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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

Mongolian Mining Corporation (“**MMC**” or the “**Company**”) and its subsidiaries’ (the “**Group**”) run-of-mine (“**ROM**”) coal production increased by 178.6% to 8.3 million tonnes (“**Mt**”) during the year ended 31 December 2017 compared to 3.0 Mt reported for the previous year. During the reporting period, the Group processed a total of 8.0 Mt of ROM coal and produced 4.1 Mt of washed coking coal primary products, representing a year-on-year increase of 165.6% and 154.4%, respectively.

The Group’s total sales volume increased by 175.0% from 1.6 Mt of coal products for the year ended 31 December 2016 to 4.4 Mt of coal products for the year ended 31 December 2017, which included sales of 3.6 Mt of washed hard coking coal (“**HCC**”).

The total revenue of the Group for the year ended 31 December 2017 was United States Dollar (“**USD**”) 476.4 million, representing an increase of 296.9% compared to USD120.0 million reported for the year ended 31 December 2016. The average selling price (“**ASP**”) for HCC was USD130.3 per tonne for the year ended 31 December 2017, representing an increase of 68.8% compared to USD77.2 per tonne for the year ended 31 December 2016.

The Group’s gross profit for the year ended 31 December 2017 reached USD202.6 million, compared to the gross loss of USD0.3 million for the year ended 31 December 2016.

The profit attributable to the equity shareholders of the Company for the year ended 31 December 2017 was USD311.0 million as compared to USD154.2 million of loss attributable to the equity shareholders of the Company recorded for the year ended 31 December 2016. Net profit achieved for the reporting period under review was primarily attributable to (i) improved coking coal market conditions resulting in increased sales volume and ASP, and (ii) the successful implementation and completion of debt restructuring (the “**Debt Restructuring**”). The total gain from the Debt Restructuring recognised by the Group was USD263.0 million.

The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD3.13 cents for the year ended 31 December 2017, compared to the basic and diluted loss per share of USD1.67 cents for the year ended 31 December 2016.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company does not recommend the payment of dividend for the year ended 31 December 2017 (dividend for the year ended 31 December 2016: nil).

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

The Board is announcing the audited annual results of the Group for the year ended 31 December 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Note</i>	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Revenue	4	476,364	120,028
Cost of revenue	5	(273,797)	(120,346)
Gross profit/(loss)		202,567	(318)
Other cost		(862)	(2,808)
Other net (loss)/income		(1,984)	4,116
Selling and distribution costs	6(c)	(56,631)	(17,654)
General and administrative expenses		(19,097)	(13,133)
Profit/(loss) from operations		123,993	(29,797)
Finance income	6(a)	48	1,186
Finance costs	6(a)	(51,053)	(122,705)
Net finance costs	6(a)	(51,005)	(121,519)
Gain from the Debt Restructuring	7	262,968	–
Share of profit/(losses) of associates		163	(5)
Share of losses of joint venture		–	(21)
Profit/(loss) before taxation	6	336,119	(151,342)
Income tax	8	(25,813)	(2,650)
Profit/(loss) for the year		310,306	(153,992)
Attributable to:			
Equity shareholders of the Company		311,013	(154,248)
Non-controlling interests		(707)	256
Profit/(loss) for the year		310,306	(153,992)
Basic and diluted earnings/(loss) per share	9	3.13 cents	(1.67) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)*For the year ended 31 December 2017*

	<i>Note</i>	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Profit/(loss) for the year		310,306	(153,992)
Other comprehensive income for the year (after reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		21,698	(47,504)
Surplus on revaluation of plants, buildings, and machinery and equipment	<i>11,12</i>	<u>—</u>	<u>341,819</u>
Total comprehensive income for the year		<u>332,004</u>	<u>140,323</u>
Attributable to:			
Equity shareholders of the Company		332,711	140,067
Non-controlling interests		<u>(707)</u>	<u>256</u>
Total comprehensive income for the year		<u>332,004</u>	<u>140,323</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Note</i>	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Non-current assets			
Property, plant and equipment, net	<i>11</i>	861,520	776,464
Construction in progress	<i>12</i>	16,010	79,976
Lease prepayments		54	53
Intangible assets	<i>13</i>	508,595	509,221
Interest in associates		196	32
Interest in joint venture		60	58
Other non-current assets		83,338	61,917
Deferred tax assets		14,896	35,341
		<hr/>	<hr/>
Total non-current assets		1,484,669	1,463,062
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current assets			
Assets held for sale		183	131
Inventories		66,745	42,181
Trade and other receivables	<i>14</i>	72,375	58,751
Cash and cash equivalents		7,460	12,268
		<hr/>	<hr/>
Total current assets		146,763	113,331
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	<i>15(b)</i>	7,500	93,000
Senior notes	<i>16</i>	–	599,692
Trade and other payables	<i>17</i>	222,731	342,196
Current taxation		4,299	269
		<hr/>	<hr/>
Total current liabilities		234,530	1,035,157
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Net current liabilities		(87,767)	(921,826)
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Total assets less current liabilities		1,396,902	541,236
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*As at 31 December 2017*

	<i>Note</i>	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Non-current liabilities			
Long-term borrowings, less current portion	<i>15(a)</i>	24,253	–
Senior notes	<i>16</i>	436,563	–
Provisions		14,327	13,585
Deferred tax liabilities		149,604	150,176
Other non-current liabilities		1,305	46,166
		<hr/>	<hr/>
Total non-current liabilities		626,052	209,927
		<hr/>	<hr/>
NET ASSETS		770,850	331,309
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	<i>18</i>	102,918	92,626
Perpetual notes	<i>18</i>	75,897	–
Reserves		592,144	238,085
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		770,959	330,711
Non-controlling interests		(109)	598
		<hr/>	<hr/>
TOTAL EQUITY		770,850	331,309
		<hr/>	<hr/>

NOTES

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the mining, processing, transportation and sale of coal.

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

2 STATEMENT OF COMPLIANCE

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

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

Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Group and the Group’s interest in associates and a joint venture.

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

- Financial instruments classified as available-for-sale or as trading securities;
- Buildings and plants as well as machinery and equipment;
- Derivative financial instruments.

Non-current assets and disposals groups held for sale are stated at the lower of carrying amount and fair value less costs.

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

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

As at 31 December 2017, the Group had net current liabilities of approximately USD87,767,000. This condition indicates the existence of a material uncertainty which may cast significant doubt upon the Group's ability to continue as a going concern.

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

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

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 impacts the accounting policies of the Group.

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Critical accounting judgements in applying the Group's accounting policies

(i) *Fair value of buildings and plants, machinery and equipment classified as property, plant and construction in progress*

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and construction in progress were revalued by an external appraiser as at 31 December 2016 (see Notes 11 and 12). Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgement is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity.

(ii) **Reserves**

The Group estimates and reports Mineral Resources and Ore Reserves, commonly referred to as Coal Resources and Coal Reserves in the coal mining industry, meeting requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the “**JORC Code**”), and subsequently the Australian Guidelines for the Estimation and Classification of Coal Resources (2014) to which are referred.

The JORC Code is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves. The JORC Code provides a mandatory system for the classification of minerals Exploration Results, Mineral Resources and Ore Reserves according to the levels of confidence in geological knowledge and technical and economic considerations in public reports.

Responsibility for demonstrating the required transparency and materiality in the estimation of Coal Resources and/or Coal Reserves required by the JORC Code lies with the “Competent Person”. A Competent Person is a minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy (the “**AusIMM**”), or of the Australian Institute of Geoscientists (the “**AIG**”), or of a Recognised Professional Organisation, as included in a list available on the JORC website. These organisations have enforceable codes of ethics, including disciplinary processes with powers to suspend or expel a member. A Competent Person must have a minimum of five years relevant experience in the style of mineralisation or type of deposit under consideration and in the activity which that person is undertaking.

A “Coal Reserve” is the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

A “Probable Coal Reserve” is the economically mineable part of an Indicated, and in some circumstances, a Measured Coal Resource. The confidence in the Modifying Factors applying to a Probable Coal Reserve is lower than that applying to a Proved Coal Reserve. A “Proved Coal Reserve” is the economically mineable part of a Measured Mineral Resource. A Proved Coal Reserve implies a high degree of confidence in the Modifying Factors.

“Modifying Factors” are considerations used to convert Coal Resources to Coal Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors. Modifying Factors may change from one estimation to the next, where the materiality of such changes is demonstrable. Such changes may be as result of variation to any of the mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social, governmental or other factors.

Because the Modifying Factors used to estimate Coal Reserves may change from one estimate to the next, estimates of Coal Reserves may change from one period to another. Changes in reported Coal Reserves thus may affect the Group’s financial results and financial position in a number of ways, including the following:

- Asset recoverable amounts may be affected due to changes in estimated future cash flows.
- Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change.

- Overburden removal costs recorded on the balance sheet or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation.
- Reclamation and mine closure provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(iii) *Useful lives of property, plants and equipment*

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) *Impairment of assets*

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

In relation to trade and other receivables (including the value-added tax (“VAT”) receivables), a provision for impairment is made and an impairment loss is recognised in profit or loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Management uses judgment in determining the probability of insolvency or significant financial difficulties of the debtor.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(v) *Obligation for reclamation*

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

(vi) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the Directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

(vii) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(viii) Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Group. It requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

(ix) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan.

