MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2017, Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**") produced 4.2 million tonnes ("**Mt**") of run-of-mine ("**ROM**") coal, representing an increase of 359.2% compared to 0.9 Mt of ROM coal produced during the six months ended 30 June 2016. During the period under review, the Group processed a total of 3.9 Mt of ROM coal and produced 2.0 Mt of washed hard coking coal ("**HCC**"), the Group's primary product, representing an increase of 284.2% and 289.9% year-on-year, respectively.

The Group's total sales volume increased by 292.7% from 0.6 Mt of coal products for the six months ended 30 June 2016 to 2.3 Mt of coal products for the six months ended 30 June 2017. The total revenue of the Group for the six months ended 30 June 2017 was United States Dollar ("**USD**") 245.9 million representing an increase of 691.7% compared to USD31.1 million for the six months ended 30 June 2016.

The Group's gross profit for the six months ended 30 June 2017 reached USD110.6 million, compared to the gross loss of USD33.6 million for the six months ended 30 June 2016.

The profit attributable to the equity shareholders of the Company for the six months ended 30 June 2017 was USD311.7 million as compared to USD61.7 million of loss attributable to the equity shareholders of the Company for the six months ended 30 June 2016. The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD3.25 cents for the six months ended 30 June 2017, compared to the basic and diluted loss per share of USD0.67 cents for the six months ended 30 June 2016.

Net profit achieved for the six months ended 30 June 2017 was primarily attributable to (i) improved coking coal market conditions resulting in the increased sales volume and average selling price ("**ASP**"), and (ii) the successful implementation and completion of the debt restructuring (the "**Debt Restructuring**"). The total gain from the Debt Restructuring recognised by the Group was USD263.0 million.

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 2017 (dividend for the six months ended 30 June 2016: 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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2017 – unaudited

	Note	**Six months ended 30 June**	
		2017	2016
		USD'000	*USD'000*
Revenue	*4*	**245,943**	31,066
Cost of revenue	*5*	**(135,335)**	(64,628)
Gross profit/(loss)		**110,608**	(33,562)
Other revenue and other net loss		**(3,047)**	910
Selling and distribution costs		**(27,855)**	(5,707)
General and administrative expenses		**(7,634)**	(5,287)
Profit/(loss) from operations		**72,072**	(43,646)
Finance income	*6(a)*	**14,647**	18,592
Finance costs	*6(a)*	**(19,451)**	(38,487)
Net finance costs	*6(a)*	**(4,804)**	(19,895)
Gain from Debt Restructuring	*7*	**262,968**	–
Share of profits/(losses) of associates		**68**	(2)
Share of profits of joint venture		**4**	3
Profit/(loss) before taxation		**330,308**	(63,540)
Income tax	*8*	**(19,240)**	1,833
Profit/(loss) for the period		**311,068**	(61,707)
Attributable to:			
Equity shareholders of the Company		**311,650**	(61,720)
Non-controlling interests		**(582)**	13
Profit/(loss) for the period		**311,068**	(61,707)
Basic and diluted earnings/(loss) per share	*9*	**3.25 cents**	(0.67) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)
For the six months ended 30 June 2017 – unaudited

	Six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Profit/(loss) for the period	**311,068**	(61,707)
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	**13,679**	10,750
Total comprehensive income for the period	**345,948**	(50,957)
Attributable to:		
Equity shareholders of the Company	**346,530**	(50,970)
Non-controlling interests	**(582)**	13
Total comprehensive income for the period	**345,948**	(50,957)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

	Note	**At 30 June 2017 *USD'000***	At 31 December 2016 *USD'000* *(audited)*
Non-current assets			
Property, plant and equipment, net	*10*	**828,082**	776,464
Construction in progress	*11*	**80,318**	79,976
Lease prepayments		**56**	53
Intangible assets	*12*	**509,204**	509,221
Interest in associates		**104**	32
Interest in joint venture		**66**	58
Other non-current assets		**64,301**	61,917
Deferred tax assets		**19,011**	35,341
Total non-current assets		**1,501,142**	1,463,062
Current assets			
Assets held for sale		**189**	131
Inventories		**46,133**	42,181
Trade and other receivables	*13*	**88,521**	58,751
Cash at bank and in hand		**5,994**	12,268
Total current assets		**140,837**	113,331
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*15*	**–**	93,000
Trade and other payables	*14*	**231,307**	342,196
Senior notes	*16*	**–**	599,692
Current taxation		**498**	269
Total current liabilities		**231,805**	1,035,157
Net current liabilities		**(90,968)**	(921,826)
Total assets less current liabilities		**1,410,174**	541,236

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
At 30 June 2017 – unaudited

	Note	**At 30 June 2017** *USD'000*	At 31 December 2016 *USD'000* *(audited)*
Non-current liabilities			
Long-term borrowings, less current portion	*15*	**30,968**	–
Senior notes	*16*	**424,943**	–
Provisions		**14,335**	13,585
Deferred tax liabilities		**152,454**	150,176
Other non-current liabilities		**3,226**	46,166
Total non-current liabilities		**625,926**	209,927
NET ASSETS		**784,248**	331,309
CAPITAL AND RESERVES			
Share capital	*17*	**102,918**	92,626
Perpetual notes	*17*	**75,897**	–
Reserves	*17*	**605,417**	238,085
Total equity attributable to equity shareholders of the Company		**784,232**	330,711
Non-controlling interests		**16**	598
TOTAL EQUITY		**784,248**	331,309

NOTES

1 BASIS OF PREPARATION

The Group had net current liabilities of approximately USD90,968,000 as at 30 June 2017 (as at 31 December 2016: USD921,826,000). This condition continues to indicate the existence of a material uncertainty which may cast significant doubt upon the going concern assumption.

With the completion of the Debt Restructuring in May 2017 and 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 2017. Accordingly, 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.

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 28 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 2016 that is included in the interim financial information 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. The Company's auditor has reported on those financial statements. In the auditor's report dated 22 March 2017, the auditor expressed an unqualified opinion on those financial statements but included a section which drew attention to material uncertainties relating to the Group's ability to continue as a going concern.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. 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.

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

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 2017 is as follows:

	Six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
HCC	**240,821**	31,066
Washed thermal coal ("**middlings**")	**5,122**	–
	245,943	31,066

5 COST OF REVENUE

	Six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Mining costs	**47,866**	11,224
Processing costs	**19,283**	6,994
Transportation costs	**39,528**	8,155
Provision for coal inventories	**–**	11,837
Others *(Note)*	**28,658**	8,559
Cost of revenue during mine operations	**135,335**	46,769
Cost of revenue during idled mine period	**–**	17,859
Cost of revenue	**135,335**	64,628

Note:

Others include royalty tax on the coal sold.

6 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

	Six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Interest income	**(10)**	(1,235)
Net change in fair value of derivative component of Senior Notes and Senior Loan	**(1,292)**	–
Foreign exchange gain, net *(Note (i))*	**(13,345)**	(17,357)
Finance income	**(14,647)**	(18,592)
Interest on liability component of bank and other borrowings *(Note 15)*	**1,393**	9,229
Interest on liability component of Senior Notes *(Note 16)*	**17,686**	27,478
Transaction costs	**235**	1,601
Unwinding interest on accrued reclamation obligations	**137**	179
Finance costs	**19,451**	38,487
Net finance costs	**4,804**	19,895

Notes:

(i) *Foreign exchange gain (net) during the six months ended 30 June 2017 represents net foreign exchange gain of approximately USD13,345,000 in respect of certain liabilities.*

Foreign exchange gain (net) during the six months ended 30 June 2016 includes realised foreign exchange gain of approximately USD18,384,000 in respect of certain receivables.

