mt of SSCC and 0.3 Mt of middlings for the year ended 31 December 2018, compared to 8.0 kt of SSCC and 0.8 Mt of middlings for the year ended 31 December 2017.

The average selling price ("**ASP**") for HCC was USD139.7 per tonne for the year ended 31 December 2018, representing an increase of 7.2% compared to USD130.3 per tonne for the year ended 31 December 2017. The ASP for HCC (excluding applicable value added tax ("**VAT**")) under FOT GM and C&F terms were USD135.6 per tonne and USD170.1 per tonne, respectively, for the year ended 31 December 2018, compared to USD126.0 per tonne and USD155.0 per tonne, respectively, for the year ended 31 December 2017. The ASP for SSCC under FOT GM and C&F terms were USD92.9 per tonne and USD141.0 per tonne, respectively, during the year ended 31 December 2018. For the year ended 31 December 2017, SSCC was sold only under FOT GM term and the ASP was USD90.6 per tonne.

For the year ended 31 December 2018, the Group derived individually more than 10.0% of its revenue from two customers, with the purchase amounts of approximately USD242.2 million and USD112.5 million. For the year ended 31 December 2017, the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD182.9 million and USD48.6 million.

Cost of Revenue

The Group's cost of revenue consists primarily of mining cost, processing and handling cost, transportation and logistics cost, and cost related to site administration, stockpile and transportation loss, and governmental royalties and fees.

During the year ended 31 December 2018, the total cost of revenue increased to USD360.3 million from USD273.8 million during the year ended 31 December 2017, due to higher sales volume. From the total cost of revenue during the reporting period, USD322.3 million was attributable to coal products sold from the UHG mine and USD38.0 million was attributable to coal products sold from the BN mine.

Table 7. Total and individual costs of revenue:

	Year ended 31 December	
	2018	2017
	(USD'000)	(USD'000)
Cost of revenue	**360,310**	273,797
Mining cost	**126,420**	93,758
Variable cost	**63,159**	41,523
Fixed cost	**43,158**	41,983
Depreciation and amortisation	**20,103**	10,252
Processing cost	**42,876**	37,758
Variable cost	**15,144**	10,578
Fixed cost	**4,284**	3,095
Depreciation and amortisation	**23,448**	24,085
Handling cost	**11,400**	6,756
Transportation cost	**117,784**	88,834
Logistic cost	**5,428**	6,198
Variable cost	**3,060**	2,841
Fixed cost	**2,091**	3,193
Depreciation and amortisation	**277**	164
Site administration cost	**16,125**	14,216
Transportation and stockpile loss/(gain)	**4,929**	(2,953)
Royalties and fees	**35,348**	29,230
Royalty	**28,855**	23,266
Air pollution fee	**3,632**	3,066
Customs fee	**2,861**	2,898

The mining cost consists of cost associated with overburden and topsoil removal and ROM coal extraction, including the cost related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and fuel cost. For the year ended 31 December 2018, the Group's mining cost was approximately USD126.4 million (2017: USD93.8 million). Unit mining cost was USD13.7 per ROM tonne for the year ended 31 December 2018, compared to USD13.1 per ROM tonne for the year ended 31 December 2017.

The Group identifies components of the mine in accordance with the mine plan. Accounting of unit mining cost is based on the accounting stripping ratio applicable to each component of the mine, which was mined during the respective reporting periods. Average accounting stripping ratio for components mined during the year ended 31 December 2018 was 3.2 bcm per tonne, compared to 2.7 bcm per tonne for the year ended 31 December 2017.

Table 8. Unit mining cost per ROM tonne:

	Year ended 31 December	
	2018 (USD/ROM tonne)	2017 (USD/ROM tonne)
Mining cost	**13.7**	13.1
Blasting	**0.9**	1.1
Plant cost	**3.5**	2.8
Fuel	**2.4**	1.9
National staff cost	**0.7**	0.7
Expatriate staff cost	**0.2**	0.2
Contractor fee	**3.7**	4.9
Ancillary and support cost	**0.1**	0.1
Depreciation and amortisation	**2.2**	1.4

The mining cost is not only recorded in the income statement, but also the cost of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, is capitalised in the balance sheet as mining structure and subsequently amortised once attributable ROM coal is extracted according to the mining operations progress.

The processing cost primarily includes cost associated with operations of the CHPP including power generation and water extraction cost. During the year ended 31 December 2018, the Group's processing cost was approximately USD42.9 million (2017: USD37.8 million), of which approximately USD23.4 million was related to the depreciation and amortisation of the CHPP, USD4.3 million was cost related to power generation and distribution, and USD1.6 million was cost incurred for water extraction and distribution related to the washed coal sold during the reporting period.

Unit processing cost calculated per ROM coal in-feed tonne was USD4.6 per ROM tonne for the year ended 31 December 2018 and USD5.3 per ROM tonne for the year ended 31 December 2017. The decrease in unit processing cost was due to increased volume of ROM coal processed.

Table 9. Unit processing cost per ROM tonne:

	Year ended 31 December	
	2018	2017
	(USD/ROM tonne)	(USD/ROM tonne)
Total	**4.6**	5.3
Consumables	**0.3**	0.3
Maintenance and spares	**0.7**	0.4
Power	**0.5**	0.6
Water	**0.2**	0.2
Staff	**0.2**	0.2
Ancillary and support	**0.2**	0.2
Depreciation and amortisation	**2.5**	3.4

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP, coal stockpiles handling and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2018, the Group's handling cost was approximately USD11.4 million (2017: USD6.8 million). The increase in handling cost was mainly due to optimisation of coal stockpile undertaken during the reporting period.

During the year ended 31 December 2018, the Group's transportation cost was USD117.8 million (2017: USD88.8 million) including transportation cost incurred for using own fleet and fees paid to third party contractors. On unit cost basis, the Group's combined average transportation cost from UHG to GM, including third party contractors, increased to USD25.5 per tonne for the year ended 31 December 2018 from USD20.1 per tonne for the year ended 31 December 2017. The increase of the transportation cost for the year ended 31 December 2018 was due to inefficiencies at the border crossing that persisted during the reporting year. Prolonged and tightened control procedure of the customs resulted in reduced number of trucks crossing the border and extended turnaround time required for coal export. This has resulted in necessity for increased utilisation of third party contractors, which in turn further pushed cost higher for outsourced transportation services. To mitigate the increasing cost, the Group focused on increasing volume transported by own trucking fleet, which was facilitated by expansion of own trucking fleet capacity by additional 150 double-trailer trucks, each capable to carry 130 tonnes per shipment, completed during the first half of 2018.

In addition, in response to the long line of coal hauling trucks queued on UHG-GS road due to border crossing bottleneck situation, from time to time the GoM has taken actions to temporarily suspend the direct transportation from Tavan Tolgoi area to GS-GM border and required the exporters to utilise customs bonded yards located at TKH. Following directions imposed by regulators in Mongolia, the Group used two transportation modes for export shipments, direct shipments from UHG to GM or two-step shipments from UHG to TKH and further from TKH to GM, for the year ended 31 December 2018. During the year ended 31 December 2017, the majority of the coal export transportation was performed by direct shipments from UHG to GM, without utilising trans-shipping facility at TKH.

The logistics cost is mainly related to cost associated with product stockpiles at UHG and TKH. For the year ended 31 December 2018, the Group's logistics cost was approximately USD5.4 million (2017: USD6.2 million).

For the year ended 31 December 2018, the Group recorded a total transportation loss of around USD1.7 million (2017: USD0.9 million), and inventory loss of USD3.2 million for ROM coal and washed coal product stockpiles (2017: gain of USD3.9 million). The transportation loss for the reporting period was higher due to increased coal re-handling at TKH as described above. The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the mine sites, and product coal stockpile inventories at UHG, TKH and inland China. Survey of coal quantity is a measurement of volume, and as for every bulk commodity, the conversion to tonnage requires the application of density assumption, which involves natural variance. Hence, the measurement of stockpile quantities is an estimation in which errors are inherent. Therefore, variations within 5% are tolerated, and any tonnages above/below this limit are recorded as stockpile gain/loss. The management expects that by improving overall inventory management, the Company will be in a position to keep inventory losses under control.

The site administration cost is primarily related to the site support facilities such as overall supervision and joint management of the Group's mining, processing, transportation and logistics operations. For the year ended 31 December 2018, the Group's site administration cost was approximately USD16.1 million (2017: USD14.2 million).

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid in accordance with the applicable laws and regulations in Mongolia. The progressive royalty rate is applied in the range of 5% to 8% for processed coal products and 5% to 10% for raw coal products based on monthly reference price determined by the relevant governmental authorities of Mongolia. Starting from 1 February 2016, the contract prices were allowed to be used for calculating royalty rates. However, if the coal exporter fails to comply with the respective requirements for royalty calculation based on the contractual prices, the royalty would be calculated based on the benchmark reference price. The Group's effective royalty rate for the year ended 31 December 2018 was approximately 5.5% for coal exported from Mongolia based on customs clearance documentation (2017: 5.5%).

Gross Profit

The Group's gross profit for the year ended 31 December 2018 was approximately USD230.4 million, compared to the gross profit of approximately USD202.6 million recorded for the year ended 31 December 2017.

Non-IFRS Measure

Certain parts of financial reporting and disclosure may contain non-International Financial Reporting Standard ("**IFRS**") financial measures and ratios, such as earnings before interest, taxes, depreciation and amortisation ("**EBITDA**"), EBITDA adjusted by share option expenses and other non-cash items ("**adjusted EBITDA**"), free cash flow and net debt, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the business and operations and presented because they are considered important supplemental measures of performance and the Company believes that these and similar measures are widely used in the industry in which the Company operates as a way to evaluate operating performance and liquidity. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures and ratios may not be comparable to measures used by other companies under the same or similar names.

The Group's adjusted EBITDA for the year ended 31 December 2018 was approximately USD218.3 million, compared to the adjusted EBITDA of approximately USD177.1 million recorded for the year ended 31 December 2017.

Selling and Distribution Costs

The Group's selling and distribution costs were approximately USD61.4 million for the year ended 31 December 2018 (2017: USD56.6 million) which were associated with inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and agent fees. The selling and distribution costs are linked to the sales volume realised under FOT GM and C&F terms. The increase of the selling and distribution costs for the year ended 31 December 2018 is attributable to higher sales volume compared to the year ended 31 December 2017.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff cost, share option expenses, consultancy and professional fees, depreciation and amortisation of office equipment and other expenses. For the year ended 31 December 2018, the Group's general and administrative expenses were approximately USD16.5 million (2017: USD19.1 million).

Net Finance Costs

Net finance costs for the year ended 31 December 2018 were approximately USD55.4 million (2017: USD51.0 million). Net finance costs mainly comprised of (i) accrued interest expense on the senior secured notes with outstanding principal amount of USD412,465,892 (the "**Senior Notes**") and the first ranking senior secured facility with outstanding principal amount of USD23,700,000 as at 31 December 2018 (the "**Senior Loan**"), (ii) change in fair value of derivative component of the Senior Notes and the Senior Loan including the interest rates linked to the benchmark coal price index and cash sweep premium, and (iii) amortisation of the difference between the fair value and the principal amounts due on the Senior Notes and the Senior Loan using the effective interest rate method. Compared to the year ended 31 December 2017, the increase in net finance costs during the reporting period was mainly due to change in fair value of the derivative components of the Senior Notes and the Senior Loan. Breakdown of the net finance costs are set out in note 6 to the consolidated financial statements.

Income Tax Expenses

The Group's income tax expenses for the year ended 31 December 2018 were approximately USD16.1 million, which was decreased compared to the Group's income tax expenses of approximately USD25.8 million for the year ended 31 December 2017 due to deferred taxes recognised on temporary differences arising between tax base and accounting base in relation to unrealised foreign exchange losses.

Profit for the Period

The profit attributable to equity shareholders of the Company for the year ended 31 December 2018 amounted to approximately USD82.8 million. For the year ended 31 December 2017, the profit attributable to equity shareholders of the Company was approximately USD311.0 million, which included USD263.0 million gain from completion of the debt restructuring. Thus, after excluding extraordinary items, the profit attributable to equity shareholders of the Company for the year ended 31 December 2018 increased by 72.5% compared to the profit attributable to equity shareholders of USD48.0 million for the year ended 31 December 2017.

Liquidity and Capital Resources

For the year ended 31 December 2018, the Company's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

	Year ended 31 December	
	2018	2017
	USD'000	USD'000
Net cash generated from operating activities	**158,600**	95,620
Net cash used in investing activities	**(89,373)**	(82,883)
Net cash used in financing activities	**(43,028)**	(17,767)
Net increase/(decrease) in cash and cash equivalents	**26,199**	(5,030)
Cash and cash equivalents at beginning of the year	**7,460**	12,268
Effect of foreign exchange rate changes	**(624)**	222
Cash and cash equivalents at end of the year	**33,035**	7,460

Note: USD89.4 million used in investing activities comprises of USD73.5 million incurred for payments of deferred stripping activity, USD16.0 million used for payments of payables for property, plant and equipment and USD0.1 million generated from interest income.

Cash balance of USD33.0 million as at 31 December 2018 stated in Table 10 above consists of (i) consolidated cash balance of USD11.0 million of Energy Resources LLC ("**ER Group**"), an indirect wholly-owned subsidiary of the Company, which consists ER and Energy Resources Corporation LLC and their respective subsidiaries, (ii) cash balance of USD19.6 million of Khangad Exploration LLC, an indirect wholly-owned subsidiary of the Company, and (iii) cash balance of USD2.4 million held by the remaining investment holding subsidiaries of the Company. Cash and cash equivalents are mainly held in MNT, USD and RMB. The Company's policy is to regularly monitor current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The gearing ratio (calculated based on the fair value of total bank and other borrowings divided by total assets) of the Company as at 31 December 2018 was 27.8% (31 December 2017: 28.7%). All borrowings are denominated in USD.

Change of Functional Currency of Certain Subsidiaries

Effective from 1 January 2018, certain subsidiaries located in Mongolia changed their functional currency from MNT to USD. Previously, the functional currency of the Group's all subsidiaries located in Mongolia was MNT. The Accounting Law of Mongolia was amended effective from 1 January 2016 pursuant to which entities were allowed to use foreign currency accounting with permission received from related governmental authorities, which was not allowed under the prior legislation. The related regulation in connection with implementation was issued by the Ministry of Finance of Mongolia (the "**MoF**") in July 2017.

After obtaining the required approval from the MoF, the Group made the decision to change the functional currency of certain of its subsidiaries from MNT to USD effective from 1 January 2018. The Directors consider USD as more appropriate to act as the functional currency in reflecting the underlying transactions that are relevant to the Company and certain of its subsidiaries. The relevant subsidiaries are meeting the International Financial Reporting Standard requirements, as the majority of the Group's sales activities, operating expenses and financing activities are directly or indirectly influenced by USD. Such change has not resulted in any material effect on the Group's financial statements.

Indebtedness

As at 31 December 2018, the Group had USD436.2 million outstanding principal payments consisting of (i) USD412.5 million Senior Notes due 2022 and (ii) USD23.7 million Senior Loan. The Senior Notes and the Senior Loan bear interest of 5% to 8% per annum based on the benchmark coal price index, payable semi-annually. The Senior Loan is repayable in three quarterly installments of USD7.5 million each starting from 31 December 2018 and one final installment of USD8.7 million repayable upon maturity on 30 September 2019.

Credit Risk

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

As at 31 December 2018, the Group had approximately USD5.9 million in trade receivables and USD95.6 million in other receivables. As at 31 December 2017, the Group had approximately USD13.6 million in trade receivables and USD58.8 million in other receivables.

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

With regard to other receivables of USD95.6 million, this amount is mainly related to USD39.3 million VAT and other tax receivables and USD55.5 million of other deposits and prepayments. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

Foreign Exchange Risk

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2018 and 31 December 2017 amounted to USD10.2 million and USD0.4 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2018 and 31 December 2017 amounted to nil and USD443.7 million, respectively.

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

Pledge of Assets of the Group

The Group pledged collection accounts and certain coal stockpiles under the Senior Loan. The Group also pledged debt reserve account, CHPP modules 1 and 2, UHG Power Plant, certain water facilities, shares of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan and the Senior Notes. The total principal amount of indebtedness covered with the above pledges was USD436.2 million as at 31 December 2018.

ER pledged its 4,207,500 common shares, being 5.02% common shares held by it in International Medical Centre LLC ("**IMC**") to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

Contingent Liabilities

As at 31 December 2018, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd. and Kerry Mining (Mongolia) Limited on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in each semi-annual period after 1 June 2011, commencing on 1 January and ending on 30 June, and commencing on 1 July and ending on 31 December, in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves.

Under the royalty provision for excessive coal production at the BN mine pursuant to the Share Purchase Agreement and the Settlement Agreement dated 27 November 2012 entered into by the same parties as the Share Purchase Agreement, the specified semi-annual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

Financial Instruments

The Company has a share option scheme, adopted on 17 September 2010 ("**Share Option Scheme**"), that became effective on the Listing Date on 13 October 2010, in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**" or "**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

Under the Share Option Scheme, the Company granted four batches of Share Options to its directors and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to a director and employees respectively, at the exercise price of Hong Kong Dollar ("**HKD**") 6.66 (which was adjusted to HKD4.53 due to rights issue in December 2014). On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a director and employees respectively, at the exercise price of HKD3.92 (which was adjusted to HKD2.67 due to rights issue in December 2014). On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a director and employees respectively, at the exercise price of HKD0.445. On 8 May 2017, the Company granted another 40,000,000 and 100,000,000 Share Options to a director and employees respectively, at the exercise price of HKD0.2392.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the year ended 31 December 2018, USD0.7 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

As at 31 December 2018, the capital commitments outstanding on the respective balance sheet dates were as follows:

Table 11. Capital commitments:

	As at 31 December 2018 USD'000	As at 31 December 2017 USD'000
Contracted for	**3,880**	4,699
Authorised but not contracted for	**3,255**	17,337
Total	**7,135**	22,036

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

	Year ended 31 December	
	2018 USD'000	2017 USD'000
CHPP	**6,443**	4,396
Trucks and equipment	**5,406**	13,325
Others	**3,623**	1,485
Total	**15,472**	19,206

Operating Lease Commitments

As at 31 December 2018, the Group had contracted obligations consisting of operating leases which totalled approximately USD0.7 million, of which USD0.6 million due within one year and USD0.1 million due after one year but within two years. Lease terms range up to five years, with fixed rentals.

Significant Investments Held

As at 31 December 2018, the Company did not hold any significant investments. Save as disclosed in this annual report, the Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the year ended 31 December 2018, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

There have been no post balance sheet events subsequent to 31 December 2018 and up to the date of this annual report which require adjustment to or disclosure in this annual report.

Employees

As at 31 December 2018, the number of employees of the Group was 1,938, compared with 1,797 employees as at 31 December 2017.

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

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice, and share the newly gained experience with co-workers. The immediate management will be responsible for the support and supervision of the process. During the year ended 31 December 2018, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2018, a total of 15,656 employees attended various professional trainings, out of which 7,921 employees attended safety training, 1,890 employees attended mining heavy equipment operator training, 4,883 employees attended mine maintenance training and 962 employees attended professional development training and general skills development training.

For the year ended 31 December 2018, the amount of staff costs was USD26.9 million, compared to USD20.5 million in 2017.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The Company has entered into the following continuing connected transactions (the "**CCTs**") in the ordinary course of business with certain of its connected persons. Set out below is a summary of the CCTs entered by the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") recorded for the year ended 31 December 2018 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules.

(1) Service Agreement

Principal Terms

On 28 December 2016, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a Service Agreement with Uniservice Solution LLC ("**USS**"), a wholly-owned subsidiary of MCS Holding LLC, pursuant to which USS agreed to provide office and camp supporting services to the Group for a term of three years commencing from 1 January 2017 to 31 December 2019.

Connected Person

As at the date of this annual report, USS is a wholly-owned subsidiary of MCS Holding LLC which directly owns a 43.51% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, USS is a connected person of the Company.

Consideration

The aggregate amount of consideration payable by the Group to USS under this agreement, upon revision of annual caps on 14 December 2018, is MNT48,478,498,012 (then equivalent to approximately USD18,397,912) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by USS. The consideration was determined after arm's length negotiation between the Company and USS with reference to the internal projection of the amount of services required by the Group having regard to (i) the historical transaction amounts in respect of the office and camp support services; (ii) the anticipated increase in the number of employees and properties which would be utilised to provide services under the Service Agreement; (iii) the fee rates applicable under the Service Agreement; (iv) the business development plan of the Group; (v) increase in exchange rates and costs of material to be delivered to the site; (vi) possible inflation; and (vii) contingency buffer that would be applicable and payable for the services of USS. Invoices are issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of a valid invoice from USS.

Annual caps for this agreement for the years of 2018 and 2019 were increased, owing to increase in operational level of the Group and subsequent increase in volume of services being provided by USS and announced as required by the Listing Rules. The revised annual cap is MNT15,188,657,029 (then equivalent to approximately USD5,764,196) for the year ended 31 December 2018. The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2018 under this agreement was approximately USD5,485,707.

(2) Security Service Agreement

Principal Terms

On 28 December 2016, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a Security Service Agreement with M-Armor LLC (previously MCS Armor LLC), a subsidiary of MCS Holding LLC, pursuant to which M-Armor LLC agreed to provide security services, safeguarding and services for prevention of unlawful conducts and violations at the Ulaanbaatar office, UHG mine site, BN mine site, TKH site and other premises of the Group and vehicle inspection and safety assurance services for the Ulaanbaatar office of the Company on a day-to-day basis. The agreement is for a term of three years commencing from 1 January 2017 to 31 December 2019.

Connected Person

As at the date of this annual report, M-Armor LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC, which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder holding approximately 31.43% of the issued share capital of the Company. As such, M-Armor LLC is a connected person of the Company.

Consideration

The aggregate amount of consideration payable under this agreement is MNT16,063,469,250 (then equivalent to approximately USD6,459,026) payable on a monthly basis within 60 days upon receipt of valid invoice from M-Armor LLC. The consideration was determined on an arm's length basis between the Company and M-Armor LLC based on the bid submitted by M-Armor LLC.

Annual cap for this agreement is MNT5,354,489,750 (then equivalent to approximately USD2,153,009) for the year ended 31 December 2018. The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2018 under this agreement was approximately USD1,703,003.

(3) Domestic Transportation of Fuel, Site Storage, and Fueling Services Agreement

Principal Terms

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

Connected Person

NIC LLC was an associate of Dr. Oyungerel Janchiv, who resigned from her position as non-executive Director with effect from 4 January 2018. During the reporting period, Dr. Oyungerel Janchiv is considered as a person who was a director of the Company during the last 12 months and therefore, NIC LLC is considered as a connected person of the Company till 4 January 2019.

Consideration

The aggregate amount of consideration payable by the Group to NIC LLC under this agreement is MNT36,000,096,000 (then equivalent to approximately USD14,475,426), inclusive of all costs associated with the services provided by NIC LLC. The consideration was determined after arm's length negotiation between the Company and NIC LLC taking into account the annual volume of fuel required for UHG mine operation, the fee quotation, and cost structure of the services to be provided by NIC LLC. Invoices are issued on a monthly basis and the Company is required to settle payment within 15 days upon receipt of valid invoice from NIC LLC. On 11 May 2017, the annual cap was revised and aggregated with the annual cap of the Fuel Supply Agreement as described below. There was no transaction made by the Group for the year ended 31 December 2018 under this agreement.

(4) Fuel Supply Agreement

Principal Terms

On 11 May 2017, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with NIC LLC, pursuant to which NIC LLC conditionally agreed to supply fuel products and provide other related services including distribution, fueling and storage services for the mining activities and site operations at the UHG mine site, BN mine site and any other location the Group may request. The Fuel Supply Agreement with NIC LLC is non-exclusive in nature such that the Group will not be prohibited from purchasing fuel products and related services from third parties, allowing the Group with the flexibility to engage other fuel suppliers.

