MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

During the year ended 31 December 2018, Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries' (the "**Group**") recorded a historical high annual run-of-mine ("**ROM**") coal production of 10.9 million tonnes ("**Mt**"), representing a 30.3% increase compared to 8.3 Mt produced during the year ended 31 December 2017.

The Group processed a total of 10.0 Mt of ROM coal and produced 4.8 Mt of washed coking coal products during the year ended 31 December 2018, compared to 8.0 Mt of ROM coal processed to produce 4.1 Mt of washed coking coal products during the year ended 31 December 2017.

The Group generated a total revenue of United States Dollar ("**USD**") 590.7 million from the sale of approximately 4.7 Mt of coal products during the year ended 31 December 2018, representing an increase of 24.0% compared to USD476.4 million of total revenue generated from 4.4 Mt of coal products sold during the year ended 31 December 2017.

The Group's gross profit for the year ended 31 December 2018 was USD230.4 million, representing an increase of 13.7% compared to the gross profit of USD202.6 million for the year ended 31 December 2017.

The Group's earnings before interest, taxes, depreciation and amortization adjusted by share option expenses and other non-cash items ("**adjusted EBITDA**") for the year ended 31 December 2018 was approximately USD218.3 million, compared to the adjusted EBITDA of approximately USD177.1 million recorded for the year ended 31 December 2017.

The profit attributable to the equity shareholders of the Company for the year ended 31 December 2018 was USD82.8 million as compared to USD311.0 million of profit attributable to the equity shareholders of the Company recorded for the year ended 31 December 2017, which included USD263.0 million gain recognised from the successful implementation and completion of debt restructuring (the "**Debt Restructuring**").

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

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of dividend for the year ended 31 December 2018 (dividend for the year ended 31 December 2017: 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 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	**2018**	2017
			(Note)
		USD'000	*USD'000*
Non-current assets			
Property, plant and equipment, net	*11*	**853,278**	861,520
Construction in progress	*12*	**23,365**	16,010
Lease prepayments		**53**	54
Intangible assets	*13*	**504,392**	508,595
Interest in associates		**328**	196
Interest in joint venture		**47**	60
Other non-current assets		**70,749**	83,338
Deferred tax assets		**31,248**	14,896
Total non-current assets		**1,483,460**	1,484,669
Current assets			
Assets held for sale		**–**	183
Inventories		**99,980**	66,745
Trade and other receivables	*14*	**101,493**	72,375
Cash and cash equivalents		**33,035**	7,460
Total current assets		**234,508**	146,763
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*15*	**25,065**	7,500
Trade and other payables	*17*	**195,472**	222,731
Contract liabilities	*17*	**43,018**	–
Current taxation		**26,796**	4,299
Total current liabilities		**290,351**	234,530
Net current liabilities		**(55,843)**	(87,767)
Total assets less current liabilities		**1,427,617**	1,396,902

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31 December 2018

	Note	**2018**	2017
			(Note)
		USD'000	*USD'000*
Non-current liabilities			
Long-term borrowings, less current portion	*15*	**–**	24,253
Senior Notes	*16*	**451,711**	436,563
Provisions		**13,059**	14,327
Deferred tax liabilities		**144,290**	149,604
Other non-current liabilities		**1,296**	1,305
Total non-current liabilities		**610,356**	626,052
NET ASSETS		**817,261**	770,850
CAPITAL AND RESERVES			
Share capital		**102,918**	102,918
Perpetual notes	*18(b)*	**75,897**	75,897
Reserves		**638,918**	592,144
Total equity attributable to equity shareholders of the Company		**817,733**	770,959
Non-controlling interests		**(472)**	(109)
TOTAL EQUITY		**817,261**	770,850

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

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 ("**Listing Date**"). 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 2018 comprise the Group and the Group's interest in associates and a joint venture.

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

– Financial instruments classified as available-for-sale or as trading securities;

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

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

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

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

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

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

Changes in Accounting Policies

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

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

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

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 15 (see also Note 17):

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

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

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and construction in progress were revalued by an external appraiser as at 31 December 2016 (see Notes 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, or of the Australian Institute of Geoscientists, 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 statement of financial position or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation.

