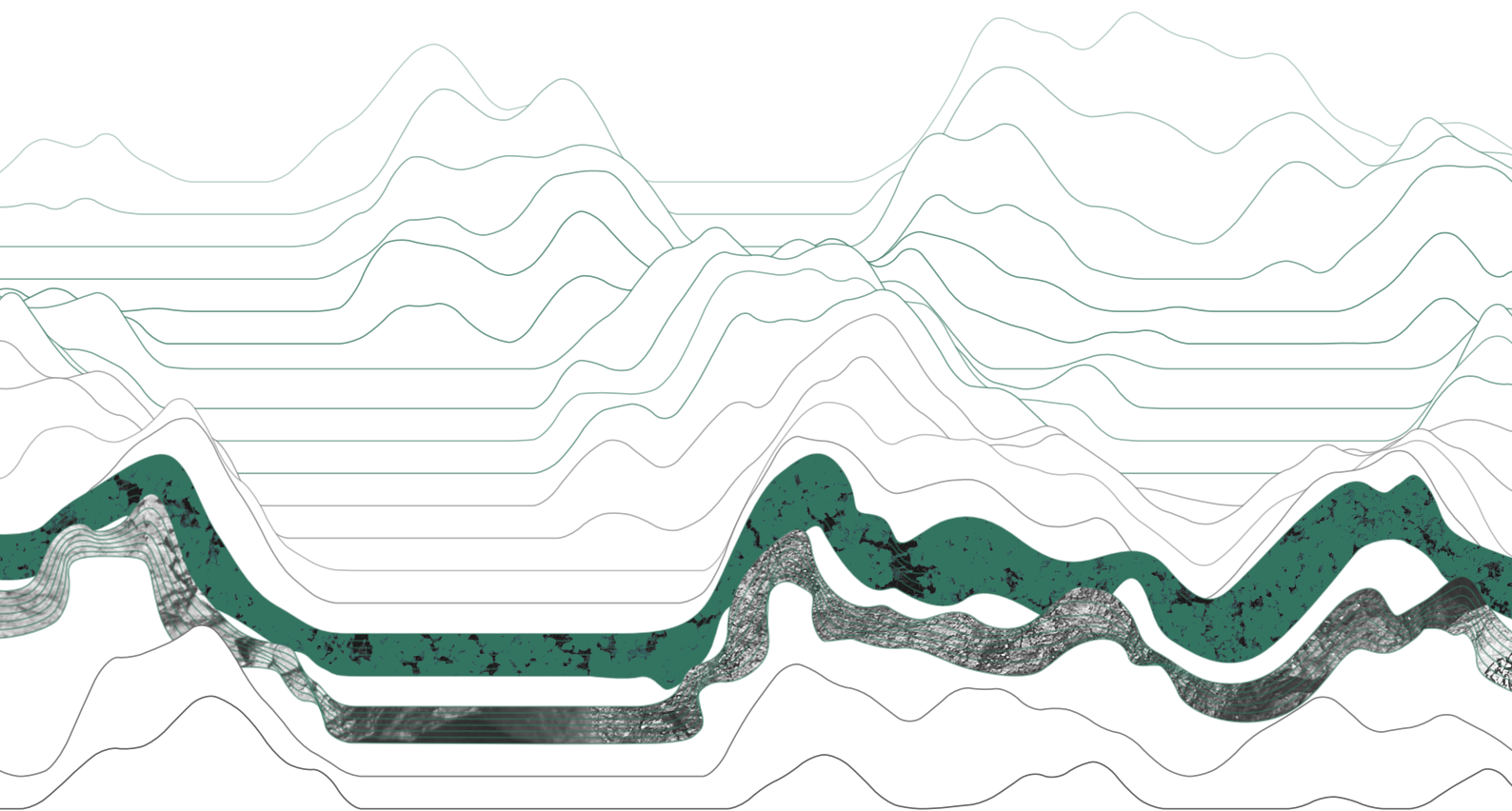


MEC

MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

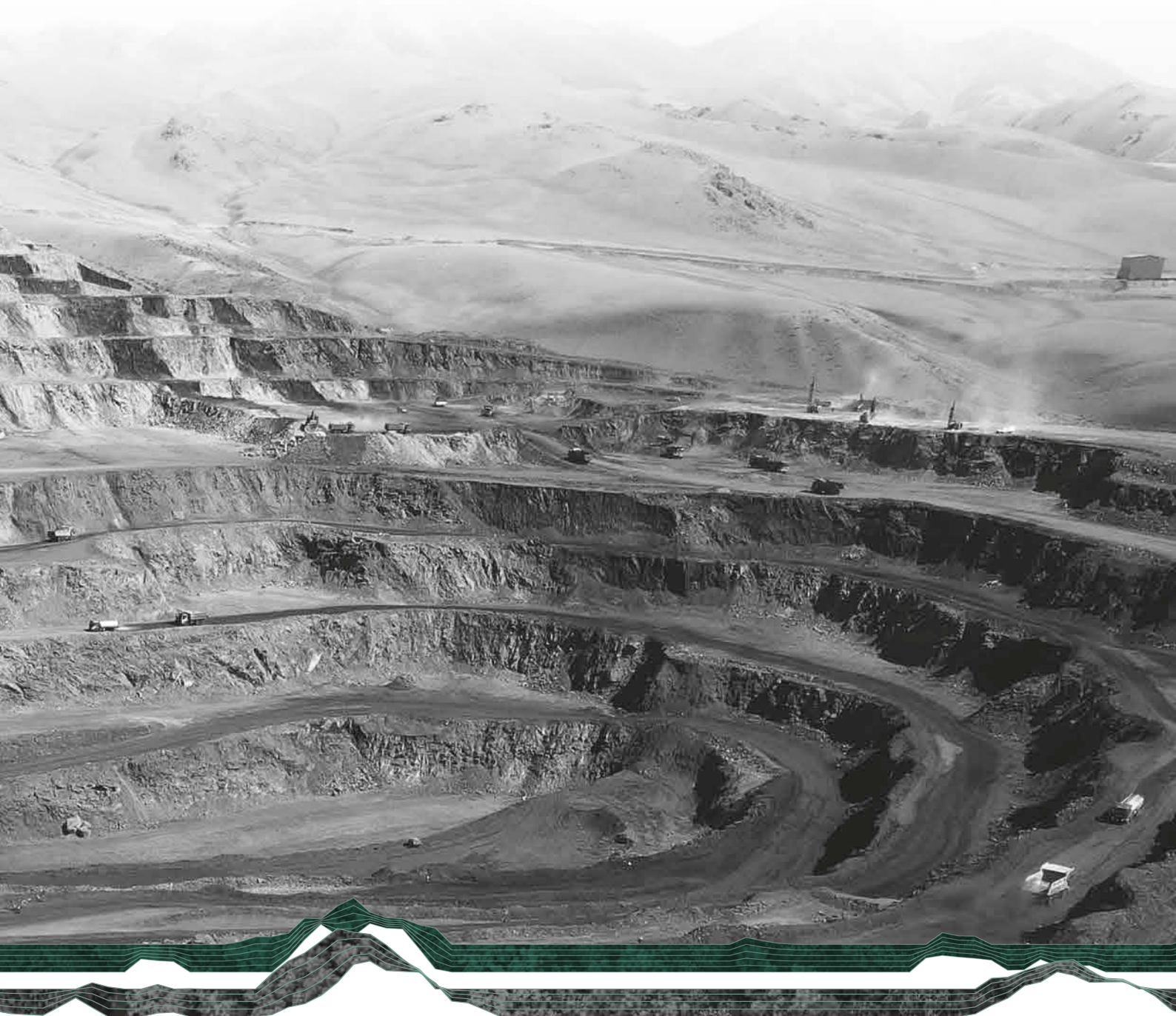
Incorporated in Bermuda with limited liability
Stock Code: 276



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2021

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ABOUT THE REPORT



This Environmental, Social and Governance Report ("**Report**" or "**ESG Report**") provides information about the principles and actions of sustainable development of Mongolia Energy Corporation Limited ("**MEC**" or the "**Company**", and together with its subsidiaries, the "**Group**") as a corporate citizen and its relationships with major stakeholders. The contents of this ESG Report have been prepared after taking into account the materiality of sustainability issues arising from the Group's operations.

OUR VALUES

MEC's Sustainability Values are driven by integrity and responsibility:



T: We ensure the disclosure of relevant information in a prompt and frank manner to our stakeholders.

O: We intend to seek the best potential outcome in each situation to create a better future for our Company and stakeholders.

C: We are keen to create a sense of unity through shared common goals and interests, not only with our shareholders, but also with our employees and local communities.

A: We do what is necessary to achieve our goals without compromising any of our core values and beliefs.

R: We abide by our Company's moral obligations and the regulations of our host countries, and are always accountable for our actions.

E: We take pride in sharing our values and knowledge with all of our stakeholders, and believe that there is much we can learn from each other.



ABOUT THE REPORT (CONTINUED)

The disclosure of the ESG data in this Report not only provides MEC's investors comprehensive information for evaluating the Group's operations, but also acts as a platform to help us to develop image and trust among all involved stakeholders such as MEC's shareholders, clients, governments of the countries where we operate and the local communities. All information included in this Report is based on the data submitted to the relevant Mongolian governmental agencies and results of regularly monitored reports of performance from the Khushuut mine site and Xinjiang washing plant, as well as from data of other governmental authorities, and the information and sources which we believe to be true and correct.

CORPORATE GOVERNANCE

We believe good corporate governance principles and practices are the foundation of a company's long-term success. MEC maintains the highest ethical standards when making decisions to protect the interests of the Company and its shareholders. Our governance policies and practices are well-established and apply to every business activity at all levels.

The Board of Directors is the highest governance body within the Group having the responsibility to review and maintain the corporate governance to ensure that the Group is consistently conducting the business in a socially responsible and ethical manner, as well as handling alleged unethical conducts and violation of rules promptly and discreetly. Members of the Board of Directors of the Company have a diverse range of business and professional expertise and possess appropriate experience and competencies to discharge their duties effectively. We are committed to follow the best practices in managing the environmental aspects of our operations. We pay utmost attention to minimize the impact and invest considerable amount of our resources in environmental management and community relations. MoEnCo LLC ("**MoEnCo**"), our principal operating subsidiary in Mongolia, applies advanced rehabilitation technology to improve, if not restore, the environment to its pre-mining conditions as best we can in the mining areas.

BOUNDARY AND SCOPE OF THIS REPORT

The Report presents the work that we had done on environmental and social aspects for the financial year, from 1 April, 2020, to 31 March, 2021 ("**Financial Year**") and includes the environmental and social responsibility programs taken place at Khushuut mine site and the entire far-western province of Khovd, Mongolia, and at our washing plant in Xinjiang, the People's Republic of China ("**PRC**" or "**China**"). However, some of the information is presented on calendar-year basis in order to ensure that it is consistent with the information submitted to the various governmental bodies in Mongolia and the PRC.

REPORTING GUIDE

Our Report¹ is prepared in accordance with the ESG Reporting Guide under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The ESG Reporting Guide encourages companies to report on practices and performance that relate to sustainability in a manner that is transparent and uses a globally shared framework of indicators. For the purpose of ensuring the materiality and consistency of data presented in this Report, and to allow accurate trends of comparison and conclusions, we have been presenting, where possible, the annual data and indicators in the same uniform structure and format as the past reporting years.

¹ For external assurance MEC has instructed a certified corporate law firm in Mongolia TemugeLaw LLC, (www.temugelaw.com) to verify the Report's compliance facts in Mongolia.

THE COMPANY



The background of the page is a grayscale aerial photograph of a massive open-pit mine. The mine's terraced levels and winding roads are clearly visible, set against a backdrop of rugged, forested mountains. The top of the image is decorated with a thin, dark green line that mimics the silhouette of a mountain range. The bottom of the image features a more complex, multi-layered green graphic that also resembles a mountain range, with several parallel lines creating a sense of depth and texture.



THE COMPANY (CONTINUED)

MEC is an investment holding company. The Group's principal business is coal mining and exploration which is operated by our indirect wholly-owned subsidiary in Mongolia, MoEnCo. Our principal project is the Khushuut Coking Coal Project in Khovd province, Mongolia. We sell coking coal and thermal coal to our customers in China and Mongolia.

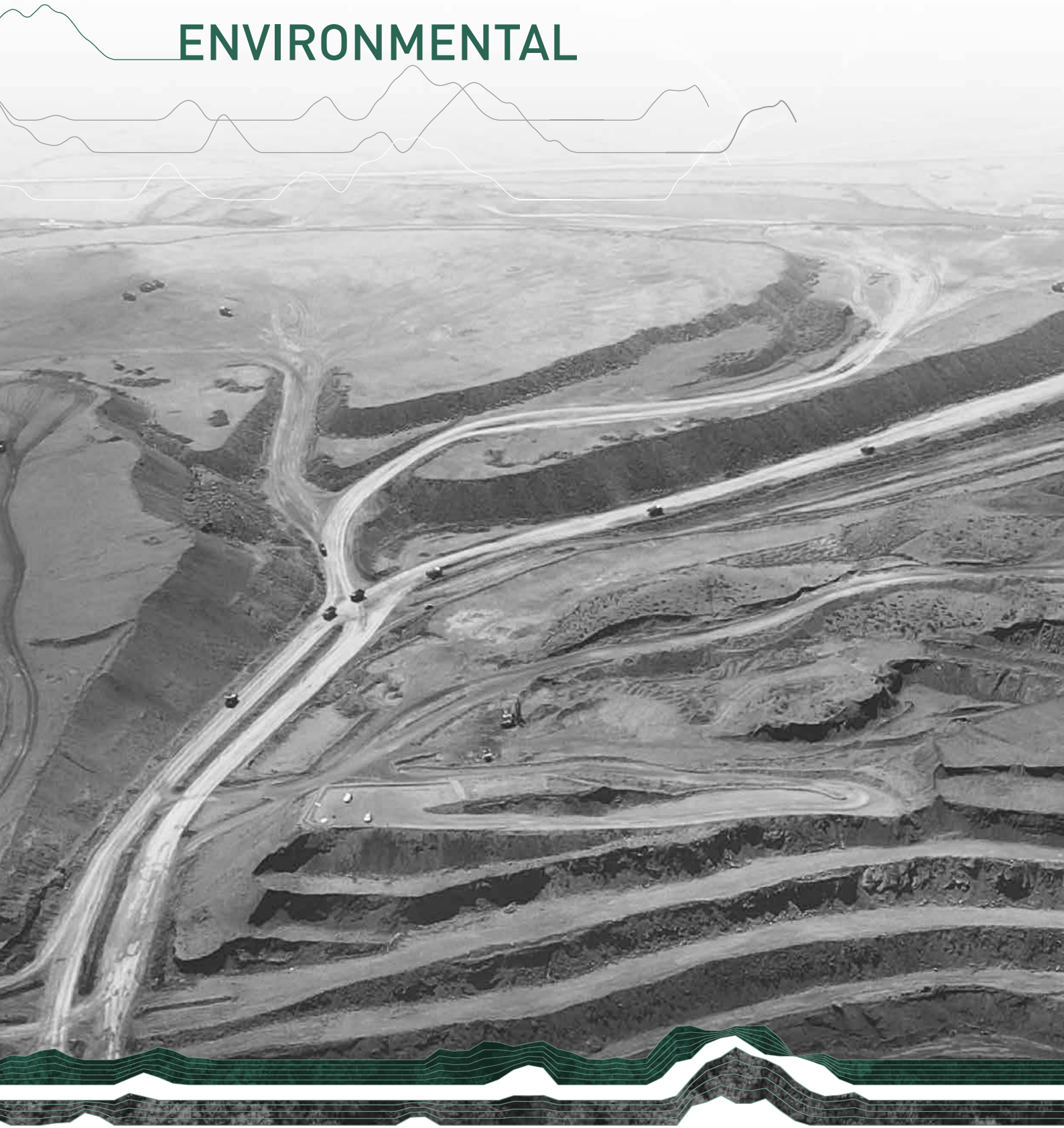
The Khushuut project consists of:

- an open pit coal mine with approximately 270.47 hectares of the mine-disturbed area;
- a dry coal processing plant ("**DPP**") with an annual two million tonnes capacity;
- a 360-people capacity camp at the Khushuut mine;
- an on-site chemical laboratory, repair workshops for heavy duty mine machinery and trucks, and other technical facilities;
- a 311 km heavy duty paved road from the mine to Bulgant border crossing point with PRC;
- the Uyenich Customs Bonded Yard ("**Uyenich CBY**") and processing center with a 60-resident capacity camp, covering 50 hectares;
- a customs processing point near the border between Mongolia and China covering 10 hectares; and
- a washing plant in China operated by our PRC subsidiary.

The Khushuut mine is located at the height of 2,000 meters in average above sea level in Altai Mountains, exposing to extreme weather conditions throughout the year. Temperatures fluctuate between 28°C in summer and -40°C in winter. Winter is long with heavy snowfall and gale force wind between October and April. The wind is always strong and gusty on-site with wind speed of up to 20 meters per second. Extreme weather conditions and remote mountainous terrain not only make the mining operations challenging, but also call for specific environmental conservation policies and measures. Significant resources are required to conserve the environment and minimize the impact of our operations on the local community.