(ii) *No borrowing costs have been capitalised during the six months ended 30 June 2017 and the six months ended 30 June 2016.*

(b) Other items:

	Six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Depreciation and amortisation	**23,713**	17,117
Operating lease charges: minimum lease payments	**613**	236
Costs of inventories	**135,335**	64,628
Loss on disposal of property, plant and equipment and assets held for sale	**49**	65

7 GAIN FROM DEBT RESTRUCTURING

The Group was due to redeem the senior notes issued by the Company with a principal amount of USD600,000,000 on 29 March 2017. The Group was due to repay the secured interest-bearing borrowings from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (collectively, the "**Lenders**") with a principal amount of USD93,000,000 (the "**BNP and ICBC Facility**") within the year ended 31 December 2016. The Group was in payment default of interest under the senior notes with principal amount of USD600,000,000 and also in payment default of the BNP and ICBC Facility. In addition, the Group was overdue in repaying promissory notes of USD72,216,000 to QGX Holding Ltd. ("**QGX**"). The Group commenced the Debt Restructuring with the holders of the senior notes, Lenders, and QGX (collectively "**Creditors**") in 2016.

On 4 May 2017, the Group completed the Debt Restructuring and the outstanding principal and accrued interest of the senior notes, BNP and ICBC Facility and the promissory notes issued to QGX were restructured to (i) 1,029,176,615 shares of the Company (Note 17(b)) booked at its market value of USD30,285,066 based on the closing price of the Company's shares of HKD0.229 on 4 May 2017, (ii) perpetual notes with principal amount of USD195,000,000 (Note 17(c)) booked at its fair value of USD75,897,000, (iii) first ranking senior secured facility with principal amount of USD31,200,000 (the "**Senior Loan**") (Note 15) booked at its fair value of USD30,960,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair value of USD1,754,000, and (iv) new senior secured notes with principal amount of USD412,465,892 (the "**Senior Notes**") (Note 16) booked at its fair value of USD425,267,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair value of USD9,481,667 and a derivative component of cash sweep premium booked at its fair value of USD37,789,333.

The excess of carrying value of the restructured financial liabilities over the fair value of the consideration to settle the restructured financial liabilities, amounting to approximately USD262,968,000, net of expenses incurred in relation to the Debt Restructuring of USD30,185,000, has been recognised by the Group as a gain from the Debt Restructuring and credited to profit or loss during the six months ended 30 June 2017.

8 INCOME TAX

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

	Six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Current tax	**2,328**	169
Deferred taxation	**16,912**	(2,002)
	19,240	(1,833)

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

	Six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Profit/(loss) before income tax	**330,308**	(63,540)
Notional tax on loss before taxation	**78,451**	(1,062)
Tax effect of non-deductible items *(Note (iii))*	**515**	8,193
Tax effect of non-taxable items *(Note (iii))*	**(59,834)**	(9,191)
Tax losses not recognised	**108**	227
Actual tax expenses	**19,240**	(1,833)

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 2017 and 2016. 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 2017 and 2016.*

(iii) *Non-deductible and non-taxable items represent mainly the gain from the Debt Restructuring and unrealised exchange gain which are non-taxable 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 2017 and 2016.*

9 EARNINGS/LOSS PER SHARE

(a) Basic earnings/loss per share

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit attributable to ordinary equity shareholders of the Company for the period of USD311,650,000 (six months ended 30 June 2016: loss attributable to ordinary equity shareholders of the Company of USD61,720,000) and the 10,291,767,865 ordinary shares (six months ended 30 June 2016: 9,262,591,250 ordinary shares) in issue during the six months ended 30 June 2017. In calculating the earnings/loss per share, the weighted average number of shares outstanding during the six months ended 30 June 2017 and 2016 were calculated as if the bonus elements without consideration included in the shares issue had existed from the beginning of the comparative period.

(b) Diluted earning/loss per share

For the six months ended 30 June 2017 and 30 June 2016, basic and diluted earnings/loss per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted earnings/loss per share for the six months ended 30 June 2017 and 30 June 2016.

10 PROPERTY, PLANT AND EQUIPMENT

Mining properties of the Group at 30 June 2017 include stripping activity assets carrying book value of USD220,339,000 (31 December 2016: USD190,400,000).

During the six months ended 30 June 2017, the additions of property, plant and equipment of the Group, representing mainly various mining structures, amounted to USD29,496,000 (six months ended 30 June 2016: USD6,643,000). Items of property, plant and equipment with a net book value of USD92,000 were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: USD1,606,000).

As at 30 June 2017, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and certain water supply infrastructure assets with a net book value of USD215,787,000, USD61,117,000, and USD4,912,000, respectively. As at 31 December 2016, no borrowings were secured by the Group's property, plant and equipment.

11 CONSTRUCTION IN PROGRESS

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

12 INTANGIBLE ASSETS

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

13 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2017	At 31 December 2016
	USD'000	*USD'000*
		(audited)
Within 3 months	**22,630**	11,786
3 to 12 months	**–**	–
Over 12 months	**–**	21
Trade receivables net of allowance for doubtful debts	**22,630**	11,807
Amounts due from related parties	**1**	1
Other debtors	**759**	778
Receivables	**23,390**	12,586
Prepayments and deposits *(Note (i))*	**33,844**	29,623
VAT and other tax receivables *(Note (ii))*	**31,287**	16,542
	88,521	58,751

Notes:

(i) At 30 June 2017 and 31 December 2016, 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.*

14 TRADE AND OTHER PAYABLES

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

	At 30 June 2017 *USD'000*	At 31 December 2016 *USD'000* *(audited)*
Within 3 months	**62,074**	27,458
3 to 6 months	**310**	3,831
6 to 12 months	**21,677**	2,514
Over 12 months	**74,704**	70,776
Total creditors and bills payable	**158,765**	104,579
Payables for purchase of equipment	**618**	2,643
Security deposit on construction work	**148**	355
Interest payables	**8,873**	81,846
Other taxes payables	**29,271**	8,777
Promissory notes	**–**	72,216
Others	**5,782**	16,062
Amounts due to related parties	**14,671**	14,680
Financial liabilities measured at amortised cost	**218,128**	301,158
Receipts in advance	**13,179**	41,038
	231,307	342,196

15 BORROWINGS

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

	At 30 June 2017 *USD'000*	At 31 December 2016 *USD'000* *(audited)*
Senior Loan	**30,968**	–
Bank loan	**–**	93,000
Less: Current portion of long-term borrowings	**–**	(93,000)
	30,968	–

On 4 May 2017, the Group issued the Senior Loan with principal amount of USD31,200,000 and with fair value of USD30,960,000. The Senior Loan bears interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually. The Senior Loan is repayable in quarterly instalment of USD7,500,000 starting from 31 December 2018 with the remaining principal repayable upon maturity in September 2019.

The Senior Loan has been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD1,754,000. The fair value of the derivative component of interest rate linked to the benchmark coal price index as at 30 June 2017 was USD1,621,000. 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 10) 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 Senior Notes (Note 16).