In broad terms, the supply of fuel products and related services by NIC LLC comprises the following: (i) supply diesel (summer and winter grade) at the UHG mine site and the BN mine site for both mining and non-mining use; (ii) provide fueling and distribution services for mining and non-mining machinery and equipment at mine pit using own fueling trucks; (iii) provide fueling service for the trucks, and non-mining vehicles at fuel stations; and (iv) store a normal and emergency reserve of diesel for the Group at its own storage facilities. The agreement is for a term of three years commencing from 15 June 2017 to 31 May 2020.

Connected Person

NIC LLC was an associate of Dr. Oyungerel Janchiv, who resigned from her position as non-executive Director with effect from 4 January 2018. During the reporting period, Dr. Oyungerel Janchiv is considered as a person who was a director of the Company during the last 12 months and therefore, NIC LLC is considered as a connected person of the Company till 4 January 2019.

Consideration

The aggregate amount of consideration payable by the Group to NIC LLC under this agreement, aggregated with the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement with NIC LLC is USD218,071,404 inclusive of VAT, other applicable taxes and all other costs associated with the goods and services provided by NIC LLC, which is the sum of the aggregated 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 LLC and international fuel suppliers; (ii) taxes and fees set by the GoM 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% is added to all the components stated in (i) to (iii). According to the formular, over 85% of the fuel pricing is directly attributable to fuel import price and taxes and fees which are charged at cost by NIC LLC, and approximately 15% is supplier's operation costs and profit. Invoices are issued monthly and the Group is required to settle payment within 60 days upon receipt of valid invoice from NIC LLC.

Annual cap for the year ended 31 December 2018 is USD73,350,372 after aggregating with the annual cap of the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement. The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2018 under the Fuel Supply Agreement was approximately USD49,815,372.

(5) Power System Operation and Maintenance Agreement

Principal Terms

On 28 March 2018, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a Power System Operation and Maintenance Agreement with MCS International LLC, a wholly-owned subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including: (i) UHG Power Plant and electricity distribution facilities operation and maintenance; (ii) heating facilities operation and maintenance; (iii) diesel generators operation and maintenance; and (iv) supply of electricity and heating to end customers and contractors of the Group and billing for the consumption to the Group. This agreement is for a term of three years commencing from 1 April 2018 to 31 March 2021.

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC, which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder holding approximately 31.43% of the issued share capital of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by the Group to MCS International LLC under this agreement, which equals to the sum of the annual caps for the three years ended 31 March 2021, is MNT85,953,288,960 (then equivalent to approximately USD35,893,434), including VAT, other applicable taxes and all other costs incurred by MCS International LLC in providing the services as set out in the agreement. The monthly fee consists of variable and fixed charges where fixed charge is determined taking into account fixed costs to be incurred by MCS International LLC such as machineries, equipment, tools and consumables used for maintenance and servicing of facilities, labor costs including salary, transportation, insurance, safety, accommodation and catering for personnel of MCS International LLC, other work related direct expenses, overheads to cover indirect expenses, and a profit margin; whereas variable portion of the monthly fee is determined based on agreed electricity tariff applicable for the electricity produced and covers variable costs related to the production of the electricity such as consumables, chemicals, diesel for internal usage of the power plant, costs of running machineries and equipment, etc. The costs, electricity tariff and profit margin applicable for the services were determined on an arm's length basis between the Group and MCS International LLC, taking into account fixed and variable costs to be incurred by MCS International LLC and the historical transaction amounts for the transactions under the Power System Operation and Maintenance Agreement. Invoices are issued on monthly basis, payable within 60 days upon receipt of a valid invoice from MCS International LLC.

Annual cap for this agreement for the year ended 31 December 2018 is MNT21,488,322,240 (then equivalent to approximately USD8,973,359). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2018 under this agreement was approximately USD6,346,543.

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

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

(i) in the ordinary and usual course of business of the Group;
(ii) on normal commercial terms or better; and
(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

(a) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have not been approved by the Board;
(b) for the transactions involving the provision of goods and services by the Group, nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs were not, in all material respects, in accordance with the pricing policies of the Group;
(c) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (5) above, nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the annual cap disclosed in the announcements made by the Company in respect of each of the disclosed CCTs.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report covers the Group's Environmental, Social and Governance ("**ESG**") performance, highlights and accomplishments for the reporting period from 1 January 2018 to 31 December 2018. The report was prepared in accordance with the ESG Reporting Guide set out in Appendix 27 of Listing Rules and with reference to the Global Reporting Initiative – Sustainability Reporting Guidelines (G4).

SUSTAINABILITY AT MMC

At MMC, safety, health, environment and sustainable development are at the core of our business strategy. We prioritise the health and safety of our employees and communities and seek to minimise our impacts on the environment. During the reporting period, we continued with our efforts to improve our performance towards sustainability, but we believe there is always room for improvement.

At each and every level of our operations, we work in compliance with applicable international standards and local legislations. These standards and values are reinforced through our policies such as the Sustainable Development Policy and the Corporate Social Responsibility Policy. We believe that mutually beneficial partnerships with multiple stakeholders is crucial in achieving our goals in the long run. As one of the largest local employers and taxpayers in Mongolia, our operations give us the opportunity to bring long-lasting positive changes to the communities and the country as a whole. Therefore, through direct employment and partnership with customers and suppliers, we invest and create jobs and business opportunities to help foster development of the communities in which we operate. Contractors working as part of our operations are required to comply with our standards and requirements in all applicable areas such as occupational health and human resources. We also engage with and encourage our suppliers and service providers to maintain business standards that are comparable to our own.

Transparency, accountability, respect for the rule of law and respect for human rights are all crucial in sustaining meaningful and long-term engagement with our stakeholders. Our governance framework clearly defines the role and approaches our Board and management should take in overseeing the performance in sustainability. The Corporate Governance Committee of the Board reviews and monitors the policies and practices on compliance with regulatory requirements and ensures compliance with the disclosure requirements under the Listing Rules and the Code on Corporate Governance.

BUSINESS INTEGRITY

Code of Conduct

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

The Code strictly prohibits engaging in unethical behaviour and contains explicit guidelines on the receipt of gifts, donations, travel offers or hand-outs. MMC discourages the acceptance of gifts or donations on the Company's behalf and all gifts that were received have to be disclosed. It is also the Company's policy to not make any in-kind contributions to political parties or politicians. We avoid all actions that are anti-competitive or otherwise contrary to the laws that govern anti-competitive practices both domestically and internationally. Any individual, regardless of his or her relationship with our Company, can report incidents of unethical behaviour, bribery, corruption or fraud. Employees' rights to report such incidents are also emphasised in applicable training and induction programmes, together with their responsibility to do so. Violations of the Code are taken seriously and can result in disciplinary actions. No such case was recorded in 2018.

Human Rights

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

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

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

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

Forced Labour and Child Labour

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

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

Transparency

We report our financial, operational and sustainable development performances in accordance with all applicable legislations in a timely manner. We are also one of the active supporters of the Extractive Industry Transparency Initiative ("**EITI**") in Mongolia and have been disclosing our payments to the EITI office in Mongolia since the commencement of our mining operations in 2009.

During the reporting period, the Company continued to participate in EITI national council meetings and disclosed all relevant information including payments to the government, spending on community development projects, tax payments to the local government, sponsorships and environmental issues, among others. We believe that direct and two-way communication is essential in ensuring that our information reaches various stakeholders in a transparent manner. Our project related information is disclosed to our host communities every year as part of our Public Consultation and Disclosure Plan and during regular meetings through our Community Development Advisory Councils.

We joined the Voluntary Code of Practice ("**VCP**") of the International Financial Corporation ("**IFC**") for common water management and reporting for the mining industry in the South Gobi region in 2013. Accordingly, we voluntarily report our water usage, reservation and re-usage information to IFC Mongolia on a regular basis. During the reporting period, the Company continued to actively engage in quarterly roundtable meetings on water management organized by IFC Mongolia and reported on water reservation and re-usage information.

Fair Operating Practices

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

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

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

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

Product Responsibility

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

We also have a nationally accredited coal quality laboratory at our mine sites to ensure reliable and regular control on safety and quality of our products.

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

IMS

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

Within the framework of the IMS implementation, a total of 29 OHSE related procedures were reviewed and updated which included emergency preparedness and response procedure, workplace inspection procedure, change management procedure, fire hazard prevention and controlling procedure, etc. Additionally, 14 IMS procedures were reviewed and updated as planned in the IMS adoption and implementation process. As the IMS covers our operations as a whole, we conducted necessary trainings to all of our mine sites employees and contractors.

OUR PEOPLE

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

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

EQUALITY Provide equal employment opportunities and respect the rights of our people. Recruit based on skills and support local employment. Our aim is to recruit at least 50% of our workforce from the local communities.	**BENEFITS** Offer compensation and benefit schemes competitive within the Mongolian mining industry and support employees through housing projects and other social benefits.
CHALLENGE Ensure challenging yet exciting work environment where employees can realise their full potential and develop their skills.	**INTEGRITY** Ensure awareness of ethical working standards and other internal procedures of the Company through the Code.

Our Human Resources ("**HR**") activities are in full compliance with the Law of Mongolia on Labour ("**Labour Law**") and other relevant legislation. We reported outstanding HR performance in all types of annual labour inspections carried out by the relevant state authorities since 2012 and no breach was reported in the reporting period. Nonetheless, we continue to have a strong focus on development at all levels within the Company and carry out internal workplace inspections on a regular basis.

Highlights of 2018

- Following Umnugobi aimag's initiative to announce 2018 as the Health Awareness Year, a health support and awareness campaign was launched at UHG and has been successfully implemented across all levels of operational employees;

- Over 15,000 employees including our site-based contractors have received professional, general management and/or subject-specific trainings, making 2018 a year with record high training hours;

- As part of our employee benefit package, a total of 91 employees and their families were conveniently relocated to Tsogttsetsii soum, of which 40 were moved into "Tsetsii" apartment complex and 51 were settled in the "Miners" ger district. As per specific terms of the employment agreement and relocation policy, the property and land ownership rights were transferred to 40 employees free-of-charge; and

- All of our employees continued to receive a complete local and international health, accident and life insurance coverage as part of the Company's employee benefit package and risk prevention measures. The insurance package covers medical expenses for both occupational and non-occupational accidents including accidents happened during leisure time. All employees are also enrolled in annual medical check-ups free-of-charge.

Non-discrimination and Equal Opportunity

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

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

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

As of 31 December 2018, we had a total of 1,938 employees, representing an increase of about 8% compared to the previous year. Approximately 44% of our employees were hired from the local communities during the year ended 31 December 2018.

Table 13. Comparative HR statistics 2017-2018:

	Year ended 31 December	
MMC	**2018**	2017
Total number of employees	**1,938**	1,797
Number of female employees	**272**	227
Number of female employees in management position	**32**	33
Percentage of local employees[1]	**44%**	47%

Note:

(1) "local employees" refers to residents of Umnugobi aimag

In 2018, female employees made up 14% of our total workforce which is higher than the national industry average of 12%. Compared to 2017, the number of our female employees increased by around 20%. Out of all female employees working at MMC, approximately 42% held technical positions, 46% were specialists (analysts, engineers, geologists, etc.) and 12% were managers and executives. Although the mining industry workforce is still relatively male-dominant and lacks skilled female employees, especially in rural areas, the Company keeps a strong focus on increasing the representation of women in the total workforce through upgraded systems and training programs. Accordingly, female labour participation rate at the Company, especially the specialists and managerial positions held by women, have been kept relatively stable over the years.

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

Employee Remuneration and Benefits

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

Our employee benefits include but not limited to:

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

The benefits are offered to all employees irrespective of their position and length of employment with the Company. We also provide all types of one-off allowances in full conformity with the local legislations. In the reporting period, the Company spent approximately USD1.6 million for employee benefits, allowances and bonuses. The increase in the amount was mainly due to the quarterly performance bonus incentives. Our bonus and incentives plan are tied to the Company's financial performance and individual employee and team performances, and are aimed at retaining top performing employees.

Employee Turnover

Our employee retention strategy is closely tied to our overall corporate social responsibility policy and long-term community development efforts. To keep our employee turnover rate at the minimum possible rate, the Company strictly adheres to sound employment practices in compliance with the Labour Law as well as our Employee Relocation Policy. The Employee Relocation Policy enables all of our employees working on-site to have access to a housing project and get financial assistance from us where appropriate. Since 2013 when we completed and put into operation an apartment complex in Tsogttsetsii, approximately 820 employees have been relocated to the "Tsetsii" town with their families. Compared to fly-in/fly-out and roster arrangements, a conveniently resettled employee base provides us with an opportunity to increase our productivity and reduce costs. We pay special attention to the families of resettled employees, providing them with all kinds of direct and indirect assistances and carry out targeted social development programs.

In 2018, the Company hired 770 new employees with the employee turnover rate of 8%, which has a noticeable decrease compared to the previous year. The total number of employees reached 1,938 at the end of 2018. As a result of our long-term employee retention policies, about half of our employees have been with the Company for over 5 years and over 90% of our employees are hired on a permanent basis, signifying our successful and stable employee engagement.

In line with our employee engagement policies and Health, Safety and Environment ("**HSE**") system, we actively supported Umnugobi aimag's initiative to announce 2018 as the Health Awareness Year and launched a health awareness and support campaign targeted at our mine-site employees. Over 200 employees participated in the campaign and systematic activities were carried out in the following areas:

- Employee health awareness trainings and workshops;
- Information and experience sharing on healthy food and lifestyle;
- Complete health analysis and monitoring for mine sites employees;
- Leisure time sports activities;
- Establishment and refurbishment of fitness centers and sports areas.

Based on satisfactory results among the employees, we have expanded the scope and reach of the campaign and are planning to implement a broad health awareness and support program for a period of 3 years.

Training and Development

We aim to continually invest in the training of mining professionals and build up capable and effective workforce. Due to the lack of suitably skilled personnel both at the local and national levels, job specific trainings form a crucial part of our overall training platform. 2018 was a year in which our training hours reached a record high level. During the reporting period, the operations of our heavy machinery training center in Tsogttsetsii soum was further expanded and we ran regular training courses for the local community members and individuals who wish to work for mining companies.

The Company mainly focuses on conducting in-house trainings rather than outsourcing, with an aim to reduce costs and improve operational efficiency. During the year under review, we conducted 108 types of training programs, of which 87 were in professional and vocational fields such as heavy equipment operation and maintenance while the remaining 21 were corporate skills training.

In conducting in-house trainings, we adhere to the following principles:

- The Training Policy is reviewed at least every 2 years and in the event of any changes in relevant legislation or mandatory training needs;
- All training programs and materials should be prepared in advance and distributed to the line managers in charge to ensure strict compliance with health and safety legislation and internal policies;
- Training needs matrix is provided to each operational area to assist the line managers/supervisors in identifying appropriate training needs;
- All newly hired employees must receive a safety induction on the first day of their job;
- All staff must undergo regular and mandatory health and safety training sessions relevant to their job role and work activities;
- Refresher training courses will be provided every 6 months; and
- All completed trainings are recorded in the training register system and reported in the annual safety report.

Table 14. Training highlights:

2018 Training Highlights	
Total number of employees in professional and vocational training sessions	**15,656**
By training type	
Heavy machinery operator training	1,860
Professional development training	8,883
Mine maintenance training	4,883
By gender	
Male	13,778
Female	1,878
By position	
Operational employees	11,323
Supervisors	3,028
Managers and senior officers	1,309

In 2018, a total of 15,656 employees received professional and vocational skills training, almost 10-fold increase as compared to the previous year, for a total of 90,171 man-hours with average training hours per employee being 6 hours. The major increase in frequency and coverage of the trainings were mainly related to the introduction of IMS across our entire operations. We also organized a series of specific trainings on the update of our operational procedures and involved all employees of our site-based contractors in addition to our own employees. The IMS trainings and workshops were well received by our staff.

HEALTH, SAFETY AND ENVIRONMENT

With high safety standards, modern technologies and integrated approach, we aim to systematically reduce the risks to our people, nature and the communities in which we operate. Therefore, HSE is an integrated part of our activities.

The safety and well-being of our employees, contractors and those who work with us are a top priority for us. Our IMS Policy ensures that we constantly strengthen our company-wide safety communication and remain committed to the principle of "Vision Zero" to our people and host communities as well as minimal adverse impact on the environment.

Our HSE management systems are designed to provide our employees and contractors the necessary directions to practice safe work behaviors and make each individual accountable for the implementation of IMS and its accompanying elements, rules and procedures. We have a formally approved HSE structure and HR in place to ensure the continual improvement of the HSE management system according to the requirements of ISO 14001:2015 and OHSAS 18001:2017 standards we have adopted.

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

The review and improvement of our integrated documentation system continued throughout the reporting period to ensure that it meets Mongolian applicable legislations, such as the Law on Occupational Health and Safety, the Law on Disaster Protection, the Environmental Protection Law of Mongolia ("**Environmental Protection Law**") and the Law on Environmental Impact Assessment, as well as international standards for Safety OHSAS 18001:2007 and Environment ISO 14001:2015.

In May 2018, the Umnugobi aimag Professional Inspection Agency conducted a periodic review at our mine site and the Company was evaluated as "low risk" with a legal compliance score of 86 out of 100. The inspection covered the following three areas:

- Occupational hygiene – 96%,
- Radiation source – 84%,
- Fire safety – 78%.

Occupational Health and Safety

We remain committed to creating and maintaining the culture of "Vision Zero" in which there is no fatality and all incidents are preventable. Identification and assessment of potential hazards, prevention of work-related accidents and occupational illnesses, maintenance of comprehensive risks management system and a healthy work environment are all vital in our efforts towards "Vision Zero".

Highlights of 2018

- No fatalities and no occupational diseases were recorded;
- No breaches were recorded for Occupational Health and Safety ("**OHS**") compliance;
- Exceeded our original target in reducing the occupational injuries with lost workdays and overall improvement in safety performances;
- Adopted and implemented IMS across ISO 14001:2015, OHSAS 18001:2007, ISO 9001:2015 international standards for the first time in Mongolia;
- As part of the implementation of IMS, new procedures were developed in addition to the review and update of all existing procedures;
- IMS introduction and related trainings involved all employees of the mine-site contractors in addition to our own staff;
- Class 1 risks at all workplaces were registered and control measures and signs were introduced;
- Passed state inspections in OHS areas with "satisfactory/low risk" evaluations; and
- Adopted "Ezisafe" internet based safety program for registering and real-time communication of information on incidents, hazards, risks, and procedures.

In 2018, within all operations under the management of the Group, approximately 8.7 million man-hours were recorded as worked by employees, contractors and sub-contractors. During the reporting period, three occurrences of LTI were recorded, resulting in an overall LTIFR of 0.35 per million man-hours worked equivalent being recorded.

The Company continued to deliver OHSE specific trainings to employees, contractors, sub-contractors and visitors, with 15,492 training sessions to individuals totaling 62,549 man-hours in 2018. Rescue actions and corresponding corrective actions were performed immediately and on schedule throughout the reporting period.

Workplace occupational hygiene and safety environment inspections were carried out 145 times at various workplace locations in 2018. All identified hazards and OHSE management system non-conformances were investigated in order to discover and eliminate root causes. 98% of all non-conformities were corrected through immediate corrective actions and 98% of the reported hazards were eliminated. Risk assessment and job safety analysis were periodically conducted during the reporting period to minimise or eliminate work-related hazards and to enhance awareness of daily safety routines among the employees.

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

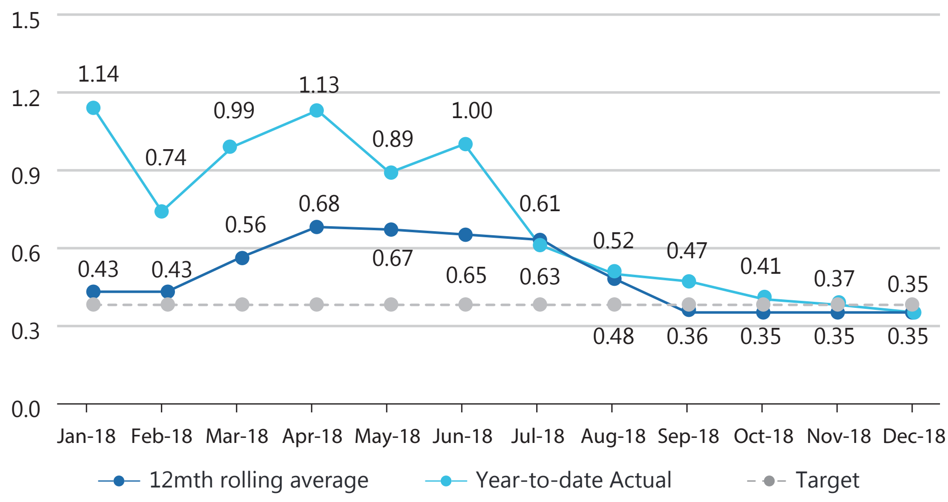
In 2018, over 2,800 people were given medical help and advice by our on-site medical team and health risk assessments were facilitated for our entire workforce. To effectively prioritise and implement workplace improvement, a general ergonomic risk analysis and accompanying health survey were conducted and involved about 1,800 employees. Moreover, 120 managers and supervisors were enrolled in safety and health associate advanced trainings.

The below table and corresponding graph show our OHSE performance in 2018. Although there was about 31% increase in worked man-hours, we achieved a 30% decrease in Total Recordable Injury Frequency Rate ("**TRIFR**") and a 22% decrease in LTIFR respectively. Overall, the achievements in decreasing the OHS incident rates exceeded our original target of 20% for 2018. Nonetheless, we are committed to decreasing the incident rates as much as possible and further improving our safety statistics. For 2019, we aim to reduce the OHS incident rates by at least 10% from 2018.

Table 15. Comprehensive safety statistics:

	2018	2017
Total man-hours worked	**8,704,537**	6,623,801
Fatalities	**0**	1
TRIFR	**3.57**	5.13
LTIFR	**0.35**	0.45
Legal compliance (average)	**86.0%**	85.0%
Safety inductions (number of employees and contractors covered)	**15,492**	9,469

Figure 4. LTIFR (year-to-date) and 12-month rolling average



The risk assessment and job safety analysis were conducted and customised during the reporting period to minimise or eliminate work-related hazards and to enhance the awareness of daily safety routines among the Company's employees. Moreover, an internet-based safety program was introduced to our operations enabling our on-site teams to register and communicate OHS risks and hazard information on a real-time basis.

Periodic monitoring on workplace occupational hygiene and safety was conducted throughout the year. These included monitoring for thermal and environmental factors, noise, lighting, vibration, general and small particulate airborne dust, level of oxygen and other toxic gases in the atmosphere, excessive noise, whole of body vibration, etc. The monitoring took place a total of 12 times in 91 workplaces across the mine operations and corrective actions were taken subsequently. Also, fire prevention inspections were carried out over 360 times at various workplace locations.

ENVIRONMENTAL STEWARDSHIP

Ensuring HSE compliance is an integral component of our operations. We have robust environmental management systems and practices through which we assess and identify potential environmental risks, conduct routine monitoring, and report the performance results to minimise the adverse impact of our operations on the environment. At each and every stage of our operations, we strive to promote the efficient use of resources, the reduction and prevention of pollution and the enhancement of biodiversity protection. As a responsible miner, we strive to meet, and where possible, exceed the regulatory requirements in our environmental performance.

In total, over 30 environmental related laws and 200 regulations are in force in Mongolia and we work in compliance with all of them. The main laws are the Environmental Protection Law, the Law on Environmental Impact Assessment and the Minerals Law. In addition, the IMS was adopted in 2018 to ensure further streamlining of our HSE activities and existing systems on environmental protection and management.

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

Highlights of 2018

- As part of the IMS introduction, an international environmental management standard ISO 14001:2015 was adopted and implemented;

- The UHG project's detailed Environmental Impact Assessment and the Environmental Management Plans were revised in accordance with the amendments to the Law on Environmental Impact Assessment and were approved by the Mongolian Ministry of Environment and Tourism;

- No critical environmental incidents were recorded at our operations and no environment related complaints were received from the communities; and

- Planting of Gobi endemic trees continued as part of the systematic land reclamation activities.