MoEnCo has been ranked one of the top 100 Mongolian Companies for four consecutive years in 2017, 2018, 2019 and 2020 in Mongolia. The Group understands while operating as one of the top Mongolian mining companies, we have a duty to work responsibly and minimize the impact of our operations on the environment while maximizing the good return to all our stakeholders.

ENVIRONMENTAL

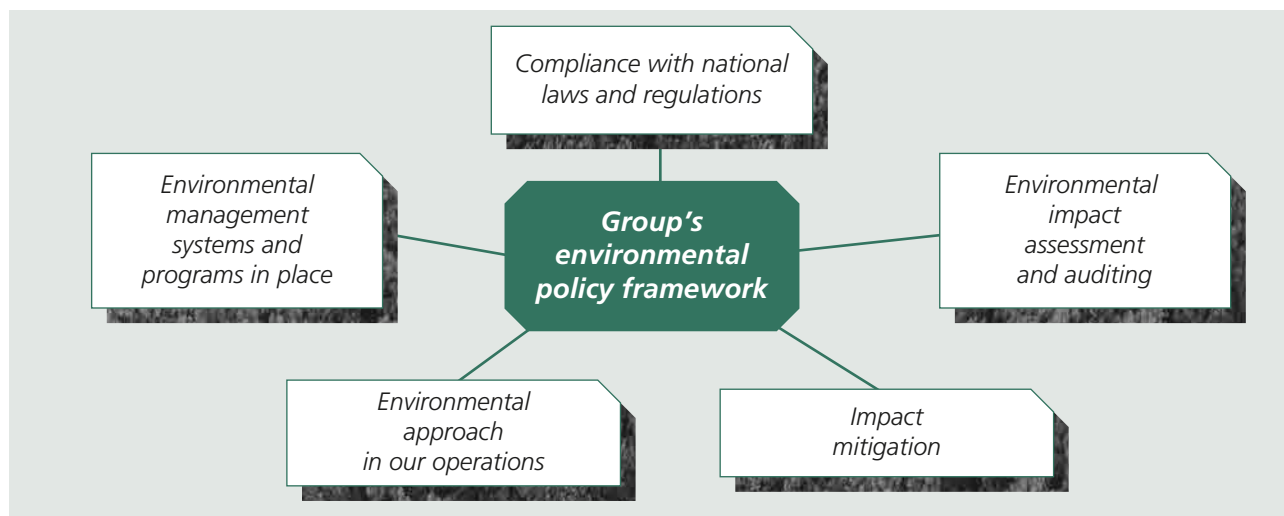


ENVIRONMENTAL (CONTINUED)

ENVIRONMENTAL POLICY AND MANAGEMENT PROGRAM

The Group believes that through a deliberate planning of our mining-related projects, implementation of pollution control measures, monitoring the effects of mining and rehabilitation of mined areas would minimize the impact of our activities on the neighboring communities, restoring the environment and maintaining long-term land sustainability.

The Group's environmental responsibility principles and actions make up the following structure:



MEC sees the importance of promoting green culture at our workplace and encourages our employees to sustain green efforts in their daily lives. Our Hong Kong head office has participated in the World Green Organization ("WGO") Green Office Awards Labelling Scheme since 2015, which is a programme striving to ensure environment sustainability as set out in the United Nations Sustainable Development Goals (UNSDG). The WGO has also promoted eco-healthy workplace practice in the scheme. In recognition of our efforts and commitment to reduce energy consumption and waste, and move further towards a low carbon office operation, MEC has been awarded the WGO's "Green Office" Label for six consecutive years. In addition, MEC has also been awarded the "Eco-Healthy Workplace" Label since 2017. The two awards demonstrate that we have done our utmost from the top level in Hong Kong in promoting green and healthy workplace practice.

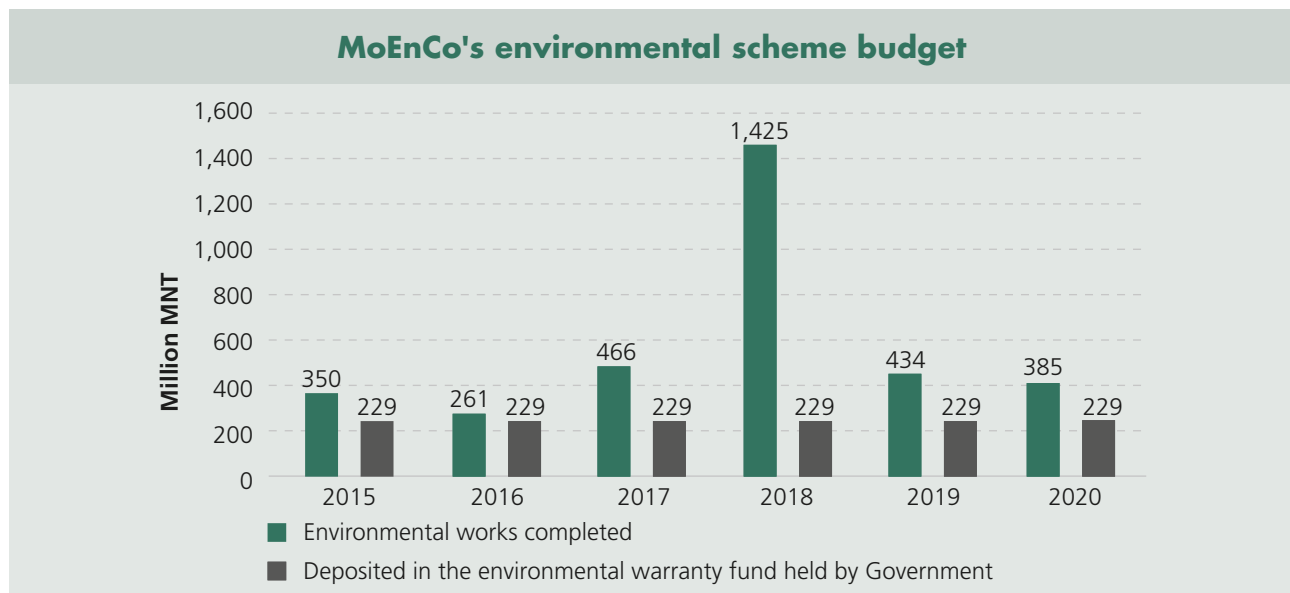
As a country with scarce water resources, harsh climate and lands prone to desertification and erosion, Mongolia imposes rigorous regulations, permit application requirements and procedures on environmental conservation, management and reporting. MoEnCo has to conduct its operations in compliance with the relevant environmental legislations strictly, including but not limited to, the Minerals Law of Mongolia, the General Law on Environmental Protection, Law on Environmental Impact Assessments, Air Law, Land Law, Water Code and other laws as well as a number of national standards. MoEnCo has adopted its environmental management system ("EMS") and integrated it into the mining and related operations for the purposes of clean production and environmental conservation.

The Group's environmental management system is a main component of the overall environmental management. The effectiveness of the EMS helps us to comply with the environmental laws and regulations, identify technical and economic benefits, and ensure that corporate environmental policies are timely adopted, followed and reported to the Mongolian government and the shareholders of the Company. The EMS consists of the following:



- Health, Safety and Environmental (“**HSE**”) Department oversees the environmental protection compliance and performance of MoEnCo. The team is responsible for preparing and effective realization of MoEnCo’s environmental management plans and programs.
- MoEnCo’s legal Department works closely with the environmental management team to ensure that we have complied with the relevant environmental legislations. The legal department is responsible for developing and having adopted internal regulations and procedures concerning the environmental compliance, ensuring timely submission of environmental plans and reports to related authorities, and obtaining the requisite licenses, certification and permits.
- Emergency Response Team (“**ERT**”) identifies and addresses possible measures to reduce the adverse impacts of our operations on the environment and health and safety of our workers and surrounding community.

Under the law, a mineral license holder must deposit a certain amount of funds as assurance of its environmental reclamation. In 2020, MoEnCo accrued approximately MNT 229 million (approximately HK\$624,000)² in a special warranty account of Ministry of Environment and Tourism of Mongolia. Under our 2020 Environmental Management Plan, we disbursed approximately MNT 384.9 million (approximately HK\$1,049,500) for the planned environmental protection works.



² In this report, conversion of Mongolian togrog into HK\$ based on the exchange of HK\$1:MNT336.76. No representation is made that only togrog can be or could have been converted at the above exchange rate or any other rates.

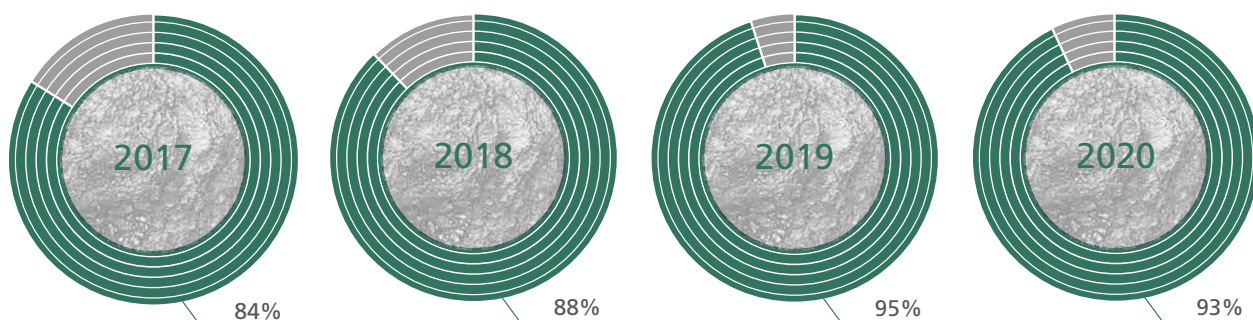
ENVIRONMENTAL (CONTINUED)

MoEnCo submits an annual environmental management plan for the coming year to the three Mongolian governmental agencies for approval: (i) the Ministry of Environment and Tourism of Mongolia, (ii) the Mineral Resources and Petroleum Authority of Mongolia and (iii) General Agency for Specialized Inspection. In addition, MoEnCo's environmental team holds meetings regularly with experts of the General Agency for Specialized Inspection, environmental inspectors of Khovd province Government and other related government officers in relation to our environmental management strategy and efforts.

ENVIRONMENTAL AUDITS

MoEnCo's environmental auditing is a management tool for measuring the effectiveness of our environmental management system and performance against the legal requirements and standards. As we are increasingly aware of the significant risks posed by environmental and occupational health and safety issues, MoEnCo maintains two types of environmental audits:

- External – In 2018, MoEnCo engaged a licensed independent environmental audit company for a full review and assessment of MoEnCo's environmental management, internal procedures, performance and rehabilitation activities. In 2020, we engaged another licensed environmental auditor, EBG Consulting LLC, which carried a comprehensive audit at MoEnCo's office and Khushuut camp in August – September, 2020. The audit team of four professionals prepared its audit report and presented it to MoEnCo which we further presented to the Environmental Department of Khovd province.
- The Mongolian government audit – In accordance with the Law of Mongolia on Government Control and Inspection, the Khovd office of General Agency for Specialized Inspection schedules and conducts regular and random inspections and assesses MoEnCo's environmental performance.
 - In 2020, groups of inspectors of the Khovd office of General Agency for Specialized Inspection visited the Khushuut mine site four times under the government assurance scheme. Their frequent visits of 2020 were necessitated by the COVID-19 prevention actions.
 - In September 2020, the Khovd office of General Agency for Specialized Inspection formed a seven-member group of provincial executives with the purpose of evaluating the MoEnCo's 2020 environmental performance. After thorough assessment, this working group concluded that our 2020 environmental performance was 93.2 percent successful and complete while some of the planned works were in progress or postponed due to the external circumstance (namely, the COVID-19 restrictions).
 - Such government reviews and assessments are annual. Over the past four years, the government assessment of the MoEnCo's annual environmental management has been notably improving:



ENVIRONMENTAL PERFORMANCE REPORTING

As a mining license holder and operator of a large mine camp, MoEnCo has strict reporting obligations under a number of laws (General Law on Environmental Protection, Minerals Law, Water Code, and so forth). Following the reporting procedure set forth in the law, the report of the MoEnCo's 2020 Environmental Management Plan performance has been presented to the Ministry of Environment and Tourism of Mongolia along with the Khovd Government assessment statement. After the review, our environmental management report endorsed by the Ministry of Environment and Tourism has been submitted to the Khovd office of General Agency for Specialized Inspection, Khovd Governor and representatives of the provincial Assembly and local administration of three soums where we operate (Tsetseg, Darvi, Uyench of Khovd province).

The Group's reporting scheme

1. In Hong Kong	<ul style="list-style-type: none"> The Company reports to its shareholders through submission of the annual ESG report
2. In Mongolia	<ul style="list-style-type: none"> Ministry of Environment and Tourism Mineral Resources and Petroleum Agency Khovd office of General Agency for Specialized Inspection Khovd province Governor Khovd province Governor Assembly and local administration of three soums where we operate (Tsetseg, Darvi, Uyench of Khovd province) National Emergency Management Agency
3. External	<ul style="list-style-type: none"> Extractive Industries Transparency Initiative Mongolia database www.eitimongolia.mn

Some additional reporting is mandatory with respect to specific parts of MoEnCo's environmental performance and social responsibility. For example, a comprehensive water use report is submitted annually to the local water authority, and the Khushuut camp medical center presents an annual detailed report of its patients and disease cases to the Khovd province Health Department. Moreover, every year MoEnCo presents its report to the Khovd province Governor on realization of the 2017-2020 Cooperation Agreement signed between MoEnCo and the province.

Headquartered in Oslo, Norway, the Extractive Industries Transparency Initiative is the global standard to promote the open and accountable management of oil, gas and mineral resources. Mongolia joined this initiative as one of its 54 implementing countries. Under its national obligations, Mongolian government required mining companies to submit detailed reports to its database which is open to the public. MoEnCo submits its report every year in accordance with this requirement. Because of those Mongolian mining companies which enthusiastically submit their operational data to this Initiative for assessment, Mongolia is consistently among the few member-countries with top assessment of "satisfactory progress".

ENVIRONMENTAL (CONTINUED)

AIR QUALITY MONITORING

Rapid urbanization in Mongolia in recent decades caused a problem of unplanned settlements and increased air pollution in the capital city. In response, the Government took some critical actions in the past couple of years including the tightening of the relevant regulations and standards that are applicable throughout the country. Air quality concerns lead to more thorough government inspections of mining operations.

Regular monitoring of the air quality indicators and prevention and mitigation of air pollution at Khushuut mine site is the key part of MoEnCo's annual environmental management program. With regard to the air emissions and monitoring procedures, all MoEnCo's operations must be in compliance with:

- Air Law of Mongolia, Air Pollution Fee Law, and related regulations;
- permit requirements prescribed by various laws of Mongolia;
- mandatory reporting to the government; and
- national air quality standard MNS 4585:2016 approved by the National Standardization and Measurements Committee of Mongolia in 2016.

Air quality. General technical requirements MNS 4585:2016³ standard

Name of the contaminant	Measured in average of	Measurement unit	Permissible amount
Chemical impact			
Sulfur dioxide (SO ₂)	Average of 20 minutes	µg/m ³	450
	Average of 24 hours		50
	Annual average		20
Carbon monoxide (CO)	Average of 20 minutes	µg/m ³	60000
	Average of 1 hour		30000
	Average of 8 hours		10000
Nitrogen dioxide (NO ₂)	Average of 20 minutes	µg/m ³	200
	Average of 24 hours		50
	Annual average		40
Ozone (O ₃)	Average of 8 hours	µg/m ³	100
Dust (total measurable particles)	Average of 20 minutes	µg/m ³	500
	Average of 24 hours		150
	Annual average		100
Coarse particles (PM ₁₀)	Average of 24 hours	µg/m ³	100
	Annual average		50
Small particles dust (PM _{2.5})	Average of 24 hours	µg/m ³	50
	Annual average		25
Lead (Pb)	Average of 24 hours	µg/m ³	1
	Annual average		0.25
C ₂₀ H ₁₂	Average of 24 hours	µg/m ³	0.001
Physical impact			
Level of noise			
• day time (07:00 in the morning -22:00)	Average of 16 hours	decibels	60
• evening and night hours (22:00-07:00 of the next morning)	Average of 8 hours	decibels	45

³ For more information, please visit the website www.agaar.mn/article-view/546, Air Quality, the Ministry of Environment and Tourism.

MoEnCo ensures its compliance with the air quality requirements through:

- integrating the air pollution prevention actions as an important part of our environmental management scheme;
- regular measurements of air particles at Khushuut using own equipment;
- hiring an independent evaluator – the relevant research institute for independent testing and assessment annually;
- joint measurements and tests together with the environmental inspectors of Khovd province as part of their inspection and assurance procedure; and
- periodical hiring of a private licensed auditing company for comprehensive audit of MoEnCo's compliance with its environmental obligations including the pollutants emissions.

MoEnCo engages a government agency, Information and Research Institute of Meteorology, Hydrology and Environment, annually for conducting air sampling and testing in five locations at Khushuut mine site under the approved procedures. The last survey was conducted in late December 2020, when a team of six professionals sampled and measured sulfur dioxide (SO₂), nitrogen dioxide (NO₂), small particles dust (PM_{2.5}), coarse particles dust (PM₁₀) and heavy metals content in five locations within ten km radius of the mine pit. Method of measurements: (i) eight times in 24 hours when the measurement was carried out at the duration of 20 minutes each time over three or four days, and (ii) continuous 24 hours over six days.

