MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries' (the "**Group**") generated a total revenue of approximately United States Dollar ("**USD**") 516.7 million during the six months ended 30 June 2023, representing an increase of 385.0% compared to USD106.5 million of total revenue generated during the six months ended 30 June 2022. The Group sold approximately 4.9 million tonnes ("**Mt**") of coal products during the reporting period, compared to approximately 0.9 Mt of coal products sold during the first half of 2022. The average selling price ("**ASP**") for washed hard coking coal ("**HCC**") increased to USD161.8 per tonne for the six months ended 30 June 2023, compared to USD141.3 per tonne for the same period in 2022.

The Group's gross profit for the six months ended 30 June 2023 was approximately USD225.1 million, compared to the gross loss of approximately USD19.9 million recorded for the same period in 2022.

The Group's net profit attributable to the equity shareholders of the Company for the first half of 2023 was USD136.6 million, compared to USD32.4 million of net loss attributable to the equity shareholders of the Company recorded for the first half of 2022.

The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD13.11 cents for the reporting period, compared to the basic and diluted loss per share of USD3.10 cents in the same period in 2022.

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of dividend for the six months ended 30 June 2023 (dividend for the six months ended 30 June 2022: nil).

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

The Board is announcing the unaudited consolidated interim results of the Group for the six months ended 30 June 2023 together with the comparative figures for the corresponding period in 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2023 – unaudited

		Six months ended 30 June	
	Note	**2023**	2022
		USD'000	*USD'000*
Revenue	*4*	**516,701**	106,539
Cost of revenue	*5*	**(291,597)**	(126,425)
Gross profit/(loss)		**225,104**	(19,886)
Other net income/(loss)		**3,095**	(2,306)
Selling and distribution costs		**(2,107)**	(647)
General and administrative expenses		**(14,049)**	(7,352)
Profit/(loss) from operations		**212,043**	(30,191)
Finance income	*6(a)*	**616**	2,671
Finance costs	*6(a)*	**(26,360)**	(27,250)
Net finance costs	*6(a)*	**(25,744)**	(24,579)
Gain from repurchase of Senior Notes due 2024	*7*	**3,970**	–
Share of profits of associates		**307**	22
Share of losses of joint ventures		**–**	(10)
Profit/(loss) before taxation		**190,576**	(54,758)
Income tax	*8*	**(54,123)**	22,446
Profit/(loss) for the period		**136,453**	(32,312)
Attributable to:			
Equity shareholders of the Company		**136,635**	(32,361)
Non-controlling interests		**(182)**	49
Profit/(loss) for the period		**136,453**	(32,312)
Basic earnings/(loss) per share	*9*	**13.11 cents**	(3.10) cents
Diluted earnings/(loss) per share	*9*	**13.11 cents**	(3.10) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 – unaudited

	Note	**Six months ended 30 June**	
		2023	2022
		USD'000	*USD'000*
Profit/(loss) for the period		**136,453**	(32,312)
Other comprehensive income for the period (after tax and reclassification adjustments)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation		**21**	(12,004)
Total comprehensive income for the period		**136,474**	(44,316)
Attributable to:			
Equity shareholders of the Company		**136,721**	(44,365)
Non-controlling interests		**(247)**	49
Total comprehensive income for the period		**136,474**	(44,316)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 – unaudited

	Note	**At 30 June 2023** ***USD'000***	At 31 December 2022 *USD'000*
Non-current assets			
Property, plant and equipment, net	*10*	**954,810**	919,688
Construction in progress	*11*	**45,439**	47,387
Other right-of-use assets		**48**	49
Intangible assets	*12*	**495,025**	498,035
Interest in associates		**7,586**	7,657
Interest in joint ventures		**4**	4
Other non-current assets		**39,102**	59,537
Deferred tax assets		**26,413**	28,505
Total non-current assets		**1,568,427**	1,560,862
Current assets			
Inventories		**99,172**	102,794
Trade and other receivables	*13*	**106,986**	92,157
Cash and cash equivalents		**208,219**	64,695
Total current assets		**414,377**	259,646
Current liabilities			
Trade and other payables	*14*	**155,388**	136,369
Senior notes	*15*	**341,607**	–
Contract liabilities		**178,346**	182,246
Lease liabilities		**–**	56
Current taxation		**55,421**	9,617
Total current liabilities		**730,762**	328,288
Net current liabilities		**(316,385)**	(68,642)
Total assets less current liabilities		**1,252,042**	1,492,220