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced; and
- Production stripping is the interburden removal during the normal course of production activity.

Development stripping costs are capitalised as a stripping activity asset, in construction in progress and forming part of the cost of constructing the mine, when:

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The costs can be measured reliably.

Capitalisation of development stripping costs ceases and these costs are transferred to mine properties in property, plant and equipment when the ore body or component of ore body is ready for its intended use.

Production stripping can give rise to two benefits being the extraction of ore in the current period and improved access to the ore body or component of ore body in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to the ore body or component of ore body in future periods, the stripping costs are capitalised as mine properties in property, plant and equipment, if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the Group;
- The ore body or component of the ore body for which access has been improved can be identified; and
- The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventory produced and the mine properties capitalised using a life-of-component waste to ore strip ratio. When the current strip ratio is greater than the life-of-component ratio, a portion of the stripping costs is capitalised to the existing mine properties.

The development and production stripping assets are depreciated using the units of production method based on the proven and probable mineral reserves of the relevant ore body or component of ore body.

(x) *Taxation*

The Group is subject to various taxes and levies in the jurisdictions where it has operations. The Group makes payments and determines the provision for tax and levy liabilities primarily based on the computations as prepared by the Group. Nevertheless, judgement is required in determining the provision for taxes and levies as there are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business, there are possible cases of disagreements with the relevant authorities on treatment of certain items included in the computations and certain non-routine transactions. The Group uses its best judgement to determine the probability although it is typically very difficult to determine the timing and ultimate outcome of each case. If the Group considers it probable that these judgement will result in different positions, the most likely amounts of the outcome will be estimated and adjustments to the liabilities will be made in the period in which such determination is made. Due to the inherent uncertainties related to the eventual outcome of each case, it is probable that certain matters may be resolved for amounts materially different from any estimated provisions or previous disclosures.

(b) *Sources of estimation uncertainty*

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to the Group's accounting policies on "obligations for reclamation", "recognition of deferred tax assets" and "derivative financial instruments". Information about the assumptions and their risk factors are set out in Notes 3(a) (v), (vi) and (vii).

4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal products. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
HCC	466,430	119,313
Washed thermal coal (“middlings”)	9,148	715
Washed semi-soft coking coal (“SSCC”)	722	–
Raw thermal coal	64	–
	<u>476,364</u>	<u>120,028</u>

Revenue during the year ended 31 December 2017 include approximately USD397,222,000 (2016: USD69,783,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group’s sales channels.

During the year ended 31 December 2017, the Group had two customers that individually exceeded 10% of the Group’s revenue from sales of goods and referring of services, being USD182,947,000 and USD48,631,000. During the year ended 31 December 2016, the Group had four customers that individually exceeded 10% of the Group’s revenue from sales of goods and referring of services, being USD15,657,000, USD14,798,000, USD13,440,000 and USD13,360,000.

5 COST OF REVENUE

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Mining costs	93,758	33,802
Processing costs	37,758	12,963
Transportation costs	88,834	20,683
Provision losses on coal inventories	–	4,315
Others (<i>Note (i)</i>)	53,447	22,919
	<u>273,797</u>	<u>94,682</u>
Cost of revenue during mine operations	273,797	94,682
Cost of revenue during idled mine period (<i>Note (ii)</i>)	–	25,664
	<u>273,797</u>	<u>120,346</u>

Notes:

- (i) Others include royalty tax on the coal sold.
- (ii) Cost of revenue during idled mine period for the year ended 31 December 2017 includes nil (2016: USD18,149,000) of mining contractor costs and depreciation expense related to idled plant and equipment.

6 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Interest income	(48)	(1,186)
Finance income	(48)	(1,186)
Interest on bank and other borrowings	3,255	16,379
Interest on liability component of Senior Notes (<i>Note 16</i>)	38,460	57,724
Transaction costs	235	2,488
Unwinding interest on – Accrued reclamation obligations	373	338
Net interest expense	42,323	76,929
Net change in fair value of derivative component of Senior Notes and Senior Loan	7,835	–
Foreign exchange loss, net	895	45,776
Finance costs	51,053	122,705
Net finance costs	51,005	121,519

* No borrowing costs have been capitalised for the years ended 31 December 2017 and 2016.

(b) Staff costs:

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Salaries, wages, bonuses and benefits	16,948	10,775
Retirement scheme contributions	2,238	1,382
Equity-settled share-based payment expenses	1,355	1,195
	20,541	13,352

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the “**Schemes**”) organised by the Government of Mongolia (“**GoM**”) whereby the Group is required to make contributions to the Schemes at a rate of 7% of the eligible employees’ salaries. Contributions to the Schemes vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) **Other items:**

	2017 USD'000	2016 USD'000
Selling and distribution costs (<i>Note (i)</i>)	56,631	17,654
Depreciation and amortisation	51,014	32,707
Provision for impairment losses on trade and other receivables (<i>Note 14(b)</i>)	–	(436)
Provision for impairment loss on non-financial assets (<i>Note (ii)</i>)	–	–
	–	(436)
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	668	262
– hire of other assets (including property rentals)	538	510
	1,206	772
Net gain on disposals of property, plant and equipments and assets held for sale	(90)	(524)
Auditors' remuneration		
– audit services	608	428
– tax and other services	7	132
	615	560
Cost of inventories (<i>Note (iii)</i>)	273,797	120,346

Notes:

(i) Selling and distribution costs

Selling and distribution costs represent fees and charges incurred for importing coal into the People's Republic of China ("PRC"), logistics and transportation costs, governmental fees and charges and fixed agent fees associated with sales activities in inland PRC.

(ii) Impairment of non-financial assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2017, according to IAS 36, Impairment of assets, the management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress, intangible assets and long-term prepayments related to the Ukhaa Khudag ("UHG") mine and Baruun Naran ("BN") mine operations (collectively referred to as "UHG and BN Assets"). For the purpose of this, the UHG and BN Assets are treated as a cash generating unit ("CGU").

The recoverable amount of the CGU was based on value in use, determined by discounting the future cash flows to be generated from the continuing use of the UHG and BN Assets. The key assumptions used in the estimation of value in use were as follows:

– Recoverable reserves and resources

Economically recoverable reserves and resources represent management's expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified persons.

– Growth rate

Instead of using a steady growth rate over the estimation period longer than five years, the cash flow projection made at the year end of 2017 and the year end of 2016 followed the same mechanism based on as coal product price consensus and life-of-mine ("LOM") production plan.

– Coal prices

The coal price assumptions are management's best estimate of the future price of coal in China. Coal price assumptions for the next five years are built on past experience of the industry and consistent with external sources. These prices are adjusted to arrive at appropriately consistent price assumptions for the different qualities and type of coal.

Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2017 is consistent with that at the year end of 2016, which was also updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate. The treatment was consistent among estimations made at the year end of 2017 and the year end of 2016.

– Sales quantity/production profile

Sales quantity is in line with production profile. Estimated production volumes are based on detailed LOM plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as the recoverable quantities, the production profile, the cost of the development of the infrastructure necessary to extract the reserves, the production costs, and the contractual duration of mining rights and the selling price of the coal extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves.

– Operating costs

Operating cost assumptions are based on management's best estimation of the costs to be incurred at the date of impairment testing. Costs are determined after considering current operating costs, future cost expectations, as well as the nature and location of the operation. The estimation also takes future mining contractor arrangements into consideration; and the Directors are of the opinion that such mining contractor arrangements are in line with the Group's business plan.

– Capital expenditure

Future capital expenditure is based on management’s best estimate of required future capital requirements. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

– Discount rate

This discount rate is derived from the Group’s weighted average cost of capital (“WACC”), with appropriate adjustments made to reflect the risks specific to the CGU. The WACC takes into account both debt and equity, weighted based on the Group and comparable peer companies’ average capital structure. The cost of equity is derived from the expected return on investment by the Group’s investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

Post-tax discount rate of 19% was applied to the future cash flows projection at the year end of 2017 (2016: 20%). The Directors believe that the post-tax discount rate was matching with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2017, and has not resulted in the identification of an impairment loss for the year ended 31 December 2017. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2017 and no additional or reversal of impairment provision is needed in respect of the Group’s non-financial assets in this regard. The Directors believe that the estimates and assumptions incorporated in the impairment assessment are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgements. It is estimated that adverse changes in the key assumptions would lead to the recognition of an impairment provision against the CGU as follows:

	<i>USD’000</i>
1% decrease in long-term coal price	10,000
1% decrease in the estimated production volume	27,000
1% increase in the estimated operating costs	41,000
One percentage point increase in post-tax discount rate	84,000
20% increase in the estimated capital expenditure	36,000

This assumes that the adverse change in the key assumption occurs in isolation of changes to other key assumptions and that no mitigating action is taken by management.

(iii) Cost of inventories

Cost of inventories includes USD58,752,000 (2016: USD34,954,000) relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also cost of inventories includes transportation and stockpile gains amounted to USD2,953,000 (2016 transportation and stockpile losses: USD670,000).