The global COVID-19 pandemic forced the Mongolian Government to close the country's borders for various durations and locations depending on the situation. The Bulgan border crossing port with China, through which MoEnCo transports its coal, was closed for a total duration of four months in 2020 while other COVID-19 related restrictions and limitations were in place almost throughout the entire year of 2020. In this critical time, the Uyenich CBY was basically not used for operations and coal transportation purpose but was prepared as a potential quarantine point for most of the time in 2020, we did not perform air and water quality measurements at Uyenich CBY in 2020.

ENVIRONMENTAL (CONTINUED)



Air quality testing points

Point 1: Petrol station in 1.2 km from the mine office

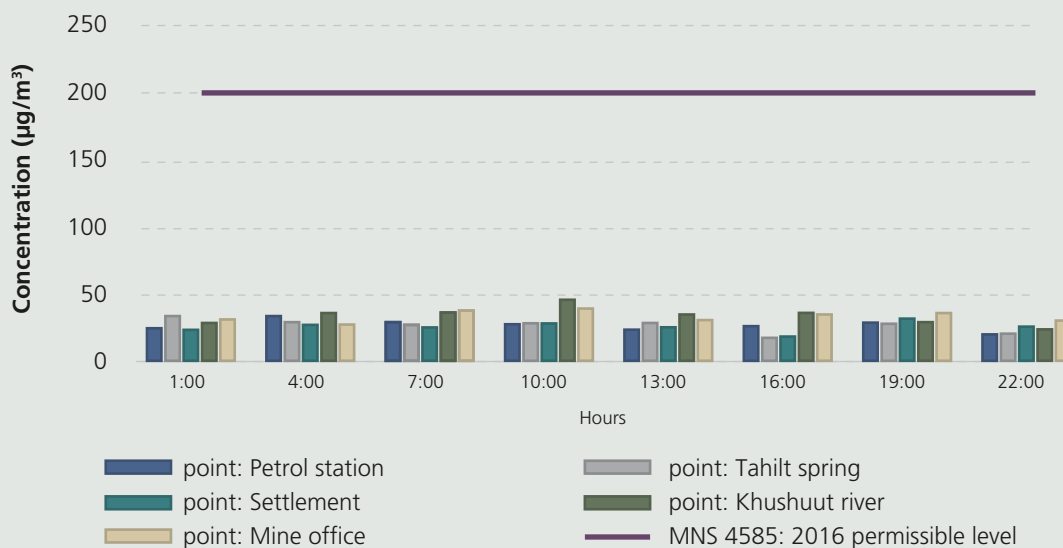
Point 2: Tahilt spring in 2.5 km from the mine office

Point 3: Settlement in 10 km

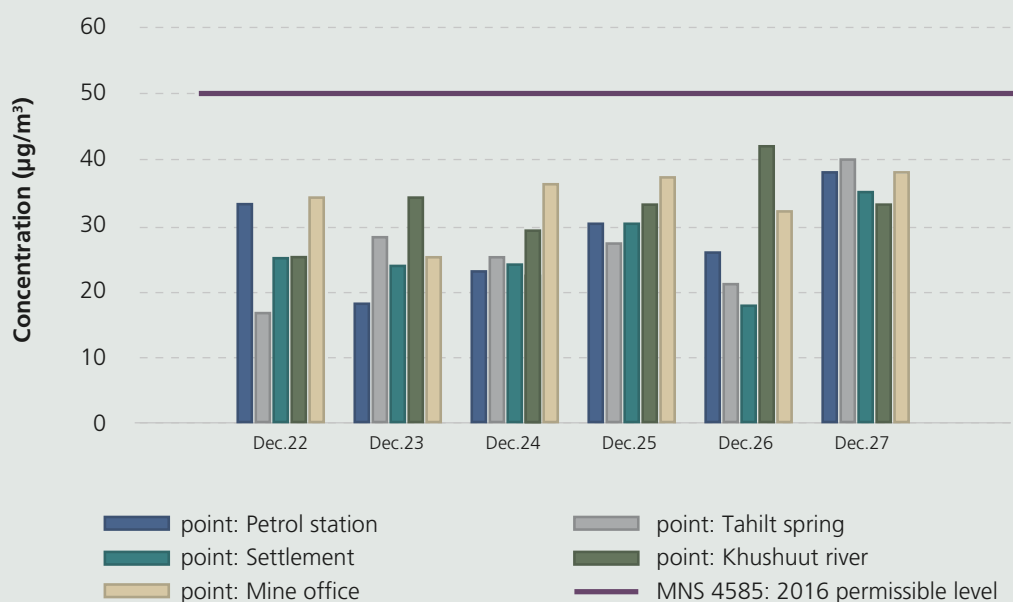
Point 4: Khushuut river bank in 2.5 km

Point 5: Mine office

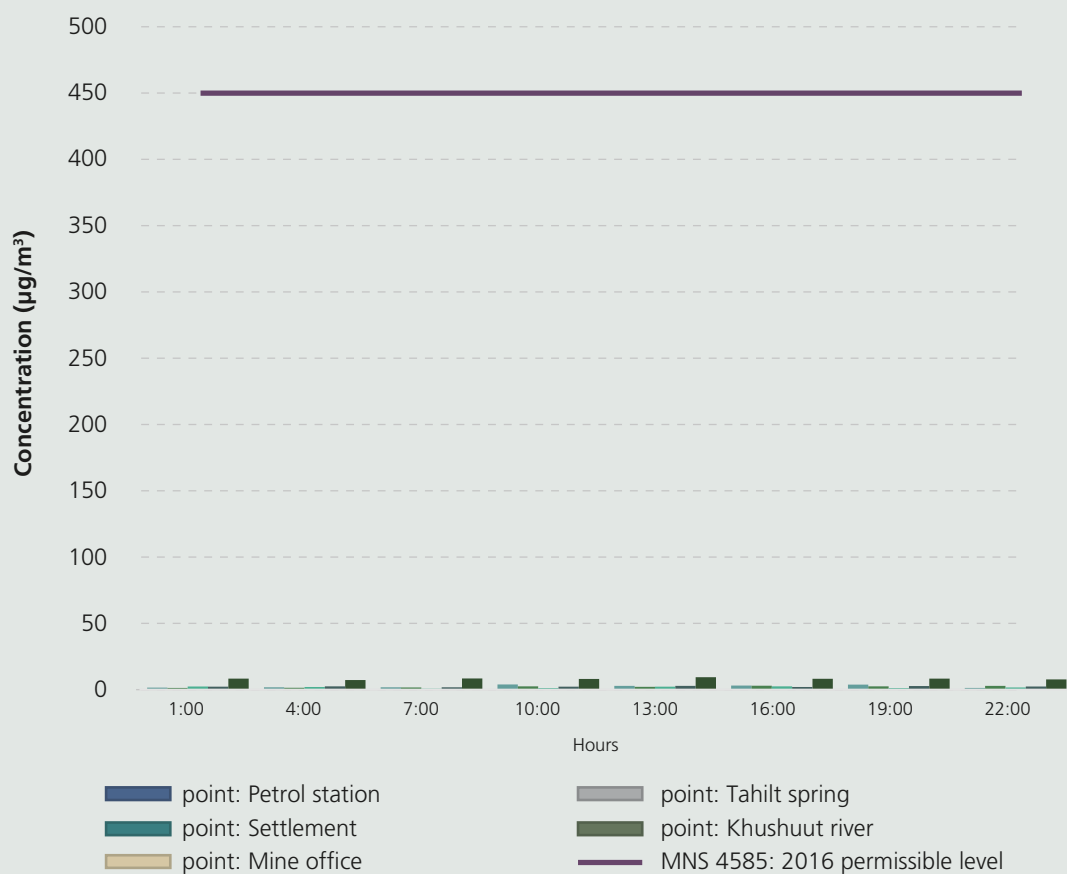
Khushuut NO₂ content, average of 20 minutes measurements



Khushuut NO₂ content, average of 24 hours

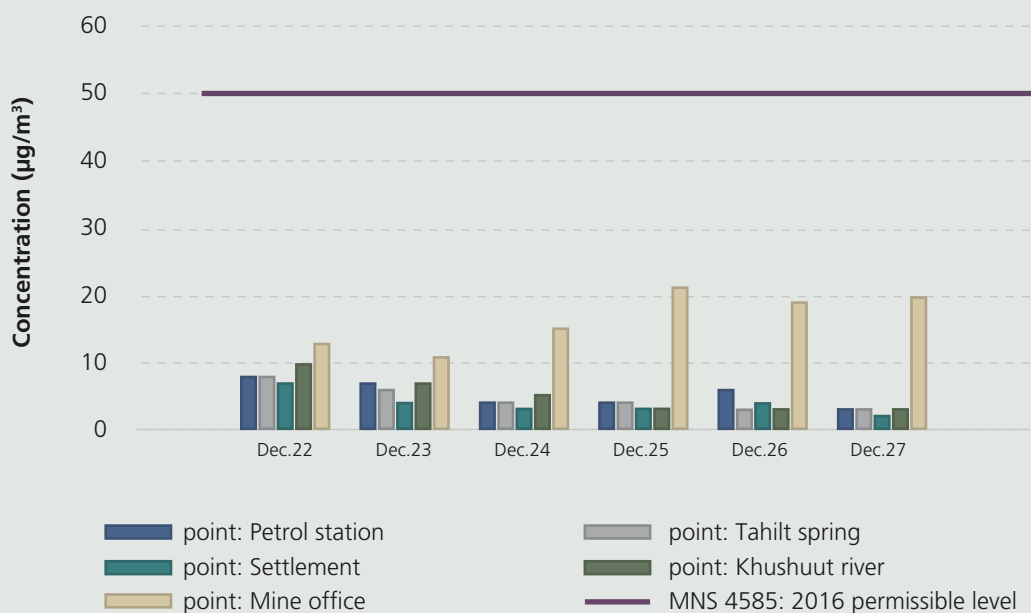


Khushuut SO₂ content, average of 20 minutes measurements

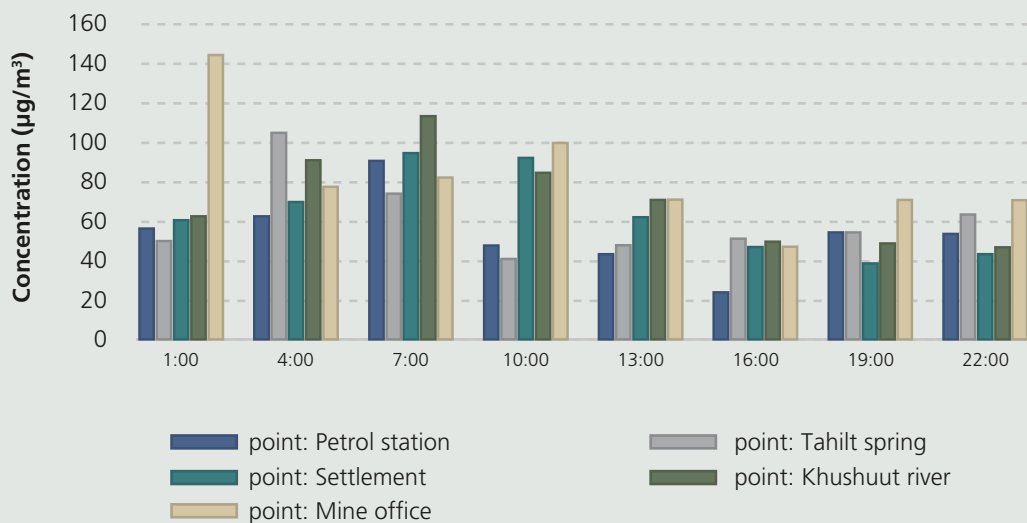


ENVIRONMENTAL (CONTINUED)

Khushuut SO₂ content, average of 24 hours

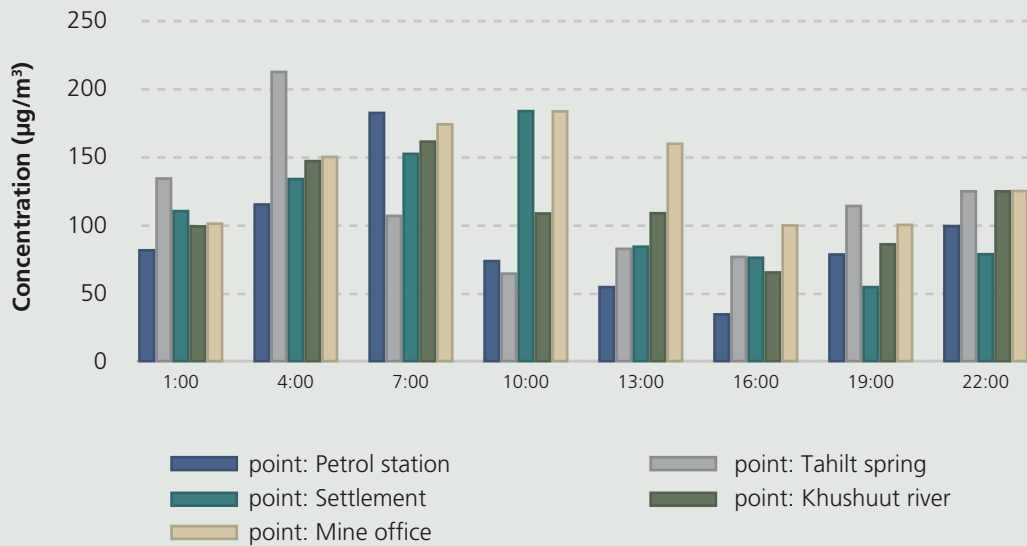


Khushuut PM_{2.5} content, average of 20 minutes measurements*



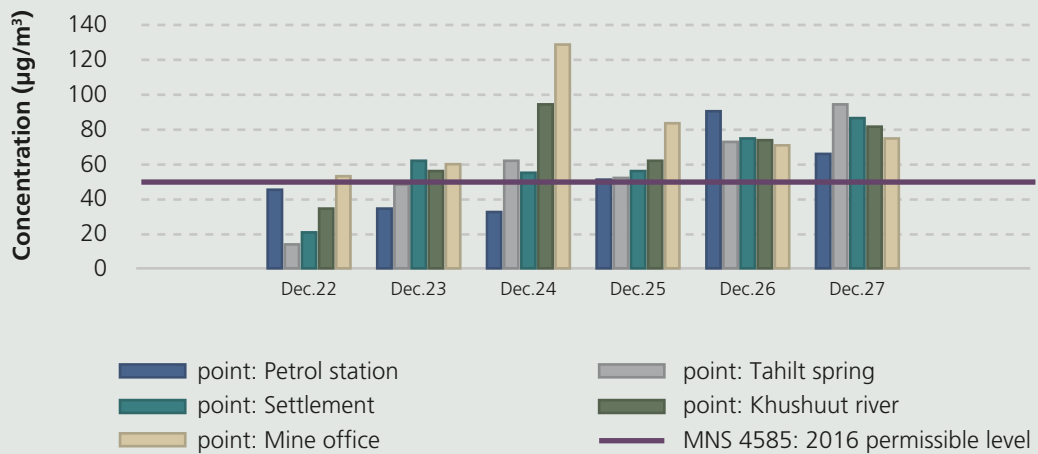
* Note that the national air quality standard MNS 4585:2016 does not set a permissible level for small particles PM_{2.5} in 20 minutes measurements

Khushuut PM₁₀ content, average of 20 minutes measurements



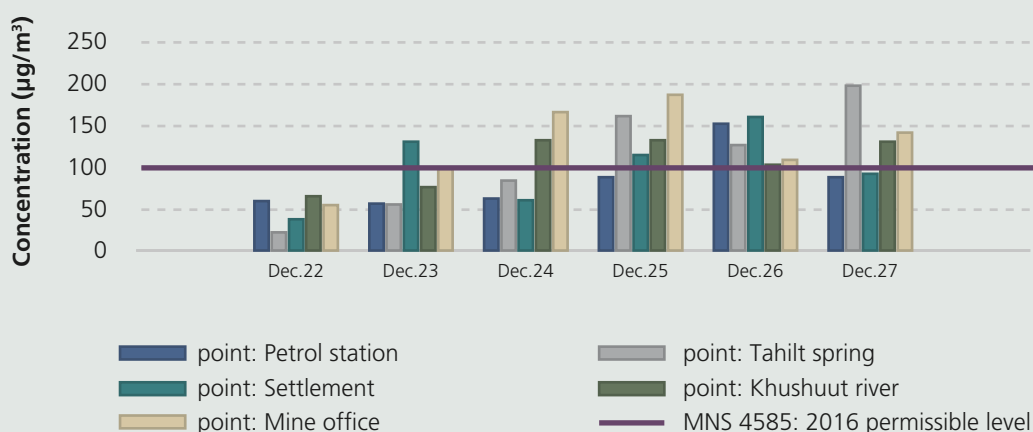
* Note that the national air quality standard MNS 4585:2016 does not set a permissible level for coarse particles PM₁₀ in 20 minutes measurements