	Note	At 30 June 2023 USD'000	At 31 December 2022 USD'000
Non-current liabilities			
Senior notes	*15*	**–**	373,756
Provisions		**17,826**	16,737
Deferred tax liabilities		**169,949**	174,650
Total non-current liabilities		**187,775**	565,143
NET ASSETS		**1,064,267**	927,077
CAPITAL AND RESERVES			
Share capital		**104,248**	104,248
Reserves		**905,745**	768,308
Total equity attributable to equity shareholders of the Company		**1,009,993**	872,556
Perpetual notes	*16(c)*	**55,476**	55,476
Non-controlling interests		**(1,202)**	(955)
TOTAL EQUITY		**1,064,267**	927,077

NOTES

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issuance on 15 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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

As a result of the improvement and stabilisation of the border crossing throughput level from the second half of 2022, the Group's financial performance improved substantially during the reporting period. The Group had net current liabilities of USD316,385,000 as at 30 June 2023. The Group has standby facilities from local banks in Mongolia totalling USD50,000,000 as of the reporting date. Based on the cash flow forecast of the Group for the next twelve months ending 30 June 2024 prepared by the management, the Directors expect to maintain adequate financial resources to cover its operating costs and meet its financing commitments, as and when they fall due for the twelve months period subsequent to 30 June 2023.

2 CHANGES IN ACCOUNTING POLICIES

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

- IFRS 17 *Insurance Contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a Single Transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pilar Two model rules*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority of assets and liabilities are located in Mongolia and the majority of its customers are located in the People's Republic of China ("**PRC**"). Based on information reported by the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sale of coal products. Accordingly, no additional business and geographical segment information are presented.

4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal products. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised for the six months ended 30 June 2023 and 2022 are as follows:

	Six months ended 30 June	
	2023	2022
	USD'000	*USD'000*
HCC	**450,216**	94,244
Washed semi-soft coking coal ("**SSCC**")	**48,154**	10,562
Middlings	**17,364**	1,595
Raw thermal coal	**967**	138
	516,701	106,539

5 COST OF REVENUE

	Six months ended 30 June	
	2023	2022
	USD'000	*USD'000*
Mining costs	**124,285**	26,942
Processing costs	**29,472**	7,332
Transportation costs	**41,831**	31,454
Others *(Note (i))*	**96,009**	36,318
Cost of revenue during mine operations	**291,597**	102,046
Cost of revenue during idled mine period *(Note (ii))*	**–**	24,379
Cost of revenue	**291,597**	126,425

Notes:

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

(ii) For the six months ended 30 June 2022, cost of revenue during idled mine period mainly includes depreciation expense related to idled plant and equipment, staff costs and mining contractor costs.

6 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

	Six months ended 30 June	
	2023	2022
	USD'000	*USD'000*
Interest income	**(616)**	(10)
Net change in fair value of derivative component of senior notes	**–**	(2,661)
Finance income	**(616)**	(2,671)
Interest on liability component of senior notes *(Note 15)*	**18,189**	23,047
Interest on lease liabilities	**5**	1
Transaction cost	**9**	26
Unwinding interest on accrued reclamation obligations	**637**	865
Foreign exchange loss, net	**7,520**	3,311
Finance costs	**26,360**	27,250
Net finance costs	**25,744**	24,579

Note:

No borrowing costs have been capitalised during the six months ended 30 June 2023 and 2022.

(b) Other items:

	Six months ended 30 June	
	2023	2022
	USD'000	*USD'000*
Depreciation and amortisation	**46,026**	22,954
Loss/(gain) on disposal of property, plant and equipment	**286**	(6)

7 GAIN FROM REPURCHASE OF SENIOR NOTES DUE 2024

The Group repurchased a total of USD33,160,000 principal amount from senior notes with initial principal amount of USD440,000,000 maturing on 15 April 2024 ("**Senior Notes due 2024**") through open market purchase during the six months ended 30 June 2023. The excess of derecognised carrying amount of the Senior Notes due 2024 over the consideration to settle the financial liabilities, amounting to approximately USD3,970,000, has been recognised as a gain from repurchase of Senior Notes due 2024 and credited to profit or loss during the six months ended 30 June 2023.

