MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries' (the "**Group**") generated total revenue of approximately United States Dollar ("**USD**") 272.2 million during the reporting period of six months ended 30 June 2018, representing an increase of 10.7% compared to USD245.9 million of total revenue generated for the six months ended 30 June 2017.

The Group's total sales volume was approximately 2.1 million tonnes ("**Mt**") of coal products, including 1.7 Mt of washed hard coking coal ("**HCC**") for the six months ended 30 June 2018, as compared to 2.3 Mt of coal products sold, including 1.9 Mt of HCC, during the six months ended 30 June 2017.

The average selling price ("**ASP**") for HCC reached USD146.1 per tonne for the six months ended 30 June 2018, representing an increase of 14.4% compared to USD127.7 per tonne for the six months ended 30 June 2017.

The Group's gross profit for the six months ended 30 June 2018 was USD108.1 million, compared to gross profit of USD110.6 million for the six month ended 30 June 2017.

The profit attributable to the equity shareholders of the Company for the six months ended 30 June 2018 was USD29.5 million as compared to USD311.7 million of profit attributable to the equity shareholders of the Company recorded for the six months ended 30 June 2017 which was mainly impacted by USD263.0 million of total gain recognised from the successful implementation and completion of debt restructuring (the "**Debt Restructuring**").

The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD0.29 cents for the six months ended 30 June 2018, compared to the basic and diluted earnings per share of USD3.25 cents for the six months ended 30 June 2017.

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of dividend for the six months ended 30 June 2018 (dividend for the six months ended 30 June 2017: nil).

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

The Board is announcing the unaudited consolidated interim results of the Group for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
	Note	**2018**	2017
		USD'000	*USD'000*
Revenue	*4*	**272,245**	245,943
Cost of revenue	*5*	**(164,109)**	(135,335)
Gross profit		**108,136**	110,608
Other net loss		**(24)**	(3,047)
Selling and distribution costs		**(30,795)**	(27,855)
General and administrative expenses		**(7,500)**	(7,634)
Profit from operations		**69,817**	72,072
Finance income	*6(a)*	**29**	14,647
Finance costs	*6(a)*	**(27,299)**	(19,451)
Net finance costs	*6(a)*	**(27,270)**	(4,804)
Gain from Debt Restructuring		**–**	262,968
Share of profits of associates		**108**	68
Share of (losses)/profits of joint venture		**(2)**	4
Profit before taxation		**42,653**	330,308
Income tax	*7*	**(12,755)**	(19,240)
Profit for the period		**29,898**	311,068
Attributable to:			
Equity shareholders of the Company		**29,528**	311,650
Non-controlling interests		**370**	(582)
Profit for the period		**29,898**	311,068
Basic and diluted earnings per share	*8*	**0.29 cents**	3.25 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)
For the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
	Note	**2018**	2017
		USD'000	*USD'000*
Profit for the period		**29,898**	311,068
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Surplus on revaluation of plants, buildings, and machinery and equipment		**–**	21,201
Exchange differences on translation		**(6,722)**	13,679
Total comprehensive income for the period		**23,176**	345,948
Attributable to:			
Equity shareholders of the Company		**22,806**	346,530
Non-controlling interests		**370**	(582)
Total comprehensive income for the period		**23,176**	345,948

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 – unaudited

	Note	**At 30 June 2018** ***USD'000***	At 31 December 2017 *USD'000* *(audited)*
Non-current assets			
Property, plant and equipment, net	*9*	**875,464**	861,520
Construction in progress	*10*	**16,000**	16,010
Lease prepayments		**53**	54
Intangible assets	*11*	**506,444**	508,595
Interest in associates		**300**	196
Interest in joint venture		**57**	60
Other non-current assets		**72,287**	83,338
Deferred tax assets		**20,166**	14,896
Total non-current assets		**1,490,771**	1,484,669
Current assets			
Assets held for sale		**–**	183
Inventories		**79,269**	66,745
Trade and other receivables	*12*	**93,514**	72,375
Cash at banks and in hand		**20,176**	7,460
Total current assets		**192,959**	146,763
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*14*	**22,500**	7,500
Trade and other payables	*13*	**204,522**	222,731
Contract liabilities	*13*	**29,132**	–
Current taxation		**18,778**	4,299
Total current liabilities		**274,932**	234,530
Net current liabilities		**(81,973)**	(87,767)
Total assets less current liabilities		**1,408,798**	1,396,902

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
At 30 June 2018 – unaudited

	Note	**At 30 June 2018** *USD'000*	At 31 December 2017 *USD'000* *(audited)*
Non-current liabilities			
Long-term borrowings, less current portion	*14*	**9,982**	24,253
Senior notes	*15*	**442,572**	436,563
Provisions		**13,303**	14,327
Deferred tax liabilities		**147,183**	149,604
Other non-current liabilities		**1,261**	1,305
Total non-current liabilities		**614,301**	626,052
NET ASSETS		**794,497**	770,850
CAPITAL AND RESERVES			
Share capital		**102,918**	102,918
Perpetual notes	*16*	**75,897**	75,897
Reserves		**615,421**	592,144
Total equity attributable to equity shareholders of the Company		**794,236**	770,959
Non-controlling interests		**261**	(109)
TOTAL EQUITY		**794,497**	770,850

NOTES

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with International Accounting Standard 34, *Interim financial reporting* ("**IAS 34**") issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issuance on 14 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. In the auditor's report dated 22 March 2018, the auditor expressed an unqualified opinion on those financial statements but drew attention to conditions which indicated the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The Group had net current liabilities of approximately USD81,973,000 as at 30 June 2018 (as at 31 December 2017: USD87,767,000). This condition continues to indicate the existence of a material uncertainty which may cast significant doubt upon the Group's ability to continue as a going concern assumption.

Assuming that the Group's business plan and cash flow forecast can be achieved, the Directors expect to have sufficient financial resources to cover its operating costs and to meet its financing commitments, as and when they fall due for the twelve months since 30 June 2018. The achievability of the business plan and cash flow forecast is dependent upon the current economic environment and sustainability of the price of coking coal in the market. Based on the business plan and cash flow forecast, the Directors consider that it is appropriate to prepare this interim financial report on a going concern basis. The interim financial report does 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 was changed from MNT to 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.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA 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*

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

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 interim 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 13):

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

3 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 the People's Republic of China ("**PRC**"). Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sale of coal products. Accordingly, no additional business and geographical segment information are presented.