– Reclamation and mine closure provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

– The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(iii) Useful lives of property, plants and equipment

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

(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) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. Stripping costs (waste removal costs) are incurred during the development and production phases at open-pit mining and they are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan. Judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and production stripping activity. These are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity assets.

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

– It is probable that future economic benefits associated with the asset will flow to the entity; and

– The costs can be measured reliably.

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

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

– It is probable that the future economic benefit (improved access to ore) will flow to the Group;

– The ore body or component of the ore body for which access has been improved can be identified; and

– The costs relating to the stripping activity can be measured reliably.

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

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

(ix) Taxation

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

(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 VAT or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2018	2017
	USD'000	*USD'000*
Washed hard coking coal ("**HCC**")	**546,527**	466,430
SSCC	**40,596**	722
Washed thermal coal ("**middlings**")	**3,373**	9,148
Raw thermal coal	**214**	64
	590,710	476,364

During the year ended 31 December 2018, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD242,220,000 and USD112,530,000. During the year ended 31 December 2017, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD182,947,000 and USD48,631,000.

Revenue during the year ended 31 December 2018 included approximately USD502,127,000 (2017: USD397,222,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

5 COST OF REVENUE

	2018	2017
	USD'000	*USD'000*
Mining costs	**126,420**	93,758
Processing costs	**42,876**	37,758
Transportation costs	**117,784**	88,834
Others *(Note (i))*	**73,230**	53,447
Cost of revenue	**360,310**	273,797

Note:

(i) Others include royalty tax on the coal sold.

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2018	2017
	USD'000	*USD'000*
Interest income	**(134)**	(48)
Finance income	**(134)**	(48)
Interest on bank and other borrowings	**3,719**	3,255
Interest on liability component of Senior Notes *(Note 16)*	**41,162**	38,460
Transaction costs	**–**	235
Unwinding interest on		
– Accrued reclamation obligations	**581**	373
Net interest expense	**45,462**	42,323
Net change in fair value of derivative component of Senior Notes and Senior Loan	**9,295**	7,835
Foreign exchange loss, net	**772**	895
Finance costs	**55,529**	51,053
Net finance costs	**55,395**	51,005

Note: No borrowing costs have been capitalised for the years ended 31 December 2018 and 2017.

(b) Staff costs:

	2018	2017
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**23,088**	16,948
Retirement scheme contributions	**3,173**	2,238
Equity-settled share-based payment expenses	**677**	1,355
	26,938	20,541

Pursuant to the relevant labour rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the Government of Mongolia ("**GoM**") whereby the Group is required to make contributions to the Schemes at a rate of 8% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

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

(c) Other items:

	2018	2017
	USD'000	*USD'000*
Selling and distribution costs *(Note (i))*	**61,410**	56,631
Depreciation and amortisation	**63,873**	51,014
Operating lease charges: minimum lease payments		
– hire of plant and machinery	**1,815**	668
– hire of other assets (including property rentals)	**392**	538
	2,207	1,206
Net gain on disposals of property, plant and equipment and assets held for sale	**(99)**	(90)
Auditors' remuneration		
– audit services	**566**	608
– tax and other services	**9**	7
	575	615
Cost of inventories *(Note (iii))*	**360,310**	273,797

Notes:

(i) Selling and distribution costs

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

(ii) Impairment of non-financial assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2018, according to IAS 36, Impairment of assets, the management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress, intangible assets and long-term prepayments related to the Ukhaa Khudag ("**UHG**") mine and Baruun Naran ("**BN**") mine operations (collectively referred to as "**UHG and BN Assets**"). For the purpose of this, the UHG and BN Assets are treated as a cash generating unit ("**CGU**").

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

– Recoverable reserves and resources

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

– Growth rate

Instead of using a steady growth rate over the estimation period longer than five years, the cash flow projection made at the year end of 2018 and the year end of 2017 followed the same mechanism based on as coal product price consensus and life-of-mine ("**LOM**") production plan.

– Coal prices

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

Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2018 is consistent with that at the year end of 2017, which was also updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate. The treatment was consistent among estimations made at the year end of 2018 and the year end of 2017.