Khushuut PM_{2.5} content, average of 24 hours



ENVIRONMENTAL (CONTINUED)

Khushuut PM₁₀ content, average of 24 hours

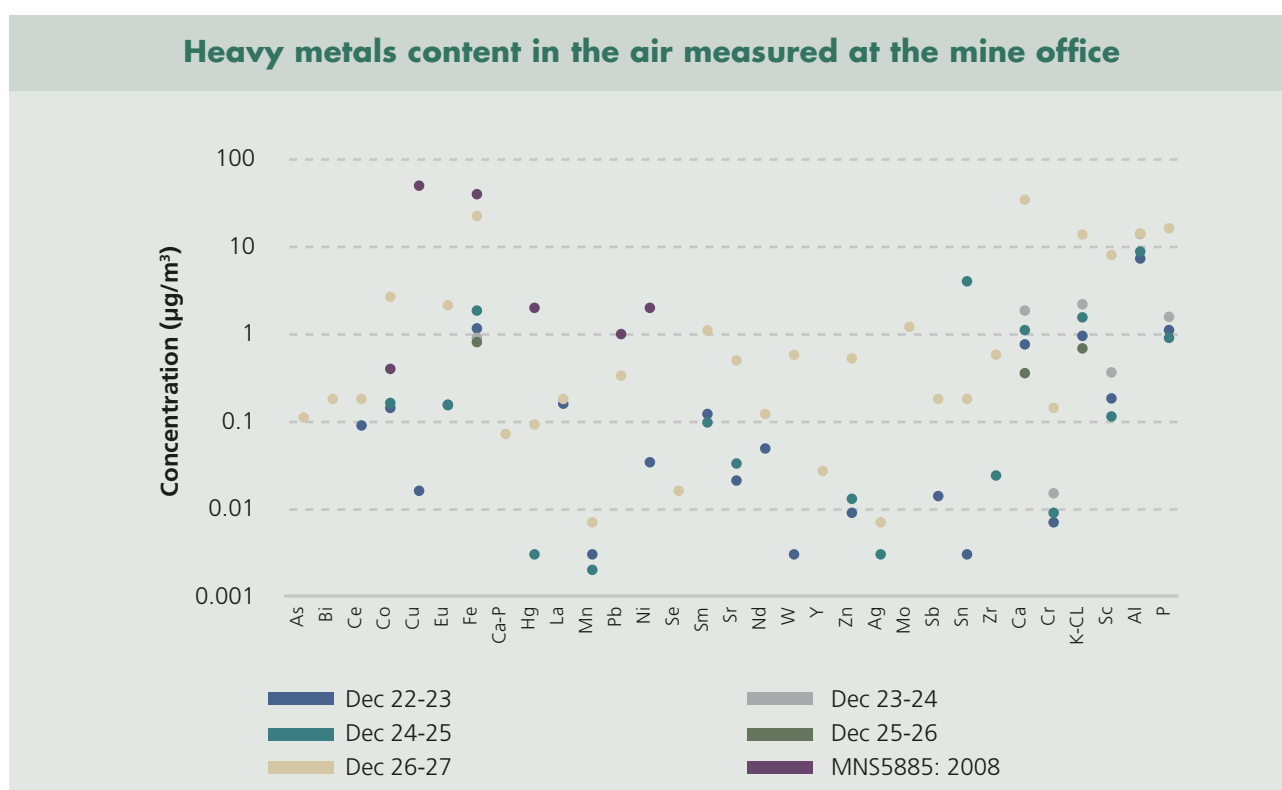


The above charts clearly show that the NO₂ and SO₂ content in the air around Khushuut mine have been in good compliance with the national standard. However, the dust content in the PM₁₀ category had increased in comparison to the 2019 numbers and climbed above the permissible level because (i) during the measurement days Khushuut mine had the most intensive operations, including mining, transporting and processing of coal, to make up the four months COVID-19 restrictions and the border closure, and (ii) when the measurements took place in late December 2020, Khushuut mine was naturally characterized with strong winds.

By its very nature, the cutting and breaking of rocks during coal mining operations, top soil stripping, coal loading and unloading, generate dust. Prevention of dust hazards during mining operations is the main health and safety concern for MoEnCo. We take various types of preventive and mitigation measures at several production phases through:

- Constructing and maintaining the environmental protection facilities. A special fence for protecting against dust pollution around our DPP and the adjacent customs control area was built and commissioned by MoEnCo in 2014. It is 2,292 meters long and 12-15 meters high.
- The “water wall” technology. In 2017-2018, MoEnCo installed and expanded the fixed water misting systems, one of the best technologies available today to control dust in the air, at the coal loading and unloading area of the Khushuut mine. Currently four systems operate to create 20-30 meters tall and 35-40 meters wide water walls at Khushuut mine. A new fixed water misting system has also been installed at Uyenich CBY.
- Additional misting air in the dust intensive areas. In early 2017, MoEnCo piloted a water sprinkler system at our DPP, the most intensive coal handling area. As of early 2018, there were three sprinkler machines (orchard mist blowers and blast sprayers with a tank) with 16 tonnes water spraying capacity working at the site to reduce dust concentration in the air to about 40 percent throughout a day. As the dust reduction and prevention measures have proven effective, MoEnCo now has nine sprinkling machines, fixed and movable, which mist the air around the DPP and other heavy-dust locations.
- Watering the roads and pathways within and adjacent to the mine pit. There are now five vehicles with total capacity of 100 tonnes which use the mine’s waste water for daily watering the mine pit inner roads and the coal loading and unloading areas for dust reduction.

- Measuring dust concentrations in the air using own equipment. MoEnCo's environmental team measures fine particle contaminants (PM₁₀, PM_{2.5}) monthly using DUSTTRAK2 equipment at 15 points around the Khushuut mine and reports the results to the camp director.
- Enforcing speed limits when driving on the mine roads and sideways. MoEnCo adopted and enforced internal driving rules with 5-30 km/h speed limits for coal hauling trucks on mine roads, and also installed some speed measuring devices on roadways.
- Covering the dirt road surfaces with gravel.
- Making purposed strips of vegetation along the roads close to the nearby village, camp and office buildings and between them and the mine pit, and planting trees and bushes on these strips.



The results of the independent government measurement of the content of 31 different heavy metals in Khushuut mine air shown in the graph above indicate that MoEnCo's mining operations were in compliance with the Mongolian standard MNS 5885:2008 in the year of 2020.

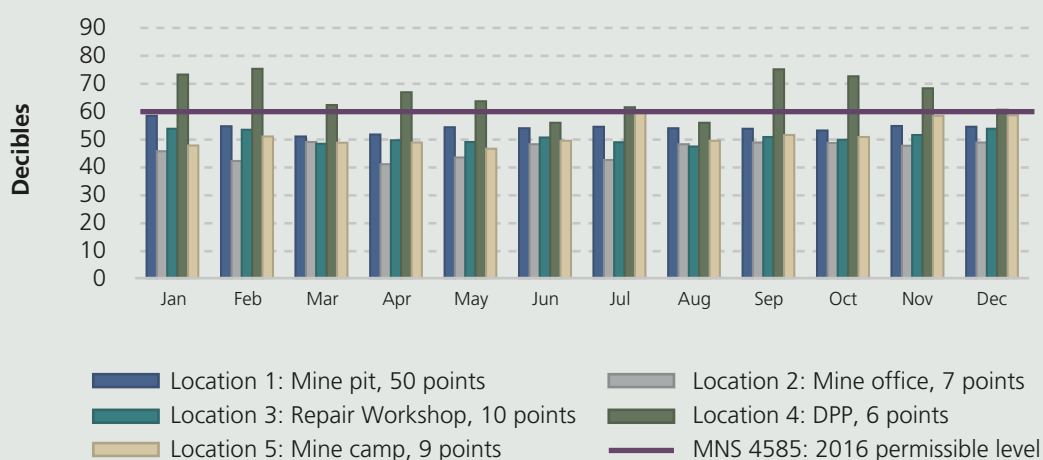
ENVIRONMENTAL (CONTINUED)

NOISE CONTROL AND REDUCTION MEASURES

Eliminating or reducing excessive noise at work is not simply an employer's responsibility. It is the Group's interest to provide a safer and healthier working environment that would inevitably lower the probability of accidents and under-performance. As in most other heavy industries, mining can expose workers to high noise levels. Drills, crushers, mills, and some other items of mining and mineral processing at Khushuut are inherently noisy. MoEnCo's noise control and reduction measures include:

- Source identification and risk assessment – MoEnCo's environmental team monitors and measures noise sources and levels and reports them to the Government as part of MoEnCo's comprehensive Environmental Management Report. Such measurements and risk assessment allow us to define the actions which need to be taken to continuously meet the standard requirements for noise exposure. In 2020, the noise measurements were conducted by using SL-5868P Portable Sound Level Meter and Noise Grader at 5 different locations at Khushuut mine site, each of which also had 6-50 measurement points at each location, the total number of measuring points were 82.
- Internal safety procedures in effect – noise exposure and reduction matters are regulated in accordance with the MoEnCo's internal regulations and rules of Khushuut camp as well as in a number of approved internal safety procedures. MoEnCo's safety team ensures due enforcement of these procedures at the camp.
- Person protective equipment – MoEnCo workers are strictly required to wear uniform with all the mandatory personal protection equipment and the part of which are ear plugs. Workers in noise intensive area are required to wear industrial ear plugs.
- Government inspection – MoEnCo's noise control and management is also a part of the annual inspection by the Khovd office of General Agency for Specialized Inspection.
- Free annual hearing exams are given to all MoEnCo's employees working at Khushuut as part of annual health checkups.

Average daytime noise levels at Khushuut



VEHICLE EMISSIONS CONTROL

MoEnCo and its transporting contractors are required to operate in accordance with the requirements and adhere to the following procedures pertaining to the vehicle emission:

- Transportation Law of Mongolia of 1999, Regulation of 2010 on Technical Inspection of Vehicles, and other relevant regulations; and
- National standard MNS 4598:2011 “General requirements and technical conditions for road vehicles”, national standard MNS 5013:2009 “Petroleum powered vehicles — maximum permissible levels of toxins in emissions, their composition, measurement methods and procedures”, national standard MNS 5014:2009 “Diesel engine vehicles — maximum permissible levels for toxins emissions and measuring method”, approved by the Standardization and Measurement Agency.

As of the end of March of 2021, there were about 600 heavy duty trucks and other machineries belonging to MoEnCo and 26 transportation and haulage companies contracted to perform hauling, loading, unloading and carrying our coal to our domestic and PRC customers. All trucks must undergo mandatory inspection imposed by the government, purchase the due permits and pay annual emission taxes at the Khovd province Auto Vehicles and Transportation Center. Only vehicles that met the emission standards be granted a permit for driving. MoEnCo also ensures that all trucks engaging in coal transportation have been duly inspected, meeting the emission requirements and having obtained the necessary customs permits. All MoEnCo’s coal transport agreements include provisions ensuring the carrier’s obligation to comply with the emission standards.

Our vehicles control team at Khushuut consists of four auto mechanical engineers and 17 repairmen. They operate a daily checkpoint at the exit of the Khushuut mine. Coal transporting trucks are thoroughly monitored, and inspected if necessary, through their haulage on the Khushuut road and at the entrance of the Bulgan border crossing port by MoEnCo’s team of 15 supervisors. In addition to MoEnCo’s monitoring, various government agencies including (i) National Auto Vehicles and Transportation Center, (ii) Mongolian Customs General Administration, and (iii) General Agency for Specialized Inspection, ensure that all trucks meet the general requirements and technical conditions specified in the standards and also may perform selective testing of emissions. These three agencies also perform their thorough inspection duties at the Bulgan border crossing point (before heading to PRC) for trucks loaded with coal and the returning trucks after their loading.

WATER USE MANAGEMENT AND QUALITY MONITORING

Water use management is a critical part of the MoEnCo's environmental management. The need for sustainable water management and water quality monitoring within the mining industry is critical in Mongolia due to scarcity of water and the semi-arid climate. MoEnCo takes this necessity seriously and continuously improves its water management efficiency through various management channels. For example,

- No fresh water consumption in the mining operations. Khushuut mine uses water primarily for dust suppression, employees' needs at the camp, greening and nurturing trees and other vegetation. Except for the camp use, we only use waste water that naturally builds up at the bottom (mainly due to snow and ice melting during warm weather) of Khushuut mine pit.
- Obtaining permits for use of (i) fresh water and (ii) waste water in accordance with the Water Law, Water Fees Law, Minerals Law and other relevant statutes. The water use permit is sought from:
 - Khovd province Environmental Office which issues Water Use Certificate annually upon satisfactorily concluding the water use agreement for the previous year.
 - the Huisiin Gobi — Tsetseg Lake Watershed Area Administration (the local water authority) and government-owned Mongol Us company (local water provider) with which MoEnCo enters into the water use agreement annually.
- Preparing the annual Comprehensive Water Use Report and submitting it to the local water provider. The local water provider and the local water authority jointly evaluate and approve the report. Only upon satisfactory acceptance of MoEnCo's reporting of its water conservation and quality monitoring efforts, they will issue a water permit for the subsequent year. MoEnCo's 2020 report was accepted with good level of Government approval in December 2020.
- Planning and performing a set of medium and long-term water management actions at our Khushuut operations that are inserted in the annual Environmental Management Plan and having this Plan approved by the relevant Government agencies. The performance report on the annual Environmental Management Plan is assessed and endorsed by the Ministry of Environment and Tourism, Khovd Government and General Agency for Specialized Inspection.
- Duly paying the water use fees.
- Employing professional environmental specialists' team at Khushuut camp including a hydrogeologist.
- Water saving awareness and techniques are one of topics of regular training sessions at Khushuut camp.
- Quarterly submission of the water consumption data and water testing results to the local water administration. Although it is not mandatory, such data sharing not only allows joint monitoring of MoEnCo's water use but also provides more transparency in our local operations.

Khushuut water consumption volumes

	2016	2017	2018	2019	2020
Amount of fresh water used for residential purpose (m ³)	13,846	13,980	19,255	14,637	12,221
Amount of water used for industrial purpose:					
underground water (m ³)	28,878	45,162	59,055	74,594	44,965
intensity* (m ³ /t)	–	0.032	0.034	0.035	0.031
drainage water (m ³)	15,976	7,920	23,726	20,882	19,507
intensity* (m ³ /t)	–	0.0056	0.014	0.010	0.013
Fresh water use fee paid	Exempt under the law				
Drainage water fee paid (million MNT)		14	31.77	13.3	12.3
Technical water fee paid (million MNT)		4.47	24.97	15.5	11.3

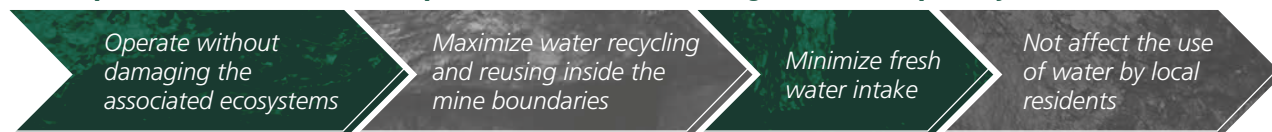
* Represents volume of water consumed to tonnes of coal produced

In 2020, the Mongolian Government carried out the Khushuut water quality assessment in accordance with the requirements and procedures of the relevant laws and standards:

- MoEnCo sent its water samples to the Institute of Geography and Geoecology of Mongolian Academy of Sciences for chemical analysis on a monthly basis. The laboratory reported on a regular basis that the Khushuut water consistently satisfied the Mongolian national water quality standard MNS 900:2005;
- MoEnCo also sent drinking water samples collected from eight different sources from around the Khushuut mine and Uyench CBY three times to the Mongol Us SOE, the state-owned central inspection laboratory, for bacteriological analysis. In all cases, the Center evaluated the water samples as “meeting requirements of the residential drinking water standards of Mongolia”; and
- We also had water samples from eight natural water sources at Khushuut and six sources at Uyench CBY tested for heavy metals by the Mongol Us SOE, the state-owned central inspection laboratory, which reported heavy metals contents were below the national standard levels.

ENVIRONMENTAL (CONTINUED)

Principles of MoEnCo's comprehensive monitoring of water quality at Khushuut



MoEnCo's water quality monitoring data and government assessments have demonstrated that no water sources have been notably affected by water extraction for our current mining operation and there are no significant cases of water depletion. On regular schedules throughout the year (except for the idle months at the mine camp due to the government imposed COVID-19 quarantine), MoEnCo monitors, tests, measures or simply manages different types of water sources in its operations:

- Surface water flow, level and volume monitoring through rivers points measurements.
- Measurements of water flow and volume of natural springs in radius of four km around the mine site.
- Underground water level and flow monitoring at three special water monitoring boreholes.
- Monitoring the fresh water intake and usage at two existing wells through established meters and 24-hour surveillance through several external and internal cameras. The meter readings and camera recordings were submitted quarterly to the environmental inspector of Darvi district and Huisiin Gobi — Tsetseg Lake Watershed Administration.
- Measuring and using the drainage water produced at the bottom of Khushuut mine pit in warmer seasons. We put this water into use for sprinkling roads for dust suppression, mine and village greenery and irrigation, training against potential fire hazard and for drilling works.
- Getting a permit from the provincial administration and hiring a local contractor to remove and dispose the camp sewage waste at the treatment facility in Khovd province center.
- Quarterly cleaning and trash pick-up at the natural springs and other water sources in the vicinity of the Khushuut mine and in the surrounding area.