7 GAIN FROM THE 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, 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) first ranking senior secured facility with principal amount of USD31,200,000 (the “**Senior Loan**”) (Note 15) initially recognised at its fair value of USD30,960,000, including a derivative component of interest rate linked to the benchmark coal price index initially recognised 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) initially recognised at its fair value of USD425,267,000, including a derivative component of interest rate linked to the benchmark coal price index initially recognised at its fair value of USD9,481,667 and a derivative component of cash sweep premium initially recognised 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 year ended 31 December 2017.

8 INCOME TAX

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

	2017 <i>USD’000</i>	2016 <i>USD’000</i>
Current tax		
Provision for the year	6,446	615
Deferred tax		
Origination and reversal of temporary difference	19,367	2,035
	<u>25,813</u>	<u>2,650</u>

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

	2017 USD'000	2016 USD'000
Profit/(loss) before income tax	<u>336,119</u>	<u>(151,342)</u>
Notional tax on loss before taxation	35,606	3,246
Tax effect of non-deductible items (<i>Note (iii)</i>)	23,880	4,789
Tax effect of non-taxable items (<i>Note (iv)</i>)	(33,675)	(5,436)
Tax losses not recognised	<u>2</u>	<u>51</u>
Actual tax expenses	<u>25,813</u>	<u>2,650</u>

Notes:

- (i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2017 and 2016. According to the Corporate Income Tax Law of China, the Company's subsidiary in China is subject to statutory income tax rate of 25%.
- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2017 and 2016.
- (iii) Non-deductible items mainly represent the non-deductible expenses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2017 and 2016.
- (iv) Non-taxable items mainly represent the net unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2017 and 2016.

9 EARNINGS/LOSS PER SHARE

(a) Basic earnings/loss per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of USD311,013,000 (2016: loss attributable to ordinary equity shareholders of the Company of USD154,248,000) and the 10,291,767,865 ordinary shares (2016: 9,262,591,250 ordinary shares) in issue during the year. In calculating the earnings/loss per share, the weighted average number of shares outstanding during the years ended 31 December 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 year.

(b) Diluted earnings/loss per share

For the years ended 31 December 2017 and 2016, basic and diluted earnings/loss per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted earnings/loss per share for the years ended 31 December 2017 and 2016.

10 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sales of coal products. Accordingly, no additional business and geographical segment information are presented.

11 PROPERTY, PLANT AND EQUIPMENT, NET

Mining properties as at 31 December 2017 include stripping activity assets carrying book value of USD228,752,000 (2016: USD190,400,000) and application fee for the mining rights of USD728,000 (2016: USD651,000) in relation to the Group's mine deposits.

The addition of mining properties for the year ended 31 December 2017 include the increase in reclamation provision of USD19,000 (2016: increase in reclamation provision of USD2,805,000).

As at 31 December 2017, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant ("CHPP") modules I and II, power plant and certain water supply infrastructure assets with a net book value of USD201,849,000, USD57,453,000, and USD4,484,000, respectively. As at 31 December 2016, no borrowings were secured by the Group's property, plant and equipment.

Fair value measurement of property, plant and machinery

(i) Fair value hierarchy

The following table presents the fair value of the Group's property, plant and machinery measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value	Fair value measurements as at		
	as at 31 December 2017 USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Buildings and plants	400,420	–	–	400,420
Machinery and equipment	205,545	–	–	205,545
Buildings and plants, machinery and equipment under construction	15,970	–	–	15,970
Total	621,935	–	–	621,935

	Fair value as at 31 December 2016 USD'000	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Buildings and plants	346,277	–	–	346,277
Machinery and equipment	213,057	–	–	213,057
Buildings and plants, machinery and equipment under construction	77,544	–	–	77,544
Total	636,878	–	–	636,878

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

As at 31 December 2016, buildings and plants as well as machinery and equipment were revalued and such valuation was carried out by a firm of external appraisers, Duff and Phelps Corporation, who has among their staff fellows of the American Society of Appraisers, Royal Institute of Chartered Surveyors, Chartered Certified Accountant, Chartered Financial Analyst and Financial Risk Manager with recent experience in the mining property valuation worldwide including valuation of coal mines. The Group's property manager and the chief financial officer have discussion with the appraisers on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The subject properties are purpose-built industrial facilities including buildings and plants, machinery and equipment and construction in progress located in South Gobi of Mongolia. They are operated according to their highest and best use for coal mining and processing. There is no other alternative use of the subject properties. Upon consideration of all relevant facts, it was concluded that the properties subject to valuations are specialized properties.

Depreciated replacement cost is defined by International Valuation Standards ("IVS") as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". Depreciated replacement cost application for major assets classes briefly described below:

- Buildings and plants, and such items under construction status:
 - Reproduction cost new ("RCN") estimation for the buildings and structures were calculated using indexing method;
 - Indices were applied to the historical cost. The indices were obtained from recognised sources such as: Chinese indices (Rider Levett Buckhall), FM Global, BMT Construction costs, Bureau of Labor Statistics of the Department of Labor, AUS Consultants, etc.;
 - Physical depreciation was applied using straight line method based on the economic useful life of production, auxiliary, administrative facilities, land improvements, transfer devices;
 - There was no any functional obsolescence revealed.

– Machinery and equipment:

- Machinery RCN was estimated based on the actual machinery quotations received from purchase department of the Company. These estimates were adjusted with installation expenses, engineering expenses and interest during construction. Estimated RCN was compared to indexed historical cost and considered to be relevant. Additionally, unitary reproduction cost (USD/kg of equipment weight) of major and most expensive equipment appraised such as crushers, screens, spirals and flotation cells was compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Processing plant modules unitary cost parameter (USD/ton of processing capacity) is in the middle of the range of recently constructed coal processing plants;
- Engineering and general administrative expenses estimated as average of several recently constructed coal mines and equal to 7% of RCN;
- Interest during Construction estimated equal to 7.8% of RCN based on the actual interest paid during Processing Plant module 1 construction.

(ii) Information about Level 3 fair value measurements

IVS requires that for a private sector entity with specialised assets, a valuation assessed by depreciated replacement cost must be subject to a test of profitability in relation to the whole of the assets held by the entity or the cash-generating unit. For the purpose of profitability test, the Company was considered as a single cash-generating unit.

In testing profitability, the impact that current economic conditions may potentially have on the Company's operations, financial performance, expectations of financial performance or financial conditions is considered. Such impact was assessed with the use of financial models, which make use projections of operating activities and financial performance of the Company provided by the Management. No economic obsolescence for the Group was indicated by the profitability test.

(iii) Depreciated cost of properties held for own use carried at fair value

Had the revalued properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	2017	2016
	<i>USD'000</i>	<i>USD'000</i>
Buildings and plants	159,317	142,301
Machinery and equipment	49,626	62,625
Buildings and plants, machinery and equipment under construction (<i>Note 12</i>)	6,616	41,774
	215,559	246,700

12 CONSTRUCTION IN PROGRESS

	2017 USD'000	2016 USD'000
At 1 January	79,976	55,164
Additions	486	12
Transfer to property, plant and equipment (<i>Note 11</i>)	(65,692)	–
Disposals	(480)	(2,806)
Revaluation gain	–	35,770
Exchange adjustments	1,720	(8,164)
	<u>16,010</u>	<u>79,976</u>
At 31 December	<u>16,010</u>	<u>79,976</u>

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

13 INTANGIBLE ASSETS

	Acquired mining right USD'000	Software USD'000	Total USD'000
Cost:			
At 1 January 2016	701,557	4,475	706,032
Exchange adjustments	–	(887)	(887)
	<u>701,557</u>	<u>3,588</u>	<u>705,145</u>
At 31 December 2016	701,557	3,588	705,145
At 1 January 2017	701,557	3,588	705,145
Exchange adjustments	–	91	91
	<u>701,557</u>	<u>3,679</u>	<u>705,236</u>
At 31 December 2017	701,557	3,679	705,236
Accumulated amortisation and impairment loss:			
At 1 January 2016	195,203	449	195,652
Amortisation charge for the year	–	420	420
Exchange adjustments	–	(148)	(148)
	<u>195,203</u>	<u>721</u>	<u>195,924</u>
At 31 December 2016	195,203	721	195,924
At 1 January 2017	195,203	721	195,924
Amortisation charge for the year	331	366	697
Exchange adjustments	–	20	20
	<u>195,534</u>	<u>1,107</u>	<u>196,641</u>
At 31 December 2017	195,534	1,107	196,641
Carrying amount:			
At 31 December 2017	<u>506,023</u>	<u>2,572</u>	<u>508,595</u>
At 31 December 2016	<u>506,354</u>	<u>2,867</u>	<u>509,221</u>

Acquired mining right represents the mining right acquired during the acquisition of BN mine.