– Sales quantity/production profile

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

– Operating costs

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

– Capital expenditure

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

– Discount rate

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

Post-tax discount rate of 18% and pre-tax discount rate of 21% were applied to the future cash flows projection at the year end of 2018 (2017: post-tax discount rate of 19% and pre-tax discount rate of 23%). The Directors believe that the post-tax discount rate was matching with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2018, and has not resulted in the identification of an impairment loss for the year ended 31 December 2018. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2018 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard.

The Directors believe that the estimates and assumptions incorporated in the impairment assessment are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgements. It is estimated that adverse changes in the key assumptions would lead to the recognition of an impairment provision against the CGU as follows:

	USD'000
1% decrease in long-term coal price	–
1% decrease in the estimated production volume	4,000
1% increase in the estimated operating costs	3,000
One percentage point increase in post-tax discount rate	73,000
20% increase in the estimated capital expenditure	21,000

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

(iii) Cost of inventories

Cost of inventories includes USD78,577,000 (2017: USD58,752,000) relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also cost of inventories includes transportation and stockpile losses amounted to USD4,929,000 (2017 transportation and stockpile gains: USD2,953,000).

7 GAIN FROM THE DEBT RESTRUCTURING

The Group commenced the Debt Restructuring with holders of USD600,000,000 senior notes issued in 2012, interest-bearing borrowings due to BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited, and promissory notes due to QGX Holding Ltd in 2016. On 4 May 2017, the Group completed the Debt Restructuring.

The excess of carrying value of the restructured financial liabilities over the fair value of the consideration to settle the restructured financial liabilities, amounting to approximately USD262,968,000, net of expenses incurred in relation to the Debt Restructuring of USD30,185,000, has been recognised by the Group as a gain from the Debt Restructuring and credited to profit or loss during the year ended 31 December 2017.

8 INCOME TAX

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

	2018	2017
	USD'000	*USD'000*
Current tax		
Provision for the year	**37,315**	6,446
Deferred tax		
Origination and reversal of temporary difference	**(21,265)**	19,367
	16,050	25,813

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

	2018	2017
	USD'000	*USD'000*
Profit before income tax	**98,460**	336,119
Notional tax on profit before taxation	**24,240**	35,606
Tax effect of non-deductible items *(Note (iii))*	**(4,371)**	23,880
Tax effect of non-taxable items *(Note (iii))*	**(4,193)**	(33,675)
Tax losses not recognised	**374**	2
Actual tax expenses	**16,050**	25,813

Notes:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2018 and 2017. According to the Corporate Income Tax Law of China, the Company's subsidiary in China is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2018 and 2017.

(iii) Non-deductible and non-taxable items mainly represent the gain from the Debt Restructuring completed in May 2017, unrealised exchange gain and other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the years ended 31 December 2018 and 2017.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of USD82,773,000 (2017: USD311,013,000) and the 10,291,767,865 ordinary shares (2017: 10,291,767,865 ordinary shares) in issue during the year.

(b) Diluted earnings per share

For the years ended 31 December 2018 and 2017, basic and diluted earnings/loss per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted earnings per share for the years ended 31 December 2018 and 2017.

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 by the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sales of coal products. Accordingly, no additional business and geographical segment information are presented.

11 PROPERTY, PLANT AND EQUIPMENT, NET

Mining properties as at 31 December 2018 include stripping activity assets carrying book value of USD279,553,000 (2017: USD228,752,000) and application fee for the mining rights of USD774,000 (2017: USD728,000) in relation to the Group's mine deposits.

As at 31 December 2018, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant ("**CHPP**") modules I and II, power plant and certain water supply infrastructure assets with a net book value of USD172,530,000, USD49,656,000, and USD3,626,000, respectively. As at 31 December 2017, certain of the Group's borrowings were secured by the Group's CHPP modules I and II, power plant and certain water supply infrastructure assets with a net book value of USD201,849,000, USD57,453,000, and USD4,484,000, respectively.