ENERGY CONSUMPTION

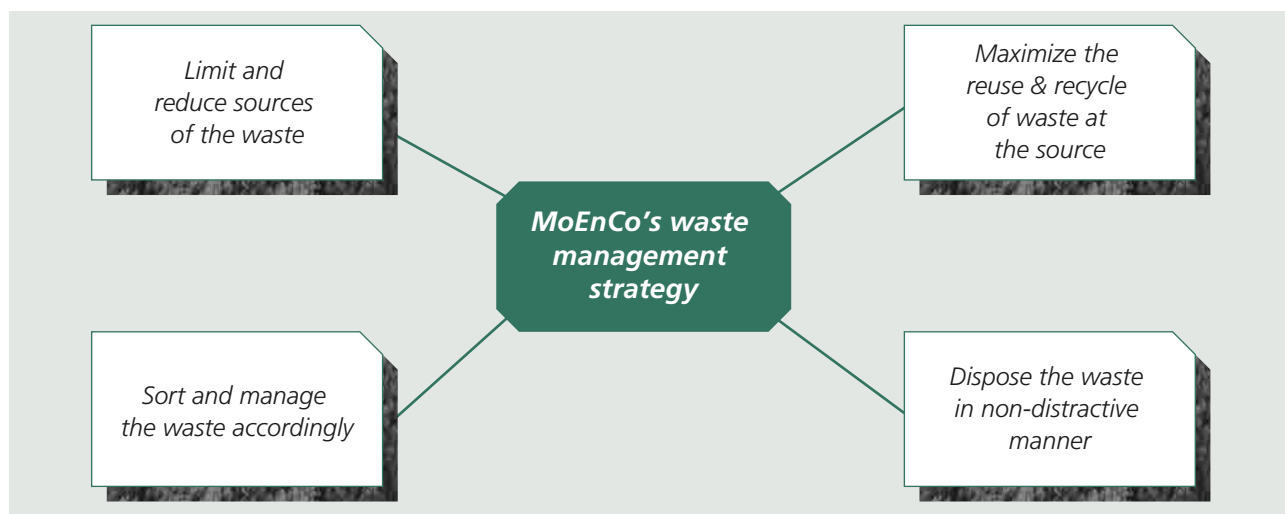
As MoEnCo's mine site is located among remote hills of far western Khovd province of Mongolia and in 26 km from the nearest settlement of Tsetseg, the cost-effective and reliable energy sources have been essential to our mining operations. Until the year of 2019, Khushuut mine site and the village in its vicinity was not connected to the central electricity grid. Diesel fuel has to be transported over long distances to reach our camp site which has been creating additional costs. With improved power supply in the regional electricity network, MoEnCo has been able to connect its camp and office facilities (i.e. residential consumption) to the regional centralized power supply in November 2019, thus, reducing diesel consumption and saving operation costs.

Khushuut energy consumption

	2017	2018	2019	2020
Diesel used for electricity production	1.53 million liters	1.76 million liters	2.24 million liters	1.13 million liters
Intensity			1.06 kWh/t	0.785 kWh/t
Electricity purchased from the provincial grid			364,464.80 kW/h	1,379,109.0 kW/h
Intensity			0.17 kWh/t	0.95 kWh/t
Total electricity consumption	3,323,544 kWh	3,719,314 kWh	3,985,400 kWh	4,246,561 kWh
Intensity	2.37 kWh/t	2.14 kWh/t	1.89 kWh/t	2.95 kWh/t

INTEGRATED WASTE AND SEWAGE MANAGEMENT AT THE CAMP

A proper management through modern technologies is the core of the Group's waste policy. We believe that recycling and managing the waste of our operations is essential for long term environmental sustainability in the region. When planning and enforcing its waste management program, MoEnCo adheres to the following strategy:



MoEnCo's up-to-date waste management plan works as part of its annual comprehensive Environmental Management Plan. This waste management plan covers (i) types of waste produced at the camp and mine, their characteristics and management methods; (ii) incineration and ash disposal; (iii) waste water, its reuse and disposal; (iv) hazardous waste including the one of our medical center at the camp; (v) non-hazardous and other waste streams; (vi) the camp's landfill management (vii) emissions information; (viii) contractor services in regard to the waste disposal; (ix) and all the permitting and compliance information.

ENVIRONMENTAL (CONTINUED)

Waste from the Khushuut mine operations requires disposal via a variety of different methods depending on the nature of the waste and availability of suitable facilities at the camp or nearby settlements. MoEnCo's vigorous waste management program has complied with the Mongolian laws pertaining to waste management, occupational safety and hygiene, various regulations and national standards, and is realized through:

- Compliance: obtaining waste permits for dumpsites, disposal, and transportation annually upon having positive assessment of the waste management program realization in the previous years including year 2020;
- Paying for waste disposal: to the local budgets, including for permits and land use for the camp's landfill;
- Engaging a professional body: a local specialized and licensed company for transporting and disposal of the camp sewage in the centralized urban treatment facility in Jargalant city (Khovd province center);
- High-tech incineration: burning in the special oven the types of waste disposal which are potentially harmful to the environment including used machinery oil;
- Operating a landfill: burying or disposing the various types of waste at the camp's landfill. The camp's dumpsite locations was professionally selected and specifically designated by the local government.
- Government inspection: the camp's landfill had been regularly inspected by the provincial and soum environmental inspectors. In 2020, MoEnCo's entire waste management system and dumpsites were inspected three times by the provincial environmental inspector and the hygienist visiting our Khushuut mine site as part of the mandatory government inspection and for ensuring the camp was in readiness for COVID-19 prevention.

Waste Produced	2018	2019	2020
Hazardous waste including medical waste	76 kg	75.49 kg	43.13 kg
Intensity	0.000044 kg/t	0.000036 kg/t	0.000029 kg/t
Non-hazardous waste including solid, residential, sewage	2,056.2 t	1,993.4 t	1,346.3 t
Intensity	0.0012 t/t	0.0009 t/t	0.0009 t/t

As part of the COVID-19 outbreak prevention effort, MoEnCo promptly constructed two sewage water purification facilities with daily capacity of 30m³ each at the Khushuut workers' camp and at the mine's main office.

Our environmental team worked together with the newly employed local people to clean trash in the vicinity of Uyench CBY and along the coal transportation road, they placed additional garbage bins and signs at drivers' rest areas and inspected the road with Uyench soum environmental officers.

In collaboration with the Tsetseg soum administration, our team assisted to clean the soum's landfill and its surrounding area of 31.5 hectares in September, 2020. Our environmental team professionally managed the technical rehabilitation including stockpiling and shaping the waste earth and coating with topsoil.

SOIL QUALITY MONITORING

Soil quality monitoring is important because open cast mining operations routinely modify the surrounding landscape by exposing previously undisturbed earth materials. We are well aware that erosion of exposed soils, extracted mineral ores, tailings, and fine material in waste rock piles could be the result of soil damage. Thus, MoEnCo has been continuously monitored the quality of soil around the Khushuut mine which is essential for proper assessment of the associated hazards.

MoEnCo conducts regular and comprehensive soil quality monitoring at two locations:

- At Khushuut mine vicinity the soil monitoring has been carried out since 2010. Then in 2012, the Laboratory of Soil Science of Institute of Geography of Mongolian Academy of Science selected the current 15 soil sampling points within five km radius of the Khushuut mine pit.
- At Uyenich CBY the soil quality monitoring started even before its operation in January 2017. There are six soil sampling points here.

In 2020, soil samples were collected quarterly at the above 21 sampling points and sent to the Laboratory of Soil Science where they were analyzed for general chemical composition, texture, moisture and heavy metals content against the limits set forth by the national standard MNS:5850:2019. The results presented by this laboratory indicate that all soil samples contained normal levels of moisture and other chemicals, the standard requirements were met, and no soil pollution around Khushuut mine.

Under the Land Law, a legal land holder must have the current state and quality of its land lot certified every five years. In 2020, MoEnCo engaged Davhar Ertunz LLC, an environmental research body, to assess and certify MoEnCo's land holdings. The contractor presented this certification to the Land Affairs, Construction, Geodesy and Cartography Agency of the Ministry of Construction and Urban Development.

In addition to the soil content, we periodically monitor the vegetation. In December, 2017, MoEnCo engaged the Soil Science Department of Institute of Geography and Geo-ecology under Mongolian Academy of Science to conduct a comprehensive study evaluating the land degradation and vegetation and their changes in Khushuut mine vicinity. In 2019 and 2020, we continued our vegetation monitoring study and protection by expanding the involved area and the scope. We engaged Davhar Ertunz LLC, an environmental researcher, to perform some parts of our monitoring program planned for 2020.

REHABILITATION OF MINE DISTURBED AREAS

Timely and professional rehabilitation is essential for the Khushuut mine area with its extreme weather conditions, high mountain altitude and fragile, thin, sporadic topsoil. MoEnCo's annual Environmental Management Plan includes the land rehabilitation program which complies with (i) the Land Law, Law on Subsoils, and Minerals Law; and (ii) a number of national standards pertaining to land assessment, degradation prevention, topsoil preservation and land rehabilitation works.

Our land rehabilitation program is realized through various land preservation and community support works some of which are statutory but many of them are voluntary on the part of MoEnCo, and includes the following:

- At the Khushuut mine site: geological or biological reclamation of mined area; preservation of fertile topsoil; planting and nurturing trees, bushes and making vegetation strips along the coal transporting roads; around the Khushuut village and the mine pit,
- In the community: offering land reclamation in non-mining areas in a volume corresponding to the size of our mined lands (so called Corresponding Protection Program); rehabilitating mine areas abandoned long ago at request of the administration of soums where we operate; caring for historic monuments in the isolated areas; land improvements and technical works at remote water sources such as natural springs; helping the local residents to protect their vegetable gardening land lots against grazing animals; supporting the communities to preserve and recreationally use the local natural sites.

Our environmental team along with our land works contractors at the camp ensures sound rehabilitation including (i) leveling and contouring, (ii) reshaping, (iii) preserving the fertile topsoil, (iv) re-vegetating through seeding of native grass and perennials and planting trees and bushes. In 2020, MoEnCo's topsoil removal, preservation and storing procedures were inspected two times by Khovd province environmental inspectors and assessed as being in compliance with the standard requirements. No area underwent full geological or biological reclamation within the Khushuut mine's operation fields because of the active stage of MoEnCo's operations and on-going mining. We made some remote parts of the disturbed lands available to local herders for grazing their domestic livestock.

For reducing dust emissions from the mine DPP, in 2017 – 2019 a total of 7,000 native trees were planted on slopes of the surrounding Khushuut hills, while over 1,000 seedlings were planted through land re-cultivation in 2020. Now MoEnCo performs regular watering, nurturing and maintenance of the seedlings. To preserve the fertility of the topsoil and support the growth of perennial plants, an automated sprinkler irrigation system with a ten-tonne water tank was installed on the topsoil pile in May, 2020.

In addition to the mining operations at Khushuut location, MoEnCo conducts geological prospecting and explorations works in the vicinity. In summer 2020, some drilling works were performed by a hired professional company. Upon completion of the drilling program, the drilled area underwent technical reclamation and the Darvi soum environmental inspector subsequently issued a formal statement confirming adequate rehabilitation of the disturbed land.

CORRESPONDING PROTECTION PROGRAM

With goal to offer land reclamation in different areas in a volume corresponding to the size of land used for mining at Khushuut, MoEnCo initiated the “Corresponding Protection Program” in 2016 and prepared the “2019-2023 Corresponding Protection Plan” through the Sustainable Mining Land Management in Western Mongolia Project and the United Nations Development Programme Office in Mongolia. This plan serves a better instrument for budgeting, assessing and reporting our environmental efforts under the Corresponding Protection Program. We also voluntarily take up the obligation of such corresponding restoration in the 2017 – 2020 Cooperation Agreement signed with the Khovd province Government. The plans for the Corresponding Protection Program have been included in our annual Environmental Management Plan and budget would be allocated for realizing them.

Measures in the MoEnCo’s 2020 Corresponding Protection Program included such regular annual works as planting trees and bushes, fencing against domestic and wild animals grazing to protect the new tree and bush seedlings, landscaping works and greening with grass seeds and local vegetation, collaborating with nearby state nature protected area, local fauna protection and more.

	2016-2019	2018	2019	2020
Hectares of land rehabilitated and commissioned under the Corresponding Protection Program	470	380	50	0
No. of districts involved	4	4	4	4
No. of trees planted and nurtured	35,000	11,000	9,000	3,000

The MoEnCo’s Corresponding Protection Program does not contemplate to expand the current size of the rehabilitated lands under this program. Instead, the plan is to diversify the program activities within its land area.

The remote and sparsely populated hill lands surrounding the Khushuut mine site serve an important habitat for diverse local ecosystems and a source of a number of creeks and rivers. This is why the provincial nature reserve called Sutai in close proximity to our mine site was upgraded to the state protected area in 2018. Executing MoEnCo’s Corresponding Protection Program actions planned for 2020, we supported this strictly protected area as follows:

- in order to define and mark the boundaries of the Sutai nature protected area, MoEnCo funded works of making and installing 40 border demarcation pillars and five information boards;
- for preventing the illegal hunting, improving the community network to monitor such hunting, and for building capacity of voluntary resident rangers, MoEnCo funded a rangers training workshop organized by the Khovd Environmental Protection Office on October 19-20, 2020, during which we presented about the MoEnCo’s environmental program;
- sponsored participation of two voluntary resident rangers overseeing the MoEnCo’s Corresponding Protection Program zones, in the above training workshop, and also provided them with uniforms, and we are now in the process of procuring suppliers for basic equipment and tracking devices for these rangers;
- we signed an agreement with the Permafrost and Atmospheric Research Center (non-profit professional research institution) and the Institute of Geography and Geoecology to conduct a study of snow cups of the Sutai Khaikhan mountain peak. Due to COVID-19 travel restrictions, these researchers could not carry out the works as planned, but they will launch as soon as those restrictions would be lifted.



ENVIRONMENTAL (CONTINUED)

In harsh Mongolian climate and ragged terrain, nurturing trees and shrubs and growing ground vegetation is a challenging and consuming task. Grazing domestic and wild animals may cause further hurdles. Thus, fencing around new seedlings and rehabilitated land plots is a common environmental technique. In 2020, MoEnCo funded and carried out fencing of:

- 5,000 m² of rare shrub nurturing area along river banks in Uyench soum as agreed with this soum administration;
- 2,000 m² area in Darvi soum for protecting of Bayangol natural spring;
- 25 hectares of the areas where beaver huts are located, as part of MoEnCo's beaver protection efforts.

Launched in 2019, the long-term beaver protection program is being carried out 320 km away from the Khushuut mine but along our coal export road. Due to increased human activities in the past decades and the changes in local vegetation and river flow patterns caused by the climate change, Bulgan river beaver population has been decreasing. Through this program, MoEnCo expects to support beaver population and also to have long term effect on the Bulgan river ecosystem as a whole. In 2020, MoEnCo donated 3,000 willow seedlings to Uyench soum environmental office for planting in the beaver habitat areas.

Through a tender announced in August 2020, MoEnCo contracted a professional environmental research organization to conduct a comprehensive pasture use survey within the Corresponding Protection Program areas. Because of the COVID-19 quarantine and travel bans, the contractor was not able to perform the contract timely, and this pasture use survey has been postponed to summer season of 2021.

ENVIRONMENTAL MANAGEMENT AND PERFORMANCE AT XINJIANG WASHING PLANT

Coal quality control is an indispensable segment in the production process. We built the DPP at the Khushuut mine site for initial processing of coal before export. This could not only eliminate the unwanted rubbles and other materials to enhance our raw coal quality, but also reduce our export transportation costs. The processed coking coal is then washed by our Xinjiang Washing Plant in China and sold as clean coking coal to our customers. Coal washing is a process that is undertaken in a coal washery or coal washing plant where coal is refined or cleaned of impurities. Coal washing involves using water, mechanical techniques and relies on gravity and the difference of density between coal and its impurities which are usually more densely packed due to the fact that they are inorganic.

Main Features of the Xinjiang Washing Plant

Our coal washing plant is located in Qinghe County, Xinjiang, some 30 kilometres from the Xinjiang Takeshiken border. It has a gross area of 200,000 square meters, and comprises the main plant and production area, the raw coal yard, and the office and living quarters. The main plant and production areas include clean coal bunker, waste rock bunker, preparation workshop, filtration workshop and sedimentation facilities, etc. It was commissioned by end of 2014 and the annual washing capacity is 1.5 million tonnes.

Coal Storage and Disposal

After the washing plant received the raw coal from Mongolia, the coal is placed in the raw coal yard of 63,300 square meter surrounded by the dust suppression wall including the enclosed raw coal bunker of 23,000 square meter where raw coal is mainly stored and pending for processing. Clean coal is produced after the raw coal has gone through various mechanical screening, filtering and washing processes. Clean coal is then temporarily stored in the clean coal yard for delivery to our customers.