14 TRADE AND OTHER RECEIVABLES

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Trade receivables (<i>Note (a)</i>)	13,552	11,807
Other receivables (<i>Note (c)</i>)	58,823	46,944
	<u>72,375</u>	<u>58,751</u>
Less: allowance for doubtful debts (<i>Note (b)</i>)	–	–
	<u><u>72,375</u></u>	<u><u>58,751</u></u>

Notes:

(a) Ageing analysis

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

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Within 90 days	13,509	11,786
90 to 180 days	43	–
180 to 365 days	–	–
Over 365 days	–	21
	<u>13,552</u>	<u>11,807</u>

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
At 1 January	–	436
Amounts reversed	–	(436)
	<u>–</u>	<u>–</u>
At 31 December	<u><u>–</u></u>	<u><u>–</u></u>

As at 31 December 2017, no allowance for doubtful debts (2016: nil) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

Receivables that were past due but not impaired relate to a number of independent customers that have good track record with the Group, or had reached payment schedules with the Group before the authorised issue of this financial report. Therefore, management anticipates full recovery of its remaining outstanding trade receivables; therefore, no further loss provisions have been recorded in respect of the Group's trade receivables.

(c) Other receivables

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Amounts due from related parties (<i>Note (i)</i>)	1	1
Prepayments and deposits (<i>Note (ii)</i>)	40,856	29,623
VAT and other tax receivables (<i>Note (iii)</i>)	16,593	16,542
Others	1,373	778
	58,823	46,944

Notes:

- (i) Amounts due from related parties are unsecured, interest-free and have no fixed repayment terms.
- (ii) At 31 December 2017 and 2016, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.
- (iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Mongolian Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.

All other receivables were aged within one year and expected to be recovered or expensed off within one year.

15 BORROWINGS

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

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Senior Loan	31,753	–
Bank loan	–	93,000
Less: Current portion of long-term borrowings	(7,500)	(93,000)
	24,253	–

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

The Senior Loan has been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD1,754,000. The fair value of the derivative component of interest rate linked to the benchmark coal price index as at 31 December 2017 was USD1,934,000. 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 11) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enreotechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan and the Senior Notes (Note 16).

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

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Within 1 year or on demand	7,500	93,000
After 1 year but within 2 years	24,253	–
After 2 years but within 5 years	–	–
	<u>31,753</u>	<u>93,000</u>

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

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Current portion of long-term borrowings		
– Bank loan	–	93,000
– Senior Loan	7,500	–
Less: Unamortised transaction costs	–	–
	<u>7,500</u>	<u>93,000</u>

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

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Senior Notes	436,563	–
Pre-restructuring senior notes	–	599,692
	<u>436,563</u>	<u>599,692</u>

On 4 May 2017, the Group issued the Senior Notes with principal amount of USD412,465,892 and with fair value of USD425,267,000. The Senior Notes bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually, and due in September 2022.

The Senior Notes have been accounted for as a hybrid financial instrument containing derivative components and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD9,481,667 and the derivative component of cash sweep premium was initially recognised at its fair value of USD37,789,333. The fair value of the derivative component of interest rate linked to the benchmark coal price index, the derivative component of cash sweep premium and the derivative component of early redemption option as at 31 December 2017 was USD9,580,000, USD45,345,800 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 11) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enreotechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan (Note 15) and the Senior Notes.

17 TRADE AND OTHER PAYABLES

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Trade payables (<i>Note (i)</i>)	135,847	104,579
Receipts in advance (<i>Note (ii)</i>)	27,787	41,038
Amounts due to related parties (<i>Note (iii)</i>)	18,897	14,680
Payables for purchase of equipment	1,347	2,643
Security deposit on construction work	50	355
Interest payable (<i>Note (iv)</i>)	8,887	81,846
Other taxes payables	20,275	8,777
Promissory notes	–	72,216
Others (<i>Note (v)</i>)	9,641	16,062
	<u>222,731</u>	<u>342,196</u>

Notes:

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

	2017 <i>USD'000</i>	2016 <i>USD'000</i>
Within 90 days	60,789	27,458
90 to 180 days	13,724	3,831
180 to 365 days	1,736	2,514
Over 365 days	59,598	70,776
	<u>135,847</u>	<u>104,579</u>

- (ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.
- (iii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments.

- (iv) As at 31 December 2016, interest payable related to BNP and ICBC Facility, pre-restructuring senior notes and promissory notes are amounting to US\$8,219,000, USD69,274,000 and USD4,353,000 respectively.

As at 31 December 2017, interest payable related to Senior Loan and Senior Notes are amounting to US\$638,000 and USD8,249,000 respectively.

- (v) Others represent accrued expenses, payables for staff related costs and other deposits.

All of the other payables and receipts in advance are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board does not recommend the payment of a dividend in respect of the year ended 31 December 2017 (dividend for the year ended 31 December 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. 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.

19 EXTRACT OF INDEPENDENT AUDITOR’S REPORT TO BE ISSUED ON THE GROUP’S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

“Opinion

We have audited the consolidated financial statements of Mongolian Mining Corporation (“the **Company**”) and its subsidiaries (“**the Group**”) set out on pages 8 to 102, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 2(b) to the consolidated financial statements, which discloses that the Group had net current liabilities of approximately USD87,767,000 as at 31 December 2017, indicating the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group’s ability to generate sufficient cash flows from future operations to enable it to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The Group’s ability to do this is dependent upon the current economic environment and the sustainability of the price of coking coal in the market. The consolidated financial statements do not include any adjustments that would result should the Group be unable to continue to operate as a going concern. Our opinion is not modified in respect of this matter.”

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

China's crude steel production reached a record high of 831.7 Mt in 2017, an increase of 5.7% from 2016 according to the World Steel Association ("WSA"), which was mainly attributable to the strong domestic demand supported by solid economic growth accelerating to 6.9% in 2017 as compared to 6.7% growth reported in 2016. Chinese steel consumption increased by 11.0% to 762.4 Mt in 2017 according to the estimates from Shanxi Fenwei Energy Information Services Co., Ltd ("Fenwei"). Elevated domestic consumption led to the decrease in steel exports from China to 75.6 Mt in 2017, or a 30.6% year-on-year decline compared to 2016 level. The recently announced protectionist measures by the United States of America ("USA") to impose 25% import taxes are expected to have minimal impact on Chinese steel producers provided that China accounts for only 2% of the total steel imports to the USA according to industry reports.

At the same time, Chinese regulators have announced that, in line with the supply side reform policy, they have fulfilled the annual target to cut back excessive steel production capacity by 50 Mt in 2017 and phased out 120 Mt of outdated steel production capacity. Furthermore, regulators have expressed the intention to cut further 30 Mt of steel production capacity in 2018 and meet policy target set by the official road map outlined in the 13th Five-Year Plan for cutting excessive steel production cumulated capacity by 100-150 Mt ahead of the original deadline scheduled in 2020.

According to the National Bureau of Statistics ("NBS"), coke production in China decreased to 431.4 Mt in 2017, or by 3.9% on a year-on-year basis while consumption also decreased by 2.2% to 432.3 Mt on a year-on-year basis, according to Fenwei's estimates. Similar to the patterns reported for steel exports, coke exports from China also decreased to 8.1 Mt in 2017, representing a 20.7% year-on-year decline.

With the reduction in coke production, China's coking coal consumption reached 514.5 Mt in 2017, representing a 3.6% decrease from the previous year, whereas the domestic coking coal production was 445.6 Mt or a slight year-on-year increase by 0.3%.

NBS has reported that raw coal output in China has increased by 3.2% from the preceding year to 3.5 billion tonnes ("Bt") in 2017. Chinese officials are expected to continue curbing overcapacity in the coal industry as per official road map outlined in the 13th Five-Year Plan with 800 Mt of outdated coal production capacity to be eliminated and replaced by 500 Mt of advanced coal capacity. During the last two years, approximately 500 Mt of outdated coal production capacity was already closed in China according to Fenwei and it was announced that a further 150 Mt is planned to be shut down in 2018.

Fixed asset investment ("FAI") in China's coal mining and washing industry continued to fall and amounted to RMB264.8 billion in 2017, representing 12.8% decline compared to the preceding year. However, due to improved market conditions and also positive impact from higher utilisation rates, China's above-sized enterprises in coal mining and washing industry reported a combined profit of RMB295.9 billion, representing 21% year-on-year increase, according to NBS.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

The coking coal imports to China have increased to 69.9 Mt in 2017, representing 17.9% year-on-year increase compared to 59.3 Mt imported in 2016, according to Fenwei. Australia retained its leading position as coking coal supplier to China in 2017 with 44.3% market share, followed by Mongolia with 37.6% market share. Thus, Australia and Mongolia continued to dominate in coking coal imports to China, although their combined market share decreased to 81.9% from 84.9% reported for 2016. Russian and USA producers have reported notable increases in 2017, with the latter being virtually absent in 2016.

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

Countries	2017	2016	Change	Market Share
Australia	31.0	26.8	15.7%	44.3%
Mongolia	26.3	23.6	11.4%	37.6%
Canada	4.3	5.2	-17.3%	6.1%
Russia	4.6	2.6	76.9%	6.6%
USA	2.8	0.0	100.0%	4.0%
Others	0.9	1.1	-18.2%	1.4%
Total	69.9	59.3	17.9%	100.0%

Source: Fenwei

Notes:

- (i) Imports from Mongolia include raw unprocessed, dry and wet processed coking coal.
- (ii) Due to rounding, discrepancy may exist between the summary of volumes of individual countries with the total volume, year-on-year percentage changes and the market share.