Environmental Incidents

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

In 2018, we recorded no environmental incidents with risk rating of "moderate" or above. Four incidents occurred with risk rating of "low", which were spillage of fuel. For all the incidents, full investigations were carried out strictly in line with applicable internal procedures to identify the root causes, followed by corrective and preventive actions to prevent re-occurrences.

Biodiversity

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

We also organise wild animal conservation activities on a regular basis. During the reporting period, over 100 kilograms of natural salt marsh and 120 bales of hay were placed at designated places in the Gobi mountain as an extra food support for hoofed mountain animals in the region.

As part of the biodiversity conservation activities, a designated camera was installed near the water collecting artificial pond in Gobi in order to observe the movements of wild animals and protect them.

Land

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

In the reporting period, approximately 12,000 square meter areas were concreted around the mine site office, "Gallery" camp and "Tsetsii" apartment complex, as part of our activities towards prevention of soil degradation. Overall care for and maintenance of re-vegetated areas were carried out continuously.

Tree planting and collective activities towards development of green areas in Gobi continued to take place. On the National Tree Planting Day, the Company's employees planted over 1,500 trees in and around the UHG project mine site and about 1,700 seedlings were donated to local organisations.

As part of the gardening activities for green park development, perennials were planted on 1,000 square meter areas and over 2,500 trees were planted in 2018.

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

In 2018, approximately 8,600 seedlings were harvested from the nursery field for use in various tree planting, landscaping and gardening projects. A number of Gobi native species were planted from their seeds and cuttings for later use in seedling preparations.

Photo 1. Forest belt in Tsogttsetsii soum, summer 2018

Our forest belt project started in 2011 has been successfully carried out. Located in about 15 km from our mine site, the forest belt area covers approximately 15 hectares and currently has over 12,000 trees. The project meaningfully serves its purpose to provide wind protection in an arid Gobi region and is a part of an effort against desertification.

Water

We are committed to responsible use of water as it is a scarce and highly valuable resource in the arid Gobi region in which we operate. Access to water is critical to our continuity of operations and effective water management is considered an essential factor of our project and operational sustainability. A comprehensive Water Management Plan guides the actions of our management, employees and contractors with regard to the use and re-use of water. Specifically, this concerns the effective management of groundwater, taking into consideration its use by local herders. Aspects relating to water management and discharge into water are regulated by the Mongolian Law on Water and a national standard MNS 4943:2015. The Company ensures that all such activities are in full compliance with the stated regulations. We have cooperated with international organisations active in the water management fields and have worked as a member of IFC Mongolia's South Gobi Water and Mining Industry Joint Roundtable project since 2013. Moreover, we signed a VCP on Responsible Water Management in 2016, together with some major mining companies that operate in the South Gobi region. In 2018, the Company received Water Innovation Award from IFC Mongolia for its innovative approach in water saving and management such as collection and re-use of surface flood water.

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

At our operations, water is sourced from groundwater boreholes and stored in two water reservoirs with a total storage volume of 56,000 m^3, covered by synthetic membrane to prevent evaporation. In 2018, a total of 2,164 mega litres ("**ML**") of groundwater was extracted and 601 ML of water was recovered during coal processing by the Belt Filter Press ("**BFP**") facility for re-use in further coal processing.

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

- A designated BFP facility continued its operations and provided recovered water for re-use in coal processing. An additional two filter press machines were installed at the BFP facility;
- Around 23.1 ML surface flood water was accumulated and was used for dust suppression of the mine haul roads;
- Monitoring of herder wells and observation boreholes around the mine and water extraction area were conducted on a monthly basis;
- The waste water treatment plant in Tsogttsetsii which has a capacity to treat 1,200 m^3 of waste water per day continued its operations. The facility's treatment capacity of contaminated water stands at up to 95%, making the treated water quality fully in compliance with the requirements of the national standard MNS 4943:2015. In 2018, over 168 ML of domestic waste water was treated and re-used for purposes such as road and tree watering; and
- Waste clean-up campaigns were organised on a regular basis around the springs near the mine.

Waste Management

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

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

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

In 2018, the total amount of solid waste generated from the mine site activities was 9,606.7 m^3 and the percentage of recycled day-to-day waste was about 7%.

We aim to achieve waste reduction through measures such as purchase restrictions that ensure the waste generated from suppliers is at minimum and conversion of waste into useful materials. For example, we engage with a small scale waste recycling facility, where scrap materials are used in making of products such as garbage bins, metal fences, sliding doors, wooden benches, blocks, etc. Certain types of waste such as plastic bottles of drinking water are pressed with designated presser equipment and are sent to recycling factories. Waste treatment and disposal take place at a designated area on-site run by a company specialised in waste handling.

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

Hazardous Waste Management

We have Hazardous Waste Management Policy which requires us to identify and assess the characteristics and risks associated with all types of hazardous wastes. Accordingly, we implement prevention control measures associated with the transport, storage, use, transfer and disposal of hazardous materials. Depending on their types, hazardous wastes are delivered back to the suppliers for re-use or appropriate disposal. For instance, printer cartridges are sent back to suppliers for refill and re-use. Collecting and recycling of used oil is crucial for preventing oil contamination to soil and groundwater. Therefore, used oil is collected in a designated tank and sent to a recycling facility which produces fuel and other types of raw materials. The percentage of recycled hazardous waste was about 28% in the reporting period.

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

Waste types	2018	2017
Total hazardous waste	**1,902m^3**	1,432 m^3
Production	**4,768,311 t**	4,040,071 t
Intensity	**0.0004 m^3/t**	0.0003 m^3/t
Total non-hazardous waste	**9,606 m^3**	6,686 m^3
Production	**4,768,311 t**	4,040,071 t
Intensity	**0.002 m^3/t**	0.0016 m^3/t

Air Quality and Noise

We are aware of the impacts generated by our operations, such as dust, noise and traffic, and we continuously work to mitigate them. During the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine sites and the coal haul road in accordance with the Dust Management Plan of the environmental and social management plan. These measures include:

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

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

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

Air quality monitoring is an integral part of our Dust Management Plan. Dust concentration, dust deposition, noise level and pollutant gases are main parameters for the monitoring. Portable tools such as Dust trak 8530, Casella Cel 240 and Testo XL 350 are used to monitor the air quality. In order to enhance monitoring capacity, in 2018, we started to use Dust trak 8533 which can measure more than one parameter simultaneously. Air quality monitoring measurements are conducted throughout the project area on a monthly basis.

Monitoring and measurement of PM2.5 dust level were carried out at 15 different sites in and around the UHG mine and TKH area. During the reporting period, PM2.5 level measurements were conducted over 100 times against the national MNS 4585:2016 standard, at certain points at UHG mine site, Tsogttsetsii soum and TKH area. The average level of PM2.5 throughout the year stood below the acceptable value of national air quality standard (0.05 mg/m^3) at most of the measuring points.

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

Emissions

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

Direct measurement of the greenhouse gases ("**GHGs**") at the emission source can give the most accurate and precise assessment of GHG emissions. This is typically not feasible at the mine site due to a number of reasons such as the amount of costs involved, the level of disruption to production and large number of trucks and plant equipments involved. Emission factors remove the need for site specific testing of emissions. The factors are expressed as the amount of GHG emissions per unit of activity and can be used to determine the inventories for the site. This is much more feasible compared to testing each source individually, and it is one of the few ways that inventories for proposed sites can be calculated. The mine's GHG performance intensity increased from 0.048 t to 0.059 t CO_2-e/t ROM in the reporting period, which was mainly due to the increase in our operational intensity.

Table 17. Emissions data:

Emissions	2018	2017
NOx	**147.9 t**	97.6 t
SOx	**1.0 t**	1.0 t
PM	**10.0 t**	7.1 t

Total GHG emissions	2018	2017
GHG/CO_2-e/t/	**283,026 t**	197,349.6 t
Production	**4,768,311 t**	4,040,071 t
Intensity	**0.059 t CO_2-e/t**	0.048 t CO_2-e/t
GHG removals by planted trees	**2,138,310 kg CO_2-e**	1,982,600 kg CO_2-e

Table 18. Breakdown of emissions from vehicles:

Emissions type	Vehicle type	Distance travelled/km/	Consumed fuel/liter/	Emission factor	Emissions
NOx	Light vehicles < 2.5 tonne	2,818,302	–	0.885 g/km	2,494 kg
	Light vehicles /2.5-3.5 tonne/	–	–	1.1546 g/km	0 kg
	Medium vehicles /5.5-15 tonne/	767,477	–	3.1332 g/km	2,404 kg
	Heavy vehicles > 15 tonnes	24,816,512	–	5.6932 g/km	141,263 kg
PM	Light vehicles < 2.5 tonne	2,818,302	–	0.0848 g/km	238 kg
	Light vehicles /2.5-3.5 tonne/	–	–	0.1075 g/km	0 kg
	Medium vehicles /5.5-15 tonne/	767,477	–	0.3106 g/km	238 kg
	Heavy vehicles > 15 tonne	24,816,512	–	0.4093 g/km	10,157 kg

With an effort to reduce GHG emission, we have been planting trees in and around the UHG mine site since the commencement of mining operations in 2009. As can be seen from Table 19, the effort is paying off and the amount of GHG removals resulted from tree planting increased by about 8%. The Company also maintains special operational regime of the power plant to prevent high emission of pollutant gases.

Table 19. Breakdown of GHG emissions:

GHG	Emission type	Source type	Consumed fuel/liter/	Emission factor	Emissions
Energy direct emissions	Total emission				283,026,693 kg
	CO_2	Mobile combustion sources	62,773,928	2.614 kg/l	180,248,383 kg
	CO_2 eq CH_4		498,560	0.000072 kg/l/ Light vehicles/	1,806 kg
			62,275,368	0.000145 kg/l/ Heavy vehicles/	206,329 kg
	CO_2 eq N_2O		498,560	0.000506 kg/l/ Light vehicles/	187,435 kg
			62,275,358	0.000071 kg/l/ Heavy vehicles/	1,512,405kg
Energy indirect emissions	CO_2	Electricity	40,000,000 (kWh)	0.76 kg/Unit (kWh)	100,872,139 kg
GHG removals	CO_2	From newly planted trees	86,200 tree	Removal factor 23 kg/tree	2,138,310 kg

Use of Resources

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

As one of the very few Mongolian companies engaged in coal processing, MMC has achieved an optimal utilisation of coal reserves, resulting in comprehensive mining efficiency as well as savings on transportation turnover and associated energy consumption. In 2018, the Company produced 4.8 Mt of washed coking coal products, our primary product, at 47.5% yield, and 2.2 Mt of middlings as a secondary product, at yields of 21.6%. By incorporating various seams into ROM coal feed, we ensure at least 50% saving of natural coal reserves every year as compared to raw coal production. Moreover, by introducing systematic efficiency management in coal production and processing, we aim to ensure a gradual increase of energy savings at all applicable fields of our operation.

The Company seeks to minimise the volume of water usage in its operations through the latest water efficient technologies and water recycling. The Company uses a combination of both groundwater and recycled water for its operations. To control and monitor water consumption, as well as the amount of extracted water, consumed water and treated waste water, we use integrated telemetry control system with real time data collection. Sewage is treated in a waste water treatment plant and is used for dust control on coal haulage roads. To date, the Company has undertaken several major technical projects that are aimed at reducing the groundwater use. For example, a BFP facility was put into operation at UHG mine that dewaters the slurry from the CHPP in 2013. The Company further expanded the capacity of the facility in 2018 and started to operate filter press facility which increases the water recovering of CHPP by about 240’000 m^3/year. Furthermore, the dry cooling system of the UHG power plant ensures no water evaporation due to condensation re-use and as a result, the water usage of the power plant is at least twice less than other power plants with the same capacity.

To comply with the Energy Conservation Law of Mongolia adopted in 2015, the Company appointed an energy efficiency manager in 2016, who is specifically in charge of the efficient use of resources and applicable technology.

An external audit on energy efficiency was conducted by authorised entities in 2018, where no non-compliance was recorded. Our energy efficiency manager is also working on the recommendations of the audit to improve the energy saving activities. We continued with our energy saving efforts in the reporting period through various initiatives. For example, instead of using portable diesel generators for the mine parking area, a separate electricity power line was built in the area. As a result, we prevented emission of at least 249 tonnes of CO_2.

Table 20. Water and electricity consumption data:

	2018	2017
Water consumption	**2,164,060 m^3**	1,854,470 m^3
Intensity	**0.45 m^3/t**	0.45 m^3/t
Electricity consumption	**58,031,776 (kWh)**	40,000,000 (kWh)
Intensity	**12.1 kWh/t**	9.9 kWh/t

Environmental Monitoring

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

Monitoring results are incorporated into our annual environmental reports which are submitted to national and local environmental authorities. We also aim to involve the local community members in our environmental monitoring activities throughout the year. For example, monitoring of herder wells around the UHG mine and Tsogttsetsii soum centre are conducted on a monthly basis and involve members from the closest communities. During the reporting period, around 30 local residents, including herders, local administration officials and school children, took part in the Company's environmental monitoring activities.

Environmental Protection Awareness

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

Besides general induction, thematic trainings are organised to provide additional information on environmental protection for specific tasks such as topsoil stripping for dozer operators, and storage and handling of cleansing and disinfecting agents for cleaners. During the reporting period, environmental induction was organised for a total of 21,952 man-hours.

In relation to the adoption of ISO 14001:2015 international standard and environmental management system, we continued to organise public campaigns on environmental protection and awareness.

External Audit

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

In May 2018, chemicals and hazardous waste management of UHG operations were audited by the State Specialized Inspection Agency to ensure the level of compliance with the national legislation on environmental protection. The audit evaluated our storage and handling of hazardous and toxic chemicals as "low risk" and compliance at 78.1%.

Ten non-compliances were identified during the audit of which seven were related to chemical storage and others were related to chemical safety training and registration. Accordingly, corrective actions were completed for three cases. The rest of the non-compliances will be corrected as we plan to build a chemical storage facility in 2019.

In accordance with the Environmental Protection Law, an external independent audit on environmental management is conducted in every two years. The latest audit was conducted in December 2017, the performance result was 90% and the Company is working on the remaining recommendations of the audit to further improve its operations.

Our annual Environmental Management Plan was approved by the Mongolian Ministry of Environment and Tourism and its performance was evaluated by Umnugobi aimag Environmental Agency at 87.2%. The recommendations of the evaluation and follow-up activities are included in our Environmental Management Plan for 2019.

OUR COMMUNITY

As a responsible miner, MMC is proud of the contributions that it makes to the communities where it operates as well as the country's socio-economic development. While respecting local cultures and minimising the impact of our operations, we strive to build quality relationships with our host communities and create lasting benefits.

In conducting ESG and community engagement activities, we follow the ISO 26000 Social responsibility and guidance standard in addition to the local standards and legislations, such as the relevant sections of the Minerals Law.

In line with our Sustainability and ESG policies, we conduct socio-economic baseline studies as well as impact and risk assessments to determine both the positive and negative impacts of our operations to the community. Based on the findings of the assessments, we develop individual plans to mitigate any adverse impacts associated with our activities, and at the same time, initiate programs and investments that support positive impacts to the sustainable development of the region. Since the commencement of our mining operations in 2009, we have implemented about 50 independent projects and programs in community development. Most of the programs are long-term based and are still ongoing. Our community development and engagement activities are governed by the following documents:

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

Through our community investments, we seek to deliver long-term sustainable outcomes for the communities where we operate and empower the local people to develop independently of the Company operations when our mining activities cease. Therefore, long-term sustainability projects are preferred over one-off grants and donations or short-term activities.

We generate economic value for the communities through employment, taxes and royalties, as well as purchase of local goods and services and infrastructure development. Over the course of the reporting period, we purchased goods and services worth of MNT3.6 billion from the local communities, over three-fold increase compared to the previous year, provided wages and employee benefits in excess of MNT44 billion, paid local taxes and fees of approximately MNT219 billion and spent approximately MNT734 million for community development programs.

Highlights of 2018

- No significant community event resulting from MMC operated activities;
- The Sustainable Livelihood Support Program successfully continued and benefited seven small local businesses in Tsogttsetsii soum;
- The scope and reach of Local Education Support Program was expanded to involve all of the students and teachers at both secondary schools in Tsogttsetsii; and
- Summer job program for local students from Tsogttsetsii soum was initiated and successfully implemented at UHG mine.

Community Engagement

We believe that through mutual trust, respect and well-established communication with host communities, we can address social and environmental impacts and minimise adverse effects. Thus, we aim to foster robust relationships and build trust with the local community members, local authorities and other stakeholders, which is vital for successful business operations and sustainable development. MMC strived to develop effective ways to engage the stakeholders and pioneered the first public consultation and discussion event in Umnugobi. Although the currently effective legislations do not require mining companies to organise public consultation events, we exceeded the legal requirements and have organised the event annually since 2009. The events serve as a bridge between the Company and the local community members including herders that live in the mine impact area.

Our overall consultation and engagement platform with communities occur in many forms, including but not limited to:

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

At MMC, we are proud that numerous external monitoring and evaluations performed by both international and local experts identified our community engagement practice as one of our strongest assets in the UHG project. MMC continued its active engagement with the local administration in the reporting period and provided updates on the Company operations on a regular basis through reports, bulletins, news updates and meetings, etc.

Grievance Management

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

As a result of our effective and two-way community engagement activities, we received no significant complaint or inquiry associated with our operations since 2016. In 2018, a total of 16 requests were received from the local communities and handled via our grievance mechanism. Around 75% of the requests were related to financial or material support and donations, and the remaining 25% were related to visit UHG mine site and Gallery camp, employment and other requests. All requests were handled and responded to within the deadline stated in our Grievance Policy.

Community Investment

Through community investment, we strive to create opportunities for "shared value" – an outcome that benefits both the Company and the host community. Our contributions range from improving local infrastructure, access to quality education and ongoing development of a local workforce to capacity building of local small and medium enterprises ("**SMEs**"). Preferential local procurement, implementation of community targeted programs, such as Sustainable Livelihood Support Program, Good neighbourhood program, or community health support programs aim to bring sustainable positive impact to the local communities including herdsmen. In 2018, the Company spent approximately MNT7.8 billion on community investment and related activities, over 64% increase compared to 2017.

Table 21. Community investment, 2018:

Community investment direction	MNT
Local infrastructure development	3,113,978,875
Community development programs	734,387,669
Education support	29,700,000
Environmental protection	8,000,000
Cultural heritage	528,600,000
Sustainable livelihood	52,937,669
"Good neighbourhood" initiative	115,150,000
Grants & sponsorships	287,600,000
Local procurement (Umnugobi aimag)	3,617,440,000
TOTAL	**7,753,406,544**

Community Development Programs

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

Sustainable Livelihood Support Program

Since 2012, the Company has implemented a Sustainable Livelihood Support Program that focuses on providing micro-financial support to the local start-ups and SMEs. As part of our Sustainable Development Policy, we believe that supporting local start-ups and SMEs will create new economic opportunities for the local communities. Lately, the project expanded its outreach and involved family members of our resettled employees in addition to the local residents and herdsmen. In 2018, the Company increased the micro-finance fund size by MNT50 million and seven new applicants received an interest-free micro loan through the project partner XacBank. Most of the SMEs are further supported through procurement of their services and goods by the Company. For example, one of the pioneering participant "Zul" sewing business expanded its operations and started to supply coal truck covers for the Company. The procurement amount of their products reached MNT441 million as of the end of 2018.

Local Education Support Program

In 2018, the Company expanded the reach and scope of its existing Local Education Support Program and started to involve all 2,000 teachers and students in both secondary schools in Tsogttsetsii soum. Within the scope of the program, Math and English certified instructors provided workshops and trainings to the local teachers on a regular basis. Moreover, KPI bonus system was introduced at "Dream" school under the guidance and overview of certified instructors to support and improve local teachers' skills and performance. The performance and learning environment of the students are further enhanced by English and Math online programs introduced as part of the project.

Forest Belt Project

To support the vegetable gardening initiatives of the local community members and assist them in generating an additional source of income in the water scarce Gobi region, we started the Forest belt project in 2011. The project area now covers 15 hectares, has over 12,000 trees with a growth success rate of over 85% and serves as an off-set against desertification. In addition to properly managing the land and irrigation system, the Company organises professional training programs on vegetable growing and provides the community members with seeds and supplies. In 2018, 24 households and one company from Tsogttsetsii soum grew 11 types of fruits and vegetables in the area.

Summer Employment Program for Local Students

In response to growing demand from the local students for internship or part-time jobs at the UHG mine, we initiated and successfully implemented a summer employment program for local students from Tsogttsetsii soum for the first time. In the summer of 2018, total of 22 students were enrolled in the program and worked at various units of UHG mine for two months. The program served as a great way for local students to gain additional income while gaining job experience.

"Good Neighbourhood" Initiative

Within the framework of "Good neighbourhood" initiative, the Company provides various types of in-kind assistance to the communities. The following activities were carried out in 2018:

- Approximately 38,000 tonnes of thermal coal was provided to Dalanzadgad soum power plant and neighbouring soums of Umnugobi aimag free-of-charge during the harsh winter months;

- An annual welcoming and networking event was organised to pay respect to about 380 elderly citizens of Tsogttsetsii soum and the local communities; and

- Free-of-charge hay and fodder were provided to over 300 herders residing in Nomgon, Khanbogd, Bayan-Ovoo, Khankhongor and Tsogttsetsii soums of Umnugobi aimag as a support in overcoming the harsh winter months.

SOCIO-ECONOMIC CONTRIBUTION

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

Job Creation

We continued our efforts to retain our employees and hired and trained local people where possible during the reporting period. As of the year ending 2018, MMC employed 1,938 employees, about 44% of whom were locally hired. In addition to that, approximately 3,000 people are provided with direct employment through our major contractors within the scope of the UHG and BN projects.

Tax Contribution

In 2018, MMC contributed MNT219 billion to the state and local budget through direct taxes and fees, advancing its contribution to the economy. Since the commencement of our mining operation in 2009, the Company has paid over MNT1.1 trillion in taxes and fees, a significant contribution to the country's economy.

Procurement

At MMC, we always strive to increase economic contribution to both the country's economy and the communities in which we operate. As such, we encourage and develop local partnership at every level of our operation and cooperate with potential contractors while giving priority to local businesses from Umnugobi.

In the reporting period, MMC cooperated with about 300 suppliers and service providers, an increase of 7% compared to 2017. Around 93% of the contractors were businesses in Mongolia. In 2018, we sourced products and services from 27 local businesses in Umnugobi aimag and the procurement amount totalled approximately MNT3.6 billion. In addition to this, local businesses are supported through the Company's Sustainable Livelihood Support Program.

We follow ethical business practices in our purchasing and supply management and require our suppliers to adhere to our Social and HSE policies and procedures in addition to the Contractors and Suppliers Management Procedure in doing business with us. The procedures regulate all kinds of client-supplier relations and related aspects, including but not limited to, proper determination of the needs and requirements for execution of the contract works and services, hazard identification and risk assessment, ethical business conduct as well as monitoring of work performance.

COMPANY AWARDS AND ACCOLADES

During the reporting period, MMC received numerous awards from various international and local organisations, professional bodies as well as governmental agencies of Mongolia for its responsible mining operations and sizable contribution to the country's socio-economic development.

Entrepreneur 2018

The Company was selected as one of the Top 10 enterprises in Mongolia by the Mongolian National Chamber of Commerce and Industry (the "**Chamber**"). Around 300 national companies competed in the annual selection exercise, and the nominees were judged based on the level of their socio-economic contribution, environmental stewardship, local community investment and technological advancements. During 2009-2018, the Company received the award for a total of eight times, proving its position as one of the leading companies in Mongolia.

Water Innovation Award

For its water saving and re-use initiatives in the Gobi region, the Company received the Water Innovation Award from IFC Mongolia. During the reporting period, the Company harvested and accumulated around 23.1 ML of surface flood water which was used for dust suppression and industrial purposes.