Waste Disposal and Energy Consumption in the Production Process

Under the clean coal production process, it involves energy and water consumption and generates sewage and solid waste including hazardous and non-hazardous wastes.

Sewage Disposal

Sewage is produced from flowing water, spraying, flushing and cleaning machines and facilities in the production process. With the sewage treatment system, it forms a closed-circuit circulation for re-use in the washing plant with no discharge to the outside. Therefore, it ensures no harm to the surrounding environment. For domestic sewage, the sewage undergoes waste water treatment before storing in a tank for winter which is used for irrigation in summer and greening. If sewage is produced due to equipment failure or other incidents, it is stored in the standby thickening tanks to ensure no discharge to the outside to affect the environment.

Waste Disposal

A certain amount of non-hazardous coal gangue with sludge is screened out under the coal washing process, and the majority of which is used as raw materials for construction while the remaining would be piled up temporarily in an interim yard and sent out for rehabilitation of open-pit mines later and further to proceed towards pasture restoration.

Wastes such as hazardous ash also generated under the coal washing process. Used industrial oil of hazardous waste would be stored in a hazardous waste warehouse. We would frequently arrange the respective specialised waste recyclers to collect the wastes for proper disposal.

The table below shows the washing capacity, total amount of major energy and water consumed, hazardous wastes and non-hazardous wastes produced during the Financial Year:

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Raw coal for washing (tonnes)	425,098.08	646,546.18	768,958.10	1,206,390.98	905,300
Clean coal production (tonnes)	380,932.68	547,383.84	648,158.00	932,509.51	723,000
Electricity consumption (kWh)	4,279,430	4,765,320	5,482,050	8,759,040	7,220,079
Intensity	10.07kWh/t	7.37kWh/t	7.13kWh/t	7.26kWh/t	7.98kWh/t
Water consumption (m ³)	41,408	47,208	76,010	130,810	113,987
Intensity	0.10m ³ /t	0.07m ³ /t	0.10m ³ /t	0.11m ³ /t	0.13m ³ /t
Total hazardous wastes (tonnes)	88,460 [#]	99,380 [#]	98,320 [#]	4.5	2.5
Intensity	0.21t/t	0.15t/t	0.13t/t	0.0000037t/t	0.0000028t/t
Total non-hazardous waste (tonnes)	– ▲	– ▲	– ▲	338,757 [*]	264,795
Intensity				0.28t/t	0.29t/t

^{*} Adjustment was made due to the coal gangue, and slime are inherent and natural and such wastes would be screened out and collected under our production process for land rehabilitation, such wastes were reverified as non-hazardous wastes according to the advice of respective environmental protection department.

[#] Including coal gangue and sludge

▲ Non-hazardous substances produced under the process are negligible.

There is currently no CO₂ emission conversion formula for electricity consumed by washing plant; therefore, no CO₂ measurement was made on electricity consumption.



ENVIRONMENTAL (CONTINUED)

Environmental Performance

Although there is no statutory annual or periodical inspection for washing plants in China, officials from governmental department do visit our washing plant frequently to monitor the environmental performance and review the way of environment protection.

During the Financial Year, neither officially nor spontaneous organized and specified environmental check took place in our washing plant; still, various routine checks were conducted by the Ministry of Ecology and Environment, Qinghe, Altay, Xinjiang Uygur Autonomous Region of the PRC. The respective inspectors came to the washing plant several times and generally carried out inspections on the condition of the interim yard of coal gangue with sludge; and dust emissions in relation to loading and unloading coal. No standard result was released for such inspections. Only directions were given to the washing plant.

In response to the directions, actions to strengthen the environmental protection measures of the washing plant had been taken.

To minimize dust emission, we have a plan to harden grounds of the raw coal yard and clean coal yard. As the ground becomes hard, it will be easy to tidy up the yards and leftovers from the ground to lessen the coal ashes that caused by the passing vehicles. In addition, we decided to restructure the open-pit clean coal yard by turning the open-air set up to an enclosed structure.

Apart from the above, after having consultation with the Ministry of Ecology and Environment, Qinghe, Altay, Xinjiang Uygur Autonomous Region of the PRC and the Ministry of Land and Resources, Qinghe Bureau, PRC, we made an application to respective governmental departments for rehabilitating an abandoned iron ore mine pit with a capacity of 1.18 million cubic meters by utilizing our wasted coal gangue and sludge. This land rehabilitation and restoration project will effectively reduce the adverse impact of the piles of coal gangue on the environment. It is expected to restore the area to green pasture which covers an area of approximately 11,995,800 square meters. The first phase of the project has been completed.

SOCIAL



SOCIAL (CONTINUED)

EMPLOYMENT PRACTICE

The Group takes each of the employees as its valuable asset. We are an equal opportunity employer and all employees are treated with respect regardless of their age, gender, marital status, disability, race, citizenship and religion.

Our remuneration packages to employees are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. The Group respects the legitimate rights and interests of all its diverse employees. We adhere to labour laws, employment practices and business ethics of the different locations where we operate.

As at 31 March, 2021, the Group had a total of 668 staff.

	Hong Kong	China	Mongolia
Headcount*	33	288	347
By gender			
Male	39.4%	79.2%	79.8%
Female	60.6%	20.8%	20.2%
By nationality			
Chinese (HKSAR)	100%	0.3%	Nil
Chinese (PRC)	Nil	99.7%	8.6%
Mongolian	Nil	Nil	91.4%
Other	Nil	Nil	Nil
By employment			
Full-time	100%	98.0%	89.2%
Part-time	Nil	2.0%	10.8%

* Full time employees and excluding contractors' employees

As of end of March, 2021, the employment data for the entire Khushuut project were:

Khushuut project	
Total number of people working at Khushuut operations (including part-time, temporary and contractor's employees)	1,727
MoEnCo's employees working at Khushuut operation	
percentage of people working at the mine site	92.2%
percentage of local people hired	76.9%
men and women ratio at the mine site	83/17
men and women ratio at top management position	50/50

In November, 2020, the provincial labour inspector visited our Khushuut coal mine site as a part of the regular scheduled government assessment. The labour inspector not only scrutinized whether MoEnCo's operations had complied with the labour and safety regulations but also held discussions with our mine and camp workers upon which a positive assessment of our labour conditions and practices was given.

MoEnCo has duly paid social security and health insurance premiums for all of its employees in accordance with the relevant laws. In addition to covering all MoEnCo's workers and staff with mandatory Mongolian government social insurance (which includes health insurance, unemployment, old age pension, welfare, and industrial accidents insurance), we additionally subscribe all our workers to the voluntary "employer's liability" insurance under the private insurance schemes which provide a good level of extra coverage for potential medical expenses and lost wages of our employees, or their beneficiaries, if the employee is injured, sickened or killed by job-related causes. Moreover, it is also our requirement that all MoEnCo's contractors and suppliers to take out, at the minimum, mandatory social and health insurances for all of their employees.

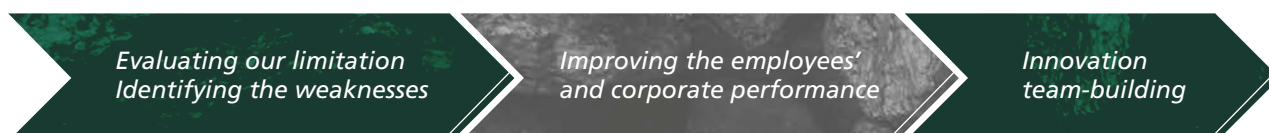
During the reporting period, no complaints related to harassment, discrimination or human rights were recorded at MoEnCo, its workers union or with the provincial labour inspectors where any worker has a right to complain as set out in the relevant laws.

MoEnCo awarded 20 of its best employees with nominations and cash prizes in 2020 while two MoEnCo's employees received three government distinctions and the notable national level industry association's award, and three employees were awarded by the Khovd province Governor.

Our coal export halted due to the border closure between mid-February and late May, 2020. With the challenges and economic impacts arising from COVID-19, MoEnCo made a series of adjustments to our operations and production in response to the situation and worked out the measures to facilitate utilization of human resources and ensure workforce stability.

TRAINING AND DEVELOPMENT PROGRAM

The Group applies continuous efforts for the training and development to boost the performance and self-fulfillment of the employees. The Group's training program is based on the following values:



SOCIAL (CONTINUED)

Mongolian laws impose a number of obligations on MoEnCo as a mining license holder, to provide safety and health training to its employees. MoEnCo's comprehensive training program meets the requirements imposed by the relevant Mongolian laws and a number of regulations on organizing training and examining the labor safety. These regulations enforce certain ratios and minimum hours of training depending on the specifics of a workplace. Every year, MoEnCo offers training exceeding the required minimums or ratios. For example, average hours of training completed for each Khushuut mine site employee was 14.7 which is above the mandatory 14 hours of training for a mine site worker required annually under the Labour Minister's decree and under the national standard MNS 4969:2000⁴ ("Organization of Training for Labour and Sanitary Safety").

We offer training free of charge to (i) our staff and (ii) the contractors' staff. We aim to train and develop our people through an array of educational methods:

1. Training organized by MoEnCo	<ul style="list-style-type: none"> requisite occupational safety and health training prescribed by laws and regulations a wide range of additional training on specific topics (use of occupational protective gear, mine safety training, first aid course, fire prevention, safety regulations, hygienic requirements, workplace risks assessment, etc.) practical environmental protection training (land rehabilitation techniques suitable for the Khushuut area, local water conservation, etc.) specific operational instructions (safe operations of various equipment, chemicals handling, fuel charging and discharging, traffic within the mine site, safe parking of heavy-duty trucks, etc.)
2. External training	<ul style="list-style-type: none"> sending our staff to paid short training organized by educational institutions and other organizations and companies co-organizing or participating in joint practical drills
3. Personal development	<ul style="list-style-type: none"> co-organizing, sponsoring or participating in various conferences, industry forums and celebration events allowing staff to take leave for continuing education

When organizing training and development activities, MoEnCo collaborates with various professional organizations and certified training institutions or involves its staff in their events. Under the 2020 training and development program, MoEnCo collaborated with the Mongolian National Association of Occupational Hygienists, Disaster and Fire Protection Society, National Mining Association, Employers' Association, Khovd province Emergency Commission and other vocational training institutions. In total, 64 MoEnCo's employees participated in eight external training sessions on topics of advanced sanitary procedures, leadership skills development, codified reporting of a mining business as part of responsible mining commitment, and so on, making 1,311 external training hours.

MoEnCo's training and development program

	2017	2018	2019	2020
Number of internal safety training topics covered	31	30	32	31
number of attendees	4,893	4,665	7,495	4,704
Total hours of training offered	5,197	6,457	9,584	5,075
Average training hours completed per Khushuut mine site employee	14.8	15.3	15.35	14.7
Average training hours (including MoEnCo's headquarter office staff)	11.2	13.97	12.87	13.4

The reduced numbers of training participants and total hours of training offered in 2020 compared to the 2019 numbers are associated with the tightened social distancing measures to cope with the COVID-19.

⁴ <https://estandard.gov.mn/standard/v/3701>

OCCUPATIONAL SAFETY

Mining is a complex operation that presents dangers and therefore requires alert and healthy workers. To stay away from hazards which MoEnCo operates its Khushuut mine requires additional resources and strategy to enforce effective occupational safety and health management ("**OSHM**") program.

MoEnCo provides the occupational health and safety through the following strategies:

- Running the systems for identification, monitoring and preventing of known or unknown hazards at work places where this system is an amalgamation of the organizational unit responsible for OSHM, approved safety procedures and allocation of sufficient budgets for the OSHM measures.
- Developing, approval, periodic reviews and strictly enforcing of the internal safety regulations and procedures at all levels.
- Approval and reporting on the realization of annual OSHM plans.
- Training, supervision, advice and feedback on safety compliance at all levels.
- Pre-employment health screening, annual health checks.
- Provision of medical services and health surveillance and treatment of illness and injury at the area with most occupations hazard. i.e. directly at the Khushuut mine site.
- Monitoring of health and safety parameters at each workplace.

In 2020, MoEnCo's OSHM team consisted of 16 professional working full-time at the mine site. In addition to their regular work ensuring the mine's safe operations, this team conducted bi-monthly or monthly work place safety inspections at seven important locations throughout 2020. Total number of workplace inspections by the safety team was 409.

Daily and weekly workplace inspections are conducted by supervisory staff and safety officers to identify potential workplace hazards, assess safety risks, and immediate actions are taken to correct any activity deviated from the policies and procedures. For example, the temperature, humidity, lighting and noise levels are measured and recorded monthly at every workplace at the camp. Measurements are made with the Vital Environmental Meter EM5 and compared to the parameters of the relevant safety standard requirements.

Lagging and leading indicators are adopted to measure the health and safety performance on a monthly basis.

Main indicators of MoEnCo's occupational safety performance

Khushuut coal mine	2016	2017	2018	2019	2020
Total MoEnCo's man-hours worked	757,556	952,348	2,671,690	3,998,036	2,760,200
No. of fatalities	0	0	0	0	0
No. of lost time (hour)	1	0	1	0	1
Injury frequency rate	0.67	0	4.54	1.66	0
Total recordable injury frequency rate	6.69	0	7	5.01	0

The OSHM team at Khushuut mine site also includes full and part time occupational safety and health managers of MoEnCo's contractors. MoEnCo's safety team regularly organizes meetings and consultations with these managers and offers them additional and more vigorous training for compliance with not only the occupational safety and health laws and regulations but also MoEnCo's own safety standards.

MoEnCo's contracts with large service providing companies mandatorily include (i) labour safety and compliance provisions and liabilities for safety violations or violations of worker's rights; and (ii) duty to engage a full-time or part-time occupational safety and health professional.

EMERGENCY RESPONSE AND READINESS

Our Khushuut mine site has strong on-site emergency response and mine rescue capability that fit its large volume of operations, difficult working environment and potential technical risks.

In 2020, MoEnCo's ERT consisted of three full-time professionals and 18 volunteers who were employees of MoEnCo and its contractors. The team offers 24-hour readiness and emergency response which is well beyond the Disaster Preparedness Law and other relevant laws and regulations require. They have been consistently receiving various "Best in Industry" nominations and prizes at regional joint drills and practical training and demonstration sessions over the past 3-4 years. Our ERT is equipped with the latest communications and tracking systems and fire extinguishing equipment and machines.

A mine emergency response plan is a valuable organizational tool for preparing personnel to respond to a mine emergency and is a requirement under the Mongolian law. Under the Disaster Preparedness Law of Mongolia and other relevant laws and regulations, MoEnCo prepares the Disaster Prevention Plan and Disaster Management Plan annually and has them reviewed by the Mine Rescue Office of General Authority for Emergency of Mongolia. Before issuing a statement, representatives of the Mine Rescue Office, including a state inspector, visit Khushuut annually and inspect the camp against disaster readiness. The Khushuut mine administration distributes copies of the Emergency Response Plan to all internal units and contractors at the mine site.

	2017	2018	2019	2020
Total hours of training for disaster readiness offered	195	109	200	116
No. of calls to incidents at the mine	5	11	8	10
No. of calls to incidents on the Khushuut road or in the community	9	12	14	12

In previous years, the ERT regularly participated in events and training held by the General Authority for Emergency of Mongolia and the Emergency Office and Fire Department of Khovd province. Despite the state of the COVID-19 preparedness throughout most of the year of 2020 in the country, MoEnCo sent 22 of its rescue and emergency staff to participate in emergency rescue training sessions organized by the Mongolian Society for Disaster and Fire Protection.

In 2020, MoEnCo organized

- annual comprehensive one-day simulation training on equipment and emergency response techniques. This training was held in a form of a show attended by local residents who were invited for learning, training and participating in the simulation practice. This year, the one-day event was organized jointly with the Emergency Office and Fire Department of Khovd province;
- mandatory training on fire and disaster prevention, emergency response and procedures for employees of MoEnCo.

Because MoEnCo operates in remote area with very low and sparse population, MoEnCo provides free emergency response to local incidents every time they call for help, and occasional incidents on our Khushuut road. For instance, in 2020, our ERT was called to three occasions of steppe fire.

MEDICAL CARE FOR OUR WORKERS AND THE COMMUNITY

In compliance with the legal requirements, all of our site employees undertake pre-employment medical examination to ensure that they are fit to perform their jobs safely without placing co-workers at risks. Subsequent extensive medical checkup is conducted bi-annually or annually subject to a job position to ensure that no health issues and occupational diseases are contracted as a result of operational activities. All costs for such pre-employment and annual medical checkup are borne by MoEnCo. In 2020, MoEnCo's 62 workers underwent annual medical checkups for which we engaged the services from one hospital in capital Ulaanbaatar and one in Khovd province center.

Our Khushuut coal mine has one of the best equipped and modern health centers in the area which is operated by our subcontractor EmMed LLC and provides free medical services to (i) MoEnCo employees; (ii) all contractors' employees at the Khushuut mine site and Uyenich camp; (iii) local residents of adjacent three districts; and (iv) export coal truck drivers on the MoEnCo's Khushuut road. Our Khushuut mine site is located in a remote part of Mongolia among Altai Mountains with very low population density, few settlements and even fewer medical facilities. MoEnCo gives support to local communities by offering free health care services, transporting the sick and pregnant to the provincial hospital and providing aids for accidents, if any, on our Khushuut road. They provide free primary health care, medical emergency response, stabilization, treatment, and first aid training to MoEnCo's and contractors' employees. As of the first quarter of 2021, MoEnCo's medical team working at the camp consisted of four doctors and two nurses. Since August 2013, our medical team served over 37,400 patient visits.