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

	At 30 June 2017 *USD'000*	At 31 December 2016 *USD'000* *(audited)*
Within 1 year or on demand	**–**	93,000
After 1 year but within 2 years	**22,500**	–
After 2 years but within 5 years	**8,468**	–
	30,968	93,000

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

	At 30 June 2017 *USD'000*	At 31 December 2016 *USD'000* *(audited)*
Current portion of long-term borrowings		
– Bank loan	**–**	93,000
Less: Unamortised transaction costs	**–**	–
	–	93,000

The current portion of the long-term borrowings as at 31 December 2016 consisted of USD93.0 million due under the BNP and ICBC Facility which was fully restructured by the Debt Restructuring (Note 7).

16 SENIOR NOTES

	At 30 June 2017 USD'000	At 31 December 2016 USD'000 (audited)
Senior Notes	**424,943**	–
Senior notes (pre-restructuring)	**–**	599,692
	424,943	599,692

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 will be 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 2017 was USD6,888,667, USD39,223,000 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 10) 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 15) and Senior Notes.

17 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 2017 (six months ended 30 June 2016: nil).

(b) Issue of new shares

On 4 May 2017, a total number of 1,029,176,615 shares were allotted and issued at the subscription price of HKD0.229 per share, the closing price of the Company's shares on 4 May 2017, for net proceeds of USD30,285,066 which have been credited to share capital and capital premium accounts.

The new shares were allotted and issued under the general mandate granted to the Directors at the annual general meeting ("**AGM**") of the Company held on 31 May 2016. No cash proceeds were received by the Company in consideration for the issue of the new shares which are being issued as part of the Debt Restructuring to refinance certain of the Company's then-existing indebtedness.

(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 on or after all amounts due under the Senior Loan has been fully repaid. 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 2017.

"**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 2017 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 USD90,968,000 as at 30 June 2017, 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 2017. 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

China's economy expanded at an annual rate of 6.9% in the first and second quarters of 2017, beating the government's target due to the unexpected strength and growth in the property market which kept growth humming. This represents an uptick on last year's 6.7% expansion and if the trend continues, 2017 would be the first year of China's growth rate accelerating on the preceding since 2010.

The immovable property and housing investment grew by 8.5% in the first half of 2017 compared with the same period of the previous year. Also, factory output grew by 7.6% in June from a year earlier with foreign trade providing boost to the manufacturing sector, after contracting 7.7% on an annual basis last year, and exports grew by 8.5% in the first half of 2017. Increase in immovable property and housing investment, and the growth in the manufacturing sector, triggered steel productions and hence increased the demand in steel making raw materials, such as coking coal.

With improved demand and increased pricing for steel products, China's crude steel production reached 419.7 Mt in the first half of 2017 according to the data released by the World Steel Association ("**WSA**"), an increase of 4.6% from the same period in 2016. However, China continued to cut its excess steel production capacity in line with its policy to curb industrial overcapacity and shut over 600 low-quality steel producers with a total capacity of 120 million tonnes per annum ("**Mtpa**") in the first half of 2017 according to the information provided by the National Development and Reform Commission ("**NDRC**") and Ministry of Industry and Information Technology ("**MIIT**").

It was estimated by China Coal Resource ("**CCR**") that the domestic steel consumption in China has increased by 10.6%, from 338.3 Mt in the first half of 2016 to 374.1 Mt in the first half of 2017. In the meantime, Chinese steel export decreased to 41.0 Mt, representing a 28.4% decrease in the first half of 2017, due to the improved demand in the domestic market as well as certain protectionist measures announced by the United States and the European Union.

Elevated steel production and higher profit margins earned by steel producers have supported the demand and pricing for steel making ingredients such as iron ore and coking coal.

According to the National Bureau of Statistics ("**NBS**"), coke production of China increased by 2.5%, on a year-on-year basis in the first half of 2017, up to 221.1 Mt. According to CCR estimates, the coke consumption increased by 3.6% to 226.8 Mt year-on-year. In a similar pattern to its steel export, coke export from China decreased to 4.1 Mt in the first half of 2017, representing a 13.7% year-on-year decrease.

According to CCR, the consumption of coking coal in China reached 259.4 Mt in the first half of 2017, representing a slight 0.2% increase from the same period in the previous year, whereas the domestic coking coal production also increased by 2.1% to 220.2 Mt as a result of improved demand.

Chinese import of coking coal increased by 33.3% year-on-year to 36.0 Mt in the first half of 2017, where Australia, the largest coking coal supplier to China, increased its volume to 14.9 Mt or by 12.9% year-on-year, followed by Mongolia which increased its volume by 61.1% year-on-year to 14.5 Mt in the first half of 2017. Australia and Mongolia continued to dominate the volumes of coking coal imported to China with a combined market share reaching 81.7% of China's total coking coal import volumes compared to 82.3% reported for the first half of 2016.

According to CCR, coal imports through Ganqimaodu ("**GM**") border crossing, where the Group exports its products, reached a historical high of 10.1 Mt in the first half of 2017 which is an increase by 140% year-on-year. Similarly, according to the National Statistics Office of Mongolia, Mongolian coal export volume in the same period reached 19.1 Mt, which is a record high for semi-annual volume exported from Mongolia to date.

The increase in Mongolian coking coal market share in the first half of 2017 has been attributable to the increased demand for imported coking coal due to more stringent environmental and safety regulatory limitations imposed on the domestic producers in China, major logistics disruption for Australian coking coal supply caused by cyclone Debbie in the second quarter of 2017, and also sanctions imposed by the United Nations on North Korea which virtually stopped coal imports from this country to China.

Note: Due to rounding, discrepancy may exist in year-on-year percentage change.

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

On 22 June 2017, Energy Resources LLC ("**ER**"), a wholly-owned subsidiary of the Group, has entered into a Community Cooperation Agreement ("**CCA**"). In accordance with Article 42.1 of the Minerals Law (2006), the CCA has been entered by ER and local authorities representing Umnugobi aimag (province) and Tsogttsetsii soum (county) in line with the template adopted by the Government of Mongolia ("**GoM**") which issued Resolution No. 179 dated 28 March 2016. The CCA outlines areas in relation to the cooperation concerning environmental protection, infrastructure development and employment creation during the tenure of validity for Ukhaa Khudag ("**UHG**") mining license granted to ER. The Group does not expect any impact on its financial position due to the entering of the CCA, because it provides a formalized legal framework for the Group's previously adopted policy to implement various programs with focus on community development.

Labour Relations, Occupational Health and Safety related legislation

Effective from 1 January 2017, an increased rate of MNT240,000 of the minimum monthly wage rate has been applied pursuant to Resolution No. 4 of the Trilateral National Committee for Labour and Social Agreement (Confederation of Mongolian Trade Union, Mongolian Employers Federation and the GoM) dated 20 April 2016. The Group does not expect any impact on its financial position from this new requirement, because its existing internal remuneration policies has sufficiently covered the adopted minimum monthly wage requirements.

Taxation, Accounting and Financial Reporting related legislation

On 10 November 2016, the Law on Social Insurance (1994) was amended and the mandatory contribution rate of the social benefit insurance to be payable by employers in the name of its employees was increased from 0.8% to 1.0% of the employee's gross pay, while the maximum contribution rate for industrial accidents and occupational diseases also payable by the employers in the name of its employees was decreased from 3.0% to 2.8%.

These changes came into effect from 1 January 2017 and they were aimed to benefit employees by changing the composition of the social insurance's sub-contribution rates. However, equal level of increase and decrease in the above-mentioned sub-contribution rates to be payable by the employers in the name of employees who are working, except employees on maternity leave, will not cause any change in the overall total rate of social insurance contribution to be paid by the Group. Therefore, no material impact is expected on the Group's operational costs.