National Quality Award

The GoM together with the Chamber highly recognised the Company's achievement for introducing the country's first IMS in the mining industry and awarded the Company with the National Quality Award. During the reporting period, the Company successfully implemented IMS across international standards ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 and received formal certification from Afnor Group, an international standardisation body. The certification was based on standard assessment and acknowledgment of the Company's performance and proven track-record in the safety and environmental fields and covered mining and processing operations at both UHG and BN.

Grand Prix at Coal Industry Forum

Based on the results of public voting and judgment of a team of independent mining experts, the Company received the Grand Prix award at the annual "Coal Mongolia" international conference and forum in 2018. The country's leading coal mining and export companies were judged based on their coal mining, transportation, trade performances and responsible mining initiatives in the industry. "Coal Mongolia" is an annual international coal trade and investment conference with a main objective to attract investment to Mongolian coal industry.

The GoM Award

Based on our 2018 performance, the GoM together with the Chamber named MMC as one of the Top 5 enterprises in the country. The annual selection is based on companies' socio-economic contribution, financial results and the scope of ESG activities.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Directors, throughout the year ended 31 December 2018, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision E.1.2 which states that the Chairman of the Board should attend the annual general meeting ("**AGM**") of the Company. The relevant details are set out under "Communication with Shareholders and Investor Relations" below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

The Company has also established written guidelines (the "**Employees Written Guidelines**") of no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company for the year ended 31 December 2018.

BOARD OF DIRECTORS

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

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

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

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

NON-EXECUTIVE DIRECTORS:
Mr. Od Jambaljamts, *member of the Corporate Governance Committee*
Ms. Enkhtuvshin Gombo, *member of the Audit Committee*
Mr. Enkhtuvshin Dashtseren

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

During the year ended 31 December 2018, Dr. Oyungerel Janchiv resigned from the position as non-executive Director with effect from 4 January 2018. Mr. Enkhtuvshin Dashtseren was appointed as non-executive Director on 4 January 2018.

The relationship between the members of the Board and the biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 11 of the annual report for the year ended 31 December 2018.

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing the appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

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

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

The Directors have participated in the following trainings during the year ended 31 December 2018:

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

A Attending in-house briefings organised and trainings coordinated by the Company
B Attending seminars and trainings organised outside of the Group
C Reading materials relating to directors' duties and responsibilities and updates on relevant laws and rules

BOARD COMMITTEES

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

Audit Committee

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

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

The principal duties of the Audit Committee include the following:

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

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

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

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

During the year ended 31 December 2018, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor, engagement of non-audit services and relevant scope of work, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met with the external auditor twice during the year ended 31 December 2018.

Remuneration Committee

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

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

The primary functions of the Remuneration Committee include the following:

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

During the year ended 31 December 2018, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management, to consider and make recommendation to the Board on the remuneration packages for the newly appointed non-executive Director and other related matters.

Table 22. Remuneration by band of the senior management:

	2018
HKD700,001 to HKD750,000	1
HKD1,000,001 to HKD1,500,000	1
HKD3,000,001 to HKD3,500,000	2
HKD3,500,001 to HKD4,000,000	1

Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in note 10 to the consolidated financial statements.

The Remuneration Committee also made recommendations to the Board on the terms of letter of appointment of the new non-executive Director appointed during the year.

Nomination Committee

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

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

The principal duties of the Nomination Committee include the following:

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

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

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

Summary of Nomination Procedures for Directors of the Group

The Director Nomination Procedures was adopted by the Board on 27 August 2013, and shall guide the Nomination Committee in selecting and nominating the suitable candidates for directorships. The written procedures set out the criteria against which the candidates are to be evaluated, such as the character and integrity, professional and personal qualifications, skills, knowledge and experiences, time contribution, independence and board diversity before moving onto the nomination process. Where there is more than one candidate, the Nomination Committee shall rank the candidates by order of preferences based on the needs of the Company and where appropriate, to make recommendations to the Board. The Director Nomination Procedures also set out the procedures for re-election of Directors at the general meeting. The Nomination Committee shall also review the overall contribution and service to the Company of the retiring directors including their participation and performance before making recommendations to the shareholders in respect of the proposed re-election of directors at the general meeting.

During the year ended 31 December 2018, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for re-election at the AGM and to consider and recommend to the Board on the appointment of Mr. Enkhtuvshin Dashtseren as non-executive Director. The Nomination Committee reviewed and discussed the measurable objectives for implementing diversity of the Board and considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

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

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

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

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy regularly and as appropriate to ensure its effectiveness.

Corporate Governance Committee

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

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

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

During the year ended 31 December 2018, the Corporate Governance Committee met once to review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees' Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2018 is set out in the table below:

Table 23. Attendance records:

	Attendance/Number of Meetings					
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Corporate Governance Committee	Annual General Meeting
Odjargal Jambaljamts	4/4	1/1	1/1	N/A	N/A	0/1
Battsengel Gotov	4/4	N/A	N/A	N/A	N/A	1/1
Od Jambaljamts	4/4	N/A	N/A	N/A	1/1	0/1
Oyungerel Janchiv (Resigned on 4 January 2018)	N/A	N/A	N/A	N/A	N/A	N/A
Enkhtuvshin Gombo	4/4	N/A	N/A	2/2	N/A	0/1
Enkhtuvshin Dashtseren (Appointed on 4 January 2018)	4/4	N/A	N/A	N/A	N/A	0/1
Khashchuluun Chuluundorj	4/4	1/1	1/1	2/2	N/A	1/1
Unenbat Jigjid	4/4	1/1	1/1	2/2	1/1	1/1
Chan Tze Ching, Ignatius	4/4	N/A	N/A	2/2	1/1	1/1

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

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

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting, internal audit function, staff qualifications, experiences and relevant resources.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The internal control system of the Company is based on the "Three Lines of Defense" model. All divisions conduct internal control assessment regularly to identify risks that potentially impact the business of the Group's various aspects, including the key operational and financial processes, regulatory compliance and information security. On top of that, the Internal Audit Department performs independent review of the adequacy and effectiveness of the risk management and internal control systems of the Company.

The Company endeavors to continuously improve its risk management and internal control systems. In 2017, the Company provided "Enterprise Risk Management", "MMC Risk Management Policy" and "Risk Management Process" trainings to grade 5 and above level managers and senior staff, involving a total of 104 employees and over 210 man-hours.

Further, operational risk management procedures and instructions were developed to provide tools and templates for risk registers, risk assessment, risk control and risk management action plans. Following the adoption of the operational risk management procedures, operational teams assessed risks related to their activities, prepared risk registers and developed corresponding risk mitigation plans.

Self-assessment on technical compliances were regularly conducted by operational units during the reporting period. Control assessments were conducted using 123 checklists, consisting a total of 5,229 control questions that covered Mongolian laws, regulations, technical standards and rules pertinent to the main operational areas of the Company, including the subcontractors' operations. A total number of 836 non-compliances were identified, which represents a non-compliance risk level of 15.9% or low risk. 635 out of the 836 non-compliances were related to contractors' operations, of which 507 non-compliances were related to the new contractors at BN mine. An action plan for the correction of the non-compliance at BN mine was approved and implemented. As of 31 December 2018, 66% of the identified non-compliance were corrected. The correction activities for the remaining 34% of the identified non-compliances are undergoing.

There were three external audits during the reporting period:

- Emergency Response Management Department of Umnugobi aimag audited facilities within the mining area for emergency preparedness and fire protection;

- the Umnugobi aimag Professional Inspection Agency reviewed the compliance to laws covering areas such as environmental management, geology, mining, food safety, employment relations and hygiene management; and

- the Governor's office of Umnugobi aimag audited the use and storage of blasting materials, blasting tools, toxic and hazardous chemical substances and radiation sources.

The Company's compliance risks within the above audited areas were assessed as low. The Company implemented follow-up actions over the non-compliances identified in the external audits, and the non-compliances identified were corrected and reported back to the regulatory bodies concerned.

The Internal Audit Department reviewed the effectiveness of the risk management and internal control systems of the Company at the operational level, covering the Mining section in detail. The review was made using the "Enterprise Risk Management-Integrated Framework" and the "Internal Controls Integrated Framework", both developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The audit review concluded that the key risks in the Mining section are being managed effectively.

Further, the Internal Audit Department also conducted several audit reviews, addressing safety management, user account management, access controls for all major information and communication systems used within the Company, and handling and dissemination of inside information, and respective recommendations for improvement were made. Summary reports of all audit reviews were shared with the Audit Committee and executive management on a quarterly basis and implementation of the recommendations were tracked.

The Board, supported by the Audit Committee as well as the management report and the internal and external audit findings reviewed the risk management and internal control systems of the Company and its subsidiaries, including the financial, operational and compliance controls, for the year ended 31 December 2018. The review was undertaken (i) based on the on-going communications and discussions with the management about the Company's principal risks and the management's responses to the risks including the control mechanisms; and (ii) through the internal and external audits' reviews. The Board has considered that risk management and internal control systems within the Group to be effective and adequate. During the year under review, there was no material weakness in the Group's risk management and internal controls.

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

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

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

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

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

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

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

Further, the Company has:

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

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

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 110 to 115.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Service Category	Fees Paid/Payable
Audit Services	USD566,000.00
Non-audit Services including the fees for tax return advisory	USD8,572.52
	USD574,572.52

COMPANY SECRETARY

Ms. Cheung Yuet Fan has been appointed by the Board as the Company's Company Secretary. Ms. Cheung is a director of Tricor, a global professional services provider specialising in integrated business, corporate and investor services. Her primary contact persons at the Company are Dr. Battsengel Gotov, executive Director and Chief Executive Officer and Ms. Uurtsaikh Dorjgotov, Executive Vice President and Chief Legal Counsel of the Company.

During the year ended 31 December 2018, Ms. Cheung Yuet Fan has complied with the professional training requirement of taking no less than 15 hours of relevant professional training as set out in Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

Email: contact@mmc.mn

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

According to CG Code Provision E.1.2, the chairman of the board should attend the AGM. Mr. Odjargal Jambaljamts, the Chairman of the Board, was unable to attend the 2018 AGM held on 29 June 2018 due to important business engagement. Mr. Odjargal Jambaljamts appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the AGM. He will use his best endeavours to attend all future shareholders' meetings of the Company.

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

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

Dividend Policy Summary

The Company adopted a Dividend Policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that became effective on 1 January 2019, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to the shareholders of the Company (the "**Dividend Policy**"). According to the Dividend Policy, the Board has the discretion to declare and distribute dividends to the shareholders subject to the Articles of Association of the Company and all applicable laws and regulations and taking into account the relevant factors of the Company and its subsidiaries, such as financial results, cash flow situation, business conditions and strategies, interests of shareholders and any other factors that the Board may consider relevant. The Board may propose and/or declare interim, final or special dividends and any distribution of net profits that the Board may deem appropriate, and while doing so, the Board shall ensure that the Company maintains adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

DIRECTORS' REPORT

The Directors submit herewith their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its headquarters and principal place of business in Mongolia is located at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia, and its principal place of business in Hong Kong is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

PRINCIPAL ACTIVITES

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

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

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial KPIs is provided in the Management Discussion and Analysis section on pages 30 to 40 and Financial Summary section on pages 211 and 212 of this annual report.

During the year ended 31 December 2018, the Group recorded a historical high annual ROM coal production of 10.9 Mt, representing a 30.3% increase compared to 8.3 Mt produced during the year ended 31 December 2017.

The Group's total sales volume for the year ended 31 December 2018 was approximately 4.7 Mt of coal products generating a total revenue of USD590.7 million, representing an increase of 24.0% compared to USD476.4 million of total revenue generated from 4.4 Mt of coal products sold during the year ended 31 December 2017.

The Group's pricing reflected the current price trend apparent in the coking coal market. The ASP of HCC was USD139.7 per tonne for the year ended 31 December 2018, representing an increase of 7.2% compared to USD130.3 per tonne for the year ended 31 December 2017.

For the year ended 31 December 2018, the basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD0.80 cents, compared to the basic and diluted earnings per share of USD3.13 cents for the year ended 31 December 2017.

Environmental Policies and Performance

We are committed to comply with Mongolian environmental laws, regulations and applicable international standards as part of our effort to minimise the adverse impact of our operations on the environment. Our integrated HSE Management System ("**MS**") helps achieve the targets set out in our HSE policy. These systems and processes provide our employees and contractors the necessary directions to practice safe work behaviours and make them accountable for the implementation of the HSE MS. Our environmental team continually upgrades the HSE MS and its accompanying elements and procedures and ensures that our activities in relevant fields comply with national legislations and international standards. The HSE MS has been developed to align with requirements under the international management system standards ISO 14001:2015 (Environmental management system standard) and OHSAS 18001:2007 (Occupational health and safety management system standard).

We are required to comply with applicable national legislations including the Law on Environmental Protection (1995), Law on Environmental Impact Assessment (2012), Law on Natural Resources Use Fee (2012), Law on Water and Water Pollution Fee (2012), Law on Air (2012) and Law on Air Pollution Fee (2010), Law on Land (2002), Law on Soil Protection and Desertification Prevention (2012) and Law on Toxic and Hazardous Chemicals (2006). In line with these legislations, we submit an environmental management plan followed by an implementation report to the GoM on an annual basis. We get comprehensive inspections on environmental and occupational health activities by local, provincial and state inspection agencies on a regular basis and our compliance rate has been assessed to be satisfactory since the start of our mining operations. The details of our environmental management activities, compliance with relevant legislations and environmental impact mitigation measures can be found in the subsection headed "Health, Safety & Environment" set out in the Environmental, Social and Governance Report section on pages 55 to 67 of this annual report.

Compliance with relevant Laws and Regulations

Discussions on compliance with relevant laws and regulations which have a significant impact on the Group are set out in the subsection headed "Operating Environment – Legal Framework" under the Management Discussion and Analysis section on pages 16 to 17 of this annual report.

Key Relationships with Stakeholders

In relation to the Company's key relationships with its employees, customers and suppliers, discussions on the Company's policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibility are provided in the Management Discussion and Analysis section on page 40 and the Environmental, Social and Governance Report section on pages 46 to 73 of this annual report.

Risk Management, Key Risks and Uncertainties

A description of possible risks and uncertainties that the Group may be facing is provided in the Management Discussion and Analysis section on pages 37 to 38 of this annual report.

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

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

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

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

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

Prospects

A description of the likely future development in the Company's business is provided in the subsection headed "Outlook and Business Strategies in 2019" under the Management Discussion and Analysis section on page 29 of this annual report.

Subsequent Events

There have been no post balance sheet events subsequent to 31 December 2018 and up to the date of this annual report which require adjustment to or disclosure in the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 24.

Table 24. Sales and purchases attributable to the major customers and suppliers:

	Percentage of the Group's total	
	Revenue from sales of goods and rendering of services	Purchases
The largest customer	41.0%	
Five largest customers in aggregate	84.4%	
The largest supplier		32.5%
Five largest suppliers in aggregate		56.7%

Dr. Oyungerel Janchiv, Director of the Company (resigned on 4 January 2018), holds interest in NIC LLC which is one of the five largest suppliers disclosed above. Each of MCS Mining Group Limited, the controlling shareholder of the Company and Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts, Directors of the Company, has interests in Uniservice Solution LLC which is one of the five largest suppliers disclosed above.

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

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2018 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 116 to 210.

TRANSFER TO RESERVES

Profit attributable to equity shareholders, before dividend, of USD82.8 million (2017: profit of USD311.0 million) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 120.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2018. The Board does not recommend the payment of a dividend for the year ended 31 December 2018 (dividend for the year ended 31 December 2017: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2018 amounted to USD116,000 (2017: USD213,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 24 to the consolidated financial statements. The outstanding principal amount of borrowing totals USD23.7 million (2017: USD31.2 million) and all of it is in USD with variable rate (linked to benchmark coal price index).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 211 to 212.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Dr. Oyungerel Janchiv (resigned on 4 January 2018)
Ms. Enkhtuvshin Gombo
Mr. Od Jambaljamts
Mr. Enkhtuvshin Dashtseren (appointed on 4 January 2018)

Independent non-executive Directors

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

In accordance with the Articles, Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov being executive Directors, and Mr. Od Jambaljamts being a non-executive Director will retire from directorship by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 11.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in this annual report, as at 31 December 2018 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' PERMITTED INDEMNITY PROVISION

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKING

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

Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2018, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition.

Each of the Undertakers has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2018.

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

As at 31 December 2018, the interest and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(a) Table 25. Interests in Shares:

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	3,696,569,439 (L) 223,898,693 (S)	35.92% 2.18%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	3,500,684,159 (L) 223,898,693 (S)	34.01% 2.18%
Mr. Enkhtuvshin Dashtseren	Beneficial owner	600,000 (L)	0.0058%
Mr. Chan Tze Ching, Ignatius	Beneficial owner	2,000,000 (L)	0.02%

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

Notes:

(1) Mr. Odjargal Jambaljamts holds the entire interest of Novel Holdings Group Limited. Novel Holdings Group Limited directly holds 461,647,547 shares in the Company. Mr. Odjargal Jambaljamts is directly interested in approximately 55.11% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 43.51% of MCS Mining Group Limited which in turn holds 3,234,921,892 shares in the Company. MCS Mongolia LLC also directly holds approximately 56.49% interest of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 223,898,693 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. Mr. Od Jambaljamts is directly interested in approximately 29.17% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 43.51% of MCS Mining Group Limited which in turn holds 3,234,921,892 shares in the Company. MCS Mongolia LLC also directly holds approximately 56.49% interest of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 223,898,693 shares in the Company.

(b) Table 26. Interest in underlying Shares:

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme**	**Approximate percentage of total issued share capital**
Dr. Battsengel Gotov	Beneficial owner	111,764,707 (L)	1.09%
Mr. Enkhtuvshin Dashtseren	Beneficial owner	8,088,239 (L)	0.0786%

(L) – Long position

Save as disclosed above, as at 31 December 2018, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date on 13 October 2010 (the "**Adoption Date**"). Share Options could be granted within a period of 10 years from the Adoption Date. Therefore, as at 31 December 2018, the remaining life of the Share Option Scheme was approximately 1 year and 10 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

Eligibility

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

- any employee or proposed employee (whether full time or part-time and including any executive Director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest;
- any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of the Group or any Invested Entity;
- any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

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

Grant of Options

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

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

Subscription Price

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

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

Exercise of Options

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

Maximum number of Shares available for Subscription

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date. The total number of Shares available for issue under the Share Option Scheme is 359,712,250 Shares (including those granted but yet to be exercised), representing 3.50% of the issued shares of the Company as at the date of this annual report.

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

Maximum Entitlement of each Participant

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

Under the Share Option Scheme, the Company granted four batches of Share Options to its Director and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66 and 3,000,000 and 32,200,000 Share Options were accepted by a Director and employees respectively. On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a Director and employees respectively at the exercise price of HKD3.92. On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a Director and employees respectively at the exercise price of HKD0.445. On 8 May 2017, the Company granted another 40,000,000 and 100,000,000 Share Options to a Director and employees respectively at the exercise price of HKD0.2392.

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

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

Details of the movements in the number of Share Options of the Company during the year ended 31 December 2018 were as follows:

Table 27. Directors:

				Number of Share Options					
Name of Director	**Date of grant**	**Exercise period**	**Exercise price per share**	**Balance as at 1 January 2018**	**Granted during the year ended 31 December 2018**	**Lapsed during the year ended 31 December 2018**	**Cancelled during the year ended 31 December 2018**	**Exercised during the year ended 31 December 2018**	**Balance as at 31 December 2018**
Dr. Battsengel Gotov	12 October 2011	(Note 1)	HKD4.53	4,411,765	–	–	–	–	4,411,765
	28 November 2012	(Note 2)	HKD2.67	7,352,941	–	–	–	–	7,352,941
	10 June 2015	(Note 3)	HKD0.445	60,000,000	–	–	–	–	60,000,000
	8 May 2017	(Note 4)	HKD0.2392	40,000,000	–	–	–	–	40,000,000
Mr. Enkhtuvshin Dashtseren	12 October 2011	(Note 1)	HKD4.53	–	–	–	–	–	2,941,180 (Note 5)
	28 November 2012	(Note 2)	HKD2.67	–	–	–	–	–	5,147,059 (Note 5)
Total				111,764,706					119,852,945

Table 28. Employees of the Group other than Directors:

				Number of Share Options				
Date of grant	**Exercise period**	**Exercise price per share**	**Balance as at 1 January 2018**	**Granted during the year ended 31 December 2018**	**Lapsed during the year ended 31 December 2018**	**Cancelled during the year ended 31 December 2018**	**Exercised during the year ended 31 December 2018**	**Balance as at 31 December 2018**
12 October 2011	(Note 1)	HKD4.53	34,062,500 (Note 5)	–	–	882,352	–	30,238,968 (Note 5)
28 November 2012	(Note 2)	HKD2.67	24,632,353 (Note 5)	–	–	–	–	19,485,294 (Note 5)
10 June 2015	(Note 3)	HKD0.445	86,625,000	–	125,000	–	–	86,500,000
8 May 2017	(Note 4)	HKD0.2392	99,200,000	–	600,000	–	–	98,600,000
Total			244,519,853	–	725,000	882,352	–	234,824,262 (Note 5)

Notes:

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

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

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

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

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

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

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

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

5. Mr. Enkhtuvshin Dashtseren was appointed as non-executive Director of the Company with effect from 4 January 2018, therefore, the number of Share Options held by Mr. Enkhtuvshin Dashtseren was still included in the beginning balance as at 1 January 2018 but was excluded from the closing balance as at 31 December 2018 in Table 27, whilst the number of Share Options was duly disclosed in the closing balance as at 31 December 2018 in Table 28.

Treatment of Lapse of the Share Options

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

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

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, for the year ended 31 December 2018, the Company has not entered into any equity-linked agreement.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2018 had the Company or any of its subsidiaries or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

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

As at 31 December 2018, so far as was known to the Directors and chief executive of the Company and based on the information publicly available, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 29. Interests in Shares and underlying Shares:

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
MCS Mining Group Limited (Note 1)	Beneficial owner	3,234,921,892 (L) 223,898,693 (S)	31.43% 2.18%
MCS Mongolia LLC (Note 1)	Interest of controlled corporation	3,234,921,892 (L) 223,898,693 (S)	31.43% 2.18%
MCS Holding LLC (Note 1)	Interest of controlled corporation	3,234,921,892 (L) 223,898,693 (S)	31.43% 2.18%
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	3,696,569,439 (L) 223,898,693 (S)	35.92% 2.18%
Ms. Munkhsuren Surenkhuu (Note 1)	Interest of spouse	3,500,684,159 (L) 223,898,693 (S)	34.01% 2.18%
Kerry Mining (UHG) Limited ("**KMUHG**") (Note 2)	Beneficial owner	750,000,000 (L)	7.29%
Kerry Mining (Mongolia) Limited ("**KMM**") (Note 2)	Interest of controlled corporation	750,000,000 (L)	7.29%
Fexos Limited ("**Fexos**") (Note 2)	Interest of controlled corporation	756,890,120 (L)	7.35%
Kerry Holdings Limited ("**KHL**") (Note 2)	Interest of controlled corporation	775,780,883 (L)	7.54%
Kerry Group Limited ("**KGL**") (Notes 2 and 3)	Interest of controlled corporation	1,216,351,874 (L)	11.82%

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

Notes:

(1) MCS Mining Group Limited is owned as to approximately 43.51% by MCS Holding LLC and approximately 56.49% by MCS Mongolia LLC. MCS Holding LLC is wholly-owned by MCS Mongolia LLC. MCS Mongolia LLC is owned as to approximately 55.11% by Mr. Odjargal Jambaljamts, and approximately 29.17% by Mr. Od Jambaljamts. MCS Mining Group Limited holds 3,234,921,892 shares and had a short position in 223,898,693 shares in the Company. Novel Holdings Group Limited and Trimunkh Limited also directly hold 461,647,547 shares and 265,762,267 shares, respectively, in the Company. The entire interest of Novel Holdings Group Limited and Trimunkh Limited are held by Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts respectively. 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 of the Company 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 6,890,120 shares of the Company that KAM was interested.