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 as at 31 December 2018	**Fair value measurements as at 31 December 2018 categorised into**		
		Level 1	**Level 2**	**Level 3**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Recurring fair value measurement				
Buildings and plants	**362,524**	**–**	**–**	**362,524**
Machinery and equipment	**169,885**	**–**	**–**	**169,885**
Buildings and plants, machinery and equipment under construction	**23,326**	**–**	**–**	**23,326**
Total	**555,735**	**–**	**–**	**555,735**

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

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

As at 31 December 2016, buildings and plants as well as machinery and equipment were revalued and such valuation was carried out by a firm of external appraisers, Duff and Phelps Corporation, who has among their staff fellows of the American Society of Appraisers, Royal Institute of Charted Surveyors, Chartered Certified Accountant, Chartered Financial Analyst and Financial Risk Manager with recent experience in the mining property valuation worldwide including valuation of coal mines. The Group's property manager and the chief financial officer have discussion with the appraisers on the valuation assumptions and valuation results when the valuation was performed. At each following interim and annual reporting date, the management reviewed the key indicators adopted in the revaluation assessment as at 31 December 2016 and concluded there was no significant change.

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

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 of or financial conditions is considered. Such impact was assessed with the use of financial models, which make use projections of operating activities and financial performance of the Company provided by the Management. No economic obsolescence for the Group was indicated by the profitability test.

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

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

	2018	2017
	USD'000	*USD'000*
Buildings and plants	**140,505**	159,317
Machinery and equipment	**37,949**	49,626
Buildings and plants, machinery and equipment under construction *(Note 12)*	**6,075**	6,616
	184,529	215,559

12 CONSTRUCTION IN PROGRESS

	2018	2017
	USD'000	*USD'000*
At 1 January	**16,010**	79,976
Additions	**9,181**	486
Transfer to property, plant and equipment *(Note 11)*	**–**	(65,692)
Disposals	**–**	(480)
Exchange adjustments	**(1,826)**	1,720
At 31 December	**23,365**	16,010

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

13 INTANGIBLE ASSETS

	Acquired mining right *USD'000*	Software *USD'000*	Total *USD'000*
Cost:			
At 1 January 2017	701,557	3,588	705,145
Exchange adjustments	–	91	91
At 31 December 2017	701,557	3,679	705,236
At 1 January 2018	701,557	3,679	705,236
Exchange adjustments	–	(3)	(3)
At 31 December 2018	701,557	3,676	705,233
Accumulated amortisation:			
At 1 January 2017	195,203	721	195,924
Amortisation charge for the year	331	366	697
Exchange adjustments	–	20	20
At 31 December 2017	195,534	1,107	196,641
At 1 January 2018	195,534	1,107	196,641
Amortisation charge for the year	3,836	367	4,203
Exchange adjustments	–	(3)	(3)
At 31 December 2018	199,370	1,471	200,841
Carrying amount:			
At 31 December 2018	502,187	2,205	504,392
At 31 December 2017	506,023	2,572	508,595

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

14 TRADE AND OTHER RECEIVABLES

	2018	2017*
	USD'000	*USD'000*
Trade receivables *(Note (a))*	**5,893**	13,552
Other receivables *(Note (c))*	**95,600**	58,823
	101,493	72,375
Less: allowance for credit losses *(Note (b))*	**–**	–
	101,493	72,375

* The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

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 loss allowance, is as follows:

	2018	2017
	USD'000	*USD'000*
Within 90 days	**5,503**	13,509
90 to 180 days	**390**	43
Over 180 days	**–**	–
	5,893	13,552

(b) Loss allowance for trade receivables

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

As at 31 December 2018, no loss allowance for trade receivables (2017: nil) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

(c) Other receivables

	2018	2017
	USD'000	*USD'000*
Amounts due from related parties *(Note (i))*	**2**	1
Prepayments and deposits *(Note (ii))*	**55,518**	40,856
VAT and other tax receivables *(Note (iii))*	**39,254**	16,593
Others	**826**	1,373
	95,600	58,823

Notes:

(i) Amounts due from related parties are unsecured, interest-free and have no fixed repayment terms.

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

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Mongolian Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.

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:

	2018	2017
	USD'000	*USD'000*
Senior Loan	**25,065**	31,753
Less: Current portion of long-term borrowings	**(25,065)**	(7,500)
	–	24,253

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

The Senior Loan has been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD1,754,000. The fair value of the derivative component of interest rate linked to the benchmark coal price index as at 31 December 2018 was USD1,761,000. The liability component was initially recognised at its fair value of USD29,206,000 and will be accounted on amortised cost subsequently.