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 for the six months ended 30 June 2018 is as follows:

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
HCC	**252,735**	240,821
Washed semi-soft coking coal ("**SSCC**")	**18,271**	–
Washed thermal coal ("**middlings**")	**1,186**	5,122
Others	**53**	–
	272,245	245,943

5 COST OF REVENUE

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
Mining costs	**59,803**	47,866
Processing costs	**19,968**	19,283
Transportation costs	**46,371**	39,528
Others *(Note)*	**37,967**	28,658
Cost of revenue	**164,109**	135,335

Note:

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:

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
Interest income	**(29)**	(10)
Net change in fair value of derivative component of Senior Notes and Senior Loan	**–**	(1,292)
Foreign exchange gain, net	**–**	(13,345)
Finance income	**(29)**	(14,647)
Interest on liability component of bank and other borrowings *(Note 14)*	**1,828**	1,393
Interest on liability component of Senior Notes *(Note 15)*	**20,424**	17,686
Transaction costs	**–**	235
Unwinding interest on accrued reclamation obligations	**310**	137
Net change in fair value of derivative component of Senior Notes and Senior Loan	**3,583**	–
Foreign exchange loss, net	**1,154**	–
Finance costs	**27,299**	19,451
Net finance costs	**27,270**	4,804

Note:

No borrowing costs have been capitalised during the six months ended 30 June 2018 and the six months ended 30 June 2017.

(b) Other items:

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
Depreciation and amortisation	**29,283**	23,713
Operating lease charges: minimum lease payments	**900**	613
Costs of inventories	**164,109**	135,335
(Gain)/loss on disposal of property, plant and equipment and assets held for sale	**(81)**	49

7 INCOME TAX

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

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
Current tax	**20,073**	2,328
Deferred taxation	**(7,318)**	16,912
	12,755	19,240

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

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
Profit before income tax	**42,653**	330,308
Notional tax on profit before taxation	**15,136**	78,451
Tax effect of non-deductible items *(Note (iii))*	**1,577**	515
Tax effect of non-taxable items *(Note (iii))*	**(4,934)**	(59,834)
Tax losses not recognised	**976**	108
Actual tax expenses	**12,755**	19,240

Notes:

(i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate Income Tax at a rate of 10% of the first MNT3 billion taxable income, and 25% of the remaining taxable income for the six months ended 30 June 2018 and 2017. According to the Corporate Income Tax Law of the PRC, the Company's subsidiary in the PRC 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 six months ended 30 June 2018 and 2017.

(iii) Non-deductible and non-taxable items mainly represent the gain from the Debt Restructuring, 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 six months ended 30 June 2018 and 2017.

8 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 USD29,528,000 (six months ended 30 June 2017: USD311,650,000) and the weighted average of 10,291,767,865 ordinary shares (2017: weighted average of 10,291,767,865 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

For the six months ended 30 June 2018, basic and diluted earnings per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted earnings per share for the six months ended 30 June 2018.

9 PROPERTY, PLANT AND EQUIPMENT

Mining properties of the Group at 30 June 2018 include stripping activity assets carrying book value of USD252,249,000 (31 December 2017: USD228,752,000).

During the six months ended 30 June 2018, the additions of property, plant and equipment of the Group, representing mainly various mining structures, amounted to USD48,023,000 (six months ended 30 June 2017: USD29,496,000). Items of property, plant and equipment with a net book value of USD241,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: USD92,000).

As at 30 June 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 USD192,080,000, USD54,969,000, and USD4,157,000, respectively (31 December 2017: USD201,849,000, USD57,453,000, and USD4,484,000, respectively).

10 CONSTRUCTION IN PROGRESS

The construction in progress is mainly related to machinery and equipment.

11 INTANGIBLE ASSETS

Intangible assets represent the mining right acquired during the acquisition of Baruun Naran ("**BN**") mine.

12 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2018 *USD'000*	At 31 December 2017 *USD'000* *(audited)*
Within 3 months	**13,185**	13,509
3 to 12 months	**–**	43
Over 12 months	**–**	–
Trade receivables net of allowance for doubtful debts	**13,185**	13,552
Amounts due from related parties	**3**	1
Other debtors	**1,196**	1,373
Receivables	**14,384**	14,926
Prepayments and deposits *(Note (i))*	**47,167**	40,856
VAT and other tax receivables *(Note (ii))*	**31,963**	16,593
	93,514	72,375

Notes:

(i) At 30 June 2018 and 31 December 2017, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

*(ii) Value added tax ("**VAT**") and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Tax Authority of Mongolia. Based on current available information, the Group anticipates full recoverability of such amounts.*

13 TRADE AND OTHER PAYABLES

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

	At 30 June 2018 *USD'000*	At 31 December 2017 *USD'000* *(audited)*
Within 3 months	**93,042**	60,789
3 to 6 months	**11,320**	13,724
6 to 12 months	**676**	1,736
Over 12 months	**49,771**	59,598
Total creditors payable	**154,809**	135,847
Payables for purchase of equipment	**1,138**	1,347
Security deposit on construction work	**3**	50
Interest payables	**8,880**	8,887
Other taxes payables	**19,144**	20,275
Others	**9,648**	9,641
Amounts due to related parties	**10,900**	18,897
Financial liabilities measured at amortised cost	**204,522**	194,944
Receipts in advance *(Note)*	**–**	27,787
	204,522	222,731

Note:

As a result of the adoption of IFRS 15, gross amount due to customers for receipts in advance is included in contract liabilities.

14 BORROWINGS

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

	At 30 June 2018 *USD'000*	At 31 December 2017 *USD'000* *(audited)*
Senior Loan	**32,482**	31,753
Less: Current portion of long-term borrowings	**(22,500)**	(7,500)
	9,982	24,253

On 4 May 2017, the Group issued the first ranking senior secured facility with principal amount of USD31,200,000 (the "**Senior Loan**") 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 30 June 2018 was USD2,191,000. 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 and certain coal stockpiles under the Senior Loan. In addition, the Group pledged debt reserve account, certain assets (Note 9) 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 secured notes with principal amount of USD412,465,892 (the "**Senior Notes**") (Note 15).

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

	At 30 June 2018 *USD'000*	At 31 December 2017 *USD'000* *(audited)*
Within 1 year or on demand	**22,500**	7,500
After 1 year but within 2 years	**9,982**	24,253
	32,482	31,753

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

	At 30 June 2018 *USD'000*	At 31 December 2017 *USD'000* *(audited)*
Current portion of long-term borrowings		
– Senior Loan	**22,500**	7,500

The current portion of the long-term borrowings as at 30 June 2018 consisted of USD22.5 million due under the Senior Loan.