(3) 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 companies that it controls more than one-third of the voting power) was interested in 775,780,883 shares of the Company.

Save as disclosed above, as at 31 December 2018, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the non-exempt CCTs of the Group were USD13,525,848.

The details of non-exempt CCTs for the year ended 31 December 2018 are set out on pages 41 to 45 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

Details of pledge of assets of the Group as at 31 December 2018 are set out on page 38 under the section headed "Management Discussion and Analysis" of this annual report.

EMOLUMENT POLICY

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

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

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

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

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

RETIREMENT SCHEME

The Group participates in retirement benefit schemes pursuant to the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 8% of the eligible employees' salaries. Based on Collective (Tariff) Agreement of the Geology, Mining and Heavy Industry Sector for 2017 to 2018 signed on 22 March 2017, each employee who retires from mining industry shall receive payment equal to double of the minimum wage of the industry multiplied by the number of years worked in the mining industry.

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

PRE-EMPTIVE RIGHTS

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

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

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

On 20 October 2017, MCS Mining Group Limited entered into a share charge over the Shares with IFC in respect of additional 187,219,012 shares of the Company.

ISSUE OF EQUITY SECURITIES

No additional shares were issued during the year ended 31 December 2018.

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 33 to the consolidated financial statements. In respect of those related party transactions that constitute CCTs under the Listing Rules as set out in the Management Discussion and Analysis section, they have complied with the applicable requirements in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

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

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

CHANGES IN DIRECTORS' INFORMATION

Change of information of Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2018 Interim Report is set out below:

Dr. Khashchuluun Chuluundorj was appointed as an independent director of Invescore Financial Group with effect from November 2018.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2018. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 29 June 2018.

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

On behalf of the Board

Odjargal Jambaljamts
Chairman

Hong Kong, 15 March 2019

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 116 to 210 which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2(b) to the consolidated financial statements, which discloses that the Group had net current liabilities of approximately USD55,843,000 as at 31 December 2018, indicating the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to generate sufficient cash flows from future operations to enable it to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The Group's ability to do this is dependent upon the current economic environment and the sustainability of the price of coking coal in the market. The consolidated financial statements do not include any adjustments that would result should the Group be unable to continue to operate as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

Assessing impairment of mining related assets

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

The Key Audit Matter	How the matter was addressed in our audit
The Group's mining related assets are the most quantitatively significant items in the consolidated statement of financial position and mainly comprise property, plant and equipment, construction in progress, intangible assets and long-term prepayments relating to the Group's mining operations located in Mongolia, which are considered by management to represent a single separately identifiable cash generating unit ("**CGU**").	Our audit procedures to assess impairment of mining related assets included the following: – evaluating the design and implementation of key internal controls over the estimations of the recoverable amounts of mining related assets; – assessing the allocation of assets and liabilities by management to the mining CGU and the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards;

Assessing impairment of mining related assets	
Management performs an impairment assessment of mining related assets at the end of each reporting period. As at 31 December 2014, the Group recognised impairment of its mining rights in the amount of USD190 million which reflected downward pressures on the prices of certain coking coal products. As at 31 December 2015, 2016, 2017 and 2018, management concluded that no further impairment or reversal of previously recognised impairment was necessary. Management determines the recoverable amount of mining related assets by assessing the value in use of the CGU to which the assets have been allocated by using discounted cash flow techniques when indicators of impairment are identified. The preparation of a discounted cash flow forecast involves the exercise of significant management judgement in the selection of assumptions, in particular in estimating future commodity prices and the discount rate applied as well as in determining internal assumptions relating to future sales and future operating costs. We identified assessing impairment of mining related assets as a key audit matter because the impairment assessment involves significant management judgement in the selection of assumptions which could be subject to management bias.	– challenging the key assumptions and estimates used to in the discounted cash flow forecast as at 31 December 2018, including those relating to future commodity prices, future sales, future operating costs and the discount rates applied, which included involving our internal valuation specialists to assist us in comparing these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and in considering the key assumptions and estimates based on our knowledge of the Group and the industry in which it operates; – comparing the key assumptions and estimates included in the discounted cash flow forecast prepared in the prior year with the current year's performance to assess the reliability management's forecasting process and making enquiries of management as to the reasons for any significant variances identified; – performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions and estimates and whether there were any indicators of management bias; and – assessing the disclosures in the consolidated financial statements in respect of the impairment of mining related assets with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	2018 USD'000	2017 (Note) USD'000
Revenue	4	**590,710**	476,364
Cost of revenue	5	**(360,310)**	(273,797)
Gross profit		**230,400**	202,567
Other costs		**(986)**	(862)
Other net income/(loss)		**2,146**	(1,984)
Selling and distribution costs	6(c)	**(61,410)**	(56,631)
General and administrative expenses		**(16,458)**	(19,097)
Profit from operations		**153,692**	123,993
Finance income	6(a)	**134**	48
Finance costs	6(a)	**(55,529)**	(51,053)
Net finance costs	6(a)	**(55,395)**	(51,005)
Gain from the Debt Restructuring	7	**–**	262,968
Share of profit of associates		**171**	163
Share of losses of joint venture		**(8)**	–
Profit before taxation	6	**98,460**	336,119
Income tax	8	**(16,050)**	(25,813)
Profit for the year		**82,410**	310,306
Attributable to:			
Equity shareholders of the Company		**82,773**	311,013
Non-controlling interests		**(363)**	(707)
Profit for the year		**82,410**	310,306
Basic earnings per share	9	**0.80 cents**	3.13 cents
Diluted earnings per share	9	**0.80 cents**	3.13 cents

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 122 to 210 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 30(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	2018 USD'000	2017 (Note) USD'000
Profit for the year		**82,410**	310,306
Other comprehensive income for the year (after reclassification adjustments)	12		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(36,676)**	21,698
Total comprehensive income for the year		**45,734**	332,004
Attributable to:			
Equity shareholders of the Company		**46,097**	332,711
Non-controlling interests		**(363)**	(707)
Total comprehensive income for the year		**45,734**	332,004

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 122 to 210 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

(Expressed in United States dollars)

	Note	2018 USD'000	2017 (Note) USD'000
Non-current assets			
Property, plant and equipment, net	14	**853,278**	861,520
Construction in progress	15	**23,365**	16,010
Lease prepayments	16	**53**	54
Intangible assets	17	**504,392**	508,595
Interest in associates	19	**328**	196
Interest in joint venture		**47**	60
Other non-current assets	20	**70,749**	83,338
Deferred tax assets	27(b)	**31,248**	14,896
Total non-current assets		**1,483,460**	1,484,669
Current assets			
Assets held for sale		**–**	183
Inventories	21	**99,980**	66,745
Trade and other receivables	22	**101,493**	72,375
Cash and cash equivalents	23	**33,035**	7,460
Total current assets		**234,508**	146,763
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	24(b)	**25,065**	7,500
Trade and other payables	26	**195,472**	222,731
Contract liabilities	26	**43,018**	–
Current taxation	27(a)	**26,796**	4,299
Total current liabilities		**290,351**	234,530
Net current liabilities		**(55,843)**	(87,767)
Total assets less current liabilities		**1,427,617**	1,396,902

The notes on pages 122 to 210 form part of these financial statements.

	Note	2018 USD'000	2017 (Note) USD'000
Non-current liabilities			
Long-term borrowings, less current portion	24(a)	–	24,253
Senior Notes	25	451,711	436,563
Provisions	29	13,059	14,327
Deferred tax liabilities	27(b)	144,290	149,604
Other non-current liabilities		1,296	1,305
Total non-current liabilities		610,356	626,052
NET ASSETS		817,261	770,850
CAPITAL AND RESERVES			
Share capital	30(c)	102,918	102,918
Perpetual notes	30(f)	75,897	75,897
Reserves		638,918	592,144
Total equity attributable to equity shareholders of the Company		817,733	770,959
Non-controlling interests		(472)	(109)
TOTAL EQUITY		817,261	770,850

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the board of directors on 15 March 2019.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 122 to 210 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	Share capital USD'000 (Note 30(c))	Share premium USD'000 (Note 30(e)(i))	Other reserve USD'000 (Note 30(e)(ii))	Exchange reserve USD'000 (Note 30(e)(iii))	Property revaluation reserve USD'000 (Note 30(e)(iv))	Accumulated losses USD'000	Total USD'000	Perpetual notes USD'000 (Note 30(f))	Non-controlling interests USD'000	Total equity USD'000
		Attributable to equity shareholders of the Company									
At 1 January 2017		92,626	748,527	35,032	(382,298)	341,819	(504,995)	330,711	–	598	331,309
Profit for the year		–	–	–	–	–	311,013	311,013	–	(707)	310,306
Other comprehensive income	12	–	–	–	21,698	–	–	21,698	–	–	21,698
Total comprehensive income		–	–	–	21,698	–	311,013	332,711	–	(707)	332,004
Issuance of perpetual notes		–	–	–	–	–	–	–	75,897	–	75,897
Issuance of shares		10,292	19,993	–	–	–	–	30,285	–	–	30,285
Equity-settled share-based transactions	28	–	–	1,355	–	–	–	1,355	–	–	1,355
Reclassification of property revaluation reserve to accumulated losses upon disposals of assets concerned		–	–	–	–	(194)	194	–	–	–	–
At 31 December 2017 (Note)		102,918	768,520	36,387	(360,600)	341,625	(193,788)	695,062	75,897	(109)	770,850
At 1 January 2018		**102,918**	**768,520**	**36,387**	**(360,600)**	**341,625**	**(193,788)**	**695,062**	**75,897**	**(109)**	**770,850**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**82,773**	**82,773**	**–**	**(363)**	**82,410**
Other comprehensive income	12	**–**	**–**	**–**	**(36,676)**	**–**	**–**	**(36,676)**	**–**	**–**	**(36,676)**
Total comprehensive income		**–**	**–**	**–**	**(36,676)**	**–**	**82,773**	**46,097**	**–**	**(363)**	**45,734**
Equity-settled share-based transactions	28	**–**	**–**	**677**	**–**	**–**	**–**	**677**	**–**	**–**	**677**
Reclassification of property revaluation reserve to accumulated losses upon disposals of assets concerned		**–**	**–**	**–**	**–**	**(111)**	**111**	**–**	**–**	**–**	**–**
Reclassification of changing functional currency of certain group entities		**–**	**–**	**–**	**(74,014)**	**–**	**74,014**	**–**	**–**	**–**	**–**
At 31 December 2018		**102,918**	**768,520**	**37,064**	**(471,290)**	**341,514**	**(36,890)**	**741,836**	**75,897**	**(472)**	**817,261**

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 122 to 210 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	2018 USD'000	2017 USD'000
Cash flows from operating activities			
Profit before taxation		**98,460**	336,119
Adjustments for:			
Depreciation and amortisation	6(c)	**63,873**	51,014
Share of profit of associates and joint venture		**(163)**	(163)
Gain on disposals of property, plant and equipment and assets held for sale	6(c)	**(99)**	(90)
Net finance costs	6(a)	**55,395**	51,005
Gain from the Debt Restructuring	7	**–**	(262,968)
Equity-settled share-based payment expenses	6(b)	**677**	1,355
Employee benefit accrued		**156**	799
Changes in working capital:			
Increase in inventories		**(33,235)**	(24,564)
Increase in trade and other receivables		**(29,118)**	(13,624)
Increase/(decrease) in trade and other payables		**17,461**	(20,674)
Increase in other non-current assets and other non-current liabilities		**(1,840)**	(22,398)
Cash generated from operations		**171,567**	95,811
Income tax paid	27(a)	**(12,967)**	(191)
Net cash generated from operating activities		**158,600**	95,620
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(89,497)**	(82,938)
Proceeds from disposals of property, plant and equipment and assets held for sale		**–**	55
Interest received		**124**	–
Net cash used in investing activities		**(89,373)**	(82,883)
Financing activities			
Repayment of borrowings		**(7,500)**	–
Interest paid		**(35,528)**	(17,767)
Net cash used in financing activities		**(43,028)**	(17,767)
Net increase/(decrease) in cash and cash equivalents		**26,199**	(5,030)
Cash and cash equivalents at beginning of the year		**7,460**	12,268
Effect of foreign exchange rate changes		**(624)**	222
Cash and cash equivalents at end of the year	23	**33,035**	7,460

The notes on pages 122 to 210 form part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

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

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

(b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interest in associates and a joint venture.

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

- Financial instruments classified as available-for-sale or as trading securities (see Note 2(f));
- Buildings and plants as well as machinery and equipment (see Note 2(h));
- Derivative financial instruments (see Note 2(g)).

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Preparation of the Financial Statements (Continued)

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

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

As at 31 December 2018, the Group had net current liabilities of approximately USD55,843,000. This condition indicates the existence of a material uncertainty which may cast significant doubt upon the Group's ability to continue as a going concern.

The Company completed the debt restructuring ("**Debt Restructuring**") (see Note 7) in May 2017. The directors of the Company (the "**Directors**") continue to monitor the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Assuming that the Group's business plan and cash flow forecast can be achieved, the Directors expect to generate sufficient financial resources from future operations to cover the Group's operating costs and to meet its financing commitments, as and when they fall due for the twelve months since 31 December 2018. The achievability of the business plan and cash flow forecast is dependent upon the current economic environment and the sustainability of the coking coal price in the market. Based on the business plan and cash flow forecast, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not include adjustments that would result should the Group be unable to continue as a going concern.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**").

The functional currency of the Company and the investment holding companies is USD. Prior to 2018, the functional currency of other group entities located in Mongolia was Mongolian Togrog ("**MNT**"). Since 1 January 2018, the functional currency of certain subsidiaries located in Mongolia has been changed from MNT to United States Dollars ("**USD**") as USD has become the currency of the primary economic environment in which those subsidiaries operate due to changes in underlying transactions relevant to those subsidiaries. This change in functional currency has been accounted for prospectively from 1 January 2018.

The Company and the Group's presentation currency is USD.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in Accounting Policies

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

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this annual financial report, except for the impact by IFRS 15 in relation to presentation of contract liabilities.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 15 (see also Note 26):

	At 31 December 2017 USD'000	Impact on initial application of IFRS 15 USD'000	**At 1 January 2018 USD'000**
Contract liabilities	–	27,787	**27,787**
Trade and other payables	222,731	(27,787)	**194,944**

(d) Subsidiaries and Non-Controlling Interests

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and Non-Controlling Interests (Continued)

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

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

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

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

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

(e) Associates and Joint Ventures

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and Joint Ventures (Continued)

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Investments in Debt and Equity Securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("**FVPL**") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 31(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

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

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

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

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

Equity investments

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Investments in Debt and Equity Securities (Continued)

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see Note 2(k)(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in Notes 2(v)(ii), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see Note 2(k)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(g) Derivative Financial Instruments

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

(h) Property, Plant and Equipment

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

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

– machinery and equipment.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, Plant and Equipment (Continued)

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

– motor vehicles;

– office equipment; and

– mining properties.

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, Plant and Equipment (Continued)

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

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

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

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

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

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

(i) Intangible Assets

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

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

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

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased Assets

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

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

(iv) Lease prepayments

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets

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

(A) Policy applicable from 1 January 2018

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

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);

– contract assets as defined in IFRS 15 (see Note 2(p));

– debt securities measured at FVOCI (recycling);

– lease receivables; and

– loan commitments issued, which are not measured at FVPL.

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

Measurement of ECLs

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

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets (Continued)

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

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

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

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

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

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

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

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets (Continued)

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

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

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

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets (Continued)

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

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets (Continued)

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

(A) Policy applicable from 1 January 2018 (Continued)

Write-off policy

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

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

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets (Continued)

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

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

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

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

  Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets (Continued)

(ii) Impairment of other assets

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

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– intangible assets;

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

– investment in subsidiaries, associates and joint ventures in the Company's statement of financial position.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit Losses and Impairment of Assets (Continued)

(ii) Impairment of other assets (Continued)

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

(iii) Interim financial reporting and impairment

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

(l) Inventories

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

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

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

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

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

(m) Trade and Other Receivables

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Interest-Bearing Borrowings

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

(o) Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(m)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(v)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(v)).

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "gross amount due from customers for contract work" (as an asset) or the "gross amount due to customers for contract work" (as a liability), as applicable, under "trade and other receivables" or "trade and other payables" respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "trade debtors and bills receivable". Amounts received before the related work was performed were presented as "receipts in advance" under "trade and other payables". These balances have been reclassified on 1 January 2018 as shown in Note 26 (see note 2(c)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee Benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value is measured at grant date using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interests in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income Tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Obligations for Reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in Mongolia. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure, which is included in the mining properties. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue Recognition

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue associated with the sale of coal is recognised when the control over the goods is transferred to the customer. Revenue excludes value added tax ("**VAT**") or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

(w) Translation of Foreign Currencies

The presentation currency of the Group is USD. The functional currency of the Company, the investment holding companies and main operating group entities located in Mongolia is USD and the functional currency of remaining group entities located in Mongolia is Mongolian Togrog ("**MNT**"). Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations in Mongolia are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into USD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale the non-current asset is not depreciated or amortised.

(z) Related Parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Related Parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical Accounting Judgements in Applying the Group's Accounting Policies

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

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

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and construction in progress were revalued by an external appraiser as at 31 December 2016 (see Notes 14 and 15). Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgement is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity.

(ii) Reserves

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

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

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(a) Critical Accounting Judgements in Applying the Group's Accounting Policies (Continued)

(ii) Reserves (Continued)

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

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

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

- Asset recoverable amounts may be affected due to changes in estimated future cash flows.
- Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change.
- Overburden removal costs recorded on the statement of financial position or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation.
- Reclamation and mine closure provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(iii) Useful lives of property, plants and equipment

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(a) Critical Accounting Judgements in Applying the Group's Accounting Policies (Continued)

(iv) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

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

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

(v) Obligation for reclamation

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

(vi) Recognition of deferred tax assets

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(a) Critical Accounting Judgements in Applying the Group's Accounting Policies (Continued)

(vii) Derivative financial instruments

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

(viii) Capitalised stripping costs

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

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

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The costs can be measured reliably.

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(a) Critical Accounting Judgements in Applying the Group's Accounting Policies (Continued)

(viii) Capitalised stripping costs (Continued)

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

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

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

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

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

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

(ix) Taxation

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(b) Sources of Estimation Uncertainty

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

4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal products. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2018	2017
	USD'000	USD'000
Washed hard-coking coal ("**HCC**")	**546,527**	466,430
Washed semi-soft coking coal	**40,596**	722
Washed thermal coal	**3,373**	9,148
Raw thermal coal	**214**	64
	590,710	476,364

During the year ended 31 December 2018, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD242,220,000 and USD112,530,000. During the year ended 31 December 2017, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD182,947,000 and USD48,631,000.

Revenue during the year ended 31 December 2018 include approximately USD502,127,000 (2017: USD397,222,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

Details of concentrations of credit risk arising from these customers are set out in Note 31(b).

5 COST OF REVENUE

	2018 USD'000	2017 USD'000
Mining costs	**126,420**	93,758
Processing costs	**42,876**	37,758
Transportation costs	**117,784**	88,834
Others (Note (i))	**73,230**	53,447
Cost of revenue	**360,310**	273,797

Note:

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

6 PROFIT BEFORE TAXATION

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

(a) Net Finance Costs:

	2018 USD'000	2017 USD'000
Interest income	**(134)**	(48)
Finance income	**(134)**	(48)
Interest on bank and other borrowings	**3,719**	3,255
Interest on liability component of Senior Notes (Note 25)	**41,162**	38,460
Transaction costs	**–**	235
Unwinding interest on		
– Accrued reclamation obligations (Note 29)	**581**	373
Net interest expense	**45,462**	42,323
Net change in fair value of derivative component of Senior Notes and Senior Loan	**9,295**	7,835
Foreign exchange loss, net	**772**	895
Finance costs	**55,529**	51,053
Net finance costs	**55,395**	51,005

Note: No borrowing costs have been capitalised for the years ended 31 December 2018 and 2017.

6 PROFIT BEFORE TAXATION (Continued)

(b) Staff Costs:

	2018 USD'000	2017 USD'000
Salaries, wages, bonuses and benefits	23,088	16,948
Retirement scheme contributions	3,173	2,238
Equity-settled share-based payment expenses (Note 28)	677	1,355
	26,938	20,541

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the Government of Mongolia ("**GoM**") whereby the Group is required to make contributions to the Schemes at a rate of 8% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

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

(c) Other Items:

	2018 USD'000	2017 USD'000
Selling and distribution costs (Note (i))	61,410	56,631
Depreciation and amortisation	63,873	51,014
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	1,815	668
– hire of other assets (including property rentals)	392	538
	2,207	1,206
Net gain on disposals of property, plant and equipment and assets held for sale	(99)	(90)
Auditors' remuneration		
– audit services	566	608
– tax and other services	9	7
	575	615
Cost of inventories (Note (iii))	360,310	273,797

6 PROFIT BEFORE TAXATION (Continued)

(c) Other Items: (Continued)

Notes:

(i) Selling and distribution costs

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

(ii) Impairment of non-financial assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2018, according to IAS 36, Impairment of assets, the management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress, intangible assets and long-term prepayments related to the Ukhaa Khudag ("**UHG**") mine and Baruun Naran ("**BN**") mine operations (collectively referred to as "**UHG and BN Assets**"). For the purpose of this, the UHG and BN Assets are treated as a cash generating unit ("**CGU**").

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

– Recoverable reserves and resources

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

– Growth rate

Instead of using a steady growth rate over the estimation period longer than five years, the cash flow projection made at the year end of 2018 and the year end of 2017 followed the same mechanism based on as coal product price consensus and life-of-mine ("**LOM**") production plan.

– Coal prices

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

Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2018 is consistent with that at the year end of 2017, which was also updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate. The treatment was consistent among estimations made at the year end of 2018 and the year end of 2017.

6 PROFIT BEFORE TAXATION (Continued)

(c) Other Items: (Continued)

Notes: (Continued)

– Sales quantity/production profile

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

– Operating costs

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

– Capital expenditure

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

– Discount rate

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

Post-tax discount rate of 18% and pre-tax discount rate of 21% were applied to the future cash flows projection at the year end of 2018 (2017: post-tax discount rate of 19% and pre-tax discount rate of 23%). The Directors believe that the post-tax discount rate was matching with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2018, and has not resulted in the identification of an impairment loss for the year ended 31 December 2018. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2018 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard.

The Directors believe that the estimates and assumptions incorporated in the impairment assessment are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgements. It is estimated that adverse changes in the key assumptions would lead to the recognition of an impairment provision against the CGU as follows:

6 PROFIT BEFORE TAXATION (Continued)

(c) Other Items: (Continued)

Notes: (Continued)

	USD'000
1% decrease in long-term coal price	–
1% decrease in the estimated production volume	4,000
1% increase in the estimated operating costs	3,000
One percentage point increase in post-tax discount rate	73,000
20% increase in the estimated capital expenditure	21,000

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

(iii) Cost of inventories

Cost of inventories includes USD78,577,000 (2017: USD58,752,000) relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also cost of inventories includes transportation and stockpile losses amounted to USD4,929,000 (2017 transportation and stockpile gains: USD2,953,000).

7 GAIN FROM THE DEBT RESTRUCTURING

The Group commenced the Debt Restructuring with holders of USD600,000,000 senior notes issued in 2012, interest-bearing borrowings due to BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited, and promissory notes due to QGX Holding Ltd in 2016. On 4 May 2017, the Group completed the Debt Restructuring.

The excess of carrying value of the restructured financial liabilities over the fair value of the consideration to settle the restructured financial liabilities, amounting to approximately USD262,968,000, net of expenses incurred in relation to the Debt Restructuring of USD30,185,000, has been recognised by the Group as a gain from the Debt Restructuring and credited to profit or loss during the year ended 31 December 2017.