According to the data from Mongolian National Statistics Office, Mongolia reported record high volume for its coal exports to China reaching 33.4 Mt in 2017, representing 29.4% increase compared to 25.8 Mt reported in the previous year. Similarly, coal imports through Ganqimaodu (“GM”) border crossing point reached to 18.2 Mt, representing an increase by 42.3% year-on-year according to Chinese customs.

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

On 22 February 2017, the GoM issued Resolution No. 61 (the “**Resolution**”) which approved the licensing procedures, for re-processing of dumps or tailing storage waste, referred to as the “derivative deposit”. The Resolution was approved pursuant to the Minerals Law amendment made on 10 November 2016. According to the amended law, the mining license holder or its third party contractors may apply for the derivative deposit license. The derivative deposit license can be granted for a period of three years and revenue generated from selling the mineral products obtained from waste re-processing will be subject to a 2.5% royalty rate. The Group initiated the process to apply for the derivative deposit license in relation to supplying coal slim cumulated in its tailing storage facilities for further re-processing to third party contractors.

On 10 November 2017, the Minerals Law was amended to require a tendering process as the primary method for granting of exploration and mining licenses in Mongolia, with an exception for existing exploration license holders retaining the right to convert to the mining license subject to prescribed regulatory terms and conditions. The Group does not expect any impact on its operation from this amendment in the foreseeable future, as it does not currently have any intention to apply for new exploration and/or mining licenses.

Labour related legislation

On 22 March 2017, the Collective (Tariff) Agreement of the Geology, Mining and Heavy Industry Sector for 2017 to 2018 was executed by the relevant representatives of the state, trade union and employers of the sector. The minimum monthly wage of employees working in the mining sector was set at MNT480,000. The Group does not expect any impact on its financial position from this revised requirement because its existing internal remuneration policies have sufficiently covered the adopted minimum monthly wage requirements.

Taxation, Accounting and Financial Reporting related legislation

On 9 and 10 November 2017, the Parliament of Mongolia amended the General Taxation Law, the Law on Corporate Income Tax, the Law on Personal Income Tax, the Law on State Registration of Legal Entity, the Minerals Law and the Law on Land, all of which came into effect from 1 January 2018.

Under these amendments, a new concept of “ultimate owner” is introduced which means a person who exercises control over management and assets of a legal entity, directly or indirectly, through one or more layer of ownership chain of the legal entities based on its highest number of shares or highest percentage of participation or highest number of voting rights. If such ultimate owner sells its shares held directly or indirectly in a legal entity holding exploration or mining licenses and land possession rights, it will be treated as a “sale of rights” related to exploration or mining licenses and land possession rights, which will be subject to a 30% withholding tax in Mongolia. Accordingly, legal entities holding exploration and mineral licenses and land rights are obliged to register the name, number of shares held, percentage of participation and voting rights of their ultimate holders to the Legal Entity Registration Office and respective tax departments before 1 June 2018. Subsequently, on 23 February 2018, the Ministry of Finance (“**MoF**”) announced that it will initiate public consultations by presenting proposed draft amendments to the taxation

related legislation, namely the General Taxation Law, the Law on Corporate Income Tax, the Law on Personal Income Tax, the Law on Value Added Tax, together with relevant changes under other laws interlinked. Among the proposed amendments, the transactions deemed as a sale of rights by ultimate owner will be taxed at 15% (in lieu of the original 30%). It is expected that draft amendments will be further edited based on inputs received by MoF from public consultation prior to preparing final draft to be submitted by GoM to Parliament of Mongolia for approval during its spring session. Therefore, one may expect that taxation regulations related to the transactions deemed as a sale of rights by ultimate owner will likely be subject to further revision.

On 25 December 2017, the Minister of Finance, issued Orders No. 379 (“**Order 379**”) and 380 (“**Order 380**”), which defined the methodologies for the assessment of taxable amount and imposing taxes. According to Order 379, for transactions involving mining licenses, the taxable amount will be determined as 30% from the contractually disclosed transaction consideration, unless the transfer of license is made between related parties and/or the consideration is no less than 20% of the benchmark value. The benchmark value is calculated by (i) pricing comparison referring to the most comparable license transfer considerations based on similar location, type and geological feature of the deposit itself, infrastructure conditions, as well as an average unit price; and (ii) net present value, which is stated in the feasibility study prepared and filed with authorities according to the relevant provisions stipulated under the Minerals Law. The lowest benchmark value will be used as transaction consideration for tax purposes. According to Order 380, for transactions involving land rights, the taxable transaction consideration will be defined by the highest price from the actual land right transfer transaction amount and the value will not be less than the auction offer price computed per respective land regulations.

In 2017, the rate of excise duty for diesel imported through Sukhbaatar, Zamiin-Uud and Altanbulag border ports were revised twice, on 18 July 2017 from MNT70,000 per tonne to MNT180,000 per tonne and on 15 November 2017 from MNT180,000 per tonne to MNT280,000 per tonne. However, the Group’s costs related to fuel consumed by the Group’s operations in Mongolia will remain predominately linked to imported fuel price fluctuations, subject to international oil prices movements.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

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

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

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

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

JORC compliant Coal Resource estimate figures reported are based upon an in situ density, at an as-received moisture basis, are summarised in Table 2. No further exploration activities have been conducted within the UHG mining license area in 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 peer audit confirmed that the Group’s work to update the UHG geological model, and thus the Coal Resource estimate for the UHG mining license area, was in compliance with the requirements of the JORC Code (2012).

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

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

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

Notes:

- (i) *Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 10 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resource set out in Table 2 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2016, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*
- (ii) *Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 27 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*
- (iii) *Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 of the JORC Code (2012).*

Baruun Naran (BN) deposit

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

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

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 Geoscheck Pty Ltd was also involved in external peer review, specifically with regard to the geostatistical analysis required to be prepared under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014). These peer reviews confirmed compliance of the Group’s work to update the Coal Resource estimations in compliance with the requirements of the JORC Code (2012).

Summary of the updated JORC (2012) Coal Resources for BN and THG mining license areas are shown in Table 3 and Table 4 respectively. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 3. BN mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
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 4. 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)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
Subcrop to BHWE	–	–	2	–	2
BHWE to 100m	–	–	14	–	14
From 100m to 200m	–	–	19	–	19
From 200m to 300m	–	–	19	–	19
From 300m to 400m	–	–	18	–	18
Below 400m	–	–	–	–	–
Sub-Total above 300m	–	–	54	–	54
Sub-Total below 300m	–	–	18	–	18
Total	–	–	72	–	72
Total (Rounded)	–	–	70	–	70

Notes:

- (i) *Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 10 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resource set out in Table 3 and Table 4 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*
- (ii) *Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 27 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*
- (iii) *Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 of the JORC Code (2012).*

Coal Reserves

Ukhaa Khudag (UHG) deposit

The Group engaged Glogex Consulting LLC (“**Glogex**”) to prepare an updated JORC (2012) Coal Reserve statement as at 1 January 2018 for the UHG deposit. The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate during 2015, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods.

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

- geotechnical constraints, including limitation of overall slope angles within the pit by sector, ex-pit dump offset from LOM pit shell crest and maximum pit depth, with updates on basis of research and analyses made since timing of the previous JORC (2012) Coal Reserve estimate, as provided by Mr. John Latilla employed by AMC Consultants Pty Ltd (“**AMC**”) at the relevant time;
- washability curves on seam ply basis, as prepared previously by Mr. John Trygstad of Norwest Corporation (“**Norwest**”) for inclusion in the previous JORC (2012) Coal Reserve estimate, to individual coal seams based upon propensity for processing into coking and/or thermal products, with update made to reassign portion of Seam 0B and 0AU from thermal to coking coal production, based upon results observed during production trials in 2017;
- updated cost input assumptions, derived from recent historical operating performance at UHG mine on the basis of sustainable cost reductions made in response to difficult market conditions, and as forecast based upon negotiated reductions in cost for mining and blasting contractor services; and

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

Following pit optimisation works to determine the economic pit limits, practical pit designs were then created, and mineable in situ coal within the pit shell was converted to ROM and product coal quantities. Raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2018 based upon an as-received basis with 2.97% total moisture, are shown in Table 5.

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

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

Notes:

- (i) *The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor’s degree of mining industrial management and a master’s degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 16 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.*
- (ii) *Due to rounding, discrepancy may exist between sub-totals and totals.*

Baruun Naran (BN) deposit

The latest Coal Reserve statement for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2018 based on JORC (2012) Coal Resource estimate as at 30 June 2015. The LOM mining plan prepared to underpin the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by operating cost and coal revenue variance.

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

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

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 6, with tonnage estimation based on an as-received basis with 4.5% total moisture.