On 2 February 2017, the Law on Corporate Income Tax (2006) was amended to reduce 90% of the income tax imposable on small and medium enterprises ("**SME**"), those operating in food production, clothing and textiles, production of construction materials, agricultural and livestock industries (including its supplementary operations) with an income of less than MNT1.5 billion per year.

The scheme will not have a direct impact on the Group, but potential SME vendors and suppliers of the Group may benefit from such change.

On 14 April 2017, the Law on Personal Income Tax (2006), Law on Social Insurance (1994) and Law on Pensions and Benefits Distributable from the Social Insurance Fund (1994) were amended to introduce changes in the personal income tax, social insurance contribution and retirement age. These changes will become effective from 1 January 2018.

Pursuant to the amendments made to the Law on Personal Income Tax (2006), the current 10% flat rate of the Mongolian residents' personal income tax will be varied from 10% to 25% depending on the income level. Employers are not responsible for covering the above tax rate increase for Mongolian residents. For non-residents' personal income tax, the base rate of 10% has been increased to 20% and is to be applied for income generated within the territory of Mongolia and will be withheld and reported to the tax authority by the revenue providing party, such as the legal entity in case of labour contract engagement.

Pursuant to the amendments made to the Law on Social Insurance (1994), the rate of pension purpose component of the social insurance contribution payable by each employee and employer has been increased from 7% to 9.5% of the salary income. Accordingly, based on the Group's effective salary rate, starting from 1 January 2018, the cost of social insurance contribution amount to be paid by the Group will increase by 12.0% or by MNT52,605 monthly per employee in average.

Pursuant to the amendments made to the Law on Pensions and Benefits Distributable from the Social Insurance Fund (1994), the statutory retirement ages of both men and women have increased by 5 years. As such, effective from 1 January 2018, the retirement ages for men and women will increase to 65 years and 60 years of age respectively. This change will not have any direct impact nor contradiction with the Group's employment policy.

On 18 July 2017, by the Government Resolution No. 207, the rate of excise duty for imported diesel through Sukhbaatar, Zamiin-Uud and Altanbulag border ports increased from MNT70,000 to MNT180,000, and the excise duty for imported gasoline has been increased to MNT160,000. Due to such change starting from 20 July 2017, diesel prices will increase by approximately MNT105 per liter. However, the Group's costs related to fuel consumed by the Group's operations in Mongolia will remain predominately linked to the fluctuations in imported fuel price which is subject to international oil price movements.

Political Environment

On 26 June 2017, the fifth presidential election was held in Mongolia, none of the three candidates, Mr. Enkhbold Miyegombo as nominee from the Mongolian People's Party ("**MPP**"), Mr. Battulga Khaltmaa as nominee from the Democratic Party ("**DP**") and Mr. Ganbaatar Sainkhuu as a nominee from the Mongolian People's Revolutionary Party ("**MPRP**"), received the required majority of the votes casted which led to a second round of election between the two candidates with the most votes. In the result of the second round of election held on 7 July 2017 between Mr. Battulga Khaltmaa and Mr. Enkhbold Miyegombo, Mr. Battulga Khaltmaa won by receiving 50.61% of the votes casted compared to 41.16% of the votes received by Mr. Enkhbold Miyegombo. The inauguration of the newly elected President was held on 10 July 2017.

Having the Parliament and the Government fully controlled by MPP and the President position held by the nominee originating from DP, which is currently in opposition in the Parliament, may cause contradicting views on the political issues or matters, but there can be no assurances that it will have any negative or positive impact on the operations of the Company.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

UHG deposit

The UHG deposit located within Mining License MV-11952 ("**UHG mining license**"), which was granted to the Group for a period of 30 years from 29 August 2006. The UHG mining license covers 2,960 hectares, and is 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 Coal Resource estimate has been made in accordance with the requirement of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). Compared to the previous JORC Coal Resource update stated as at 30 November 2015, the last update stated as at 31 December 2016 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 December 2015 to 31 December 2016. No further exploration data was incorporated.

Exploration activities conducted in the process of preparing the three preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2016, included:

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

- 37,548 individual analytical samples collected and analysed;

- 71 kilometres ("**km**") of high resolution 2D seismic survey in-field measurements, collected by Polaris Seismic International Ltd ("**Polaris**") and analysed by Velseis Processing Pty Ltd ("**Velseis**"); and

- results from large-diameter, bulk-sample drilling samples analysed at the ALS Group ("**ALS**") laboratories in Ulaanbaatar.

JORC compliant Coal Resource estimate figures reported are based upon an in situ density, at an as-received moisture basis, are summarised in Table 1. According to official mine survey measurement, production activity between 31 December 2016 to 30 June 2017 has depleted the stated JORC compliant Coal Resource by approximately 4.2 Mt. No further exploration activities have been conducted within the UHG mining license area in 2017.

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

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

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 9 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, 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 26 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

BN deposit

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

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

No further drilling was conducted at the BN deposit since 2016, however the updated JORC (2012) Coal Resource stated as at 30 June 2015 did incorporate additional exploration data gained from the exploration drilling program conducted in 2014. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated JORC (2012) Coal Resource statement:

- total of 92 exploration boreholes at BN, with a total of 28,540m drilled, of which 14,780m were HQ-3, 9,640m PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122mm diameter open 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 requirements of the JORC Code (2012).

Summary of the updated JORC (2012) compliant 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. With no mining activity occurred since the latest statement date, there has been no depletion of the stated Coal Resources.

Table 2: BN mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (Notes):

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

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 9 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, 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 26 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

Coal Reserves

UHG deposit

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

The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods. Pit optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by mining cost or coal price variance. The pit algorithms used included for incorporation of:

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

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

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

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

- updated revenue input assumptions, derived from an updated market study commissioned from Shanxi Fenwei Energy Consulting Co. Ltd ("**Shanxi Fenwei**") in October 2015, which provided for medium to long term forecasting of expected Free-on-Transport ("**FOT**") pricing at UHG mine for hard coking, semi-soft coking and thermal coal products planned for production.

Following pit optimisation works to determine the economic pit limits, practical pit designs were then created, and mineable in situ coal within the pit shell was converted to ROM and product coal quantities. Raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 30 November 2015 based upon an as-received basis with 5% total moisture, are shown in Table 4. Between 1 December 2015 and 30 June 2017, the stated Coal Reserve has been depleted by approximately 7.7 Mt as result of mining activity.

Table 4: UHG mining license JORC (2012) Coal Reserve estimate, as at 30 November 2015 (Notes):

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

Notes:

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

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

Excluding for depletion of approximately 16 Mt as a result of mining activity since the release of the previous JORC (2012) Coal Reserve estimate, the updated JORC (2012) Coal Reserve estimate as of 30 November 2015 has resulted in reduction of Total Coal Reserve by approximately 24.4%. This is largely due to 50.7%, 56.7% and up to 64.0% reduction in forecasted mine gate revenue assumptions for HCC, washed semi-soft coking coal ("**SSCC**") and thermal coal respectively, compared to assumptions made in the previous Coal Reserve estimate, in line with medium term market conditions forecasted by Shanxi Fenwei.

The application of forecasted sustainable reductions with regard to mining, processing, site administration and other unit costs of 24.7%, 26.2%, 51.3% and 32.4% respectively, largely possible on the basis of actual, sustainable reductions achieved since 2012, as well as on the basis of successful contract negotiations with mining and blasting contractors in 2016, has ensured that the Coal Reserve has not decreased so significantly in lieu of the significantly reduced revenue assumptions. As a result, there has been a 6.5% proportional increase to the content of coking coal within the Total Coal Reserve, as well as reduction in the forecasted remaining LOM stripping ratio by 23.7% to 4.5 bank cubic metres ("**bcm**") per ROM for the minable quantities in the LOM schedule.