8 INCOME TAX

(a) Income Tax in the Consolidated Statement of Comprehensive Income Represents:

	2018 **USD'000**	2017 USD'000
Current tax		
Provision for the year (Note 27(a))	**37,315**	6,446
Deferred tax		
Origination and reversal of temporary difference (Note 27(b))	**(21,265)**	19,367
	16,050	25,813

8 INCOME TAX (Continued)

(b) Reconciliation Between Tax Expense And Accounting Profit At Applicable Tax Rates:

	2018 USD'000	2017 USD'000
Profit before income tax	98,460	336,119
Notional tax on profit before taxation	24,240	35,606
Tax effect of non-deductible items (Note (iii))	(4,371)	23,880
Tax effect of non-taxable items (Note (iii))	(4,193)	(33,675)
Tax losses not recognised	374	2
Actual tax expenses	16,050	25,813

Notes:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2018 and 2017. According to the Corporate Income Tax Law of China, the Company's subsidiary in China is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2018 and 2017.

(iii) Non-deductible and non-taxable items mainly represent the gain from the Debt Restructuring completed in May 2017, unrealised exchange gain and other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the years ended 31 December 2018 and 2017.

9 EARNINGS PER SHARE

(a) Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of USD82,773,000 (2017: USD311,013,000) and the 10,291,767,865 ordinary shares (2017: 10,291,767,865 ordinary shares) in issue during the year.

(b) Diluted Earnings Per Share

For the years ended 31 December 2018 and 2017, basic and diluted earnings/loss per share are the same.

The equity-settled share-based payment transactions (see Note 28) are anti-dilutive and therefore not included in calculating diluted earnings per share for the years ended 31 December 2018 and 2017.

10 DIRECTORS' REMUNERATION

Details of the Directors' remuneration disclosed are as follows:

	Year ended 31 December 2018					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	19	920	28	73	–	1,040
Battsengel Gotov	19	616	45	51	225	956
Non-executive directors						
Enkhtuvshin Gombo	19	–	–	–	–	19
Enkhtuvshin Dashtseren (appointed on 4 January 2018)	19	–	–	–	–	19
Od Jambaljamts	19	–	–	–	–	19
Independent non-executive directors						
Khashchuluun Chuluundorj	19	–	–	–	–	19
Unenbat Jigjid	19	–	–	–	–	19
Chan Tze Ching, Ignatius	57	–	–	–	–	57
Total	190	1,536	73	124	225	2,148

10 DIRECTORS' REMUNERATION (Continued)

	Year ended 31 December 2017					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	14	695	–	47	–	756
Battsengel Gotov	14	475	61	36	499	1,085
Non-executive directors						
Oyungerel Janchiv	14	–	–	–	–	14
Od Jambaljamts	14	–	–	–	–	14
Gankhuyag Adilbish (resigned on 30 September 2017)	10	–	–	–	–	10
Enkhtuvshin Gombo (appointed on 30 September 2017)	5	–	–	–	–	5
Independent non-executive directors						
Khashchuluun Chuluundorj	14	–	–	–	–	14
Unenbat Jigjid	14	–	–	–	–	14
Chan Tze Ching, Ignatius	43	–	–	–	–	43
Total	142	1,170	61	83	499	1,955

No emoluments have been paid to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2017.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2018	2017
Directors	2	2
Non-directors	3	3
	5	5

The emoluments of the Directors are disclosed in Note 10. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2018	2017
Basic salaries, allowances and benefits in kind	748	744
Discretionary bonuses	168	2,140
Retirement scheme contributions	70	194
Equity-settled share-based payment expenses (Note)	286	557
	1,272	3,635

The emoluments of the remaining individuals with the highest emoluments are within the following band:

	2018	2017
HKD3,000,001 to HKD3,500,000	2	–
HKD3,500,001 to HKD4,000,000	1	–
HKD8,000,001 to HKD8,500,000	–	1
HKD9,500,001 to HKD10,000,000	–	1
HKD10,000,001 to HKD10,500,000	–	1

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2017.

Note:

These represent the estimated value of share options granted to the key management under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(r)(ii) and, in accordance with that policy, included adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Scheme" in Note 28.

12 OTHER COMPREHENSIVE INCOME

	2018 USD'000	2017 USD'000
Exchange differences on translation of:		
– financial statements of subsidiaries	(36,676)	(1,481)
– net investment	–	23,179
	(36,676)	21,698

Notes:

(i) Exchange differences on re-translation mainly resulted from the fluctuation of MNT exchange rate against USD during the respective reporting periods.

(ii) The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2018 and 2017.

13 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority of its customers are located in China. Based on information reported by the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sales of coal products. Accordingly, no additional business and geographical segment information are presented.

14 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Cost:						
At 1 January 2017	403,982	308,193	25,139	3,377	245,463	986,154
Additions	146	1,830	420	198	47,282	49,876
Transfer from construction in progress	59,076	6,615	–	1	–	65,692
Transfer to assets held for sale	(195)	–	–	–	–	(195)
Disposals	(77)	(383)	(734)	(112)	–	(1,306)
Exchange adjustments	10,700	7,972	648	88	6,548	25,956
At 31 December 2017	473,632	324,227	25,473	3,552	299,293	1,126,177
Representing:						
Cost	–	–	25,473	3,552	299,293	328,318
Adoption of revaluation – 2017	473,632	324,227	–	–	–	797,859
At 1 January 2018	**473,632**	**324,227**	**25,473**	**3,552**	**299,293**	**1,126,177**
Additions	**1,066**	**903**	**19,532**	**761**	**68,068**	**90,330**
Disposals	**(296)**	**(672)**	**(1,854)**	**(63)**	**–**	**(2,885)**
Exchange adjustments	**(28,386)**	**(25,187)**	**(11)**	**(37)**	**(45)**	**(53,666)**
At 31 December 2018	**446,016**	**299,271**	**43,140**	**4,213**	**367,316**	**1,159,956**
Representing:						
Cost	**–**	**–**	**43,140**	**4,213**	**367,316**	**414,669**
Adoption of revaluation – 2018	**446,016**	**299,271**	**–**	**–**	**–**	**745,287**

14 PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Accumulated amortisation and depreciation:						
At 1 January 2017	57,705	95,136	24,061	2,360	30,428	209,690
Charge for the year	13,912	21,200	614	221	14,369	50,316
Transfer to assets held for sale	(12)	–	–	–	–	(12)
Written back on disposals	(20)	(214)	(731)	(91)	–	(1,056)
Exchange adjustments	1,627	2,560	618	62	852	5,719
At 31 December 2017	73,212	118,682	24,562	2,552	45,649	264,657
Representing:						
Accumulated depreciation	–	–	24,562	2,552	45,649	72,763
Adoption of revaluation – 2017	73,212	118,682	–	–	–	191,894
At 1 January 2018	**73,212**	**118,682**	**24,562**	**2,552**	**45,649**	**264,657**
Charge for the year	**15,241**	**21,457**	**3,176**	**311**	**19,484**	**59,669**
Written back on disposals	**(7)**	**(346)**	**(1,854)**	**(40)**	**–**	**(2,247)**
Exchange adjustments	**(4,954)**	**(10,407)**	**(9)**	**(17)**	**(14)**	**(15,401)**
At 31 December 2018	**83,492**	**129,386**	**25,875**	**2,806**	**65,119**	**306,678**
Representing:						
Accumulated depreciation	**–**	**–**	**25,875**	**2,806**	**65,119**	**93,800**
Adoption of revaluation – 2018	**83,492**	**129,386**	**–**	**–**	**–**	**212,878**
Carrying amount:						
At 31 December 2018	**362,524**	**169,885**	**17,265**	**1,407**	**302,197**	**853,278**
At 31 December 2017	400,420	205,545	911	1,000	253,644	861,520

14 PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

Notes:

(a) Majority part of the Group's property, plant and equipment are located in Mongolia.

(b) Mining properties as at 31 December 2018 include stripping activity assets carrying book value of USD279,553,000 (2017: USD228,752,000) and application fee for the mining rights of USD774,000 (2017: USD728,000) in relation to the Group's mine deposits.

(c) As at 31 December 2018, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant ("**CHPP**") modules I and II, power plant and certain water supply infrastructure assets with a net book value of USD172,530,000, USD49,656,000, and USD3,626,000, respectively. As at 31 December 2017, certain of the Group's borrowings were secured by the Group's CHPP modules I and II, power plant and certain water supply infrastructure assets with a net book value of USD201,849,000, USD57,453,000, and USD4,484,000, respectively.

(d) As at 31 December 2018, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2018 is approximately USD9,902,000 (2017: USD10,152,000). The Directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.

(e) Fair value measurement of property, plant and machinery

(i) Fair value hierarchy

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

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

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

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

14 PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

Notes: (Continued)

(e) Fair value measurement of property, plant and machinery (Continued)

(i) Fair value hierarchy (Continued)

	Fair value as at 31 December 2018 USD'000	Fair value measurements as at 31 December 2018 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Buildings and plants	**362,524**	–	–	**362,524**
Machinery and equipment	**169,885**	–	–	**169,885**
Buildings and plants, machinery and equipment under construction	**23,326**	–	–	**23,326**
Total	**555,735**	–	–	**555,735**

	Fair value as at 31 December 2017 USD'000	Fair value measurements as at 31 December 2017 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Buildings and plants	400,420	–	–	400,420
Machinery and equipment	205,545	–	–	205,545
Buildings and plants, machinery and equipment under construction	15,970	–	–	15,970
Total	621,935	–	–	621,935

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

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

14 PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

Notes: (Continued)

(e) Fair value measurement of property, plant and machinery (Continued)

(i) Fair value hierarchy (Continued)

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

- Buildings and plants, and such items under construction status:
  - Reproduction cost new ("**RCN**") estimation for the buildings and structures were calculated using indexing method;
  - Indices were applied to the historical cost. The indices were obtained from recognised sources such as: Chinese indices (Rider Levett Buckhall), FM Global, BMT Construction costs, Bureau of Labor Statistics of the Department of Labor, AUS Consultants, etc.;
  - Physical depreciation was applied using straight line method based on the economic useful life of production, auxiliary, administrative facilities, land improvements, transfer devices;
  - There was no any functional obsolescence revealed.
- Machinery and equipment:
  - Machinery RCN was estimated based on the actual machinery quotations received from purchase department of the Company. These estimates were adjusted with installation expenses, engineering expenses and interest during construction. Estimated RCN was compared to indexed historical cost and considered to be relevant. Additionally, unitary reproduction cost (USD/kg of equipment weight) of major and most expensive equipment appraised such as crushers, screens, spirals and flotation cells was compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Processing plant modules unitary cost parameter (USD/tonne of processing capacity) is in the middle of the range of recently constructed coal processing plants;
  - Engineering and general administrative expenses estimated as average of several recently constructed coal mines and equal to 7% of RCN;
  - Interest during Construction estimated equal to 7.8% of RCN based on the actual interest paid during Processing Plant module 1 construction.

14 PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

Notes: (Continued)

(e) Fair value measurement of property, plant and machinery (Continued)

(ii) Information about Level 3 fair value measurements

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

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

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

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

	2018 **USD'000**	2017 USD'000
Buildings and plants	**140,505**	159,317
Machinery and equipment	**37,949**	49,626
Buildings and plants, machinery and equipment under construction (Note 15)	**6,075**	6,616
	184,529	215,559

15 CONSTRUCTION IN PROGRESS

	2018 USD'000	2017 USD'000
At 1 January	16,010	79,976
Additions	9,181	486
Transfer to property, plant and equipment (Note 14)	–	(65,692)
Disposals	–	(480)
Exchange adjustments	(1,826)	1,720
At 31 December	23,365	16,010

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

16 LEASE PREPAYMENTS

	2018 USD'000	2017 USD'000
Cost:		
At 1 January	65	63
Exchange adjustments	–	2
At 31 December	65	65
Accumulated amortisation:		
At 1 January	11	10
Charge for the year	1	1
Exchange adjustments	–	–
At 31 December	12	11
Net book value:	53	54

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in Mongolia, with original lease period from 15 years to 60 years.

17 INTANGIBLE ASSETS

	Acquired mining right USD'000	Software USD'000	Total USD'000
Cost:			
At 1 January 2017	701,557	3,588	705,145
Exchange adjustments	–	91	91
At 31 December 2017	701,557	3,679	705,236
At 1 January 2018	**701,557**	**3,679**	**705,236**
Exchange adjustments	**–**	**(3)**	**(3)**
At 31 December 2018	**701,557**	**3,676**	**705,233**
Accumulated amortisation:			
At 1 January 2017	195,203	721	195,924
Amortisation charge for the year	331	366	697
Exchange adjustments	–	20	20
At 31 December 2017	195,534	1,107	196,641
At 1 January 2018	**195,534**	**1,107**	**196,641**
Amortisation charge for the year	**3,836**	**367**	**4,203**
Exchange adjustments	**–**	**(3)**	**(3)**
At 31 December 2018	**199,370**	**1,471**	**200,841**
Carrying amount:			
At 31 December 2018	**502,187**	**2,205**	**504,392**
At 31 December 2017	506,023	2,572	508,595

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

18 INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong	1 share of HKD1 each	100%	–	Investment holding
Mongolian Coal Corporation S.à.r.l	Luxembourg	6,712,669 shares of USD10 each	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	19,800,000 shares of USD1 each	–	100%	Investment holding
Energy Resources LLC	Mongolia	117,473,410 shares of USD2 each	–	100%	Mining and trading of coal
Energy Resources Rail LLC	Mongolia	15,300,000 shares of MNT1,000 each	–	100%	Railway project management
Tavan Tolgoi Airport LLC	Mongolia	5,795,521 shares of MNT1,000 each	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia	374,049,073 shares of MNT1,000 each	–	100%	Coal plant management
Ukhaa Khudag Water Supply LLC	Mongolia	96,016,551 shares of MNT1,000 each	–	100%	Water exploration and supply management
United Power LLC	Mongolia	100,807,646 shares of MNT1,000 each	–	100%	Power supply project management
Khangad Exploration LLC	Mongolia	34,532,399 shares of USD1 each	–	100%	Exploration and development of coal mine
Baruun Naran S.à.r.l	Luxembourg	24,918,394 shares of EUR1 each	–	100%	Investment holding
Tianjin Zhengcheng Import and Export Trade Co., Ltd.	China	RMB2,035,998	–	51%	Trading of coals and machinery equipment
Inner Mongolia Fangcheng Trade Co., Ltd.	China	RMB1,000,000	–	51%	Trading of coals and machinery equipment

19 INTERESTS IN ASSOCIATES

The following table presents the particulars of material associate, which is unlisted corporate entity whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company: Group's effective interest	Equity attributable to the Company: Held by a subsidiary	Principal activity
Gashuun Sukhait Road LLC	Incorporated	Mongolia	100,000 shares of MNT 1,000 each	40.00%	40.00%	Paved road maintenance service (Note (i))

Note:

(i) The principal activities of Gashuun Sukhait Road LLC are supplying safety, readiness, protection, repair and maintenance service for paved road operations from UHG to GS. The investment in Gashuun Sukhait Road LLC enables the Group to monitor the usage situation of the aforementioned paved road.

The above associate is accounted for using the equity method in the consolidated financial statements.

19 INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	International Technical College LLC	Gashuun Sukhait Road LLC	
	2017	**2018**	2017
	USD'000	**USD'000**	USD'000
Gross amounts of associates:			
Current assets	6	**1,323**	970
Non-current assets	36	**466**	189
Current liabilities	1	**969**	701
Equity	41	**820**	458
Revenue	4	**4,684**	2,777
Profit/(loss) from continuing operations	(8)	**487**	460
Total comprehensive income	(8)	**438**	414
Reconciled to the Group's interests in associates:			
Gross amounts of net assets of associates	41	**820**	458
Group's effective interest	33%	**40%**	40%
Group's share of net assets of associates	13	**328**	183
Carrying amount in the consolidated financial statements	13	**328**	183

Note: The investment in International Technical College LLC has been disposed by the Group on 13 September 2018.

20 OTHER NON-CURRENT ASSETS

	2018 USD'000	2017 USD'000
Prepayments in connection with construction work, equipment purchases and others	**69,257**	81,883
Other financial asset (Note)	**1,492**	1,455
	70,749	83,338

Note: The Group has an investment in International Medical Centre LLC and has 5.02% interest.

21 INVENTORIES

(a) Inventories in the Consolidated Statement of Financial Position Comprise:

	2018 USD'000	2017 USD'000
Coal	**94,755**	60,472
Materials and supplies	**15,662**	16,710
	110,417	77,182
Less: Provision on coal inventories	**(10,437)**	(10,437)
	99,980	66,745

(b) The Analysis of the Amount of Inventories Recognised as an Expense and Included in Profit or Loss is as follows:

	2018 USD'000	2017 USD'000
Carrying amount of inventories sold	**360,310**	273,797
	360,310	273,797

As at 31 December 2018, certain of the Group's borrowings were secured by the Group's coal inventory of USD64,484,000 (31 December 2017: USD50,039,000) (see Note 24).

22 TRADE AND OTHER RECEIVABLES

	2018	2017
		(Note)
	USD'000	USD'000
Trade receivables (Note (a))	5,893	13,552
Other receivables (Note (c))	95,600	58,823
	101,493	72,375
Less: allowance for credit losses (Note (b))	–	–
	101,493	72,375

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note2(c))

(a) Ageing Analysis

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

	2018	2017
	USD'000	USD'000
Within 90 days	5,503	13,509
90 to 180 days	390	43
Over 180 days	–	–
	5,893	13,552

(b) Loss Allowance for Trade Receivables

Credit losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the credit losses is written off against trade receivables directly (Note 2(k)(i)).

As at 31 December 2018, no loss allowance for trade receivables (2017: nil) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

22 TRADE AND OTHER RECEIVABLES (Continued)

(C) Other Receivables

	2018 USD'000	2017 USD'000
Amounts due from related parties (Note (i))	2	1
Prepayments and deposits (Note (ii))	55,518	40,856
VAT and other tax receivables (Note (iii))	39,254	16,593
Others	826	1,373
	95,600	58,823

Notes:

(i) Amounts due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 33(a)).

(ii) At 31 December 2018 and 2017, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Mongolian Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts. Further details are stated in Note 31(b).

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

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and Cash Equivalents Comprise:

	2018 USD'000	2017 USD'000
Cash in hand	5	7
Cash at bank	33,030	7,453
Cash at bank and in hand	33,035	7,460
Cash and cash equivalents in the consolidated cash flow statement	33,035	7,460

As at 31 December 2018, certain of the Group's borrowings were secured by the Group's cash at bank of USD10,758,000 (31 December 2017: USD148) (see Note 24).

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans and other borrowings* USD'000 (Note 24)	Senior Notes* USD'000 (Note 25)	Total USD'000
At 1 January 2018	32,391	444,812	477,203
Changes from financing cash flows:			
Principal paid	(7,500)	–	(7,500)
Interest paid	(2,531)	(32,997)	(35,528)
Total changes from financing cash flows	(10,031)	(32,997)	(43,028)
Changes in fair value	(173)	9,468	9,295
Other changes:			
Interest expenses (note 6(a))	3,719	41,162	44,881
Others	(205)	(2,485)	(2,690)
Total other changes	3,514	38,677	42,191
At 31 December 2018	25,701	459,960	485,661

Note:

* Liabilities include accrued interest as disclosed in Note 26.

24 BORROWINGS

(a) The Group's Long-Term Interest-Bearing Borrowings Comprise:

	2018 USD'000	2017 USD'000
Senior Loan	25,065	31,753
Less: Current portion of long-term borrowings	(25,065)	(7,500)
	–	24,253

24 BORROWINGS (Continued)

(a) The Group's Long-Term Interest-Bearing Borrowings Comprise: (Continued)

On 4 May 2017, the Group issued the Senior Loan with principal amount of USD31,200,000 and with fair value of USD30,960,000. The Senior Loan bears interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually. The Senior Loan is repayable in quarterly instalment of USD7,500,000 starting from 31 December 2018 with the remaining principal repayable upon maturity in September 2019.

The Senior Loan has been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD1,754,000. The fair value of the derivative component of interest rate linked to the benchmark coal price index as at 31 December 2018 was USD1,761,000. The liability component was initially recognised at its fair value of USD29,206,000 and will be accounted on amortised cost subsequently.

The Group pledged collection accounts (Note 23) and certain coal stockpiles under the Senior Loan. In addition, the Group pledged debt reserve account, certain assets (Note 14) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan and the Senior Notes (Note 25).

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

	2018	2017
	USD'000	USD'000
Within 1 year or on demand	**25,065**	7,500
After 1 year but within 2 years	**–**	24,253
After 2 years but within 5 years	**–**	–
	25,065	31,753

(b) The Group's Short-Term Interest-Bearing Borrowings Comprise:

	2018	2017
	USD'000	USD'000
Current portion of long-term borrowings		
– Senior Loan	**25,065**	7,500
	25,065	7,500

25 SENIOR NOTES

	2018 **USD'000**	2017 USD'000
Senior Notes	**451,711**	436,563
	451,711	436,563

On 4 May 2017, the Group issued the Senior Notes with principal amount of USD412,465,892 and with fair value of USD425,267,000. The Senior Notes bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually, and due in September 2022.

The Senior Notes have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD9,481,667 and the derivative component of cash sweep premium was initially recognised at its fair value of USD37,789,333. The fair value of the derivative component of interest rate linked to the benchmark coal price index, the derivative component of cash sweep premium and the derivative component of early redemption option as at 31 December 2018 was USD30,519,000, USD33,874,550 and nil respectively. The liability component was initially recognised at its fair value of USD377,996,000 and will be accounted on amortised cost subsequently.

Fair value of the Senior Loan and the Senior Notes were valued by the Directors with the reference to a valuation report issued by an external valuer based on the discounted cash flow method.

The Group pledged debt reserve account, certain assets (Note 14) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan (Note 24) and the Senior Notes.

26 TRADE AND OTHER PAYABLES

	2018 **USD'000**	2017 USD'000
Trade payables (Note (i))	**141,801**	135,847
Receipts in advance (Note (ii))	**–**	27,787
Amounts due to related parties (Note (iii))	**6,085**	18,897
Payables for purchase of equipment	**2,509**	1,347
Security deposit on construction work	**–**	50
Interest payable (Note (iv))	**8,885**	8,887
Other taxes payables	**29,379**	20,275
Others (Note (v))	**6,813**	9,641
	195,472	222,731

26 TRADE AND OTHER PAYABLES (Continued)

Notes:

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

	2018 **USD'000**	2017 USD'000
Within 90 days	**94,236**	60,789
90 to 180 days	**40,861**	13,724
180 to 365 days	**431**	1,736
Over 365 days	**6,273**	59,598
	141,801	135,847

(ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements. As a result of the adoption of IFRS 15, gross amount due to customers for receipts in advance is included in contract liabilities.

(iii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 33(a)).

(iv) As at 31 December 2017, interest payable related to Senior Loan and Senior Notes are amounting to USD638,000 and USD8,249,000 respectively.

As at 31 December 2018, interest payable related to Senior Loan and Senior Notes are amounting to USD636,000 and USD8,249,000 respectively.

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

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

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax Payable in the Consolidated Statement of Financial Position Represents:

	2018 USD'000	2017 USD'000
At 1 January	4,299	269
Provision for the year (Note 8(a))	37,315	6,446
Offsetting with other tax receivables	–	(2,292)
Income tax paid	(12,967)	(191)
Exchange adjustments	(1,851)	67
At 31 December	26,796	4,299

(b) Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of other properties USD'000	Tax losses USD'000	Unrealised profits on intra-group transactions USD'000	Depreciation and amortisation USD'000	Unrealised foreign exchange differences on long-term borrowings USD'000	Fair value adjustments in relation to the acquisition USD'000	Fair value of financial instrument USD'000	Total USD'000
Deferred tax arising from:								
At 1 January 2017	(48,359)	28,449	(459)	6,218	–	(100,684)	–	(114,835)
Credited/(charged) to profit or loss (Note 8(a))	2,561	(22,246)	(593)	(2,409)	446	10	2,864	(19,367)
Credited/(charged) to reserves	(1,202)	618	(18)	79	2	–	15	(506)
At 31 December 2017	(47,000)	6,821	(1,070)	3,888	448	(100,674)	2,879	(134,708)
At 1 January 2018	(47,000)	6,821	(1,070)	3,888	448	(100,674)	2,879	(134,708)
Credited/(charged) to profit or loss (Note 8(a))	2,705	201	(68)	257	11,888	479	5,803	21,265
Credited/(charged) to reserves	2,557	(545)	186	(379)	(807)	1	(612)	401
At 31 December 2018	(41,738)	6,477	(952)	3,766	11,529	(100,194)	8,070	(113,042)

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred Tax Assets and Liabilities Recognised (Continued)

	2018 USD'000	2017 USD'000
Net deferred tax assets recognised in the consolidated statement of financial position	31,248	14,896
Net deferred tax liabilities recognised in the consolidated statement of financial position	(144,290)	(149,604)
	(113,042)	(134,708)

(c) Deferred Tax Assets not Recognised

In accordance with the accounting policy set out in Note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD399,159,000 as at 31 December 2018 (2017: USD395,851,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the new amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated.