Table 6. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2018 (Notes):

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

Notes:

- (i) *The estimate of Coal Reserve presented in Table 6 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 16 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.*
- (ii) *Due to rounding, discrepancy may exist between sub-totals and totals.*

Production and Transportation

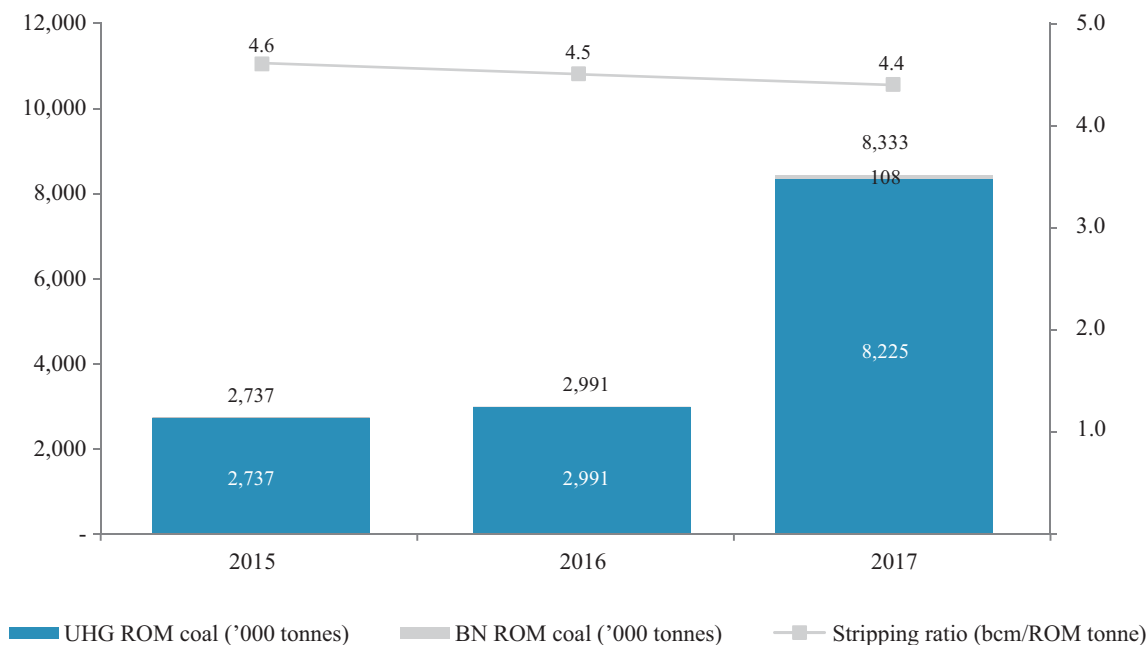
Coal Mining

UHG mine has produced 8.2 Mt of ROM coal in 2017. To access coal, 34.97 million bank cubic metres (“bcm”) of prime overburden was removed, resulting in an actual stripping ratio of 4.25 bcm per ROM tonne for the period. The Group’s annual mine production for the last three years is shown in Figure 1, all of which has been extracted from the UHG mine. Following the successful introduction of 0B seam coal to blending mix to produce HCC, in 2017 bulk test was performed for 0A seam coal as well, with approximately 40 thousand tonnes (“kt”) being mined and successfully blended with other coal to produce HCC.

BN mine production has resumed during the last quarter of the year with 0.1 Mt of ROM coal mined in 2017. To access coal, 1.7 million bcm of prime overburden was also removed, resulting in an actual stripping ratio of 15.43 bcm per ROM tonne for the period. Mining activities were initially focused on opening production pits, therefore the stripping ratio was higher at this stage. The production is carried out in two pits by deploying two separate mining contractors. The Company’s own staff is performing direct supervision over BN mine operations, while mining contractors are providing mining and ancillary equipment together with qualified staff, who are required to conduct overburden removal, coal extraction, stockpiling and load out. The eastern pit (“**H pit**”) is producing predominately H seam coal together with other coal seams suitable for blended washing with UHG coals to produce HCC. The western pit (“**T pit**”) is producing predominately T seam coal together with other coal seams suitable for standalone washing to produce SSCC.

The Group’s combined annual mine production from UHG and BN mines for the last three years is shown in Figure 1.

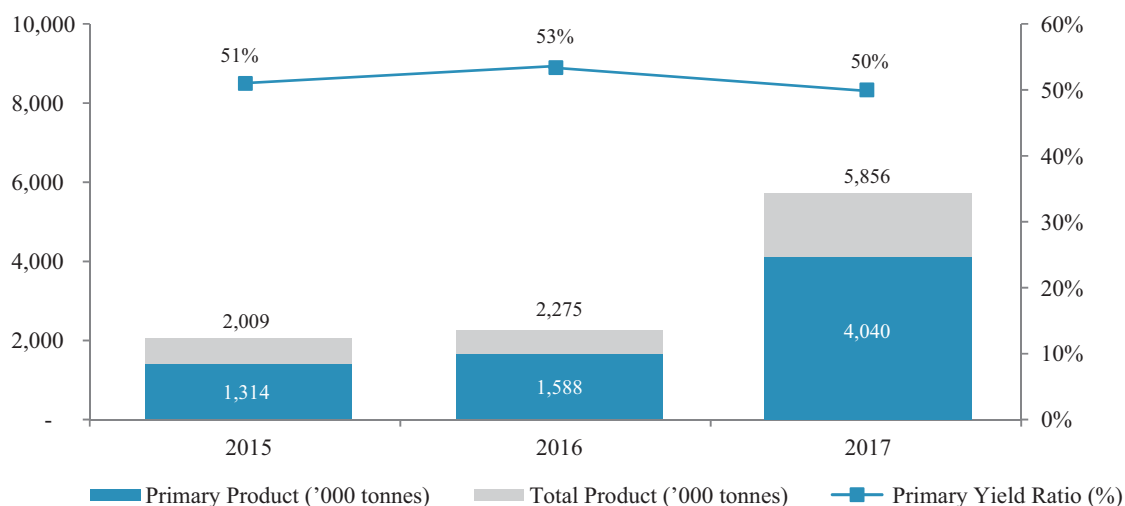
Figure 1. The Group’s annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bcm of overburden per ROM tonne of coal) for 2015-2017:



Coal Processing

With continued favorable market conditions and improved demand in 2017, total ROM coal feed of 8.0 Mt was processed, resulting in the production of 4.1 Mt of coking coal as a primary product at 50.3 % yield, and 1.8 Mt of middlings as a secondary product at 22.6 % yield. ROM coal processed in 2017 was sourced 7,996 kt and 41 kt from the UHG and BN mines, respectively. The Group’s washed coal production for the last three years is shown in Figure 2.

Figure 2. The Group’s annual total and primary processed coal production volumes (in thousand tonnes) for 2015-2017:



Transportation and Logistics

In 2017, the Group increased coal transportation for exports from Mongolia to China and transported 4.4 Mt of coal products: (i) 3.6 Mt of HCC; (ii) 8 kt of SSCC; and (iii) 0.8 Mt of middlings. The transportation was performed utilising own trucking fleet and also third party contractors, whereas 3.5 Mt was transported directly from UHG via Gashuunsukhait (“GS”) border crossing point to GM and remaining 0.9 Mt was transported utilising trans-shipping facility located at Tsagaan Khad (“TKH”).

The cross-border logistic bottlenecks remain as the main factor limiting potential increase for coal export volumes from Mongolia via GS-GM border crossing point. Record high coal volume was transported for exports from Mongolia to China via this border crossing point in 2017, with significant increase achieved in the first half of the year in particular. However, the second half of the year was plagued by various administrative restrictions at GM, such as prolonged immigration, customs and security checks, resulting in a decrease of daily average number of trucks able to pass through border check points. This led to increased demand for transportation trucks with spike in third party transportation contractors’ fees charged and over 150 km long lines of coal hauling trucks queued on UHG-GS road, according to local and international media reports. Therefore, on 29 November 2017, GoM adopted Resolution No. 320 temporarily suspending customs clearance from mine sites in Tavan Tolgoi area and requiring exporters to utilise customs bonded yards located at TKH, until GS-GM border crossing throughput becomes improved and normalise back at previously reported level. The Group has immediately complied with requirements imposed and started moving all its coal products for exports to China from UHG to TKH and subsequently after Mongolian customs clearance from TKH to GM.

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

Occupational Health, Safety and Environment

During the reporting period, approximately 6.6 million man-hours were recorded as worked by employees, contractors and sub-contractors of the Group. During 2017, three occurrences of Lost Time Injury (“**LTI**”) were recorded, resulting in a Lost Time Injury Frequency Rate (“**LTIFR**”) of 0.45 LTIs per million man-hours worked equivalent being recorded.

Risk assessment and safety analysis were conducted during the reporting period to minimise or eliminate work-related hazards and to enhance awareness of daily safety routines among the Company’s employees. Routine working condition inspections and checks were performed, including heat, noise, lighting, vibration, dust and toxic gases monitoring. The Group continued to deliver Occupational Health, Safety and Environment (“**OHSE**”) specific training to employees, contractors, sub-contractors and visitors, with 9,469 training sessions to individuals, totaling 35,986.2 man-hours in 2017.

The Umnugobi Province Professional Inspection Agency conducted its periodic review and the Company was evaluated at “low risk” with a check list score of 83.5 out of 100.0.

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

In 2017, the Group recorded no environmental incidents with “high” or above classifications. Two incidents occurred with “low” and “minor” classifications which were related to spillage of fuel. For all incidents, full investigations were carried out to identify the root causes, and corrective and preventive actions were taken to prevent re-occurrences.