15 SENIOR NOTES

	At 30 June 2018 *USD'000*	At 31 December 2017 *USD'000* *(audited)*
Senior Notes	**442,572**	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 30 June 2018 was USD22,464,000, USD35,787,650 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 9) 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 14) and the Senior Notes.

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

(b) Equity settled share-based transactions

There were no share options granted to employees of the Company under the Company's employee share option scheme during the six months ended 30 June 2018 (140,000,000 share options were granted during the six months ended 30 June 2017).

No options were exercised during the six months ended 30 June 2018 (2017: nil).

(c) 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.

EXTRACT OF REVIEW REPORT

The below sections set out an extract of the report by KPMG, the auditor of the Company, regarding the interim financial report of the Group for the six months ended 30 June 2018.

"Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

Material Uncertainty Related to Going Concern

Without qualifying our conclusion, we draw your attention to Note 1 to the unaudited interim financial report which describes that the Company together with its subsidiaries (the "**Group**") had net current liabilities of approximately USD81,973,000 as at 30 June 2018, indicating the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The interim financial report has been prepared on a going concern basis, the validity of which is dependent on the achievability of the Group's business plan and cash flow forecast for the twelve months since 30 June 2018. The interim financial report does not include any adjustments that would result should the Group be unable to continue to operate as a going concern."

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

According to the data released by the World Steel Association ("**WSA**"), in the first half of 2018, China's crude steel production reached 451.2 Mt, an increase of 6.0% from the same period in 2017 which was supported mostly by strong domestic demand. It was estimated by Fenwei Energy Information Services ("**Fenwei**") that the domestic apparent crude steel consumption increased by 6.9%, to 410.6 Mt in the first half of 2018, from 384.0 Mt in the first half of 2017. In the meantime, under increasing international trade tensions, Chinese steel export decreased to 35.5 Mt, representing 13.4% year-on-year decrease in the first half of 2018.

Improved market conditions had positive impact on financial condition of Chinese steel producers. For example, China Iron and Steel Association ("**CISA**") reported that, in the first half of 2018, consolidated sales revenue of its members has increased by 15.3% on a year-on-year basis reaching RMB2.0 trillion and consolidated net profit surged by 151.5% to RMB139.3 billion. In the meantime, the debt-to-asset ratio of CISA members decreased to 67.3%, which represents a 3.9% reduction on a year-on-year basis. Net receivables decreased by 7.7% from previous year, while the net accounts payable dropped 6.5% year-on-year.

The National Bureau of Statistics of China reported that production of coke in China decreased by 4.1% to 212.0 Mt in the first half of 2018, while consumption increased by 4.5% to 237.1 Mt on year-on-year basis, according to Fenwei estimates. Coke exports from China increased to 4.9 Mt in the first half of 2018, representing a 19.5% year-on-year increase.

China's coking coal consumption was 246.6 Mt in the first half of 2018, according to Fenwei, representing a 4.9% decrease from the same period in the previous year. Domestic coking coal production decreased to 213.6 Mt, year-on-year decrease by 3.0% and also coking coal imports decreased by 19.4% year-on-year basis to 29.0 Mt.

According to the data reported by the National Statistics Office of Mongolia, in the first half of 2018, Mongolia has exported 18.3 Mt of coal to China, which is 4.2% less compared to the same period in 2017.

OPERATING ENVIRONMENT

Legal Framework

Labour related legislation

On 26 March 2018, the Government of Mongolia (the "**GoM**") submitted to the Parliament of Mongolia (the "**Parliament**") a proposal to adopt certain changes to the Labour Law. If the submitted draft is approved by the Parliament, among other changes, a requirement will be imposed for employers to provide maximum 20 working days and minimum 10 resting days to its employees who work on roster schedules.

The Group does not expect any material implications from such requirement, as the Group's current roster arrangement already adheres to the proposed requirement.

Taxation, Accounting and Financial Reporting related legislation

On 26 April 2018, the Law on State Registration of the Legal Entity was amended and the definition of "ultimate holder" was revised to "ultimate owner" in order to match with the definition in the Law on Combating Money Laundering and Terrorism Financing. Pursuant to such change, the "ultimate owner" is defined as a person who solely or persons who jointly, directly or indirectly, exercise control over the entity, its business and assets.

On 29 May and 22 June 2018, revised versions of the General Taxation Law, the Law on Personal Income Tax, the Law on Corporate Income Tax and amendment to the Law on Value Added Tax, together with relevant changes under other laws were submitted to the Parliament. According to the proposed amendments, only transactions involving full or partial disposal of direct or indirect interests held by shareholders holding more than 30% stake in legal entities holding exploration and mining licenses and land possession rights will be subject to a 10% taxation (in lieu of the original 30% rate) imposed on "sale of rights" in Mongolia. Such taxation shall be withheld and paid by the subject holder of exploration and mining licenses and land possession rights.

Further, a new term of "foreign entity managed from Mongolia" was included in the submitted draft. If a foreign entity's majority shares are held by a Mongolian tax payer, both directly or indirectly, for a period of one year or more, then regulators will take the view that such foreign entity will be subject to Mongolian corporate income tax and reporting obligations. However, if such foreign entity was established for the purposes of conducting initial public offering at foreign stock exchanges, such entity will be exempted from such taxation and reporting obligations.

It is expected that submitted drafts will be reviewed and considered by the Parliament during its coming autumn session and the drafts may become subject to further changes and amendments.

Tavan Tolgoi coalfield and infrastructure development related legislation

On 29 June 2018, the Parliament amended the Resolution No. 32 issued in 2010 concerning the State Policy on Railway Transportation. The Zuunbayan – Khangi railway line was added and the previously defined Ukhaa Khudag – Gashuunsukhait ("**GS**") railway line was renamed to Tavan Tolgoi – Gashuunsukhait railway line ("**TT-GS Railway**"). Subsequently, on 9 July 2018, the GoM established a project entity named "Tavantolgoi Railway" as a subsidiary of Mongolian Railway; a state-owned company and granted to this entity a special permit to build 267 kilometres ("**km**") long TT-GS Railway.