Expiry of unrecognised tax losses of Group entities located in Mongolia:

	2018 USD'000	2017 USD'000
Year of expiry		
2018	–	477
2019	15	119
2020	9	–
	24	596

In relation to the Group's entities located in the jurisdictions other than Mongolia, the tax losses amounting to USD399,135,000 as at 31 December 2018 do not expire under current tax legislations (31 December 2017: USD395,255,000).

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(d) Deferred Tax Liabilities not Recognised

At 31 December 2018, temporary differences relating to the undistributed profits of subsidiaries amounted to Nil (2017: nil). Deferred tax liabilities of Nil (2017: nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme ("**Share Option Scheme**") which was adopted on 17 September 2010, that became effective on the Listing Date on 13 October 2010 ("**Adoption Date**"), whereby the board of Directors of the Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group.

Under the Share Option Scheme, the Company may grant options to employees and Directors, suppliers, customers and professional advisers of the Group to subscribe for shares of the Company. The exercise price of the options is determined by the board of Directors of the Company at the time of the grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The Share Option Scheme remains in force for a period of 10 years commencing on the adoption date and is to expire on 12 October 2020.

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) The Terms and Conditions of the Grants are as Follows:

Grant Date	Number of options '000	Vesting conditions	Contractual life of options
12 October 2011	8,800	12 October 2011 to 12 October 2012	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2013	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2014	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2015	12 October 2011 to 12 October 2019
28 November 2012	5,688	28 November 2012 to 28 November 2013	28 November 2012 to 28 November 2020
28 November 2012	5,688	28 November 2012 to 28 November 2014	28 November 2012 to 28 November 2020
28 November 2012	11,374	28 November 2012 to 28 November 2015	28 November 2012 to 28 November 2020
10 June 2015	38,688	10 June 2015	10 June 2015 to 10 June 2020
10 June 2015	38,688	10 June 2015 to 10 June 2016	10 June 2015 to 10 June 2020
10 June 2015	38,687	10 June 2015 to 10 June 2017	10 June 2015 to 10 June 2020
10 June 2015	38,687	10 June 2015 to 10 June 2018	10 June 2015 to 10 June 2020

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) The Terms and Conditions of the Grants are as Follows:

Grant Date	Number of options '000	Vesting conditions	Contractual life of options
8 May 2017	28,000	1 July 2017	1 July 2017 to 8 May 2022
8 May 2017	28,000	8 May 2017 to 8 May 2018	8 May 2017 to 8 May 2022
8 May 2017	28,000	8 May 2017 to 8 May 2019	8 May 2017 to 8 May 2022
8 May 2017	28,000	8 May 2017 to 8 May 2020	8 May 2017 to 8 May 2022
8 May 2017	28,000	8 May 2017 to 8 May 2021	8 May 2017 to 8 May 2022
Total share options	352,700		

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) The Movement of the Number and Weighted Average Exercise Prices of Share Options are as Follows:

	2018		2017	
	Weighted average exercise Price HKD	**Number of options '000**	Weighted average exercise Price HKD	Number of options '000
Outstanding at 1 January (Note)	**0.91**	**356,285**	1.50	217,210
Granted during the year	**–**	**–**	0.24	139,200
Forfeited during the year	**0.87**	**(1,608)**	0.45	(125)
Outstanding at 31 December	**0.90**	**354,677**	0.91	356,285
Exercisable at 31 December	**1.23**	**271,877**	1.51	209,585

Note:

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

A total of 342,850,000 Options are outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise price and the number of the Shares falling to be issued under the outstanding Share Options have been adjusted pursuant to Clause 11 of the Share Option Scheme (the "**Option Adjustments**"), with effect from 1 January 2015, and such adjustments have been reviewed and confirmed by the independent financial adviser of the Company, Somerley Capital Limited, as follows:

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) The Movement of the Number and Weighted Average Exercise Prices of Share Options are as Follows: (Continued)

Date of grant	Exercise period	Original subscription Price (HKD)	Original number of shares subject to Options	Adjusted subscription price (HKD)	Adjusted number of shares subject to Options	Basis of additional shares pursuant to the Option Adjustments
12 October 2011	12 October 2012 to 12 October 2019 12 October 2013 to 12 October 2019 12 October 2014 to 12 October 2019 12 October 2015 to 12 October 2019	6.66	26,350,000	4.53	38,750,000	8 additional Shares for every 17 Shares subject to Options
28 November 2012	28 November 2013 to 12 October 2020 28 November 2014 to 12 October 2020 28 November 2015 to 12 October 2020	3.92	21,750,000	2.67	31,985,294	8 additional Shares for every 17 Shares subject to Options

The options outstanding at 31 December 2018 had an exercise price of HKD4.53 or HKD2.67 or HKD0.445 or HKD0.2392 (2017: HKD4.53 or HKD2.67 or HKD0.445 or HKD0.2392) per share and a weighted average remaining contractual life of 2.2 years (2017: 3.2 years).

28 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(c) Fair Value of Share Options and Assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of share options and assumptions:

	8 May 2017	10 June 2016	28 November 2012	12 October 2011
Fair value at measurement date	HKD0.160~HKD0.1150	HKD0.160~HKD0.220	HKD1.8155~ HKD2.0303	HKD3.3793~ HKD3.7663
Share price	HKD0.2392	HKD0.445	HKD3.92	HKD6.66
Exercise price	HKD0.2392	HKD0.445	HKD3.92	HKD6.66
Expected life	5 years	5 years	4.5 – 5.5 years	4.5 – 6 years
Risk-free interest rate	1.132%	1.19%	0.249% ~ 0.298%	0.755% ~ 1.054%
Expected volatility	62%	60%	57.71% ~ 59.43%	61.87% ~ 63.43%
Expected dividends	-	–	–	–

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

29 PROVISIONS

	2018 USD'000	2017 USD'000
Accrued reclamation obligations	**13,059**	14,327
Others	**1,500**	1,500
	14,559	15,827
Less: Current portion	**(1,500)**	(1,500)
	13,059	14,327

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the end of each reporting period, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2018 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	2018 USD'000	2017 USD'000
At 1 January	**14,327**	13,585
(Decrease)/increase for reassessment of estimated costs	**(1,849)**	19
Accretion expense (Note 6(a))	**581**	373
Exchange adjustments	**–**	350
At 31 December	**13,059**	14,327

Accrued reclamation costs change during the years ended 31 December 2018 and 2017 resulted from the reassessment of estimated costs.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital USD'000 (Note 30(c))	Share premium USD'000 (Note 30(e)(i))	Other reserve USD'000 (Note 30(e)(ii))	Accumulated losses USD'000	Perpetual notes USD'000 (Note 30(f))	Total equity USD'000
At 1 January 2017		92,626	748,527	20,449	(374,869)	–	486,733
Changes in equity for 2017:							
Issuance of shares		10,292	19,993	–	–	–	30,285
Issuance of perpetual notes		–	–	–	–	75,897	75,897
Total comprehensive income		–	–	–	193,577	–	193,577
Equity-settled share-based transactions	28	–	–	1,355	–	–	1,355
At 31 December 2017		102,918	768,520	21,804	(181,292)	75,897	787,847
At 1 January 2018		**102,918**	**768,520**	**21,804**	**(181,292)**	**75,897**	**787,847**
Changes in equity for 2018:							
Total comprehensive income		**–**	**–**	**–**	**(2,245)**	**–**	**(2,245)**
Equity-settled share-based transactions	28	**–**	**–**	**677**	**–**	**–**	**677**
At 31 December 2018		**102,918**	**768,520**	**22,481**	**(183,537)**	**75,897**	**786,279**

Note: The Group, including the Company, has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

(b) Dividends

The board of Directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2018.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share Capital

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 ordinary shares of USD0.01 each. On 18 May 2010, MCS Mining Group Limited acquired its initial share of one share of USD0.01. By an ordinary resolution passed at the annual general meeting held on 23 August 2010, the Company's authorised ordinary share capital was increased to USD60,000,000 by the creation of an additional 5,995,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

On 4 May 2017, a total number of 1,029,176,615 shares were allotted and issued at the subscription price of HKD0.229 per share, the closing price of the Company's shares on 4 May 2017, for net proceeds of USD30,285,066 which have been credited to share capital and capital premium accounts.

The new shares were allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 31 May 2016. No cash proceeds were received by the Company in consideration for the issue of the new shares which are being issued as part of the Debt Restructuring to refinance certain of the Company's then-existing indebtedness.

(d) Issuance of Shares under Rights Issue

On 29 December 2014, 5,557,554,750 ordinary shares were issued pursuant to the rights issue on the basis of three rights shares for every two existing shares at HKD0.28 each. Total net consideration amounted to USD195,453,000, of which USD55,576,000 was credited to share capital and the remaining proceeds of USD139,877,000 was credited to the share premium account. The Company's authorised ordinary share capital was increased to USD150,000,000 by the creation of an additional 9,000,000,000 ordinary shares of USD0.01 each, raking pair with the existing ordinary shares of the Company in all respects.

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2018 and 2017 (Note 30(e)(ii)).

Authorised:

	2018		2017	
	No. of shares '000	**USD'000**	No. of shares '000	USD'000
Ordinary shares	**15,000,000**	**150,000**	15,000,000	150,000

Ordinary shares, issued and fully paid:

	2018		2017	
	No. of shares '000	**USD'000**	No. of shares '000	USD'000
Ordinary shares	**10,291,768**	**102,918**	10,291,768	102,918

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Nature and Purpose of Reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Other reserve

The other reserve comprises the following:

– the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and

– the portion of the grant date fair value of unexercised share options granted to Directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's operations to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(w).

(iv) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in Note 2(h).

The property revaluation reserve of the Group is distributable to the extent of USD341,514,000 (2017: USD341,625,000).

(f) Perpetual Notes

The Company issued perpetual notes which were listed on the Singapore Exchange Securities Trading Limited on 4 May 2017, with principal amount of USD195,000,000 and with fair value of USD75,897,000.

The perpetual notes have no fixed maturity and are redeemable at the Company's option. The distribution payments can be deferred at the discretion of the Company. So long as the perpetual notes are outstanding, the Company shall not declare or pay any dividend or make any distribution on or with respect to its capital shares; or redeem, reduce, cancel, buy-back or acquire for any consideration any of its capital shares.

Fair value of the perpetual notes was valued by the management with the reference to a valuation report issued by an independent valuer based on the discounted cash flow method.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(g) Distributability of Reserves

Pursuant to the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and reserved) of the Cayman Islands, share premium of the Company is distributable to the shareholders. Other than the share premium, there is no other amount available for distribution to equity shareholders of the Company as at 31 December 2018.

(h) Capital Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2018 was 27.8% (2017: 28.7%).

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

Management has adopted certain policies on financial risk management with the objective of:

- ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

- ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Credit Risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

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

Trade receivables are presented net of loss allowance. In order to minimise the credit risk, the credit committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes a loss allowance for trade receivables that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the balance sheet date, the Group believes that no loss allowance for trade receivables is required in the consolidated financial statements. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as two customers accounted for 88.8% (2017: 93.9%) of the total trade receivables as at 31 December 2018.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

	Expected loss rate %	**Gross carrying amount** USD'000	**Loss allowance** USD'000
Current	0.0%	287,694	–
90–180 days	0.0%	2,032	–
180–270 days	0.0%	–	–
270–365 days	0.0%	–	–
More than 365 days	0.0%	–	–
		289,726	–

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Credit Risk (Continued)

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The Group closely monitors the amount due from related parties.

VAT receivables include amounts that have been accumulated to date in various subsidiaries. According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties payable to the GoM against VAT amounts receivable from the GoM. Based on currently available information, the Group anticipates full recoverability of amounts due on account primarily relating to finished mineral products at 31 December 2018. Verification by the Mongolian Taxation Authority of the collectability of the funds is conducted on a regular basis and any outstanding VAT receivable amounts at 31 December 2018 will be available to the Group to offset future taxes and royalty tax or will be refunded by the Mongolian Taxation Authority.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 22.

(c) Foreign Currency Exchange Risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's overseas holding entities and main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is MNT. The currencies giving rise to this risk are primarily RMB, USD and HKD.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(c) Foreign Currency Exchange Risk (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year-end date.

	Exposure to foreign currencies (expressed in United States Dollars)							
	2018					2017		
	Mongolian Togrog	**Euro**	**Renminbi**	**United States Dollars**	**Hong Kong Dollars**	Renminbi	United States Dollars	Hong Kong Dollars
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Trade and other receivables	**40,022**	**315**	**10,344**	**869**	**–**	14,049	36,390	–
Cash at bank and in hand	**609**	**–**	**9,501**	**3**	**2**	330	61	4
Trade and other payables	**(78,324)**	**(530)**	**(32,371)**	**(526)**	**(15)**	(51,697)	(107,638)	(180)
Short-term borrowings and current portion of long-term borrowings	**–**	**–**	**–**	**–**	**–**	–	(7,500)	–
Senior Loan	**–**	**–**	**–**	**–**	**–**	–	(24,253)	–
Senior Notes	**–**	**–**	**–**	**–**	**–**	–	(436,563)	–
Long-term receivables	**–**	**–**	**–**	**–**	**–**	–	64,598	–
Net exposure arising from Recognised assets and liabilities	**(37,693)**	**(215)**	**(12,526)**	**346**	**(13)**	(37,318)	(474,905)	(176)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(c) Foreign Currency Exchange Risk (Continued)

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(w) as at the respective balance sheet dates would (decrease)/increase profit after taxation (2017: (decrease)/increase profit after taxation) by the amount shown below. This analysis assumes that all other risk variables remained constant.

Profit/loss for the year	**2018** **USD'000**	2017 USD'000
5% increase in RMB	**(593)**	(1,641)
5% decrease in RMB	**593**	1,641
5% increase in USD	**16**	(20,233)
5% decrease in USD	**(16)**	20,233
5% increase in HKD	**(1)**	(9)
5% decrease in HKD	**1**	9
5% increase in MNT	**(1,428)**	–
5% decrease in MNT	**1,428**	–
5% increase in EUR	**(5)**	–
5% decrease in EUR	**5**	–

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Interest Rate Risk

The Group's interest rate risk arises primarily from Senior Notes and Senior Loan. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the profile of the Group's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the balance sheet date. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 24.

	2018 USD'000	2017 USD'000
Net fixed rate borrowings:		
Borrowings	–	–
Less: Bank deposits	–	(5,578)
	–	(5,578)
Net floating rate borrowings:		
Borrowings	–	–
Senior Loan	25,065	31,753
Senior Notes	451,711	436,563
Less: Bank deposits	(33,030)	(1,875)
	443,746	466,441
Total net borrowings:	443,746	460,863

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained earnings by approximately USD3,022,000 (31 December 2017: USD3,313,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after taxation and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. The Company's objective is to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2018					
	Contractual undiscounted cash outflow					
	Within 1 year USD'000	**After 1 year but within 2 years USD'000**	**After 2 years but within 5 years USD'000**	**After 5 years USD'000**	**Total contractual undiscounted cash flow USD'000**	**Balance sheet carrying amount USD'000**
Borrowings (Note 24)	**24,672**	**–**	**–**	**–**	**24,672**	**25,065**
Senior Notes (Note 25)	**24,748**	**23,717**	**471,242**	**–**	**519,707**	**451,711**
Trade and other payables (Note 26)	**195,472**	**–**	**–**	**–**	**195,472**	**195,472**
Contract liabilities (Note 26)	**43,018**	**–**	**–**	**–**	**43,018**	**43,018**
	287,910	**23,717**	**471,242**	**–**	**782,869**	**715,266**

	2017					
	Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 24)	9,372	25,674	–	–	35,046	31,753
Senior Notes (Note 25)	24,748	32,997	511,457	–	569,202	436,563
Trade and other payables (Note 26)	222,731	–	–	–	222,731	222,731
	256,851	58,671	511,457	–	826,979	691,047

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair Value Measurement

(i) Financial Assets and Liabilities Measured at Fair Value

FAIR VALUE HIERARCHY

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

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

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

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

The Group has a team headed by the finance manager performing valuations for the financial instruments, derivative components of the Senior Notes and derivative component of the Senior Loan. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

	Fair value at 31 December 2018 USD'000	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Financial liabilities				
– Derivative components of Senior Notes	64,394	–	–	64,394
– Derivative component of Senior Loan	1,761	–	–	1,761

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair Value Measurement (Continued)

(i) Financial Assets and Liabilities Measured at Fair Value (Continued)

FAIR VALUE HIERARCHY (Continued)

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	USD'000	USD'000	USD'000	USD'000
Recurring fair value measurement				
Financial liabilities				
– Derivative components of Senior Notes	54,926	–	–	54,926
– Derivative component of Senior Loan	1,934	–	–	1,934

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

	Valuation techniques	Significant unobservable inputs	Weighted average
Derivative components of Senior Notes	Discounted cash flow method	Bond yield Coal price index	10.9% USD130 to USD161
Derivative component of Senior Loan	Discounted cash flow method	Bond yield Coal price index	8.81% USD130 to USD161

The fair value of derivative components of the Senior Notes is determined using discounted cash flow method and the significant unobservable input used in the fair value measurement is bond yield and coal price index. The fair value measurement is negatively correlated to the bond yield. As at 31 December 2018, it is estimated that with all other variables held constant, an increase/decrease in bond yield by 100bps would have decreased/increased the Group's net finance costs by USD487,000/USD502,000 respectively. The fair value measurement is correlated to the coal price index. As at 31 December 2018, it is estimated that with all other variables held constant, an increase/decrease in coal price index by 1% would have increased the Group's net finance costs by USD1,127,000/nil respectively.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair Value Measurement (Continued)

(i) Financial Assets and Liabilities Measured at Fair Value (Continued)

INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS (Continued)

The fair value of derivative component of the Senior Loan is determined using discounted cash flow method and the significant unobservable input used in the fair value measurement is bond yield and coal price index. The fair value measurement is negatively correlated to the bond yield. As at 31 December 2018, it is estimated that with all other variables held constant, an increase/decrease in bond yield by 100bps would have decreased/increased the Group's net finance costs by USD10,000/ USD10,000 respectively. The fair value measurement is correlated to the coal price index. As at 31 December 2018, it is estimated that with all other variables held constant, a decrease/increase in coal price index by 1% would have decreased the Group's net finance costs by nil respectively.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	USD'000
Derivative components of Senior Notes:	
At 31 December 2017	54,926
Changes in fair value recognised in profit or loss during the period	9,468
At 31 December 2018	**64,394**
Total losses for the period included in profit or loss for liabilities held at the end of the reporting period	9,468

	USD'000
Derivative component of Senior Loan:	
At 31 December 2017	1,934
Changes in fair value recognised in profit or loss during the period	(173)
At 31 December 2018	**1,761**
Total gain for the period included in profit or loss for liabilities held at the end of the reporting period	(173)

The net unrealised losses resulting from the remeasurement of the derivative components of the Senior Notes and derivative component of the Senior Loan are recognised in net finance costs in the consolidated statement of profit or loss.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair Value Measurement (Continued)

(ii) Fair Value of Financial Assets and Liabilities carried at other than Fair Value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 31 December 2018	
	Carrying amount	Fair value
	USD'000	USD'000
Liability component of Senior Loan	**23,304**	**22,484**
Liability component of Senior Notes	**387,318**	**347,306**

32 COMMITMENTS AND CONTINGENCIES

(a) Capital Commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the financial statements were as follows:

	2018	2017
	USD'000	USD'000
Contracted for	**3,880**	4,699
Authorised but not contracted for	**3,255**	17,337
	7,135	22,036

32 COMMITMENTS AND CONTINGENCIES (Continued)

(b) Operating Lease Commitments

(i) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 USD'000	2017 USD'000
Within 1 year	560	85
After 1 year but within 5 years	147	–
	707	85

(ii) The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

(c) Environmental Contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 29 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the Directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. However, environmental laws and regulations continue to evolve. Management of the Group regularly reassesses environmental remediation for its operations. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with Related Parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the year. During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS Mongolia LLC ("**MCS**")	Shareholder of MMC
MCS Holding LLC	Subsidiary of MCS
MCS Estates LLC	Subsidiary of MCS
Unitel LLC	Subsidiary of MCS
Uniservice Solution LLC	Subsidiary of MCS
MCS Property LCC	Subsidiary of MCS
MCS International LLC	Subsidiary of MCS
M-Armor LLC	Subsidiary of MCS
Univision LLC	Subsidiary of MCS
Shangri-La Ulaanbaatar Hotel	Subsidiary of MCS
Chinggis Eco Tour LLC	Subsidiary of MCS
Shangri-La Ulaanbaatar LLC	Subsidiary of MCS
Skynetworks LLC	Subsidiary of MCS
Sky Resort LLC	Subsidiary of MCS
Anun LLC	Subsidiary of MCS
Gashuun Sukhait Auto Zam LLC	Associate of MMC

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Related Parties (Continued)

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2018 are as follows:

	2018 USD'000	2017 USD'000
Ancillary services (Note (i))	**13,608**	13,456
Sales of property, plant and equipment (Note (ii))	**9**	8
Lease of property, plant and equipment (Note (iii))	**407**	420
Purchase of property and goods (Note (iv))	**403**	–

Notes:

(i) Ancillary services represent expenditures for support services such as cleaning and canteen expense, power and heat generation, and distribution and management fees paid to Uniservice Solution LLC, MCS International LLC, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, where applicable.

(ii) Sales of property, plant and equipment represent sale to MCS and its affiliates. The sales are carried out at comparable or prevailing market rates, where applicable.

(iii) Lease of property, plant and equipment represents rental paid or payable in respect of properties leased from Shangri-La Ulaanbaatar LLC, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

(iv) Purchase of property and goods represents purchases from MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.

The Directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

AMOUNTS DUE FROM/(TO) RELATED PARTIES

	2018 USD'000	2017 USD'000
Other receivables (Note 22(c))	**2**	1
Other accruals and payables (Note 26)	**(6,085)**	(18,897)

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Key Management Personnel Remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's Directors.

Remuneration for key management personnel, including amounts paid to the Company's Directors as disclosed in Note 10, and certain of the highest paid employees as disclosed in Note 11, is as follows:

	2018	2017
	USD'000	USD'000
Salaries and other emoluments	**2,653**	2,199
Discretionary bonus	**263**	2,211
Retirement scheme contributions	**210**	287
Equity-settled share-based payment expenses	**539**	1,104
	3,665	5,801

(c) Applicability of the Listing Rules Relating to Connected Transactions

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Directors' Report.