Sales and Marketing

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 in Inner Mongolia and Xinjiang provinces. The Group achieved a 175.0% year-on-year increase in sales tonnages and sold a total of 4.4 Mt of self-produced coal in 2017: (i) 3.6 Mt of HCC; (ii) 8 kt of SSCC; and (iii) 0.8 Mt of middlings. Thus, HCC sales volume increased by 131.7% compared to 1.5 Mt of HCC sold in 2016.

In 2017, only small tonnage of HCC 59.5 kt was sold at Delivery-at-Place (“DAP”) GM terms in the first half of the year, while the majority of HCC 3.0 Mt was sold at FOT terms from stockyards at GM, after completing import clearance by Chinese Customs and quality inspections by China Inspection and Quarantine, coal is loaded to customers’ transportation carriers, trucks or rail wagons. The remaining tonnage of HCC 0.6 Mt was sold at Cost-and-Freight (“C&F”) terms, after delivering coal from GM to customers’ designated locations in Hebei, Tangshan and Tianjin. Exported middlings were sold exclusively at DAP GM terms and all SSCC was sold at FOT terms. According to Chinese Customs regulations, coking and thermal coal imported from Mongolia to China is subject to 3% and 6% import tax, respectively.

OUTLOOK AND BUSINESS STRATEGIES IN 2018

International coking coal markets demonstrated strong performance in 2017 driven by a lift in global steel production, along with supply-chain disruptions both within China and in seaborne markets caused by extreme weather conditions. According to industry reports, the global crude steel production reached 1,691 Mt last year representing a 5.3% year-over-year increase, with estimated global steel consumption rising to 1,622 Mt.

China is the world’s largest coal and steel producer and consumer, therefore policies adopted by the Chinese authorities have far-reaching impact on the global markets for steel making ingredients including coking coal. Chinese regulators have continued enforcing strong pollution control guidelines and at the same time undertaking supply side reform by closing excess capacity in industrial sectors, including coal and steel production, which have positively impacted the supply and demand balance, thus resulting in improved market environment for steel making raw materials such as coking coal.

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

The Company will aim to maximise its production and sales volumes in 2018, subject to the resolution of the inefficient cross-border logistics issue, which is the main obstacle to our ability to meet the elevated demand from our customers. The ultimate intention is to ramp up production output in a safe manner by fully utilising existing capacity, whilst managing working capital requirements and continuing to focus on cost control. Reducing environmental footprint from our operations will also remain as the main priority, including minimising power and water usage rates. The management will continue to maximise transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume will be achieved by adopting aggressive marketing strategy to expand market penetration with direct access to ultimate end-user customers.

The Company intends to pursue the following key strategies in order to maintain and enhance its competitive position as a major washed coking coal producer in Mongolia: (i) adjusting the capital structure and its debt to adequate and sustainable levels; (ii) maximising assets utilisation to lower unit fixed costs; (iii) supporting initiatives to improve logistics infrastructure for providing access to Chinese railway network in order 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, environmentally and socially responsible operations.

FINANCIAL REVIEW

Revenue

The improved market condition during the reporting period enabled the Group to increase its sales tonnages during the year ended 31 December 2017. Thus, the Group sold approximately 4.4 Mt of coal products and generated a total revenue of USD476.4 million, representing an increase of 175.0% and 296.9%, respectively, compared to 1.6 Mt of coal products sold and USD120.0 million of total revenue generated during the year ended 31 December 2016. The Group sold approximately 3.6 Mt of HCC during the year ended 31 December 2017, representing an increase of 131.7% compared to 1.5 Mt of HCC sold during the year ended 31 December 2016. This includes approximately 59.5 kt, 3.0 Mt and 0.6 Mt of HCC sold at DAP GM, FOT and C&F terms, respectively. The Group also sold 8.0 kt of SSCC and 822.6 kt of middlings. In addition, the Group supplied 10.5 kt of raw thermal coal to customers located in Mongolia during the year ended 31 December 2017.

The Group's pricing reflects the current price trend in the coking coal market which allowed the Company to achieve higher selling price compared to the preceding reporting period. The ASP for HCC was USD130.3 per tonne for the year ended 31 December 2017, representing an increase of 68.8% compared to USD77.2 per tonne for the year ended 31 December 2016. The ASP for HCC under DAP GM, FOT and C&F term sales were USD115.7 per tonne, USD126.0 per tonne and USD155.0 per tonne, respectively, for the year ended 31 December 2017.

For the year ended 31 December 2017, the Group derived individually more than 10.0% of its revenue from two customers, with the purchase amounts of approximately USD182.9 million and USD48.6 million. In 2016, the Group derived individually more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD15.7 million, USD14.8 million, USD13.4 million and USD13.4 million.

Cost of Revenue

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

During the year ended 31 December 2017, the total cost of revenue increased to USD273.8 million from USD120.3 million during the year ended 31 December 2016, due to higher sales volume. From the total cost of revenue during the reporting period, USD273.4 million was attributable to coal products sold from the UHG mine and USD435.0 thousand was attributable to coal products sold from the BN mine.

There was no addition to the inventory provision for the year ended 31 December 2017, whereas USD4.3 million inventory provision was booked due to weak coal prices in 2016. The provision was made based on the assessment of the net realizable value of coal inventories.

Table 7. Total and individual costs of revenue:

	Year ended 31 December	
	2017 (USD'000)	2016 (USD'000)
Cost of revenue	273,797	120,346
Idling cost	–	(25,664)
Inventory provision	–	(4,315)
Cost of revenue excluding idling cost and inventory provision	273,797	90,367
Mining cost	93,758	33,802
Variable cost	41,523	14,969
Fixed cost	41,983	16,316
Depreciation and amortization	10,252	2,517
Processing cost	37,758	12,963
Variable cost	10,578	4,985
Fixed cost	3,095	1,453
Depreciation and amortization	24,085	6,525
Handling cost	6,756	2,209
Transportation cost	88,834	20,683
Logistic cost	6,198	3,465
Variable cost	2,841	1,888
Fixed cost	3,193	1,439
Depreciation and amortization	164	138
Site administration cost	14,216	6,440
Transportation and stockpile (gain)/loss	(2,953)	670
Royalties and fees	29,230	10,135
Royalty	23,266	7,607
Air pollution fee	3,066	1,333
Customs fee	2,898	1,195

The mining cost consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and costs paid to fuel suppliers. For the year ended 31 December 2017, the Group's mining costs were approximately USD93.8 million (2016: USD33.8 million). Unit mining cost was USD13.1 per ROM tonne for the year ended 31 December 2017, compared to USD11.5 per ROM tonne for the year ended 31 December 2016. Increase of the unit mining cost was mainly attributable to the increase of contractor fee due to project base fee indexed to the market price of coal and utilisation of mining fleet with various plant rates in line with the higher production level during the reporting period. Whereas during 2016, mining fleet with lower plant rates were utilised for cost saving purposes during the depressed market conditions. In addition, depreciation and amortization cost on a unit basis has increased due to the depreciation of capitalized pre-stripping costs associated with the extraction of uncovered coal from prior periods.

Table 8. Unit mining cost per ROM tonne:

	Year ended 31 December	
	2017 (USD/ ROM tonne)	2016 (USD/ ROM tonne)
Mining cost	13.1	11.5
Blasting	1.1	1.0
Plant cost	2.8	2.3
Fuel	1.9	1.8
National staff cost	0.7	0.7
Expatriate staff cost	0.2	0.3
Contractor fee	4.9	4.5
Ancillary and support cost	0.1	0.03
Depreciation and amortization	1.4	0.9

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 unit mining cost is based on the stripping ratio applicable to each component of the mine. Average accounting stripping ratio for components mined during the year ended 31 December 2017, was 2.7 bcm per tonne, compared to 2.4 bcm per tonne for the year ended 31 December 2016. The mining cost is not only recorded in the income statement, but also the cost of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average stripping ratio, which is capitalized in the balance sheet as mining structure.

The processing cost primarily includes costs associated with operations of CHPP including power generation and water extraction costs. During the year ended 31 December 2017, the Group's processing cost was approximately USD37.8 million (2016: USD13.0 million), of which approximately USD24.1 million was related to the depreciation and amortization of the CHPP, USD4.1 million were costs related to power generation and distribution, and USD1.2 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 increased from USD4.4 per ROM tonne for the year ended 31 December 2016, to USD5.3 per ROM tonne for the year ended 31 December 2017, representing an increase of 20.5%. The increase was mainly attributable to the increase in depreciation and amortization on a unit basis due to higher value of the underlying assets as a result of fixed assets revaluation performed by end of 2016.

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

	Year ended 31 December			
	2017 (USD'000)	2016 (USD'000)	2017 (USD/ ROM tonne)	2016 (USD/ ROM tonne)
Total	37,758	12,963	5.3	4.4
Consumables	2,443	719	0.3	0.3
Maintenance and spares	2,905	857	0.4	0.3
Power	4,061	2,446	0.6	0.8
Water	1,169	963	0.2	0.3
Staff	1,604	626	0.2	0.2
Ancillary and support	1,491	827	0.2	0.3
Depreciation and amortization	24,085	6,525	3.4	2.2

Note: The above processing cost does not include idling cost

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP, and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2017, the Group's handling cost was approximately USD6.8 million (2016: USD2.2 million). Unit handling cost was USD1.5 per tonne for the year ended 31 December 2017 (2016: USD1.4 per tonne).