Number of visits to MoEnCo's medical center	2016-2019	2019	2020
Visits/calls/checks of the MoEnCo's and contractors' employees	15,646	5,832	14,269
Visits/calls/checks of local residents	924	237	126
Calls to accidents on Khushuut road	18	3	3

Over 2.5-fold increase in the number of individual health checks in 2020 compared with the average of previous years is triggered by the increased frequency of health checks to prevent the COVID-19 spread at the mine.

On the other hand, the medical services to local residents notably decreased starting from mid-2019 and continued in 2020 because the Khushuut village in the vicinity of our mine site was relocated. All its residents now live in the new location in twenty km south west from the mine and three km to the Tsetseg soum center so the villagers would seek medical help at the soum hospital.



SOCIAL (CONTINUED)

An important part of Khushuut medical center's function is offering general training for wellness and healthy habits. Annually, our medical center plans and carries training sessions on a number of essential topics attended by several hundreds of mine camp workers and local residents. In 2020, our medical team organized four training sessions (this number excludes COVID-19 related training offered) on various topics such as first aid, cardiopulmonary resuscitation (CPR) technique, general disease prevention and occupational injuries for the MoEnCo's and contractors' workers. This number is lower than the average number of training offered by our medical team per year due to (i) the COVID-19 related restriction to gather groups of people, and (ii) much resources and time were devoted to the COVID-19 prevention program.

COVID-19 PANDEMIC PREVENTION AND RESPONSE

With the global outbreak of COVID-19, MoEnCo and its Khushuut mine camp administration had started to implement effective COVID-19 preventive measures starting from January 2020 and kept promptly modifying its policies and response measures (i) following the current situation with the virus outbreak in Mongolia and China and particularly in the neighboring border region of the two countries and (ii) adhering to the policies of Mongolian Government and instructions of the Khovd province Emergency Commission, Health Department and Infectious Diseases Protection Department of Khovd province.

MoEnCo, its Khushuut mine camp administration and our medical team have taken the following preventive measures:

- Starting from early February, 2020, MoEnCo head office and its Khushuut mine camp administration together with the camp medical center promptly coordinate their actions and take precautionary procedures including imposing new camp entrance and exit rules, enhanced disinfection, procurement of sanitary supplies, and so on.
- In November, 2020, a 15-member urgent response task force ("**Task Force**") was established by the order of the MoEnCo's deputy director with assignment to carry prompt prevention measures and coordination between MoEnCo's corporate units and with the relevant provincial bodies. Throughout 2020, the Task Force conducted weekly and even daily briefings, discussions of urgent needs and reviews of reports and proposals by the camp's occupational safety managers, food catering contractor and medical team. The Task Force presented its monthly and even weekly, when necessary, reports to the Khovd province Emergency Commission.
- From January 2020 and throughout the year, MoEnCo tightened up its coordination and communication with Emergency Commissions of Khovd province and of nearby soums as well as with local police and customs agency for enforcing the effective virus prevention procedures at the camp, along the coal transportation route and during the border crossing. We also worked closely and communicated frequently with the Ministry of Roads, Transportation and Development and the Roads Transportation Agency under the Ministry. Representatives of these government bodies visited our camp, inspected the safety arrangements of the Khushuut coal export and provided specific guidelines and recommendations.
- With the help of our medical team, the camp administration has developed various enhanced sanitary rules and procedures and complied with by the Khushuut camp residents and specific staff (meal handlers, cleaners, etc.). Every person is required to take measurement and fill the survey forms before entering the Khushuut camp.
- Khushuut camp imposed mandatory strict quarantine for all employees who work in shifts at the camp. All incoming workers must be isolated for a period of 7-14 days (depending on the type of work) at the special housing units.

- Preventive measures are being taken to increase the level of preparedness of the mine medical staff to work in emergency situations. The medical center approved its first COVID-19 prevention plan in early February, 2020, abiding with recommendations of the Ministry of Health of Mongolia and the Infectious Diseases Protection Department of Khovd province. It conducted various training, discussions and demonstrations for own workers regularly and also involved them in all training events organized by the Khovd Emergency Commission. The hospital doubled the number of its medical doctors, efficiently managed the workload and tasks of all its staff and enhanced its services at the Uyench CBY.
- Total of 502 people (the Khushuut mine and Ulaanbaatar office workers and the contractors' long-distance truck drivers) attended 28 training sessions and demonstration sessions at the camp on topics of application of personal disinfectants, proper use of disposable protective clothing, greater hygienic procedures at the camp and Uyench CBY, and so on.
- Stockpiling of disinfectants, disposable protective gears and emergency medical supplies at both Khushuut camp and Uyench CBY increased four-fold.
- MoEnCo's food catering contractor for the mine camp improved their dietary content of meals offered at the camp, enhanced its hygienic procedures and frequency of disinfecting, covered all its meal handlers with regular COVID-19 tests and made available more dietary supplements at the camp's canteen.
- To avoid meals gathering and maintain social distancing while having meals at the camp's eateries. MoEnCo has promptly built an additional canteen of 221 m² with all modern utilities at Khushuut camp and the additional canteen had started to operate.
- When the first internal case of COVID-19 was recorded in the country in November 2020, MoEnCo's emergency response team prepared an action plan for a potential COVID-19 emergency situation at the camp. This plan was submitted to the Ministry of Mining and Heavy Industry which set up the Emergency Executive Group with aim to prevent the virus outbreak at mining camps.

Assurance of safe coal transportation for export and prevention of cross-border virus transmission was the main mission of MoEnCo throughout 2020. We adopted several strategies to assure this task including:

- Coal transportation was arranged and modified in various structures and ways. They were also coordinated and agreed with representatives of our coal transporters in China and the China Customs through the Embassies of the two countries. By creating a "green zone" at Uyench CBY, the transportation shifts were arranged in a way to avoid Mongolian drivers making contact with Chinese drivers through Khushuut road. Disinfection of trucks on both sides of the border became a norm. MoEnCo's medical team conducted about 150 – 200 health checks and COVID-19 tests daily in the months when the coal export went on. MoEnCo provides stock of free surgical masks and disposable protective overalls to all trucks which were operated for coal export.
- Six housing units, with utilities and comfort had been built, at three different locations (Khushuut mine, Uyench CBY and at the Bulgan border port where our coal transportation trucks stop for customs clearance before travelling further to PRC) for temporarily isolation of individuals with suspected COVID-19. From late 2020 when the first internal case was recorded in the country, these housing facilities have been used for preventive quarantine for all incoming workers shifts at the camp.

Throughout the entire year of 2020, MoEnCo's actions taken for the COVID-19 prevention have been observed, inspected and assessed seven times at both the camp and Uyench CBY by relevant officials from the Khovd province Emergency Commission and the Specialized Inspection Agency. These inspection teams gave their further recommendations for protection of the health of people.

SAFE CHEMICALS HANDLING AND ASSURANCE OF COAL QUALITY

MoEnCo's full scale chemical laboratory at the Khuhuut mine site is the first and only nationally certified chemical lab in Khovd province and the largest private laboratory in the region. As of March, 2021, there were 42 professionals working full time at the lab, all of them were locally hired.

Ever since its set up in 2013, MoEnCo's lab has been continuously meeting the minerals quality assurance and safety requirements of the international ISO standards, PRC's GB/T standards and American ASTM standards. In April 2018, the lab got accredited by the Standardization Accreditation Office upon proving our long-term continuous satisfaction of the due requirements of the Mongolian National Accreditation System (MNAS). Our team re-assures its professional capacity by successfully participating in the annual proficiency testing contest held by the government-run Central Geological Laboratory under the National Coal Programme. The lab also regularly participates in the Proficiency Testing Schemes of the China NIL Research Center for Proficiency Testing and receives a certificate of professional proficiency.

As of March, 2021, the lab used 18 different non-poisonous chemicals for which we duly obtained permits for their use, transportation and import from the Ministry of Environment and Tourism and other relevant government bodies upon satisfying the requirements for use of chemicals in mining operations and for timely reporting. In its handling of chemicals, MoEnCo has to comply with the Law of Mongolia on Hazardous Chemical Substances and a number of mandatory guidelines and national standards. The actions for safe chemicals handling and management are included in the annual Environmental Management Plan and the performance is reported to the Ministry of Environment and Tourism.

It is one of the prime duties of the MoEnCo's lab to ensure the chemical compositions of our coal for export meet the applicable standards. It performs eight different proximate and ultimate analysis and coke activity tests. Our coal is required to be tested and sampled at the Chinese border before export to ensure we comply with the applicable Chinese laws and requirements, and our coal's quality meet the China standards.

In 2019-2020, over half of the lab's testing equipment have been replaced with Australia and China manufactured modern equipment allowing not only more accurate test numbers but also reduction of physical handling of chemicals by the lab staff. Moreover, in 2020, the MoEnCo's lab launched the new lab network software developed by the Locus Mongolia LLC. This program, customized for MoEnCo's lab, fully automates the processes related to chemicals and samples storage, data security, tests results entry and more, and is expected to excel the lab's management, reporting and chemical safety.

ENSURING SANITARY STANDARDS AT THE CAMP

Continuously meeting of the occupational hygiene requirements is an important part of the MoEnCo's safety programs and planning. A well-maintained camp has a critical impact on the health and well-being of our employees and their work productivity. MoEnCo devoted much efforts and resources into running an exemplary camp that is safe, pleasant and well suited for living in a remote mountainous location. At the Khushuut camp, mine site and Uyenich CBY camp, the hygiene and sanitation is maintained by the team consisting of a hygienist, two supervisors and an occupational safety manager.

To safeguard the well-being of our workers by the recognition, evaluation, control and prevention of hazards from work and living arrangements, such measures are realized through the following channels:

- The team prepares and enforces annual health and hygiene assurance plan as part of the annual Occupational Safety Management Plan, its due realization is reported to the Mineral Resources and Petroleum Authority of Mongolia and to the Khovd province Specialized Inspection Agency.
- For ensuring a healthy and safe working environment for employees and mitigate workplace health and safety risks, the workplace assessment, inspection, sampling and testing daily, bi-weekly, weekly or monthly depending on a specific work place. For example, the temperature, humidity, lighting and noise levels are measured and recorded monthly at every workplace at the camp. Measurements are made with the Vital Environmental Meter EM5 and make comparisons with the parameters of the relevant safety standard requirements.
- regular training of all MoEnCo and contractors' workers and specific staff, for example, camp canteen cooks, are carried out under the regular schedules for maintaining the due hygiene at the site. The sanitary procedures at the camp are mandatory part of the internal training program.

The bi-annual "All Staff Cleaning Weekend" has become an environmental stewardship tradition for Khushuut mine. In 2020, the mine site organized such event three times which included cleaning, disinfecting, trash collection and removal at the camp and the vicinity of three km radius. About 350 people participated and jointly collected and removed trash and debris.

In addition to the annual inspection of the camp hygienic conditions by a team of the Khovd province Specialized Inspection Office, MoEnCo received seven assessment groups as part of the provincial COVID-19 prevention measures.

MoEnCo considers its response to the global COVID-19 pandemic in 2020 an accomplishment so far. Our occupational safety and health team (i) worked in daily collaboration and coordination with the Khovd province Emergency Commission which presented serious requirements pertaining to the camp daily sanitary routine; (ii) enhanced the disinfection and inspection of workplace and living arrangements; (iii) boosted hygienic procedures related to meals handling at the Khushuut camp and Uyenich CBY, and (iv) conducted a number of training and demonstrations on health protection for the camp staff.

SUPPLY CHAIN MANAGEMENT

The supply chain management of the Group is organized as a process involving comprehensive planning, implementing and monitoring the everyday operations of the entire cluster of inter-related businesses in the western part of Mongolia and north-west of the PRC. The complexity of the cross-border business model necessitates strong supply chain management and compliance at the national levels in both China and Mongolia. The Group's approach to working with contractors and suppliers is based on the principles of fair competition, continuous improvement and focus on ethical conduct.

MoEnCo's supply chain is made up of two main elements:

- inbound supply and procurement of services, materials and products for the Khushuut mine operations, coal transportation and the camp living arrangements;
- outbound supply and sales of coal to MoEnCo's domestic and Chinese coal buyers and for our free and discounted coal distribution program.

All contracts and agreements with contractors and suppliers include MoEnCo's compliance provisions. These requirements cover important issues such as anti-bribery, labour standards strictly enforced by the national governments in Mongolia and China, workers' health and safety, environmental preservation and rehabilitation schemes, workers' fair pay and hours of work and rest, and mandatory insurance provisions. We require our contractors and suppliers to subscribe all these mandatory schemes for their workers including the health insurance, unemployment, old age pension, welfare, and industrial accidents insurance.

When selecting our suppliers and contractors, MoEnCo adheres to two main selection criteria:

- priority is given to local, Khovd, companies and individuals interested in working with us; and
- products and services offered by suppliers and contractors should, first of all, satisfy needs and demands of our mine workers and the specifics of MoEnCo's operations in the remote region of Mongolia with harsh climatic and terrestrial conditions.

All contractors and suppliers, new or current, are assessed in accordance with the requirements regarding ethics, corruption, and labour standards risks prior to working with them. Significant support to the local economy comes from MoEnCo's procurement of goods and services. As a responsible corporate citizen, MoEnCo continues to put emphasis on community developments and partnerships by giving back to local citizens. We share the benefits with rural communities and generate economic values by creating jobs and procuring local services and goods. In order to support and strengthen local small and medium sized businesses, local companies in Khovd which meet our procurement requirements are given preference to be our suppliers. In 2020, MoEnCo engaged 113 businesses and citizens of Khovd province and purchased services and products worth of MNT 76.12 billion (HK\$207,547,000).

The Group's supply chain management concentrates on cross-border logistics and chain coordination in China and Mongolia and also focuses on competition orientation at global and regional levels. And at the local level, we strive to do business only with those companies who share our respect for the environment, law and ethical behavior. COVID-19 pandemic has struck at the core of global value chain hub regions, including China. Since the first quarter of 2020, the Group's supply chain management has closely followed the pandemic prevention measures taken by Governments of PRC and Mongolia. This includes, among other measures, working closely with our transportation companies to organize the coal hauling routes and logistics in a way that minimizes social contacts and complying with heightened sanitary requirements on both sides of the China-Mongolia borders.

ANTI-CORRUPTION POLICY

The Group upholds a high standard on promoting anti-corruption requiring all its employees and directors to maintain impeccable business ethics. The Group is committed to preventing, detecting and reporting all types of fraud including bribery and corruption.

MEC's Audit Committee has responsibility to review and raise concerns about possible improprieties in financial reporting, internal controls and other matters. No incidents regarding bribery, corruption or unethical behavior were recorded or identified in the Financial Year.

MEC has a whistleblowing policy which is written in its Internal Regulations. This policy aims to provide a formal channel for our employees and stakeholders to report concerns about any suspected misconduct, malpractice or irregularity. This policy is intended to protect the whistleblower to report its concerns without fear of victimization, subsequent discrimination or disadvantage.

MoEnCo's approach to anti-corruption and ethical business conduct is outlined in its Internal Regulations which, among other matters, identifies our obligations, as a company, to comply with all applicable laws and to avoid and report bribery and corruption cases.

MoEnCo ensures anti-corruption approach and prevention of nepotism through:

- due diligence of potential employees, contractors and suppliers;
- effective communication channels between the management and all staff including those working at Khushuut camp;
- dedicated assessment of bidders and their tender proposals offering their services to MoEnCo; and
- inclusion of anti-bribery provisions in the employment contracts with all MoEnCo workers and managers.

The Group ensures that all of its operations and interactions are conducted in an ethical, honest, and accountable manner and in accordance with all applicable laws and regulations. With thousands of workers, suppliers and contractors, the Group strives to ensure that not only is corruption contrary to our values and responsibility, it may also erode our ties with the communities where we operate. We expect all employees to identify and raise concerns about unethical business conduct, including potential bribery or corruption issues. The Group maintain strong anti-retaliation policy for those would raise concerns timely and in good faith.

The Group believes that transparency and reporting is a proper tool to ethical business conduct pursuant to the relevant laws and regulations as well as its own policies. The Group regularly reports its operations, revenues, taxes, environmental performance and social issues through several channels:

- the website of the Group and the HKEx;
- Mineral Resources and Petroleum Authority of Mongolia, Ministry of Environment and Tourism of Mongolia;
- Khovd province Government;
- MoEnCo's website (<http://moenco.mn>);
- Extractive Industries Transparency Initiative (www.eitimongolia.mn).