On 29 June 2018, the Parliament issued Resolution No. 73 and directed the GoM to take required actions and present to the Parliament within this year the outcomes of preparation works in relation to the potential initial public offering of the entity holding Tavan Tolgoi mining licenses by floating up to 30% of its shares at the international and local stock exchanges in line with relevant clauses in Resolution No. 39 adopted by the Parliament in 2010. Also, the GoM was directed to accelerate infrastructure development projects, including, among others, the TT-GS Railway.

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 two 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). Compared to the previous JORC Coal Resource update stated as at 30 November 2015, the last update stated as at 31 December 2016 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 December 2015 to 31 December 2016, 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 2016, included:

- 1,556 individual boreholes drilled for 191,275 metres ("**m**"), including 104,369m of HQ-3 (63.1 millimetres ("**mm**") core, 96.0mm hole diameter) and 86,906m of 122mm diameter open hole drilling;

- 37,548 individual analytical samples collected and analysed;

- 71km 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 summarized in Table 1. 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 1. UHG mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 31 December 2016 (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	70	23	17	93	110
From 100m to 200m	92	48	26	140	166
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	16	92	108
Below 400m	40	44	30	84	114
Sub-Total above 300m	255	138	69	393	462
Sub-Total below 300m	97	79	45	176	222
Total	**352**	**217**	**115**	**569**	**684**
Total (Rounded)	**350**	**220**	**110**	**570**	**680**

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 10 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 1 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2016, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

(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 ("**MBGS**"), stated as of 30 June 2012 and 30 April 2013 for the BN mining license and the THG mining license respectively.

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

The last updated JORC (2012) 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 JORC (2012) Coal Resource statement:

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

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

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

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

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

Summary of the updated JORC (2012) Coal Resources for BN and THG mining license areas are shown in Table 2 and Table 3 respectively. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 2. BN mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (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	42	9	3	51	54
From 100m to 200m	62	11	5	73	78
From 200m to 300m	67	13	7	80	87
From 300m to 400m	70	16	9	86	95
Below 400m	–	–	–	–	–
Sub-Total above 300m	181	35	16	216	232
Sub-Total below 300m	70	16	9	86	95
Total	**251**	**51**	**25**	**302**	**327**
Total (Rounded)	**250**	**50**	**30**	**300**	**330**

Table 3. THG mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (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	–	–	18	–	18
Below 400m	–	–	–	–	–
Sub-Total above 300m	–	–	54	–	54
Sub-Total below 300m	–	–	18	–	18
Total	**–**	**–**	**72**	**–**	**72**
Total (Rounded)	**–**	**–**	**70**	**–**	**70**

Notes:

(i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 10 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 and Table 3 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

(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 2018 for the UHG deposit. The updated reserve study report was finalized on 28 February 2018. The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate during 2015, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods.

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

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

- 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.

Following pit optimisation works to determine the economic pit limits, practical pit designs were then created, and mineable in situ coal within the pit shell was converted to run-of-mine ("**ROM**") and product coal quantities. Raw coal tonnages resulting, from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2018 based upon an as-received basis with 2.97% total moisture, are shown in Table 4.

Table 4. UHG mining license JORC (2012) Coal Reserve estimate, as at 1 January 2018 (Notes):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	203	117	320
Thermal	11	2	13
Total	**214**	**119**	**333**

Notes:

(i) The estimate of Coal Reserve presented in Table 4 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 16 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimization, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. 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 latest Coal Reserve statement for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2018 based on JORC (2012) Coal Resource estimate as at 30 June 2015. The updated reserve study report was finalized on 28 February 2018. 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 optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by operating cost and coal revenue variance.

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

- limitation of open pit depth to 360m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla employed by AMC at the relevant time;

- 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 summarized in Table 5, with tonnage estimation based on an as-received basis with 4.5% total moisture.

Table 5. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2018 (Notes):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	164	12	176
Thermal	0	0	0
Total	**164**	**12**	**176**

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

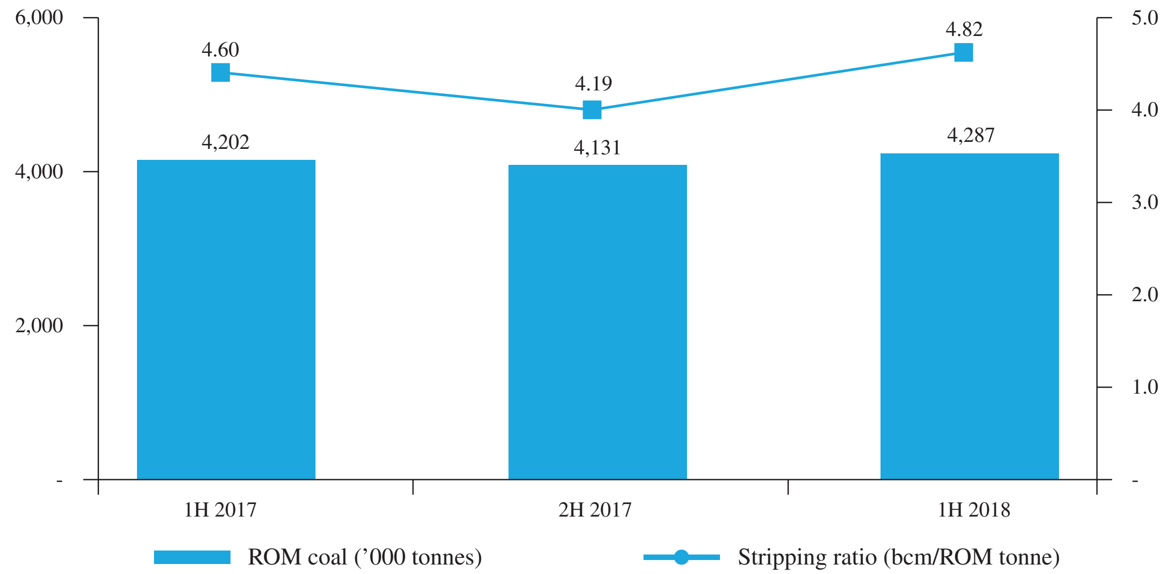
(ii) Due to rounding, discrepancy may exist between sub-totals and totals.

Production and Transportation

Coal Mining

The UHG mine has produced 3.6 Mt ROM coal in the first half of 2018 and 15.0 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 4.19 bcm per ROM tonne for the period. The BN mine has produced 0.7 Mt ROM coal in the period and 5.6 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 8.10 bcm per ROM tonne for the period. The Group's combined semi-annual mine production from UHG and BN mines for the last three semi-annual periods is shown in Figure 1.