34 ULTIMATE CONTROLLING PARTY

As at 31 December 2018, the Directors consider the ultimate controlling party of the Group to be MCS Mongolia LLC, which was incorporated in Mongolia. This entity does not produce financial statements available for public use.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 USD'000	2017 USD'000
Non-current assets			
Interests in subsidiaries		**785,847**	788,422
Total non-current assets		**785,847**	788,422
Current assets			
Trade and other receivables		**257**	40
Cash at bank and in hand		**347**	245
Total current assets		**604**	285
Current liabilities			
Trade and other payables		**172**	860
Total current liabilities		**172**	860
Net current assets/(liabilities)		**432**	(575)
Total assets less current liabilities		**786,279**	787,847
Total non-current liabilities		**–**	–
NET ASSETS		**786,279**	787,847
CAPITAL AND RESERVES	30(a)		
Share capital		**102,918**	102,918
Reserves		**683,361**	684,929
TOTAL EQUITY		**786,279**	787,847

Approved and authorised for issue by the board of directors on 15 March 2019.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

36 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, Leases	1 January 2019
IFRIC 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, Long-term interest in associates and joint ventures	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the IFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

IFRS 16, Leases

As disclosed in Note 2(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 32(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to USD707,000 for properties, all of which USD560,000 is payable within 1 year after the reporting date, and USD147,000 is payable after 1year but within 2 years after the reporting date. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to USD304,000 and USD304,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENT

	2018 USD'000	2017 USD'000	2016 USD'000	2015 USD'000	2014 USD'000
Revenue	**590,710**	476,364	120,028	99,485	328,307
Cost of revenue	**(360,310)**	(273,797)	(120,346)	(165,604)	(335,510)
Gross profit/(loss)	**230,400**	202,567	(318)	(66,119)	(7,203)
Other (cost)/revenue	**(986)**	(862)	(2,808)	848	3,319
Other net income/(expense)	**2,146**	(1,984)	4,116	(1,082)	34,171
Selling and distribution expenses	**(61,410)**	(56,631)	(17,654)	(8,589)	(56,445)
Administrative expenses	**(16,458)**	(19,097)	(13,133)	(30,520)	(30,916)
Impairment loss	**–**	–	–	–	(190,000)
Profit/(loss) from operations	**153,692**	123,993	(29,797)	(105,462)	(247,074)
Finance income	**134**	48	1,186	5,084	3,911
Finance costs	**(55,529)**	(51,053)	(122,705)	(104,106)	(98,431)
Gain from the Debt Restructuring	**–**	262,968	–	–	–
Share of profit/(losses) of associates	**171**	163	(5)	(15)	(19)
Share of losses of joint venture	**(8)**	–	(21)	(87)	(70)
Profit/(loss) before taxation	**98,460**	336,119	(151,342)	(204,586)	(341,683)
Income tax	**(16,050)**	(25,813)	(2,650)	16,873	58,978
Profit/(loss) for the year	**82,410**	310,306	(153,992)	(187,713)	(282,705)
Attributable to:					
Equity shareholders of the Company	**82,773**	311,013	(154,248)	(187,763)	(282,837)
Non-controlling interests	**(363)**	(707)	256	50	132
Basic earnings/(loss) per share	**0.80 cents**	3.13 cents	(1.67) cents	(2.03) cents	(5.95) cents
Diluted earnings/(loss) per share	**0.80 cents**	3.13 cents	(1.67) cents	(2.03) cents	(5.95) cents

FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2018	2017	2016	2015	2014
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets and liabilities					
Total assets	**1,717,968**	1,631,432	1,576,393	1,394,120	1,682,825
Total liabilities	**900,707**	860,582	1,245,084	1,204,329	1,285,987
Net assets	**817,261**	770,850	331,309	189,791	396,838
Total equity	**817,261**	770,850	331,309	189,791	396,838
Equity attributable to equity shareholders of the Company	**817,733**	770,959	330,711	189,449	396,546
Non-controlling interests	**(472)**	(109)	598	342	292

GLOSSARY AND TECHNICAL TERMS

"Adoption date"	13 October 2010, the date the Share Option Scheme became unconditional and effective
"AGM"	Annual general meeting
"ASP"	Average selling price
"BAP"	Biodiversity Action Plan
"bcm"	Bank cubic metres
"BFP"	Belt Filter Press
"BHWE"	Base Horizon of Weathering Elevation
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the Tavan Tolgoi formation
"BN mine"	The area of the BN deposit that can be mined by open-pit mining methods
"Board"	The Board of Directors of the Company
"C&F"	Cost-and-Freight
"CG Code"	The Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	The People's Republic of China
"CHPP"	Coal handling and preparation plant
"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "we", "us", "our", "Mongolian Mining Corporation" or "MMC"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010, the shares of which are listed on the Main Board of the Stock Exchange

GLOSSARY AND TECHNICAL TERMS

"DAP"	Delivery-at-Place
"Director(s)"	Director(s) of the Company
"EBITDA"	Earnings before interest, taxes, depreciation and amortisation
"EITI"	Extractive Industry Transparency Initiative
"Fexos"	Fexos Limited
"FOT"	Free-on-Transport
"Ganqimaodu" or "GM"	The China side of the China-Mongolia border crossing
"Gashuunsukhait" or "GS"	The Mongolia side of the China-Mongolia border crossing
"GoM"	Government of Mongolia
"Group" or "Our Group"	The Company together with its subsidiaries
"HCC"	Hard coking coal
"HKD"	Hong Kong Dollar
"HR"	Human resources
"HSE"	Health, Safety and Environment
"IASB"	International Accounting Standards Board
"IASs"	International Accounting Standards
"IFRSs"	International Financial Reporting Standards
"JORC"	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KAM"	Kerry Asset Management Limited

"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited
"km"	Kilometres
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"KPI"	Key performance indicator
"Kt"	Thousand tonnes
"Listing Date"	13 October 2010, the date the shares were listed on the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LOM"	Life-of-Mine
"LTIFR"	Lost Time Injury Frequency Rate
"LTIs"	Lost Time Injuries
"MBGS"	McElroy Bryan Geological Services Pty Ltd.
"middlings"	Thermal coal by-product of washed coking coal production
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed

"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mt"	Million tonnes
"NBS"	National Bureau of Statistics of China
"Norwest"	Norwest Corporation
"Offer Date"	12 October 2011, 28 November 2012, 10 June 2015, and 8 May 2017, the dates of offer of a total of 37,500,000, 22,750,000, 154,750,000 and 140,000,000 Share Options, respectively, to its Director and certain employees under the Share Option Scheme adopted by the Company
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"Parliament"	Parliament of Mongolia
"probable reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
"raw coal"	Generally means coal that has not been washed and processed
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal

"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"share(s)"	Ordinary share(s) of USD0.01 each in the share capital of the Company
"Share Options" or "Options"	The share options which were granted under the Share Option Scheme to eligible participants to subscribe for Shares of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"SSCC"	Semi-soft coking coal
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG and BN deposits
"the Schemes"	Defined contribution retirement benefit schemes in which the Group participates
"thermal coal"	Also referred to as "steam coal" or "steaming coal", thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"THG"	Tsaikhar Khudag
"TKH"	Tsagaan Khad
"tonne" or "t"	Metric tonne, being equal to 1,000 kilograms

GLOSSARY AND TECHNICAL TERMS

"TRIFR"	Total Recordable Injury Frequency Rate
"Tsogttsetsii" or "Tsogttsetsii soum"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"UHG"	Ukhaa Khudag
"UHG deposit"	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	The aboveground (<300m) portion of our UHG deposit
"USD"	United States Dollar
"VAT"	Value added tax
"washed coal"	Coals that have been washed and processed to reduce its ash content

Technical details of the UHG Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4. Similar technical details relevant to the underlying UHG Coal Resource estimate were previously published in the form of 'JORC Table 1' Sections 1, 2 and 3 in the MMC Annual Report 2014.

JORC (2012) TABLE 1

SECTION 4: ESTIMATION AND REPORTING OF ORE RESERVES

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• **Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.** • **Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.** • The Mineral Resource estimate used as the basis for this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation UHG mine (Licence 11952A)", prepared by MMC, Energy Resources LLC, Geology Department, November 2015. • The Competent Person for the Mineral Resource estimate was Mr. Lkhagva-Ochir Said, a full time employee of MMC in the position of General Manager of Technical Services. Mr. Said graduated in 2005 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#316005). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.

Criteria	Commentary
Site visits	• **Comment on any site visits undertaken by the Competent Person and the outcome of those visits.** • **If no site visits have been undertaken indicate why this is the case.** • A site visit to the UHG mine was undertaken by the Competent Person in February 2017 and in February 2018. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the UHG LOM plan update study, February 2018. • The Competent Person believed a further site visit was warranted in 2018, as based upon review of the latest mining survey data and production results, it was determined that site conditions had materially changed with mining progress that had occurred since the site visit of February 2017.
Study status	• **The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.** • **The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically.** • A LOM study update, equivalent to a Feasibility Study update was completed in May 2015 by RungePincockMinarco Limited ("**RPM**"). • Glogex is completing preparation of an updated scenario of the LOM Study for the UHG deposit. UHG design, mine planning has been completed and economic analysis will be completed in March 2018.
Cut-off parameters	• **The basis of the cut-off grade(s) or quality parameters applied.** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.

Criteria	Commentary
Mining factors or assumptions	• **The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by pre-liminary or detailed design).** • **The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc.** • **The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.** • **The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).** • **The mining dilution factors used.** • **The mining recovery factors used.** • **Any minimum mining widths used.** • **The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.** • **The infrastructure requirements of the selected mining methods.** • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste. • Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants.

Criteria	Commentary
	• The mining factors used were: – Minimum coal mining thickness of 0.5 m. – Minimum parting mining thickness of 0.5 m. – Mineable coal section roof and floor loss of 0.0 mm. – Mineable coal section roof and floor dilution of 100 mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.46 t/m^3, and ash of 92%. – Relative density data in the geological model is based on an average in-situ moisture of 3.2% (ar). ROM moisture is assumed to be 5% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar) and thermal product coal moisture 1.92% (ar). • The application of "Affected Zones" with higher global losses, as per the 2013 LOM Study, were discontinued on the basis of actual mining coal recovery reconciliation results supplied by MMC for an 18-month period of sampling undertaken by MMC from January 2014 to June 2015. • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the BN mine. The infrastructure will be expanded as UHG production expands.

Criteria	Commentary
Metallurgical factors or assumptions	• **The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.** • **Whether the metallurgical process is well-tested technology or novel in nature.** • **The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.** • **Any assumptions or allowances made for deleterious elements.** • **The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.** • **For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. Coking coal seams 0C, 3A and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed. • The process generates primary coking coal product from a low cut point that will produce a 11.0% (ad) ash HCC and 9.5% (ad) SSCC product, and a secondary middlings product of 18% (ad) ash is produced from a variable high cut. • International coal processing consultant Norwest has generated ash-yield curves for all the coking coal seams. • A conventional jig washing plant is planned for processing thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.

Criteria	Commentary
Environmental	• **The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.
Infrastructure	• **The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.** • All necessary infrastructure to support the UHG mine is in place at either the mine site or at the UHG mine industrial area. Power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.

Criteria	Commentary
Costs	• **The derivation of, or assumptions made, regarding projected capital costs in the study.** • **The methodology used to estimate operating costs.** • **Allowances made for the content of deleterious elements.** • **The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products.** • **The source of exchange rates used in the study.** • **Derivation of transportation charges.** • **The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.** • **The allowances made for royalties payable, both Government and private.** • Project capital cost estimates for mining plant and equipment have been provided by MMC. • The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at UHG provided by MMC year-to-date December 2017 based on 2400 MNT/USD exchange rate. Glogex reviewed key cost inputs and concluded these were reasonable to be used for pit optimisation. • Operating cost estimates have been provided from MMC's assessment of existing operating costs incurred in the operation and also from MMC's mining contractor. – Actual mining contractor coal mining costs were provided and applied in the study in USD/bcm; however for presentation in Table 5.8 Glogex converted to USD/t ROM using the weight average relative density of coal in the pit shells). • Coal processing costs are based on those actually being incurred in the existing CHPP operation. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of UHG product coal. There are no private royalties payable.

Criteria	Commentary

Revenue factors	• **The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.**
	
	• **The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.**
	
	• Fenwei completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China.
	
	• The coal selling prices for HCC were estimated based on 7 years average of 2016 to 2017 historical prices and price forecast 2018 to 2022, as provided to MMC by Fenwei product value at the DAP GM port of China. The coal selling prices for SSCC, middlings and thermal coal were estimated based on 5 years average of price forecast 2018 to 2022, as provided to MMC by Fenwei product value at the DAP GM port of China.
	
	• The coal selling prices assigned to each product, were:
	
	  • HCC < 10.5% ash (ad): USD122.2/t product (ar),
	  • SSCC < 9.5% ash (ad): USD104.6/t product (ar),
	  • Middlings ~ benchmark CV 6,000 kcal/kg (gar): USD41.6/t product (ar),
	  • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD28.8/t product (ar).
	
	• In Minex pit optimizer Competent Person sets coal price premium (or penalty) to HCC, SSCC product, when HCC/SCC ash goes down (or up) by 1% then price proportion increases (or decreases) by 1.5.

Criteria	Commentary
Market assessment	• **The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.** • **A customer and competitor analysis along with the identification of likely market windows for the product.** • **Price and volume forecasts and the basis for these forecasts.** • **For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.** • Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets in Mongolia and China in December 2017.
Economic	• **The inputs to the economic analysis to produce the net present value ("NPV") in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.** • **NPV ranges and sensitivity to variations in the significant assumptions and inputs. Price and volume forecasts and the basis for these forecasts.** • No economic analysis.

Criteria	Commentary
Social	• **The status of agreements with key stakeholders and matters leading to social licence to operate.** • All key stakeholder agreements are in place providing a social license to operate.
Other	• **To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:** • **Any identified material naturally occurring risks.** • **The status of material legal agreements and marketing arrangements.** • **The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.** • All material legal agreements, marketing agreements and government agreements are in place to allow the UHG mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.

Criteria	Commentary
Classification	• **The basis for the classification of the Ore Reserves into varying confidence categories.** • **Whether the result appropriately reflects the Competent Person's view of the deposit.** • **The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.
Audits or reviews	• **The results of any audits or reviews of the Ore Reserve estimates.** • Internal peer review by Glogex of the Reserves estimate has been completed. • Technical information in this UHG Coal Reserve estimation has been peer reviewed by independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 27 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

Criteria	Commentary
Discussion of relative accuracy/confidence	• **Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.** • **The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.** • **Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.** • **It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.** • Coal production at UHG commenced in April 2009, and since this time some 202 million bcm of waste and 37 Mt of ROM coal has been mined to date until 30 November 2015. ROM coal production of 49.2 Mt was reported by mine survey measurements from April 2009 until the end of 2017. • Since the preparation of the last Reserves estimate effective as of 31 December 2012 the UHG mine has completed reconciliations of actual coal mined against the geological model for the period January 2014 to June 2015. Last Coal Reserves Statement for UHG was prepared as at 30 November 2015 by RPM and reported as 226 Mt (ROM). • As a result of the reconciliations that have been undertaken and the observations made associated with the mining activities over this period of time, the mining modifying factors in this Reserves estimate have been adjusted to be less conservative particularly with respect to assumed losses incurred in the "affected zones", and in the assumed reassignment of coking coal to thermal coal.

Technical details of the BN Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4.

JORC (2012) TABLE 1

SECTION 4: ESTIMATION AND REPORTING OF ORE RESERVES

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• **Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.** • **Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.** • The Mineral Resource estimate used as the basis for this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation BN mine (License MV-014493) and Tsaikhar Khudag Coal Mine (License MV-017336) prepared by MMC, Energy Resources LLC, Geology Department, June 2015. • The Competent Person for the Mineral Resource estimate was Mr. Lkhagva-Ochir Said, a full time employee of MMC in the position of General Manager of Technical Services. Mr. Said graduated in 2005 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#316005). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.

Criteria	Commentary
Site visits	• **Comment on any site visits undertaken by the Competent Person and the outcome of those visits.** • **If no site visits have been undertaken indicate why this is the case.** • The Competent Person for the Coal Reserves Statement, Mr. Naranbaatar Lundeg, conducted a site visit in February 2017 and again in January 2018. • The Competent Person believe a further site visit was warranted in 2018, as based upon review of the latest mining survey data and production results, it was determined that site conditions had materially changed with mining progress that had occurred since the site visit of February 2017.
Study status	• **The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.** • **The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically.** • A LOM study update, equivalent to a Feasibility Study update was completed in February 2015 by RPM. • A further update to the LOM plan was completed in February 2018, comprising pit optimisation, strategic options scheduling, mine planning, scheduling and economic analysis of the preferred strategic option.
Cut-off parameters	• **The basis of the cut-off grade(s) or quality parameters applied.** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.

Criteria	Commentary
Mining factors or assumptions	• **The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by pre-liminary or detailed design).** • **The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc.** • **The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.** • **The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).** • **The mining dilution factors used.** • **The mining recovery factors used.** • **Any minimum mining widths used.** • **The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.** • **The infrastructure requirements of the selected mining methods.** • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste. • Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants.

Criteria	Commentary
	• The mining factors used were: – Minimum coal mining thickness of 0.5 m. – Minimum parting mining thickness of 0.5 m. – Mineable coal section roof and floor loss of 0.0 mm. – Mineable coal section roof and floor dilution of 100 mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.81 t/m3, and ash of 93.86%. – Relative density data in the geological model is based on an average in-situ moisture of 2.3% (ar). Coking coal product moisture 8% (ar), middlings product moisture 9% (ar) and thermal product coal moisture 6.92% (ar). • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the UHG mine. The infrastructure will be expanded as UHG production expands.

Criteria	Commentary
Metallurgical factors or assumptions	• **The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.** • **Whether the metallurgical process is well-tested technology or novel in nature.** • **The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.** • **Any assumptions or allowances made for deleterious elements.** • **The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.** • **For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. • H seam test wash was conducted at the UHG CHPP from 23 to 31 of January, 2018. A plant feed was primarily composed of UHG HCC seams including 3A, 4A, 4B, 0CU, and 0B, making 80 to 90% of the in-feed coal blend. A remaining 10 to 20% was composed of H seam. The purpose of this test was to investigate a potential of blending H seam with the UHG HCC. During a test period, MMC team (including geologists, process engineers, chemists, quality assurance associates) carefully monitored a quality of the primary product, particularly for a product with an increased volatile matter. The result showed minimum of 23.56%, maximum of 25.81%, average of 25% volatile matter below a required product specification.

Criteria	Commentary
	• The process generates primary coking coal product from a low cut point that will produce a 11.0% (ad) ash HCC and 9.5% (ad) SSCC product, and a secondary middlings product of 18% (ad) ash is produced from a variable high cut. • International coal processing consultant Norwest has generated ash-yield curves for all the coking coal seams. • Thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.
Environmental	• **The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.

Criteria	Commentary
Infrastructure	• **The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.** • All necessary infrastructure to support the BN mine is in place at either the mine site or at the UHG mine industrial area. UHG power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.
Costs	• **The derivation of, or assumptions made, regarding projected capital costs in the study.** • **The methodology used to estimate operating costs.** • **Allowances made for the content of deleterious elements.** • **The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products.** • **The source of exchange rates used in the study.** • **Derivation of transportation charges.** • **The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.** • **The allowances made for royalties payable, both Government and private.** • Project capital cost estimates for mining plant and equipment have been provided by MMC.

Criteria	Commentary
	• The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at BN provided by MMC year-to-date 1 December 2017 based on 2400 MNT/USD exchange rate. Glogex reviewed key cost inputs and concluded these were reasonable to be used for pit optimisation. Coal and Waste mining cost is based on contractor's agreement price. Virtex Mining Partner LLC and UARP LLC contracted with MMC for BN mining operation services. Coal handling, processing and transportation cost of BN-UHG and UHG-GM port is based on coal transportation service agreement price between Energy Resources and Khangad Exploration LLC. • Coal mining cost, USD/bcm – 2.51 • Coal mining cost-vertical, USD/m.bcm – 0.00697 • Waste mining cost, USD/bcm – 2.51 • Waste mining cost-vertical, USD/m.bcm – 0.00780 • Air pollution fee, USD/t.ROM – 0.42 • Coal handling and processing cost, USD/t.ROM – 6.25 • Administration cost, USD/t.ROM – 1.50 • Transportation cost (BN-UHG), USD/t.ROM – 1.04 • Transportation cost (UHG-GM port), USD/t.ROM – 11.05 • Custom duty (at GM port), USD/t.ROM – 0.64

Criteria	Commentary

Revenue factors	• **The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.**
	
	• **The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.**
	
	• MMC is the closest coking coal producer to Baotou in Inner Mongolia, which is the closest railway transportation hub providing access from Mongolia to the largest steel producing provinces in China. In December 2017, Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets 2018 to 2022 in Mongolia and China.
	
	• The coal selling prices for HCC were estimated based on 7 years average of 2016 to 2017 historical prices and price forecast 2018 to 2022, as provided to MMC by Fenwei product value at the DAP GM port of China.
	
	• The coal selling prices for SSCC, middlings and thermal coal were estimated based on 5 years average of price forecast 2018 to 2022, as provided to MMC by Fenwei product value at the DAP GM port of China.
	
	• The coal selling prices assigned to each product, were:
	
	  • HCC < 10.5% ash (ad): USD122.2/t product (ar),
	
	  • SSCC < 9.5% ash (ad): USD104.6/t product (ar),
	
	  • Middlings ~ benchmark CV 6,000 kcal/kg (gar): USD41.6/t product (ar),
	
	  • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD28.8/t product (ar).

Criteria	Commentary
Market assessment	• **The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.** • **A customer and competitor analysis along with the identification of likely market windows for the product.** • **Price and volume forecasts and the basis for these forecasts.** • **For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.** • Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets in Mongolia and China in December 2017.
Economic	• **The inputs to the economic analysis to produce the NPV in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.** • **NPV ranges and sensitivity to variations in the significant assumptions and inputs. Price and volume forecasts and the basis for these forecasts.** • No economic analysis.

Criteria	Commentary
Social	• **The status of agreements with key stakeholders and matters leading to social licence to operate.** • All key stakeholder agreements are in place providing a social license to operate.
Other	• **To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves.** • **Any identified material naturally occurring risks.** • **The status of material legal agreements and marketing arrangements.** • **The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.** • All material legal agreements, marketing agreements and government agreements are in place to allow the BN mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.

Criteria	Commentary
Classification	• **The basis for the classification of the Ore Reserves into varying confidence categories.** • **Whether the result appropriately reflects the Competent Person's view of the deposit.** • **The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.

Criteria	Commentary
Audits or reviews	• **The results of any audits or reviews of the Ore Reserve estimates.** • Internal peer by Glogex of the Reserves estimate has been completed. Technical information in this BN Coal Reserve estimation has been peer reviewed by independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 27 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).
Discussion of relative accuracy/confidence	• **Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.** • **The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.** • **Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.** • **It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.**

Criteria	Commentary
	• The BN deposit is a moderate to steeply dipping high-quality coal deposit, consisting predominantly of HCC. First production commenced in December 2011 with small-scale coal production of its higher-quality H and T seams. Production activity between 2011 and 2013 has depleted the stated BN ROM Coal Reserve by 1.3 Mt, according to mine survey measurement, and is considered to impart no material change. • Due to coal price went down, BN mine stopped in 2013. In December 2017, BN mine production started again utilizing conventional terrace mining techniques with hydraulic excavators and trucks to exploit the complex and highly faulted coking and thermal coal deposit. ROM coal production of 1.4 Mt was reported by mine survey measurement until end of 2017, from which 0.1 Mt was reported December of 2017. • H seam test wash was conducted at the UHG CHPP from 23 to 31 of January, 2018. A plant feed was primarily composed of UHG HCC seams including 3A, 4A, 4B, 0CU, and 0B, making 80 to 90% of the in-feed coal blend. A remaining 10 to 20% was composed of H seam. The purpose of this test was to investigate a potential of blending H seam with the UHG HCC. During a test period, MMC team (including geologists, process engineers, chemists, and quality assurance associates) carefully monitored a quality of the primary product, particularly for a product with an increased volatile matter. The result showed minimum of 23.56%, maximum of 25.81%, average of 25% volatile matter below a required product specification. • As a result of the reconciliations that have been undertaken and the observations made associated with the mining activities over this period of time, the mining modifying factors in this Reserves estimate have been adjusted to be less conservative particularly with respect to assumed losses incurred in the coal seam zones, and in the assumed reassignment of coking coal to thermal coal.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