During the year ended 31 December 2017, the Group's transportation cost was USD88.8 million (2016: USD20.7 million, excluding idling cost) including transportation cost incurred for using own fleet and fees paid to third party contractors. On unit cost basis, the Group's average transportation cost from UHG to GM increased from USD12.9 per tonne for the year ended 31 December 2016, to USD20.1 per tonne for the year ended 31 December 2017. During the second half of the reporting period, the number of trucks crossing the border was reduced, due to inefficiencies and prolonged and tightened control procedure of the customs, which limited the Group's sales volume and increased the transportation cost.

The logistics cost is mainly related to costs associated with product stockpiles at UHG and TKH. For the year ended 31 December 2017, the Group's logistics cost was approximately USD6.2 million (2016: USD3.5 million).

For the year ended 31 December 2017, the Group recorded a total transportation loss of around USD0.9 million (2016: USD0.2 million), and unrealized inventory gain of USD3.9 million for ROM coal and washed coal product stockpiles (2016: loss of USD0.5 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 year ended 31 December 2017, the Group's site administration cost was approximately USD14.2 million (2016: USD6.4 million). The site administration cost for the year ended 31 December 2016 was comparably lower due to suspension of operations at certain periods during the year.

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid in accordance with the applicable laws and regulations in Mongolia. The progressive royalty rate is applied in the range of 5% to 8% for processed coal products and 5% to 10% for raw coal products based on monthly reference price determined by the Ministry of Mining and Heavy Industry of Mongolia. Starting from 1 February 2016, the contract prices were allowed to be used for calculating royalty rates pursuant to Resolution No. 81 of the GoM. The Group's effective royalty rate for the year ended 31 December 2017, was approximately 5.5% for coal exported from Mongolia based on customs clearance documentation (2016: 5.0%).

Gross Profit/Loss

The Group's gross profit for the year ended 31 December 2017 was approximately USD202.6 million, compared to the gross loss of approximately USD0.3 million recorded for the year ended 31 December 2016. The increase in gross profit position was due to increase in sales volume and ASP.

Selling and Distribution Costs

The Group's selling and distribution costs were USD56.6 million for the year ended 31 December 2017 (2016: USD17.7 million) which were associated with inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution costs were higher compared to the year ended 31 December 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 year ended 31 December 2017, the Group's general and administrative expenses were approximately USD19.1 million (2016: USD13.1 million).

Net Finance Costs

Net finance costs for the year ended 31 December 2017 was approximately USD51.0 million (2016: USD121.5 million). Net finance costs comprised of (i) accrued interest expense on the Senior Notes and the Senior Loan, (ii) pre-restructuring interest expenses capitalized in the form of paid-in-kind notes at the issuance of the Senior Notes and the Senior Loan, (iii) change in fair value of derivative component of the Senior Notes and the Senior Loan including the interest rates linked to the benchmark coal price index and cash sweep premium, (iv) amortization of the difference between the fair value and the principal amounts due on the Senior Notes and the Senior Loan using the effective interest rate method, (v) foreign exchange net loss, and (vi) others. Decrease in net finance costs were mainly due to the decrease in interest expense resulting from reduced amount of credit facilities after the completion of the Debt Restructuring. Breakdown of the net finance costs are set out in note 6 to the consolidated financial statements.

Income Tax Expenses

The Group's income tax expenses for the year ended 31 December 2017 were approximately USD25.8 million. The Group's income tax expenses for the year ended 31 December 2016 were approximately USD2.7 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 a 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 the Stock Exchange. 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 a principal amount of USD195,000,000 booked at its fair value of USD75,897,000, (iii) the Senior Loan with a principal amount of USD31,200,000 initially recognized at its fair value of USD30,960,000, including a derivative component of interest rate linked to the benchmark coal price index initially recognized at its fair value of USD1,754,000, and (iv) the Senior Notes with a principal amount of USD412,465,892 initially recognized at its fair value of USD425,267,000, including a derivative component of interest rate linked to the benchmark coal price index initially recognized at its fair value of USD9,481,667 and a derivative component of cash sweep premium initially recognized 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 year ended 31 December 2017.

The gain from the Debt Restructuring is set out in the audited consolidated statement of profit or loss 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 50.

Profit/Loss for the Period

The profit attributable to equity shareholders of the Company for the year ended 31 December 2017 amounted to approximately USD311.0 million. For the year ended 31 December 2016, the Group recorded USD154.2 million of losses attributable to equity shareholders. The Group's net profit is attributable to the increased 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 year ended 31 December 2017, the Company's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

	Year ended 31 December	
	2017 USD'000	2016 USD'000
Net cash generated from operating activities	95,620	29,350
Net cash (used in)/generated from investing activities	(82,883)	44,262
Net cash used in financing activities	(17,767)	(61,561)
Net (decrease)/increase in cash and cash equivalents	(5,030)	12,051
Cash and cash equivalents at beginning of the year	12,268	702
Effect of foreign exchange rate changes	222	(485)
Cash and cash equivalents at end of the year	7,460	12,268

Note: USD82.9 million used in investing activities comprises of USD63.7 million incurred for payments of deferred stripping activity, USD0.1 million generated from disposal of property, plant and equipment and USD19.3 million used for payment of payables for property, plant and equipment.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 31 December 2017 was 28.7% (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 announced the successful implementation of the Debt Restructuring, and the Group's indebtedness has been restructured to the Senior Loan of USD31.2 million and the Senior Notes of approximately USD412.5 million. The Senior Loan bears interest of 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.

The Senior Notes bear interest of 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 31 December 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 31 December 2017, the Group had approximately USD13.6 million in trade receivables and USD58.8 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 single customer, and the maximum contractual term for unsecured limit. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to, the current ability to pay, and takes into account information specific to the customer and pertaining to the economic environment in which the customer operates.

With regard to other receivables of USD58.8 million, this amount is mainly related to USD16.6 million VAT receivables and USD42.2 million of other deposits and prepayments. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

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 31 December 2017 and 31 December 2016 amounted to USD0.4 million and USD1.4 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 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 31 December 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., Enrestechology 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 31 December 2017.

Energy Resources LLC pledged its 4,207,500 common shares, being 5.13% common shares held by it in International Medical Centre LLC ("**IMC**") to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

Contingent Liabilities

As at 31 December 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 on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the “**Acquisition**”), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

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

Financial Instruments

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

Under the Share Option Scheme, the Company granted 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 year ended 31 December 2017, USD1.4 million was recognized in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

As at 31 December 2017, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 11. Capital commitments

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Contracted for	4,699	510
Authorized but not contracted for	17,337	–
Total	22,036	510

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

	Year ended 31 December	
	2017 USD'000	2016 USD'000
CHPP	4,396	–
Trucks and equipment	13,325	–
Others	1,485	276
Total	19,206	276

Operating Lease Commitments

As at 31 December 2017, the Company had contracted obligations consisting of operating leases which totalled approximately USD85.0 thousand due within one year. Lease terms range from one to five years, with fixed rentals.

Significant Investments Held

As at 31 December 2017, the Company did not hold any significant investments. Save as disclosed in this annual 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 year ended 31 December 2017, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

There have been no post balance sheet events subsequent to 31 December 2017 which require adjustment to or disclosure in this annual results announcement.

Employees

As at 31 December 2017, the number of employees of the Group was 1,797, compared with 1,442 employees as at 31 December 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.

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice, and share the newly gained experience with co-workers. The immediate management shall be responsible for the support and supervision of the process. During the year ended 31 December 2017, the Company focused on internally sourced trainings rather than trainings provided by external parties. For the year ended 31 December 2017, the Company heavily focused on re-training inductions and conducted certified health, safety and environment officer training among employees of grade 4 and above whom lead operation shifts. As at 31 December 2017, a total of 10,502 employees attended different professional trainings, out of which 8,868 employees attended safety training and other professional trainings, 871 employees attended mining heavy equipment operator training, 367 employees attended mine maintenance training and 396 employees attended professional development training.

For the year ended 31 December 2017, the amount of staff costs was USD20.5 million, compared to USD13.4 million in 2016.

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

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Dividend

The Board does not recommend the payment of a dividend for the year ended 31 December 2017 (dividend for the year ended 31 December 2016: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by the 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 year ended 31 December 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 of 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 stipulates 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 for the year ended 31 December 2017.

Review of Annual Results

The auditor of the Company, KPMG, has agreed that the figures in respect of the Group’s annual results for the year ended 31 December 2017 contained in this announcement are consistent with the amounts set out in the Group’s audited consolidated financial statements for the year in accordance with its engagement under Hong Kong Standard on Related Services 4400 “Engagements to perform agreed-upon procedures regarding financial information” and with reference to Practice Note 730 “Guidance for auditors regarding preliminary announcements of annual results” issued by the Hong Kong Institute of Certified Public Accountants.

Closure of the Register of Members

The register of members of the Company will be closed from Monday, 25 June 2018 to Friday, 29 June 2018, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members’ entitlement to attend and vote at the forthcoming AGM of the Company to be held on Friday, 29 June 2018, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 22 June 2018.

Review by the Audit Committee

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

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2017.

Publication of Annual Results and Annual Report

The annual results announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2017 will be despatched to 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, 22 March 2018

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