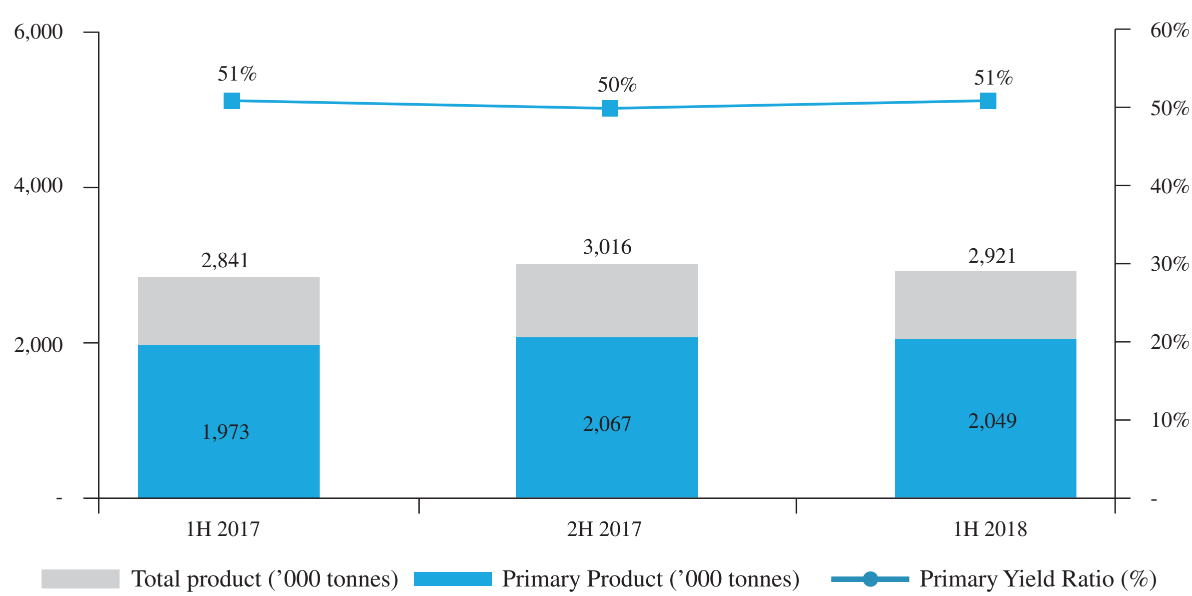
Figure 1. The Group's semi-annual ROM coal production volumes (in kt) and actual stripping ratios (in bcm of overburden per ROM tonne of coal) for 2017-2018:



Coal Processing

In the first half of 2018, total feed of 4.0 Mt ROM coal was processed, resulting in the production of 2.0 Mt of washed coking coal as a primary product at 51.0% yield, and 0.9 Mt of middlings as a secondary product at 21.7% yield. In the first half of 2018, 3.5 Mt and 0.5 Mt of ROM coal processed was sourced from the UHG and BN mines, respectively. The Group's washed coal production for last three semi-annual periods are shown in Figure 2.

Figure 2. The Group's semi-annual total and primary processed coal production volumes (in kt) for 2017-2018:



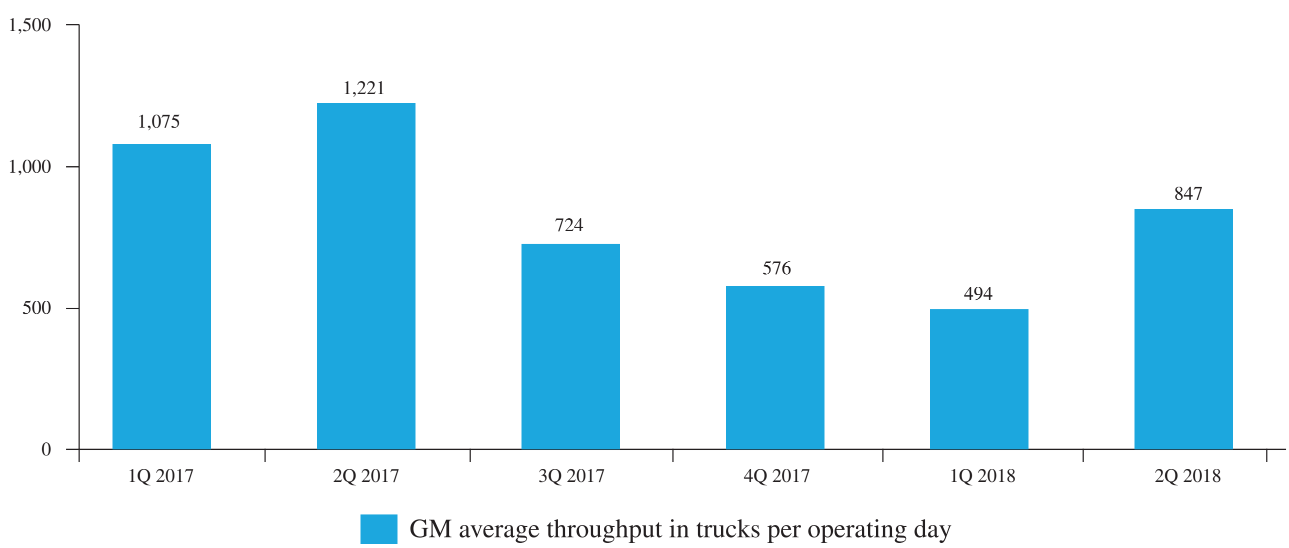
Transportation and Logistics

The Group shipped 2.4 Mt of coal products for export from Mongolia to PRC in the first half of 2018, about 4% less compared to the corresponding period of 2017, which consisted of (i) 2.1 Mt of HCC; (ii) 0.2 Mt of SSCC; and (iii) 0.1 Mt of middlings. The transportation of coal products was performed utilizing own trucking fleet and also supplemented by third party contractors.

The entire volume was transported utilizing trans-shipping facility located at Tsagaan Khad ("**TKH**"), following the Resolution No. 320 dated 29 November 2017 adopted by GoM which temporarily suspends customs clearance from mine sites in Tavan Tolgoi area and requires exporters to utilise the customs bonded yards located at TKH. However, on 20 June 2018, the GoM issued Resolution No. 185 lifting the ban imposed on coal customs clearance from mine sites in Tavan Tolgoi area and as such the Group is planning to increase the volumes shipped directly from UHG to Ganqimaodu ("**GM**") during the remaining period of the year.