BN deposit

The most recent JORC (2012) Coal Reserve estimate was prepared for the BN deposit as part of an integrated LOM study prepared by RPM in 2013, with the resulting statement dated 31 December 2012. This study was completed on the previous JORC (2012) Coal Resource estimate within the BN mining license prepared by MBGS with statement dated 30 June 2012. An updated JORC Coal Resources Report has been prepared as of 30 June 2015. However, coal reserves have not yet been updated based on this coal resources estimate.

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

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

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

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 5, with tonnage estimation based on an as-received basis with 6% total moisture. Production activity between 1 January 2013 to 30 June 2017 has depleted the stated BN ROM Coal Reserve by less than 1 Mt, according to mine survey measurement, and is considered to impart no material change.

Table 5: BN mining license JORC (2012) Coal Reserve estimate, as at 30 June 2012 (Notes):

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

Notes:

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

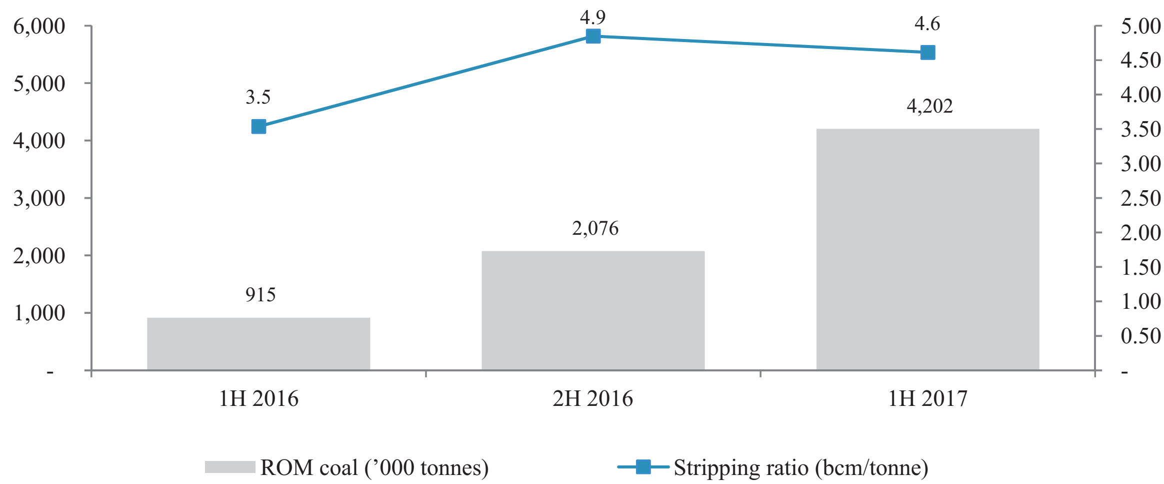
(ii) *Due to rounding, discrepancy may exist between sub-totals and totals.*

Production and Transportation

Coal Mining

In the first half of 2017, ROM coal mining output reached 4.2 Mt. To access coal, approximately 19.4 million bcm of prime overburden was also mined, resulting in an actual stripping ratio of 4.6 bcm per ROM tonne for the period. The successful introduction of Seam 0B coal in ROM coal feed blend to the coal handling and preparation plant ("**CHPP**") for HCC production was the main contributing factor to maintain lower stripping ratio. Seam 0B coal lies partially uncovered at the bottom of the existing pit and was previously considered only as a source for thermal coal production. Following a more thorough investigation conducted by the Group's technical services, including borehole chip sampling and trench sampling, a significant proportion of Seam 0B has been identified as suitable for HCC production. The Group's semi-annual mine production for the last three semi-annual periods is shown in Figure 1, all of which has been extracted from UHG mine whilst mine operation at BN remains suspended.

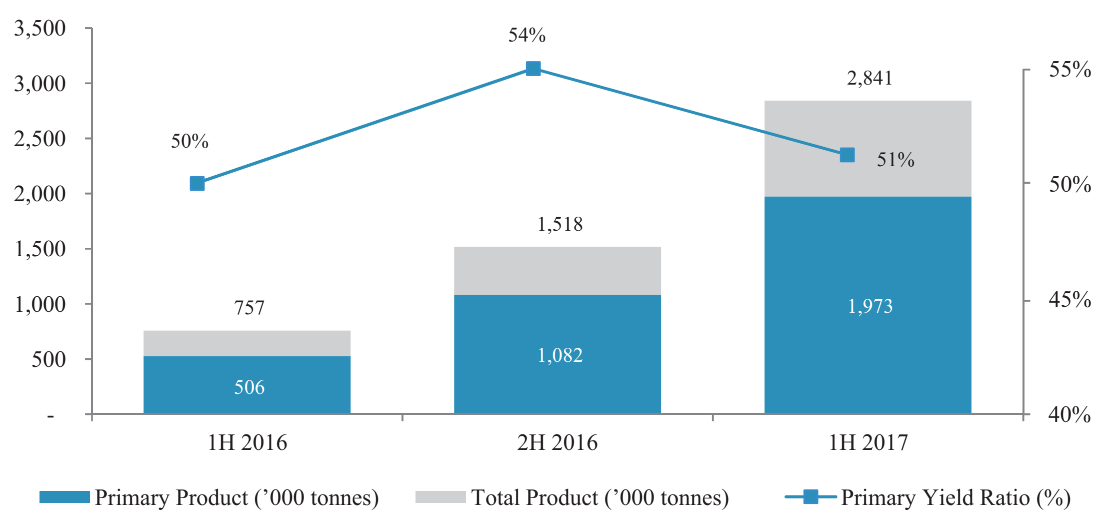
Figure 1: The Group's 2016-2017 semi-annual ROM coal production volumes (in thousand tonnes) and actual stripping ratios (in bcm of overburden per ROM tonne of coal):



Coal Processing

With improved market conditions and demand in the first half of 2017, total ROM coal feed of 3.9 Mt was processed, resulting in the production of 2.0 Mt of HCC as a primary product at 50.6% yield, and 0.9 Mt of middlings as a secondary product at 22.3% yield. All ROM coal processed in the first half of 2017 was sourced from the UHG deposit, and the Group's washed coal production for the last three semi-annual periods is shown in Figure 2.

Figure 2: The Group's 2016-2017 semi-annual total and primary processed coal production volumes (in thousand tonnes):



Transportation and Logistics

In the first half of 2017, the Group increased coal transportation for exports to PRC directly from UHG via Gashuunsukhait (“**GS**”) border crossing point to GM and moved 1.6 Mt of HCC and 0.2 Mt middlings utilizing its own trucking fleet and third party contractors.

In the meantime, 0.5 Mt of HCC and 0.2 Mt of middlings has been transported for exports to GM utilizing trans-shipping custom bonded facility at Tsagaan Khad (”**TKH**”) by utilizing third party contractors.

However, the cross border logistic bottlenecks remain the main factor limiting potential increase for coal export volumes from Mongolia via GS-GM border crossing point. The Group together with other coal exporters operating in the Tavan Tolgoi area are engaged in permanent communication with the relevant authorities on both sides regarding resolving export transportation capacity limitations. Both Mongolian and Chinese authorities made significant efforts to maximize utilization of the existing border capacity at GS-GM border crossing point within the current operational hours, by adding personnel, expediting check processes and other relevant supportive measures.