The Group pledged collection accounts 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., Enrestechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan and the senior secured notes with principal amount of USD412,465,892 (the "**Senior Notes**") (Note 16).

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

	2018	2017
	USD'000	*USD'000*
Within 1 year or on demand	**25,065**	7,500
After 1 year but within 2 years	**–**	24,253
After 2 years but within 5 years	**–**	–
	25,065	31,753

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

	2018	2017
	USD'000	*USD'000*
Current portion of long-term borrowings		
– Senior Loan	**25,065**	7,500
	25,065	7,500

16 SENIOR NOTES

	2018	2017
	USD'000	*USD'000*
Senior Notes	**451,711**	436,563
	451,711	436,563

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

The Senior Notes have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD9,481,667 and the derivative component of cash sweep premium was initially recognised at its fair value of USD37,789,333. The fair value of the derivative component of interest rate linked to the benchmark coal price index, the derivative component of cash sweep premium and the derivative component of early redemption option as at 31 December 2018 was USD30,519,000, USD33,874,550 and nil respectively. The liability component was initially recognised at its fair value of USD377,996,000 and will be accounted on amortised cost subsequently.

Fair value of the Senior Loan and the Senior Notes were valued by the Directors with the reference to a valuation report issued by an external valuer based on the discounted cash flow method.

The Group pledged debt reserve account, certain assets (Note 11) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan (Note 15) and the Senior Notes.

17 TRADE AND OTHER PAYABLES

	2018	2017
	USD'000	*USD'000*
Trade payables *(Note (i))*	**141,801**	135,847
Receipts in advance *(Note (ii))*	**–**	27,787
Amounts due to related parties *(Note (iii))*	**6,085**	18,897
Payables for purchase of equipment	**2,509**	1,347
Security deposit on construction work	**–**	50
Interest payable *(Note (iv))*	**8,885**	8,887
Other taxes payables	**29,379**	20,275
Others *(Note (v))*	**6,813**	9,641
	195,472	222,731

Notes:

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

	2018	2017
	USD'000	*USD'000*
Within 90 days	**94,236**	60,789
90 to 180 days	**40,861**	13,724
180 to 365 days	**431**	1,736
Over 365 days	**6,273**	59,598
	141,801	135,847

(ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements. As a result of the adoption of IFRS 15, gross amount due to customers for receipts in advance is included in contract liabilities.

(iii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments.

(iv) As at 31 December 2017, interest payable related to Senior Loan and Senior Notes are amounting to USD638,000 and USD8,249,000 respectively.

As at 31 December 2018, interest payable related to Senior Loan and Senior Notes are amounting to USD636,000 and USD8,249,000 respectively.

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

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

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (dividend for the year ended 31 December 2017: nil).

(b) 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 2018

"Opinion

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 7 to 98 which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Material Uncertainty Related to Going Concern

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

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

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

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

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

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

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

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

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

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

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

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

Source: Fenwei

Notes:

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

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

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

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

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

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

Transportation Infrastructure Development related legislation

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

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

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

Labour related legislation

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

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

Taxation, Accounting and Financial Reporting related legislation

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

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

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

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

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

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

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

- 37,548 individual analytical samples collected and analysed;

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

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

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

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

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

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

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

Notes:

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

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

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

Baruun Naran (BN) deposit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

Coal Reserves

Ukhaa Khudag (UHG) deposit

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

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

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

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

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

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

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

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

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

Notes:

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

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

Baruun Naran (BN) deposit

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

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

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

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

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

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

Notes:

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

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

Production and Transportation

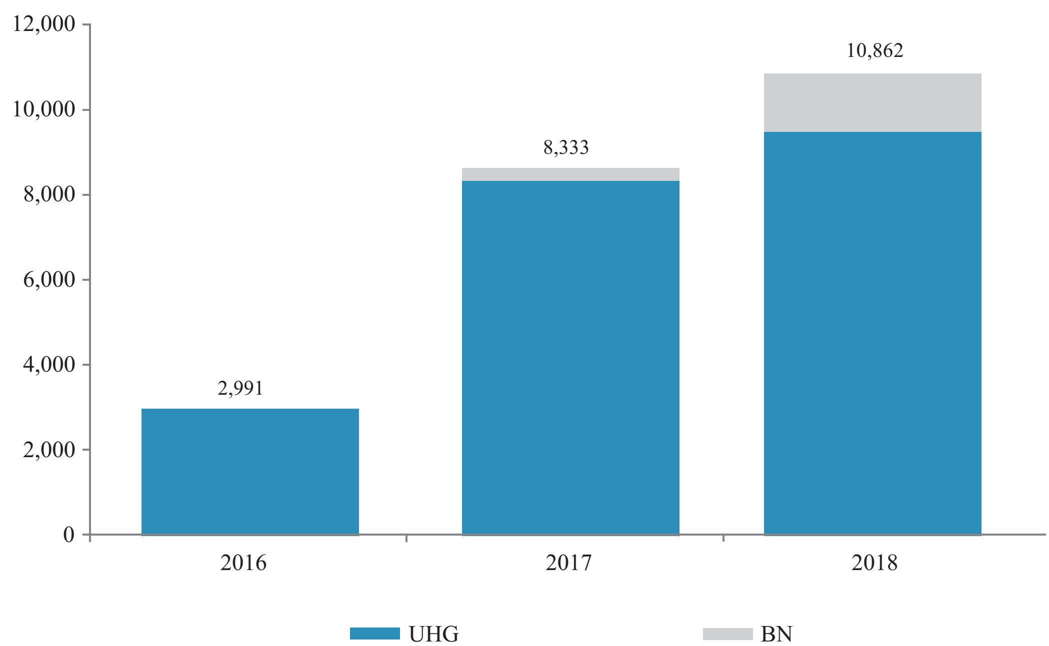
Coal Mining

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

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

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

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



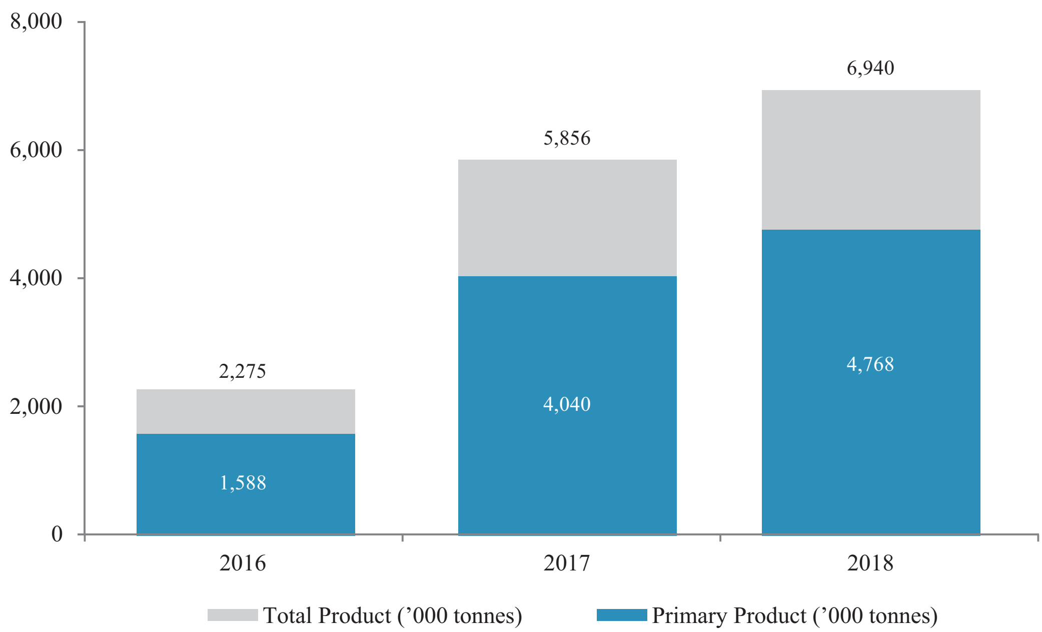
Coal Processing

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

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

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

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



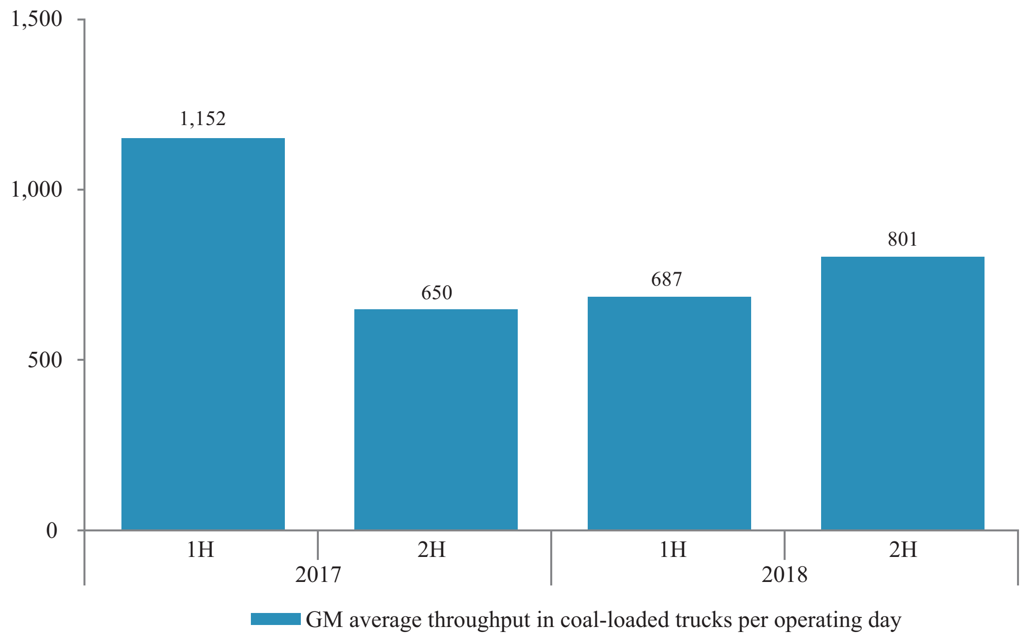
Transportation and Logistics

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

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

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

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



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

Occupational Health, Safety and Environment

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

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

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

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

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

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

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

Sales and Marketing

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

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

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

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

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

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

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

OUTLOOK AND BUSINESS STRATEGIES IN 2019

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

Cost of Revenue

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

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

Table 7. Total and individual costs of revenue:

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

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

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

Table 8. Unit mining cost per ROM tonne:

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

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

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

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

Table 9. Unit processing cost per ROM tonne:

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

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

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

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

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

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

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

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

Gross Profit

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

Non-IFRS Measure

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

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

Selling and Distribution Costs

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

General and Administrative Expenses

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

Net Finance Costs

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

Income Tax Expenses

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

Profit for the Period

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

Liquidity and Capital Resources