The cross-border logistic bottlenecks remain as the main factor limiting potential increase for coal export volumes from Mongolia via GS-GM border crossing point. In particular, the first quarter of this year was very challenging as it reported the lowest number of coal trucks crossing the border, according to the data compiled by the Group and its customers, although the situation improved in the second quarter, as shown in Figure 3.

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



The Group, together with other coal exporters operating in the Tavan Tolgoi area, is continuously engaged in communications with the relevant authorities on both sides regarding the requirements to resolve the limitations imposed at the GS-GM border crossing point. Also, the Group has been exploring options for alternative export routes to reach its customers.

Occupational Health, Safety and Environment

In the first half of 2018, approximately 4.1 million man-hours were recorded by employees, contractors and sub-contractors of the Group, as compared to 2.4 million man-hours recorded during the same period in 2017. During this period, three occurrences of Lost Time Injury ("**LTI**") were recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.72 LTIs per million man-hours worked equivalent being recorded for the period, compared to 0.42 LTIs per million man-hours worked recorded during the same period in 2017. The 12-month rolling average of LTIFR was 0.65 per million man-hours worked. The Total Recordable Injury Frequency Rate ("**TRIFR**") for the period was at 4.11 Total Recordable Injuries ("**TRI**"), resulting in a very low 12-month rolling average TRIFR of 4.43 TRIs per million man-hours worked equivalent being realised, as compared to 6.4 TRIs per million man-hours worked during the same period in 2017.

The continued effort to reduce the number of incidents and related frequency rates is the testament to the commitment of the Group's management to the concept of Zero Harm in terms of health, safety and environment. This was again demonstrated by the frequency and quantity of related trainings provided to employees, contractors, sub-contractors and visitors, with 6,916 individual training sessions delivered for 29,980 man-hours of training in the first half of 2018.

Sales and Marketing

On 24 May 2018, the Group signed a 10-year general cooperation agreement on coal sales with Shenhua Inner Mongolia Coal and Coking Co., Ltd, which was an important milestone to further strengthen its relationship with a large coke producer in Inner Mongolia, in close proximity to the Group's operating mines.

The Group maintained its coal sales through its existing sales channels mainly in Inner Mongolia, Tianjin, Hebei, Gansu and Xinjiang areas. 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 authorities at GM, coal products are delivered to ultimate customers under FOT GM terms or further transported within China for delivery to the customers' location under Cost-and-Freight ("**C&F**") terms. The middlings are exported and sold under Delivery-at-Place GM terms.

The Group sold a total of 2.1 Mt of self-produced coal in the first half of 2018, namely: (i) 1.7 Mt HCC; (ii) 0.2 Mt SSCC; and (iii) 0.1 Mt middlings. HCC sales volume decreased by 8.3% compared to 1.9 Mt HCC sold during the same period of 2017, primarily due to continuing issues related to inefficiencies at GS-GM border crossing.

OUTLOOK AND BUSINESS STRATEGIES IN 2018

The Company will continue 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) maintaining an adequate capital structure by implementing prudent financial policy; (ii) scaling up production and sales volumes by maximizing assets utilization; (iii) supporting initiatives to improve logistics infrastructure providing access to its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint venture arrangements, and also identifying possible investment targets in Mongolia; and (v) remaining fully committed to safety, environment and socially responsible operations.

Based on strong demand from its customers and also favorable pricing for coking coal, the Company will aim to maximize its production and sales volumes during the second half of 2018. The ultimate intention is to ramp up production output in a safe manner by fully utilizing existing coal mining and processing capacity, whilst optimizing transportation and logistic efficiency by implementing strategic change solutions, in order to overcome the limitations caused by inefficient cross border logistics.

Increase in sales volume will be achieved by expanding the relationship with ultimate end-user customers. Therefore, the Company's primary focus will be its customers located in the North-Western China regions neighboring with Mongolia, such as Inner Mongolia, Gansu and Xinjiang.

FINANCIAL REVIEW

Revenue

The Group generated a total revenue of USD272.2 million from the sale of approximately 2.1 Mt of coal products during the six months ended 30 June 2018, representing an increase of 10.7%, compared to USD245.9 million of total revenue generated from 2.3 Mt of coal products sold during the six months ended 30 June 2017. The continuing issues related to inefficiencies at GS-GM border crossing were the main factor impacting the sales volume during the reporting period and the Group sold approximately 1.7 Mt of HCC, 0.2 Mt of SSCC and 82.2 thousand tonnes ("**kt**") of middlings, to customers located in China.

The ASP for HCC was USD146.1 per tonne for the six months ended 30 June 2018, representing an increase of 14.4% compared to USD127.7 per tonne for the six months ended 30 June 2017. The ASP for HCC (excluding applicable VAT) under FOT GM and C&F terms were USD140.8 per tonne and USD176.3 per tonne, respectively, for the six months ended 30 June 2018.

For the six months ended 30 June 2018, the Group derived individually more than 10.0% of its revenue from three customers, with the purchase amounts of approximately USD85.8 million, USD77.7 million and USD29.5 million. For the six months ended 30 June 2017, the Group derived individually more than 10.0% of its revenue from one customer, with the purchase amount of approximately USD93.7 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 six months ended 30 June 2018, the total cost of revenue was USD164.1 million, from which USD143.3 million was attributable to coal products sold from the UHG mine and USD20.8 million was attributable to coal products sold from the BN mine.

Table 6. Total and individual costs of revenue:

	Six months ended 30 June	
	2018	2017
	(USD'000)	*(USD'000)*
Cost of revenue	**164,109**	135,335
Mining cost	**59,803**	47,866
Variable cost	**29,827**	20,104
Fixed cost	**21,803**	23,870
Depreciation and amortization	**8,173**	3,892
Processing cost	**19,968**	19,283
Variable cost	**5,668**	5,124
Fixed cost	**1,548**	1,385
Depreciation and amortization	**12,752**	12,774
Handling cost	**4,385**	3,552
Transportation cost	**46,371**	39,528
Logistic cost	**5,465**	3,642
Variable cost	**3,926**	1,870
Fixed cost	**1,398**	1,679
Depreciation and amortization	**141**	93
Site administration cost	**7,724**	7,100
Transportation and stockpile loss/(gain)	**3,877**	(1,825)
Royalties and fees	**16,516**	16,189
Royalty	**13,614**	13,005
Air pollution fee	**1,576**	1,611
Customs fee	**1,326**	1,573

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 six months ended 30 June 2018, the Group's mining cost was approximately USD59.8 million (first half of 2017: USD47.9 million). Unit mining cost was USD15.8 per ROM tonne for the six months ended 30 June 2018, compared to USD12.8 per ROM tonne for the six months ended 30 June 2017. Unit mining cost increase is mainly attributable to the higher accounting stripping ratio applied for variable cost, such as blasting cost, plant cost and fuel cost. 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 six months ended 30 June 2018 was 3.3 bcm per tonne, compared to 2.5 bcm per tonne for the six months ended 30 June 2017.