COMMUNITY



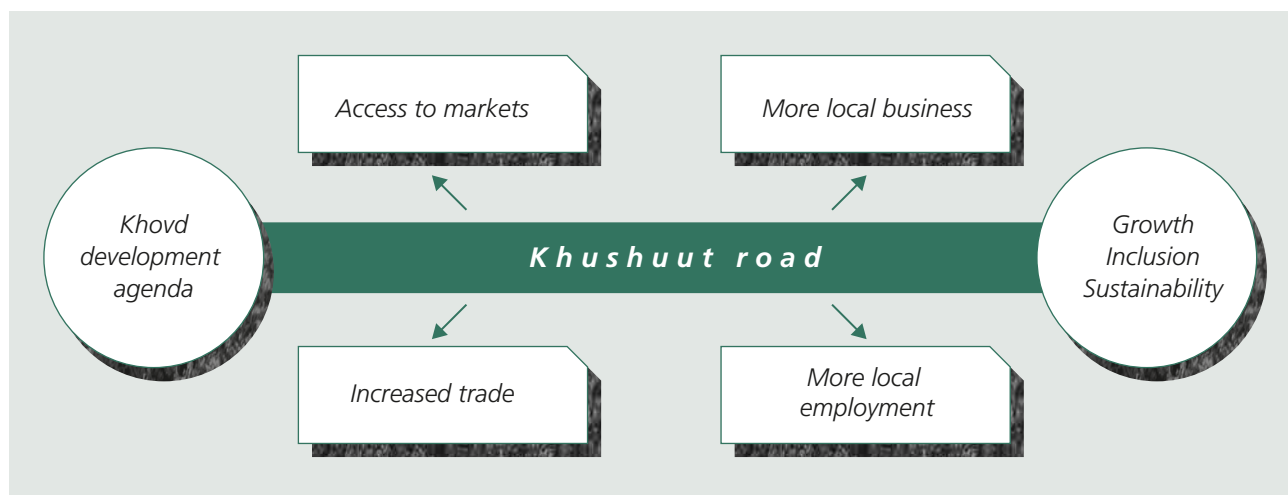
INVESTMENT AND CONTRIBUTION TO THE COMMUNITY AND ITS ECONOMY

MoEnCo has been ranked one of the “Mongolia’s Top-100 Companies” issued by the Mongolian National Chamber of Commerce and Industry for four consecutive years since 2017. These nominations were made upon evaluating MoEnCo’s outstanding business performance, large number of jobs created in the remote region of the country, and tax payments to the central and provincial budget, among other criteria. These consecutive nominations reflect MoEnCo’s contribution to the regional economy and well-being of the local people.

MoEnCo invests into the economy and makes contributions to the communities of the region through various channels and at several levels which are described below.

LOCAL INFRASTRUCTURE DEVELOPMENT

In 2011, MoEnCo commissioned the 311 km long Khushuut road which connects the coal mine to Bulgan border point on the Mongolian side, and Takeshenken border on the PRC side. Over the past ten years of its operations, Khushuut road has been the only asphalt road within three neighboring rural districts and the artery through which the local economy pulses. Briefly, Khushuut road’s decade long role in the Khovd development agenda can be illustrated as follows:



MoEnCo applies much efforts to maintaining its road to withstand extreme winter and summer temperature fluctuations in Mongolia and heavy freight load. Our local contractor – road maintenance company carries annual repair works in strict compliance with the requirements of the Roads Law of Mongolia and the national standards. In 2020, maintenance works have been done on 17 bridges and 45,000 meters of the road. Thus, the Khushuut road creates a substantial number of local jobs engaging people in snow, ice, sand removal, natural sludge clearing, asphalt application and repairs, upgrades, replacement of road signs, arranging drivers’ rest areas, etc. Over the years of operations, various private companies set up eateries and stores in four locations. MoEnCo built 14 rest areas along the road and the petroleum suppliers constructed ten gas stations for storing and selling petrol. Local residents of entire Khovd province use our asphalted road free of charge.

COMMUNITY (CONTINUED)

CREATING LOCAL EMPLOYMENT

Fulfilling our pledge to increase job opportunities for local citizens and support businesses of Khovd, in 2020, MoEnCo recruited almost 77 percent of the total workforce from Khovd province (average of the 12 month of 2020). All our workers, including local ones, enjoy similar benefits, undergo regular full medical checkups and have their social security and health insurance premiums paid by MoEnCo. Moreover, they get on-job training and enjoy the active social life at the camp.

In addition to MoEnCo's own local employees, local jobs are created through:

- the Khushuut road, located in the arid lands in extreme continental climate and used for heavy duty transportation, required much maintenance throughout the year (snow, ice, sand removal, natural sludge clearing, repairs, upgrades, replacement of road signs, creating driver's rest areas, etc.), thus, creating a substantial number of local jobs. In 2020, all our road maintenance contractors were local;
- our annual land rehabilitation works, for which we engaged only local residents;
- the engagement of long distance coal transporters were local as well;
- all the construction, repairs, landscaping and other types of public works of 2020 financed by the Khushuut Development Fund also provided jobs for many local citizens.

MoEnCo mandatorily includes in the subcontracting agreements with its contractors and suppliers, that they have to hire the majority of their personnel locally under legitimate labour contracts to meet all legal requirements and comply with all rules.

GIVING PRIORITY TO LOCAL PROCUREMENT

Significant support to the local economy comes from MoEnCo's procurement of goods and services. In order to support and strengthen local small and medium sized businesses, local companies in Khovd meeting our procurement requirements are given preference to be our suppliers of drinking water, meat, milk, vegetables and other foodstuffs, construction materials and construction works, vehicles maintenance and rentals, medical drugs and supplies, work uniforms and boots, hotel and meals services, certain equipment rental, truck drivers training courses, and coal transporting services.

In the past, MoEnCo used to organize information sessions for tender seekers explaining our procurement requirements and procedures. Over the past decade of supplying products and services to the Khushuut mine, the Khovd and other regional suppliers have gained extensive business experience in cooperating with multi-national company like MoEnCo and in cross-border supply.

	2019	2020
No. of contractors and suppliers	198	252
of which No. of local suppliers and contractors (individuals and businesses)	135	113

In 2020, total purchases of goods and services from local businesses and individuals amounted to MNT 76.12 billion (approximately HK\$207,547,169.81). MoEnCo hired only local transportation companies for exporting coal to foreign buyers. For this purpose, we recruited 24 Khovd transportation companies and paid MNT 33.35 billion (approximately HK\$90,931,399.28) as coal transportation service fees.

MoEnCo's local procurement

	2016	2017	2018	2019	2020
Amount of locally purchased goods and services (including coal transportation)	MNT16.07 billion (HK\$51.6 million)	MNT35.7 billion (HK\$117.3 million)	MNT47.8 billion (HK\$144.5 million)	MNT123.7 billion (HK\$366.2 million)	MNT76.1 billion (HK\$207.5 million)
of which, percentage of the total procurement	45%	49%	68%	70.9%	59%

The COVID-19 outbreak response in China and Mongolia with their severe mobility restrictions, border closure and quarantine measures caused much disruption in the supply chain routes existing between MoEnCo and Xinjiang Washing Plant in China and between their respective domestic suppliers, service providers and buyers. For example, MoEnCo spent an abundant amount of time talking to its existing suppliers and swiftly finding new suppliers, and made tough decisions to maintain our obligations under the supply-related contracts, prevent any shortage of material resources for the operations (petrol, for instance, which has to be transported to Khushuut in its remote corner of Mongolia) and provide sufficient stock of new products (industrial and personal-use sanitizers, various types of personal protective equipment, etc.) at the camp. Under the impact of the government-imposed travel bans and the demand for promptness and cost optimization, the percentage of Khovd purchased goods and services within MoEnCo's total procurement declined to 59 percent in 2020 compared to 68 percent in 2018 and 70.9 percent in 2019.

LOCAL COOPERATION AGREEMENTS

MoEnCo entered into its first Cooperation Agreement with the Khovd province government in 2014. The Cooperation Agreement aimed at increasing job opportunities for local citizens and supporting small companies and household businesses. In 2016 and 2017, MoEnCo and Khovd province government jointly reviewed the implementation of this Agreement. In the concluding statement papers, the Khovd province government expressed its "great satisfaction" of MoEnCo's work toward fulfilling its social responsibility. Encouraged by the mutually benefiting cooperation with the local government and the great approval of our support received from the local communities, MoEnCo entered into another Cooperation Agreement for three years from 2017-2020.

The 2017 – 2020 Cooperation Agreement with Khovd government is the second local development agreement that we productively completed. Over the period between 2017 and 2020, the parties to this agreement, i.e. MoEnCo and Khovd province government, held 16 reporting, review, discussion and assessment sessions in relation to this Agreement. In early 2020, MoEnCo reported to Khovd province Government about the completion of this Agreement including:

- the entire Khushuut project provided employment to about 1,700 people annually including MoEnCo's own employees and workers of the contractors residing at our mine camp. More than 70 percent of these people were residents of Khovd. Contributing to preparing more professional national workforce, MoEnCo involved an average of 4,700 workers per year, in duplicated count, in vocational training, on-the-job training and professional development.
- during the term of this Agreement, MoEnCo paid MNT 6.2 billion (HK\$16,905,000) in taxes, charges and fees to the Khovd budget. We have been the top tax payer in Khovd for the last consecutive number of years.
- In addition to the payments to the Khovd Development Fund, donations to local community totaled MNT 6.7 billion (HK\$18,268,000), this included costs of provision of free water and electricity to Khushuut village residents.
- MoEnCo planned and carried out the relocation and construction of the Khushuut entire village for over 400 residents including residential and public buildings and utilities services infrastructure in three km from the Tsetseg soum center and in twenty km from the Khushuut mine site.
- during the agreement period, MoEnCo supplied a total of 72,950 tonnes of coal of various types at a notably discounted price or for free to Khovd domestic needs, and also coal donation to elderly people of Khushuut bag and MoEnCo retirees every year.

MoEnCo and the Khovd province are now in the process of negotiating a new Cooperation Agreement.

COMMUNITY (CONTINUED)

KHUSHUUT DEVELOPMENT FUND

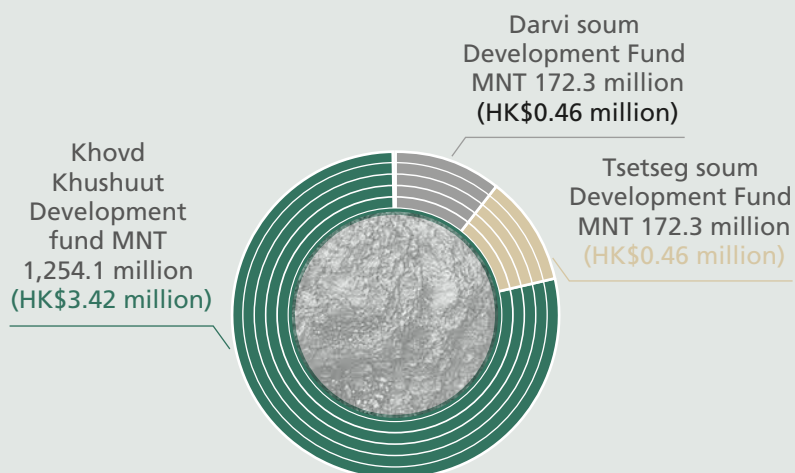
MoEnCo makes a contribution annually to the Khushuut Development Fund jointly established with the Khovd Government. The Fund consist of (i) provincial Khovd Khushuut Development Fund (ii) Tsetseg soum Development Funds and (iii) Darvi soum Development Funds, and operates under its regulation approved by Khovd Governor while the latter two Funds receive funding from MoEnCo for local projects. The Fund's annual plans and reports are approved by the Khovd province citizen's Khural (provincial assembly) and by soum Khurals respectively.

In 2020, fulfilling its obligations under the Cooperation Agreement, MoEnCo contributed approximately MNT 1,598.8 million (approximately HK\$4,359,000) to Khovd Development Fund.

	2014-19	2017	2018	2019	2020
MoEnCo's contribution to Khushuut Development Fund	MNT6,350.83 million (HK\$17.32 million)	MNT665.62 million (HK\$2.18 million)	MNT1,604.93 million (HK\$4.85 million)	MNT2,146.1 million (HK\$6.35 million)	MNT1,598.8 million (HK\$4.36 million)

The decrease in coal export in 2020 was due to the border closure and the government's imposition of total work stoppage under the global COVID-19 pandemic and such circumstance had been continued for several months and affected MoEnCo's capacity to contribute to the Khovd Development Fund.

MoEnCo's funding to the Khovd Development Fund



The 2020 disbursements for hospital and medical services, infrastructure construction and repairs and public civil works and urban improvements and etc., from Khovd Khushuut Development Fund were used to fund 43 public different projects including but not limited to:

- Continued construction, installations and repairs of rural hospital buildings in five soums, purchase of medical devices and children's health rehabilitation equipment.
- Public buildings and urban infrastructure repairs, installations and improvements in four soums including repairing and modernizing of urban water supply facilities, purchase of town trash removal truck, minibus for provincial center cleaning team, and funding of urban public works.
- Organization of local sports events and cultural festivals, capacity building training for soum administration workers in two soums.
- Improvements, installations and repairs of public schools and kindergartens in six soums, landscaping of their playgrounds, installing security cameras, purchase of musical instruments, toys, heating equipment, organization of children's arts festival.

DONATIONS AND IN-KIND SERVICES

Despite having a difficult year of 2020 with the COVID-19 pandemic restrictions and additional virus prevention costs, MoEnCo continued its promotion of the local development through donations, free coal distribution and in-kind services.

- In-kind works and services offered free of charge to the local residents include:
 - MoEnCo's health center at the mine site provides free outpatient medical care and emergency services for the local people in three nearby soums. In 2020, our medical team treated 126 patients from the local community free of charge.
 - We extend our environmental safeguarding beyond the lands surrounding Khushuut mine site. At the request of neighboring soum administrations, each year, MoEnCo invests into restoration and conservation of local natural and cultural sites.
 - o In 2020, at the request of Tsetseg soum administration, MoEnCo's environmental team carried out technical rehabilitation of the land damaged and abandoned by informal artisanal mining. We handed over to the Tsetseg soum government a total of 15 hectares of rehabilitated land.
 - o We provided technical support in moving of two grinding stones of an ancient horse mill (a local historic site) and placing them at the entrance of the Darvi soum Cultural Center.
 - o Overcoming harsh Mongolian winters in remote mountainous areas are challenging not only for people but for wild animals too. To protect the wildlife, MoEnCo includes some biotechnical protection techniques in its annual Environmental Management Plan. For example, in 2020 we purchased 2 tonnes of mineral fodder and 100 bales of hay and handed them over to Darvi soum environmental officers for placing along the wild animals trails.
 - o At request of the Uyenich soum Environmental Office, we donated 500 seedlings of trees and bushes for planting to this soum center by its residents in fall 2020.
 - Up to year of 2019, MoEnCo used to voluntarily supply Khushuut households with free water and electricity spending for this purpose several hundreds of millions togrogs annually. Since the 2019 relocation of Khushuut village to a new location in twenty two km away from the Khushuut coal mine, MoEnCo's support of the village residents is offered through, among many other channels, providing free and discounted coal to the new village's heating plant (93 tonnes in 2019 and 23 tonnes in 2020).

COMMUNITY (CONTINUED)

- Free and discounted coal distribution. MoEnCo distributes free or significantly discounted coal for the local community members and at request of Khovd governor's office to help to overcome harsh winters of Mongolia or other urgent events. For example, over the period of 2017-2020 we delivered a total of 375 tonnes of free coal to Khushuut bag households with elderly parents. In 2018-2020, MoEnCo fully sponsored distribution of 4,000 tonnes of coal from Hongor mine, located nearby Khovd province center, to the provincial center's residents in need. MoEnCo's free and discounted coal distribution program reaches out citizens of six soums (Tsetseg, Darvi, Jargalant, Bulgan, Altai, Uyench).

In 2020, we donated 40 tonnes of coal to the Darvi soum Emergency Office as our support and appreciation of their hard works against the COVID-19 outbreak.

Since 2017, MoEnCo has been supporting a local company, Nomin Shiltgeen LLC, in producing compressed briquettes from coal. We believe in potential benefits of such coal products in reducing air pollution compared to burning regular coal. This is why over the period of 2017 – early winter of 2021, MoEnCo provided 5,346 tonnes of coal to this local company for free or at a significantly discounted price, while in the same period, over 61,000 tonnes of coal were delivered to the Khovd Second Central Heat and Electricity Power Plant.

MoEnCo's free and discounted coal distribution program

	2018	2019	2020
Tonnes of coal distributed free of charge	93	537	342
Tonnes of discounted coal sold	18,062.3	55,623	51,112
No. of local households, social organizations or companies which received discounted coal	3,470	4,124	8,027
No. of recipients of free coal	33	36	37

- MoEnCo's donations (these are in addition to the funds paid to Khovd Development Fund) are usually necessitated by an emergency, either due to weather or medical conditions. For example, as part of MoEnCo's COVID-19 prevention and response program, we donated 30,000 face masks, 2,000 disposable overalls and disinfectants to the Khovd province Emergency Commission in December, 2020. Furthermore, MoEnCo offered various gifts and free coal vouchers to some local seniors and local retirees of MoEnCo during the national holidays.

During the Financial Year, we were under the rage of COVID-19. We had exercised our strictest measures in our operation to ensure the health and safety of our employees and workers as well as of our local community were protected. We continued to contribute our efforts in preserving the environment and our community works and that they all received positive and satisfactory recognition. We are conscious that our corporate responsibilities will not stop there. We will continue to improve our corporate social responsibility in promoting sustainability in the countries where we have operations.

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