Occupational Health, Safety and Environment

In the first half of 2017, approximately 2.4 million man-hours were recorded by employees, contractors and sub-contractors of the Group. During this period, no occurrence of Lost Time Injury (“**LTI**”) was recorded, resulting in a Lost Time Injury Frequency Rate (“**LTIFR**”) of 0.42 LTI per million man-hours worked equivalent being recorded for the period. This represents the second semi-annual period of zero LTI being recorded by the Group since the commencement of the Company’s public reporting, and results in a very low 12-month rolling average LTIFR of 0.24 LTI per million man-hours worked equivalent being realised.

The reported Total Recordable Injury Frequency Rate (“**TRIFR**”) represents the Group’s best reported performance in any half or full year of operation thus far, and demonstrates the on-going commitment within the Group to achieve the overarching goal of Zero Harm. The TRIFR for the period was at 7.11 Total Recordable Injuries (“**TRI**”), resulting in a very low 12-month rolling average TRIFR of 6.4 TRIs per million man-hours worked equivalent being realised.

During the reporting period, no environmental incident was recorded.

The continued reduction in number of incidents and related frequency rates is a 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 4,205 individual training sessions delivered for 18,744.9 man-hours of training in the first half of 2017.

Sales and Marketing

Supported by the improved economic growth and the coking coal market in China, the Group increased its sales volume and further strengthened its relationship with its existing customers.

During the visit of the Prime Minister of Mongolia to PRC in May 2017, the Group signed a long term cooperation agreement with Baotou Iron and Steel Co. Ltd and broadened its relationship with the largest steel producer in Inner Mongolia, which is located in close proximity to the Group's UHG and BN mines.

While the Group maintained its coal sales through its existing sales channels mainly in Inner Mongolia, Tianjin and Hebei areas, it continued to expand its customer base by adding new customers. During the first half of 2017, the Group started supplying HCC to customers such as Wuhai Guangna Coking Co., Ltd, Inner Mongolia Meifang Energy Co., Ltd and other customers in Inner Mongolia and Xinjiang provinces.

The Group sold a total of 2.3 Mt of self-produced coal in the first half of 2017, of which 1.9 Mt were HCC and 0.4 Mt was middlings. HCC sales volume increased by 217.0% year-on-year compared to 0.6 Mt HCC sold in the first half of 2016.

Note: Due to rounding, discrepancy may exist in year-on-year percentage change.

OUTLOOK AND BUSINESS STRATEGIES IN 2017

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) adjusting the capital structure and its debt to adequate and sustainable levels; (ii) maximizing assets utilization to lower unit fixed costs; (iii) supporting initiatives to improve logistics infrastructure providing access to Chinese railway network to reach its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures arrangements; and (v) maintaining its strong commitment to safety, environment and socially responsible operations.

With improved market conditions, the Company will aim to maximize its production and sales volumes in 2017. The ultimate intention is to ramp up production output in a safe manner by fully utilizing existing capacity, whilst managing working capital requirements and focusing on maintaining cost reductions. Reducing environmental footprint from our operations will also remain as the main priority, including minimizing power and water usage rates.

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

The Company will continue to pursue its long term development objectives, including the opportunity to engage in coal mining, processing, transportation and exploration activities at Tavan Tolgoi coalfield in Mongolia. This is evidenced from the Group forming and leading a consortium jointly with China Shenhua Energy Company Limited and Sumitomo Corporation (the "**Consortium**") and the on-going negotiation process with the GoM in relation to the conclusion of definitive agreements with the GoM and its Consortium partners in connection with the Tavan Tolgoi coalfield development. The ultimate benefit to Mongolia is seen from significant improvements of the competitive position of Mongolian coal at international markets by way of consolidating commercial operations within the Tavan Tolgoi coalfield under the public-private-partnership model. On 15 December 2016, the Consortium received an official letter from the working group established by the GoM, formed after the parliamentary election of Mongolia in June 2016, for the purpose of continuing negotiations in relation to the Tavan Tolgoi coalfield development. However, the final outcomes of this transaction remain highly uncertain given the complex nature of negotiations, involving multiple parties, including regulators.

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

FINANCIAL REVIEW

Revenue

In line with the improved coking coal market, the Group was able to achieve higher selling price and sales volume during the six months ended 30 June 2017. During this period, the Group sold approximately 2.3 Mt of coal products, representing an increase of 292.7% compared to approximately 0.6 Mt of coal products sold during the six months ended 30 June 2016, and generated a total revenue of USD245.9 million, which was increased by 691.7% compared to USD31.1 million of total revenue generated during the six months ended 30 June 2016. The Group sold approximately 1.9 Mt of HCC during the six months ended 30 June 2017, representing an increase of 217.0% compared to 0.6 Mt of HCC sold during the six months ended 30 June 2016. This includes approximately 59.5 thousand tonnes of HCC sold under Delivery-at-Place ("**DAP**") GM terms, approximately 1.6 Mt and 0.2 Mt of HCC sold under FOT and Cost-and-Freight ("**C&F**") terms under inland China sales, respectively.

The Group's pricing reflects the current price trend of the coking coal market. The ASP for HCC was USD127.7 per tonne for the six months ended 30 June 2017, compared to USD52.2 per tonne in the six months ended 30 June 2016. The ASP of HCC under DAP GM terms was USD115.7 per tonne for the six months ended 30 June 2017, representing an increase of 133.3% compared to USD49.6 per tonne for the six months ended 30 June 2016. The ASP of HCC under FOT and C&F term sales were USD123.5 per tonne and USD161.0 per tonne, respectively during the first half of 2017, compared to USD47.3 per tonne and USD76.8 per tonne, respectively, during the first half of 2016.

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 amounts of approximately USD93.7 million. For the six months ended 30 June 2016, the Group derived individually more than 10.0% of its revenue from five customers, with the purchase amounts of approximately USD5.3 million, USD4.9 million, USD4.5 million, USD4.3 million and USD3.3 million, respectively.

Cost of Revenue

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

During the six months ended 30 June 2017, the total cost of revenue increased to USD135.3 million from USD64.6 million during the six months ended 30 June 2016, due to higher sales volume.

The total cost of revenue of USD64.6 million for the six months ended 30 June 2016 was inclusive of USD11.8 million inventory provision booked due to weak prices of coal products in 2016. The provision was made based on the assessment of the net realizable value of coal inventories. There was no additional inventory provision for the six months ended 30 June 2017.

Table 6: Total and individual costs of revenue of self-produced coal:

	Six months ended 30 June	
	2017	2016
	(USD'000)	*(USD'000)*
Cost of self-produced coal	**135,335**	52,791
Idling cost	**–**	17,859
Cost of self-produced coal excluding idling cost	**135,335**	34,932
Mining cost	**47,866**	11,224
Variable cost	**20,104**	6,105
Fixed cost	**23,870**	4,596
Depreciation and amortization	**3,892**	523
Processing cost	**19,283**	6,994
Variable cost	**5,124**	3,292
Fixed cost	**1,385**	574
Depreciation and amortization	**12,774**	3,128
Handling cost	**3,552**	625
Transportation cost	**39,528**	8,155
Logistic cost	**3,642**	1,942
Variable cost	**1,870**	1,162
Fixed cost	**1,679**	712
Depreciation and amortization	**93**	68
Site administration cost	**7,100**	3,551
Transportation and stockpile gain	**(1,825)**	(235)
Royalties and fees	**16,189**	2,676
Royalty	**13,005**	1,620
Air pollution fee	**1,611**	590
Customs fee	**1,573**	466

The mining cost consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and costs paid to fuel suppliers. For the six months ended 30 June 2017, the Group's mining costs were approximately USD47.9 million (first half of 2016: USD11.2 million). Mining unit cost was USD12.8 per ROM tonne for the six months ended 30 June 2017, compared to USD9.4 per ROM tonne for the six months ended 30 June 2016. The increase of the contractor fee per unit was due to indexed project base fee to the market price of coal.