Table 7. Unit mining cost per ROM tonne:

	Six months ended 30 June	
	2018 ***(USD/ROM tonne)***	2017 *(USD/ROM tonne)*
Mining cost	**15.8**	12.8
Blasting	**1.1**	1.0
Plant cost	**4.3**	2.5
Fuel	**2.5**	1.9
National staff cost	**0.8**	0.7
Expatriate staff cost	**0.2**	0.2
Contractor fee	**4.7**	5.4
Ancillary and support cost	**0.1**	0.1
Depreciation and amortization	**2.1**	1.0

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 capitalized in the balance sheet as mining structure and subsequently amortized 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 six months ended 30 June 2018, the Group's processing cost was approximately USD20.0 million (first half of 2017: USD19.3 million), of which approximately USD12.8 million was related to the depreciation and amortization of the CHPP, USD1.1 million was cost related to power generation and distribution, and USD0.8 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 USD5.3 per ROM tonne for the six months ended 30 June 2018 and USD5.2 per ROM tonne for the six months ended 30 June 2017.

Table 8. Unit processing cost per ROM tonne:

	Six months ended 30 June	
	2018	2017
	(USD/ROM tonne)	*(USD/ROM tonne)*
Total	**5.3**	5.2
Consumables	**0.3**	0.3
Maintenance and spares	**0.7**	0.4
Power	**0.3**	0.5
Water	**0.2**	0.2
Staff	**0.3**	0.2
Ancillary and support	**0.1**	0.2
Depreciation and amortization	**3.4**	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 six months ended 30 June 2018, the Group's handling cost was approximately USD4.4 million (first half of 2017: USD3.6 million).

During the six months ended 30 June 2018, the Group's transportation cost was USD46.4 million (first half of 2017: USD39.5 million) including transportation cost incurred for using own fleet and fees paid to third party contractors. On unit cost basis, the Group's average transportation cost from UHG to GM increased from USD16.9 per tonne for the six months ended 30 June 2017, to USD22.6 per tonne for the six months ended 30 June 2018.

Since the second half of 2017, the prolonged and tightened control procedure of the customs reduced the number of trucks crossing the border. This situation not only limited the Group's potential sales volume but also increased the transportation cost. In particular, the border crossing situation was extremely challenging during the first quarter of the year and while the throughput has improved in the second quarter of 2018, it was still below the levels reported for the first half of 2017 and remains uncertain whether the improvement can be sustainable.

The improved coal market environment increased the demand for coal transport, while the bottleneck at the border extended turnaround time required for coal export. As a result, the cost of third party contractors increased, pushing the total transportation cost high. To mitigate the increasing cost, the Group purchased a total of 150 double-trailer trucks with a capacity of 140 tonnes each. The first 100 trucks were delivered towards the end of 2017, while the remaining 50 trucks were delivered during February and May 2018.

The logistics cost is mainly related to cost associated with product stockpiles at UHG and TKH. For the six months ended 30 June 2018, the Group's logistics cost was approximately USD5.5 million (first half of 2017: USD3.6 million). During the first half of 2017, the Group transported majority of its coal products directly from UHG to GS-GM border which reduced the logistics cost during such period. On 29 November 2017, the GoM adopted a resolution temporarily suspending the direct transportation from Tavan Tolgoi area to GS-GM border and required the exporters to utilize yards at TKH. This decision was made as a response to the long line of coal hauling trucks queued on UHG-GS road since July 2017. Therefore, the logistics cost for the six months ended 30 June 2018 has increased due to additional cost associated with rehandling at TKH. The temporary suspension of direct transportation by the GoM was lifted on 20 June 2018.

For the six months ended 30 June 2018, the Group recorded a total transportation loss of around USD0.8 million (first half of 2017: USD0.5 million), and unrealized inventory loss of USD3.1 million for ROM coal and washed coal product stockpiles (first half of 2017: gain of USD2.3 million). The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the mine sites, and product coal stockpile inventories at UHG, TKH and inland China. Survey of coal quantity is a measurement of volume, and as for every bulk commodity, the conversion to tonnage requires the application of density assumption, which involves natural variance. Hence, the measurement of stockpile quantities is an estimation in which errors are inherent. Therefore, variations within 5% are tolerated, and any tonnages above/below this limit are recorded as stockpile gain/loss. The management expects that by maintaining lower levels of inventory and improving overall inventory management, the Company will be in a position to keep inventory losses under control.

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 six months ended 30 June 2018, the Group's site administration cost was approximately USD7.7 million (first half of 2017: USD7.1 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 six months ended 30 June 2018 was approximately 6.0% for coal exported from Mongolia based on customs clearance documentation (first half of 2017: 5.9%).

Gross Profit

The Group's gross profit for the six months ended 30 June 2018 was approximately USD108.1 million, compared to the gross profit of approximately USD110.6 million recorded for the six months ended 30 June 2017.

Selling and Distribution Cost

The Group's selling and distribution cost was USD30.8 million for the six months ended 30 June 2018 (first half of 2017: USD27.9 million) which was associated with inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and agent fees. The selling and distribution cost is linked to sales volume realized under FOT and C&F term inland China sales activities.

General and Administration Expenses

The Group's general and administrative expenses relate primarily to head office staff cost, share option expenses, consultancy and professional fees, depreciation and amortization of office equipment and other expenses. For the six months ended 30 June 2018, the Group's general and administrative expenses were approximately USD7.5 million (first half of 2017: USD7.6 million).

Net Finance Cost

Net finance cost for the six months ended 30 June 2018 was approximately USD27.3 million (first half of 2017: USD4.8 million). Net finance cost comprised of (i) accrued interest expense on the Senior Notes and 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, (iii) amortization 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, (iv) foreign exchange net loss, and (v) others. Compared to the six months ended 30 June 2017, increase in net finance cost during the reporting period were mainly due to MNT depreciation and change in fair value of the derivative components of the Senior Notes and the Senior Loan. Breakdown of the net finance cost are set out in note 6 to the unaudited consolidated interim results.