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

Table 10. Combined cash flows:

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

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

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

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

Change of Functional Currency of Certain Subsidiaries

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

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

Indebtedness

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

Credit Risk

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

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

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

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

Foreign Exchange Risk

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

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

Pledge of Assets of the Group

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

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

Contingent Liabilities

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

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

Financial Instruments

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

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

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

Capital Commitments and Capital Expenditures

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

Table 11. Capital commitments:

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

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

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

Operating Lease Commitments

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

Significant Investments Held

As at 31 December 2018, the Company did not hold any significant investments. Save as disclosed in this annual 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 2018, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

There have been no post balance sheet events subsequent to 31 December 2018 which require adjustment to or disclosure in this annual results announcement.

Employees

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

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

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

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

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

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries 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 2018 (dividend for the year ended 31 December 2017: 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 2018.

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

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. The CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("**AGM**") of the Company. Mr. Odjargal Jambaljamts, chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2018 AGM of the Company held on 29 June 2018, as Mr. Odjargal Jambaljamts was unable to attend the 2018 AGM due to important business engagement. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code for the year ended 31 December 2018.

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 2018 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, 27 May 2019 to Thursday, 30 May 2019, 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 Thursday, 30 May 2019, 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, 24 May 2019.

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 2018.

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 2018 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, 15 March 2019

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.