Table 7: Total unit mining cost per ROM tonne:

	Six months ended 30 June	
	2017	2016
	(USD/ROM tonne)	*(USD/ROM tonne)*
Mining cost	**12.8**	9.4
Blasting	**1.0**	1.0
Plant cost	**2.5**	2.1
Fuel	**1.9**	2.0
National staff cost	**0.7**	0.7
Expatriate staff cost	**0.2**	0.3
Contractor fee	**5.4**	2.8
Ancillary and support cost	**0.1**	0.1
Depreciation and amortization	**1.0**	0.4

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

The Group identified components of the mine in accordance with the mine plan, and accounting of mining unit costs is based on the stripping ratio applicable to each component of the mine. Average accounting stripping ratio for components mined during the six months ended 30 June 2017, was 2.5 bcm per tonne, compared to 2.4 bcm per tonne for the six months ended 30 June 2016. The mining cost is not only recorded in the income statement, but also the costs of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average stripping ratio, which is capitalized in the balance sheet as mining structure.

The processing cost primarily includes the costs associated with operations of CHPP including power generation and water extraction costs. During the six months ended 30 June 2017, the Group's processing cost was approximately USD19.3 million (first half of 2016: USD7.0 million), of which approximately USD12.8 million was related to the depreciation and amortization of the CHPP, USD2.0 million were costs related to power generation and distribution, and USD0.8 million were costs incurred for water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne decreased from USD5.9 per ROM tonne for the six months ended 30 June 2016, to USD5.2 per ROM tonne for the six months ended 30 June 2017, representing a decrease of 11.9%. The decrease was mainly attributable to the higher utilization of the plant.

Table 8: Total processing cost and unit processing cost per ROM tonne:

	Six months ended 30 June			
	2017	2016	**2017**	2016
	(USD'000)	*(USD'000)*	***(USD/ROM tonne)***	*(USD/ROM tonne)*
Total	**19,283**	6,994	**5.2**	5.9
Consumables	**992**	281	**0.3**	0.2
Maintenance and spares	**1,364**	209	**0.4**	0.2
Power	**2,002**	1,994	**0.5**	1.7
Water	**766**	808	**0.2**	0.7
Staff	**804**	288	**0.2**	0.2
Ancillary and support	**581**	286	**0.2**	0.3
Depreciation and amortization	**12,774**	3,128	**3.4**	2.6

Note: The above processing cost does not include idling cost.

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP, and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the six months ended 30 June 2017, the Group's handling cost was approximately USD3.6 million (first half of 2016: USD0.6 million). Unit handling cost was USD1.5 per tonne for the six months ended 30 June 2017 (first half of 2016: USD1.0 per tonne). The increase in unit handling cost was mainly from an increase of re-handling activities due to the higher production volume during the reporting period.

During the six months ended 30 June 2017, the Group's transportation costs were USD39.5 million (first half of 2016: USD8.2 million, excluding idling cost) including transportation costs incurred for using own fleet and fees paid to third party contractors. On an unit cost basis, the Group's average transportation costs from UHG to GM increased from USD13.7 per tonne in the six months ended 30 June 2016, to USD16.9 per tonne in the six months ended 30 June 2017. The increased fees charged by third party contractors were the main reason for the increase in the unit transportation cost, caused by the cross border logistic bottlenecks due to increased demand in the coking coal market, resulting in a historical high coal export semi-annual volume from Mongolia via GS-GM border crossing point during the reporting period.

The logistics cost is mainly related to costs associated with product stockpiles at UHG and TKH. For the six months ended 30 June 2017, the Group's logistics cost was approximately USD3.6 million (first half of 2016: USD1.9 million). The unit logistics cost reduced by 51.5% from USD3.3 per tonne during the six months ended 30 June 2016 to USD1.6 per tonne during the six months ended 30 June 2017 as the handling cost at TKH was reduced due to the increase in direct transportation from UHG to GM.

For the six months ended 30 June 2017, the Group recorded a total transportation loss of around USD0.5 million (first half of 2016: USD83,000), and unrealized inventory gain of USD2.3 million for ROM coal and washed coal product stockpiles (first half of 2016: USD0.3 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 stock. Survey of coal quantity is a measurement of volume, and as for every bulk commodity, the conversion to tonnage requires the application of density assumption, which involves natural variance. Subsequently, the measurement of stockpile quantities is an estimation in which errors are inherent. Therefore, variations within 5% are tolerated, and any tonnages above/below this limit are recorded as stockpile gain/loss. The management expects that by maintaining lower levels of inventory and improving overall inventory management, the Company will be in a position to keep inventory losses under control.

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 2017, the Group's site administration cost was approximately USD7.1 million (first half of 2016: USD3.6 million). The site administration cost for the six months ended 30 June 2016 was comparably lower due to the suspension of operations during the period.

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 5-8% for processed coal products and 5-10% for raw coal products based on monthly reference price determined by the Ministry of Mining and Heavy Industry of Mongolia. Starting from 1 February 2016, the contract prices were allowed to be used for calculating royalty rates pursuant to Resolution No. 81 of the GoM. The Group's effective royalty rate for the six months ended 30 June 2017, was approximately 5.9% for coal exported from Mongolia based on customs clearance documentation (first half of 2016: 5.0%).

Gross Profit/Loss

The Group's gross profit for the six months ended 30 June 2017 was approximately USD110.6 million, compared to the gross loss of approximately USD33.6 million recorded for the six months ended 30 June 2016. The increase in gross profit position was due to the increase in sales volume and ASP.

Selling and Distribution Costs

The Group's selling and distribution costs were USD27.9 million for the six months ended 30 June 2017 (first half of 2016: USD5.7 million) which were associated with the inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution costs were higher compared to the six months ended 30 June 2016 due to higher sales volume realized under inland China sales activities.

General and Administration Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, depreciation and amortization of office equipment and other expenses. For the six months ended 30 June 2017, the Group's general and administrative expenses were approximately USD7.6 million (first half of 2016: USD5.3 million).

Net Finance Costs

Net finance costs for the six months ended 30 June 2017 was approximately USD4.8 million (first half of 2016: USD19.9 million). Net finance costs for the six months ended 30 June 2017 comprised of interest expense and other credit facilities related expenses, and approximately USD13.3 million foreign exchange net gain, which is mainly due to the MNT appreciation during the reporting period.

Income Tax Expenses

The Group's income tax expense for the six months ended 30 June 2017 was approximately USD19.2 million. The Group did not have income tax expense for the six months ended 30 June 2016, due to the loss incurred during the period, but had income tax credit of USD1.8 million.

Gain from Debt Restructuring

The Group was due to redeem the senior notes issued by the Company with a principal amount of USD600,000,000 on 29 March 2017. The Group was due to repay the BNP and ICBC Facility with a principal amount of USD93,000,000 within the year ended 31 December 2016. The Group was in payment default of interest under the senior notes with principal amount of USD600,000,000 and also in payment default of the BNP and ICBC Facility. In addition, the Group was overdue in repaying promissory notes of USD72,216,000 to QGX. The Group commenced the Debt Restructuring with the Creditors in 2016.