Income Tax Expenses

The Group's income tax expenses for the six months ended 30 June 2018 were approximately USD12.8 million. The Group's income tax expenses for the six months ended 30 June 2017 were approximately USD19.2 million.

Profit for the Period

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2018 amounted to approximately USD29.5 million. For the six months ended 30 June 2017, the profit attributable to equity shareholders of the Company was USD311.7 million which was mainly due to the gain from completion of the Debt Restructuring.

Liquidity and Capital Resources

For the six months ended 30 June 2018, the Company's cash needs were primarily related to working capital requirements.

Table 9. Combined cash flows:

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
Net cash generated from operating activities	**65,323**	28,090
Net cash used in investing activities	**(34,559)**	(34,474)
Net cash used in financing activities	**(17,761)**	(-)
Net increase/(decrease) in cash and cash equivalents	**13,003**	(6,384)
Cash and cash equivalents at beginning of the period	**7,460**	12,268
Effect of foreign exchange rate changes	**(287)**	110
Cash and cash equivalents at end of the period	**20,176**	5,994

Note: USD34.6 million used in investing activities comprises of USD29.5 million incurred for payments of deferred stripping activity and USD5.1 million incurred for payments of payables for property, plant and equipment.

The gearing ratio (calculated based on the fair value of total bank and other borrowings as stated in the consolidated financial statements of the Company as at 30 June 2018 divided by total assets) of the Company as at 30 June 2018 was 28.2% (31 December 2017: 28.7%). All borrowings are denominated in USD. 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.

Change of functional currency of certain subsidiaries

Effective from 1 January 2018, certain subsidiaries changed their functional currency from MNT to USD. Previously, the functional currency of the Group's subsidiaries located in Mongolia was MNT. The Accounting Law of Mongolia was amended effective from 1 January 2016 allowing entities 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 of the Company 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 30 June 2018, the Group had USD443.7 million outstanding principal payments consisting of (i) USD412.5 million Senior Notes due 2022 and (ii) USD31.2 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 with quarterly installments of USD7.5 million starting from 31 December 2018 with the remaining repayable upon maturity on 30 September 2019. For more details, please refer to the Company's announcements dated 5 May 2017 and 3 November 2016.

Credit Risk

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

As at 30 June 2018, the Group had approximately USD13.2 million in trade receivables and USD80.3 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 USD80.3 million, this amount is mainly related to USD32.0 million VAT receivables and USD47.2 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 30 June 2018 and 31 December 2017 amounted to USD19.7 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 30 June 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 USD443.7 million as at 30 June 2018.

Energy Resources LLC pledged its 4,207,500 common shares, being 5.13% 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 30 June 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 provisions for excessive coal production at the BN mine pursuant to the Share Purchase Agreement and the Settlement Agreement dated 27 November 2012 entered into by the same parties as the Share Purchase Agreement, the specified semi-annual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

Financial Instruments

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

Under the Share Option Scheme, the Company granted 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 HKD6.66 (which was adjusted to HKD4.53 due to rights issue in December 2014). On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a director and employees respectively, at the exercise price of HKD3.92 (which was adjusted to HKD2.67 due to rights issue in December 2014). On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a director and employees respectively, at the exercise price of HKD0.445. 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 six months ended 30 June 2018, USD0.5 million was recognized in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

As at 30 June 2018, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 10. Capital commitments:

	As at 30 June 2018	As at 31 December 2017
	USD'000	*USD'000*
Contracted for	**8,995**	4,699
Authorized but not contracted for	**3,463**	17,337
Total	**12,458**	22,036

Table 11. The Group's historical capital expenditure for the periods indicated:

	Six months ended 30 June	
	2018	2017
	USD'000	*USD'000*
CHPP	**1,453**	–
Trucks and equipment	**5,083**	–
Others	**540**	284
Total	**7,076**	284

The Group's total annual capital expenditure for the year ended 31 December 2017 was USD19.2 million, from which approximately USD13.0 million was incurred for purchase of trucks in the second half of 2017. In addition, USD3.9 million was incurred for purchase of trucks in the first half of 2018.

Operating Lease Commitments

As at 30 June 2018, the Group had contracted obligations consisting of operating leases which totalled approximately USD4.5 million, of which USD2.9 million due within one year and USD1.6 million due after one year but within two years. Lease terms range up to five years, with fixed rentals.

Significant Investments Held

As at 30 June 2018, the Company did not hold any significant investments. Save as disclosed in this interim results announcement, the Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the six months ended 30 June 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 30 June 2018 which require adjustment to or disclosure in this interim results announcement.

Employees

As at 30 June 2018, the number of employees of the Group was 1,928 compared with 1,588 employees as at 30 June 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 will 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 six months ended 30 June 2018, the Company heavily focused on re-training safety inductions and conducted certified health, safety and environment officer training among employees of grade 4 and above who lead operation shifts. In addition, a training center has been established and mine maintenance trainings were conducted for all maintainers focusing on improving their professional skills.

As at 30 June 2018, a total of 10,746 employees attended trainings, out of which 6,916 employees attended safety-related training and other professional trainings; 820 employees attended mining heavy equipment operator training; 2,180 employees attended mine maintenance training; 726 employees attended different professional trainings and 104 employees attended general skill development training.

The Group's total staff cost for the six months ended 30 June 2018 was USD13.3 million, compared to USD9.3 million for the six months ended 30 June 2017.

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

For the six months ended 30 June 2018, neither the Company or any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

Dividend

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2018 (dividend for the six months ended 30 June 2017: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2018.

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

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting of the Company. Mr. Odjargal Jambaljamts, chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2018 annual general meeting of the Company held on 29 June 2018 (the "**2018 AGM**"), as Mr. Odjargal Jambaljamts was unable to attend the 2018 AGM due to important business engagement. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code.

Review by Audit Committee

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

The Audit Committee of the Company, together with the management, have reviewed the accounting principles and practice adopted by the Group, and also discussed issues related to financial reporting, including the review of the Group's unaudited interim results for the period under review. The Audit Committee is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

Publication of the 2018 Unaudited Consolidated Interim Results and 2018 Interim Report

This interim results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the 2018 Interim Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above-mentioned websites in due course.

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

Hong Kong, 14 August 2018

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo and Mr. Enkhtuvshin Dashtseren, being the non-executive Directors, and Dr. Khaschuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.