On 4 May 2017, the Group completed the successful implementation of the Debt Restructuring. On 8 June 2017 (Cayman Islands time), the Joint Provisional Liquidators were discharged from office and released from the performance of their duties by order of the Grand Court of the Cayman Islands. All information in relation to the process of the Debt Restructuring is published on the websites of the Company and Hong Kong Exchanges and Clearing Limited. Upon the completion of the Debt Restructuring, the outstanding principal and accrued interest of the senior notes, the BNP and ICBC Facility and the promissory notes issued to QGX were restructured to (i) 1,029,176,615 shares of the Company booked at its market value of USD30,285,066 based on the closing price of the Company's shares of HKD0.229 on 4 May 2017, (ii) perpetual notes with principal amount of USD195,000,000 booked at its fair value of USD75,897,000, (iii) the Senior Loan with principal amount of USD31,200,000 booked at its fair value of USD30,960,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair value of USD1,754,000, and (iv) the Senior Notes with principal amount of USD412,465,892 booked at its fair value of USD425,267,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair value of USD9,481,667 and a derivative component of cash sweep premium booked at its fair value of USD37,789,333.

The excess of carrying value of the restructured financial liabilities over the fair value of the consideration to settle the restructured financial liabilities, amounting to approximately USD262,968,000, net of expenses incurred in relation to the Debt Restructuring of USD30,185,000, has been recognised by the Group as a gain from the Debt Restructuring and credited to profit or loss during the six months ended 30 June 2017.

The gain from the Debt Restructuring is set out in the unaudited consolidated interim results on page 2, and further details of the credit facilities issued as a result of the Debt Restructuring are set out in the section headed "Indebtedness" on page 39.

Profit/Loss for the Period

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2017 amounted to approximately USD311.7 million. For the six months ended 30 June 2016, the Group recorded USD61.7 million of losses attributable to equity shareholders. Major contributing factors of the Group's net profit position are the increase in ASP and higher sales volume of coking coal products due to strengthening market conditions and gain from completion of the Debt Restructuring.

Liquidity and Capital Resources

For the six months ended 30 June 2017, the Company's cash needs were primarily related to working capital requirements.

Table 9: Combined cash flows:

	For the six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Net cash generated from operating activities	**28,090**	8,650
Net cash (used in)/generated from investing activities	**(34,474)**	53,237
Net cash used in financing activities	**–**	(59,694)
Net (decrease)/increase in cash and cash equivalents	**(6,384)**	2,193
Cash and cash equivalents at beginning of the period	**12,268**	702
Effect of foreign exchange rate changes	**110**	87
Time deposits with original maturity over three months	**–**	–
Cash and cash equivalents at end of the period	**5,994**	2,982

Note: USD34.5 million used in investing activities comprises of USD32.9 million incurred for payments of deferred stripping activity and USD1.6 million used mainly for deferred payments of property, plant and equipment.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 30 June 2017 was 27.8% (31 December 2016: 43.9%). 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.

Indebtedness

On 4 May 2017, the Company completed the successful implementation of the Debt Restructuring, and the Group's indebtedness has been restructured to the Senior Loan of USD31.2 million issued by BNP Paribas Singapore Branch, Industrial and Commercial Bank of China Limited and ICBC London Plc (the "**New Lenders**"). The Senior Loan bears interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually and it 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 announcement dated 5 May 2017.

In addition to the Senior Loan, the Group issued Senior Notes of approximately USD412.5 million to the noteholders of the pre-restructuring senior notes, the New Lenders and QGX bearing interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually and maturing on 30 September 2022. For more details, please refer to the Company's announcement dated 3 November 2016.

As of 30 June 2017, the Company had USD443.7 million outstanding principal payments consisting of (i) USD412.5 million Senior Notes and (ii) USD31.2 million Senior Loan.

Credit Risk

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

As at 30 June 2017, the Group had approximately USD22.6 million in trade receivables and USD65.9 million in other receivables. As at 31 December 2016, the Group had USD11.8 million in trade receivables and USD46.9 million in other receivables.

According to the Group's internal Credit Policy (the "**Credit Policy**"), the Company holds periodic Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit based on 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 on an ongoing basis.

With regard to other receivables of USD65.9 million, this amount is mainly related to USD31.3 million VAT and other tax receivables, and USD33.8 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.

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

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 2017 and 31 December 2016 amounted to USD4.5 million and USD1.4 million, respectively. Total outstanding principal amount of indebtedness denominated in the currency other than the functional currency of the entity to which they relate as at 30 June 2017 and 31 December 2016 amounted to USD443.7 million and nil, 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 Company pledged collection accounts and certain coal stockpiles under the Senior Loan as at 30 June 2017. 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 2017.

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

Contingent Liabilities

As at 30 June 2017, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd. and Kerry Mining (Mongolia) Limited ("**KMM**") on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

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

Financial Instruments

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

Under the Share Option Scheme, the Company granted four batches of Share Options to its directors and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to a director and employees respectively, at the exercise price of 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 2017, USD0.8 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

As at 30 June 2017, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 10: Capital commitments

	As at 30 June 2017 ***USD'000***	As at 31 December 2016 *USD'000*
Contracted for	**–**	510
Authorized but not contracted for	**10,311**	–
Total	**10,311**	510

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

	For the six months ended 30 June	
	2017	2016
	USD'000	*USD'000*
Water supply facility	**–**	–
Others	**284**	59
Total	**284**	59

Operating Lease Commitments

As at 30 June 2017, the Company had contracted obligations consisting of operating leases which totalled approximately USD0.2 million due within one year. Lease terms range from one to five years, with fixed rentals.

Significant Investments Held

As at 30 June 2017, 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 2017, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Dividend

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2017 (dividend for the six months ended 30 June 2016: nil).

Other and Subsequent Events

There have been no post balance sheet events subsequent to 30 June 2017 which require adjustment to or disclosure in this interim results announcement.

Employees

As at 30 June 2017, the number of employees of the Group was 1,588, compared with 1,494 employees as at 30 June 2016.

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.

In the six months ended 30 June 2017, the Company heavily focused on re-training safety inductions and conducted certified health, safety and environment ("**HSE**") officer training among employees of grade 4 and above whom lead operation shifts. As at 30 June 2017, a total of 5,227 employees attended trainings, out of which 4,205 employees attended safety training and other professional trainings; 612 employees attended mining heavy equipment operator training; 148 employees attended mine maintenance training and 262 employees attended professional development training.

The Group's total staff costs for the six months ended 30 June 2017 was USD9.3 million, compared to USD6.0 million for the six months ended 30 June 2016.

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

For the six months ended 30 June 2017, neither the Company or any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

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 2017.

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 AGM of the Company. Mr. Odjargal Jambaljamts, chairman of the Board, appointed Dr. Battsengel Gotov, executive Director and Chief Executive Officer, to attend and answer questions on his behalf at the 2017 AGM of the Company held on 14 June 2017, as Mr. Odjargal Jambaljamts was unable to attend the 2017 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, Mr. Gankhuyag Adilbish, and three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius, Mr. Unenbat Jigjid, and Dr. Khashchuluun Chuluundorj. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The Audit Committee 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 2017 Unaudited Consolidated Interim Results and 2017 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 2017 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, 28 August 2017

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, Mr. Gankhuyag Adilbish and Dr. Oyungerel Janchiv, being the non-executive Directors, and Dr. Khaschuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.