8 INCOME TAX

(a) Income tax in the consolidated statement of profit and loss and other comprehensive income represents:

	Six months ended 30 June	
	2023	2022
	USD'000	*USD'000*
Current tax		
Provision for the year	**56,148**	111
Over-provision in respect of prior years	**–**	(115)
	56,148	(4)
Deferred tax	**(2,025)**	(22,442)
	54,123	(22,446)

(b) Reconciliation between tax expenses/(credit) and accounting profit/(loss) at applicable tax rates:

	Six months ended 30 June	
	2023	2022
	USD'000	*USD'000*
Profit/(loss) before taxation	**190,576**	(54,758)
Notional tax on profit/(loss) before taxation	**48,048**	(24,239)
Tax effect of non-deductible items *(Note (iii))*	**8,039**	4,765
Tax effect of non-taxable items *(Note (iii))*	**(2,167)**	(3,037)
Tax losses not recognised	**203**	180
Over-provision in prior years	**–**	(115)
Actual tax expenses/(credit)	**54,123**	(22,446)

Notes:

(i) Pursuant to the income tax rules and regulations of Mongolia, the subsidiaries of the Group located in Mongolia are liable to Mongolian Corporate Income Tax at a rate of 10% for the first MNT6 billion taxable income, and 25% for the remaining taxable income for the six months ended 30 June 2023 and 2022. According to the Corporate Income Tax Law of the PRC, the Company's subsidiaries in the PRC are subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong, Luxembourg and Singapore profits tax as it has no assessable income arising in or derived from Hong Kong, Luxembourg and Singapore during the six months ended 30 June 2023 and 2022.

(iii) Non-deductible and non-taxable items mainly includes net unrealised exchange gain or loss, other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the six months ended 30 June 2023 and 2022.

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of USD136,635,000 (loss attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2022: USD32,361,000) and the weighted average of 1,042,476,786 ordinary shares (six months ended 30 June 2022: weighted average of 1,042,476,786 ordinary shares) in issue during the interim period.

(b) Diluted earnings/(loss) per share

For the six months ended 30 June 2023 and 2022, basic and diluted earnings/(loss) per share are the same.

The effects of the outstanding share options *(see Note 16(b))* are anti-dilutive and therefore not included in calculating diluted earnings/(loss) per share for the six months ended 30 June 2023 and 2022.

10 PROPERTY, PLANT AND EQUIPMENT, NET

(a) Right-of-use assets

During the six months ended 30 June 2023 and 2022, the Group did not enter into any new lease agreements, and therefore no additional right-of-use assets were recognised.

(b) Acquisitions and disposals of owned assets

Mining properties of the Group as at 30 June 2023 include stripping activity assets with carrying amount of USD461,925,000 (31 December 2022: USD447,797,000).

During the six months ended 30 June 2023, the additions of property, plant and equipment of the Group, representing mainly various mining structures, amounted to USD75,548,000 (six months ended 30 June 2022: USD12,394,000). Items of property, plant and equipment with a net book value of USD286,000 were disposed of during the six months ended 30 June 2023 (six months ended 30 June 2022: USD172,000).

11 CONSTRUCTION IN PROGRESS

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

12 INTANGIBLE ASSETS

Intangible assets mainly represent the mining right acquired during the acquisition of Baruun Naran ("**BN**") mine and the permission to operate at the customs bonded terminal ("**GS Terminal**").

13 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2023 *USD'000*	At 31 December 2022 *USD'000*
Within 90 days	**10,047**	4,245
90 to 180 days	**1,890**	187
180 to 270 days	**12**	–
Trade receivables net of allowance for doubtful debts	**11,949**	4,432
Amounts due from related parties	**14**	3
Other debtors	**996**	763
Financial assets measured at amortised cost	**12,959**	5,198
Prepayments and deposits *(Note (i))*	**43,494**	53,809
Value added tax ("**VAT**") and other tax receivables *(Note (ii))*	**40,533**	33,150
Others	**10,000**	–
	106,986	92,157

Notes:

(i) At 30 June 2023 and 31 December 2022, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(ii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from Mongolian Tax Authority ("**MTA**"). According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties payable to MTA against VAT receivable from MTA. The Group verifies the collectability of such funds with MTA on a regular basis, and based on currently available information, the Group anticipates full recoverability.

14 TRADE AND OTHER PAYABLES

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

	At 30 June 2023 *USD'000*	At 31 December 2022 *USD'000*
Within 90 days	**72,457**	71,264
90 to 180 days	**4**	–
180 to 365 days	**102**	–
Over 365 days	**31,607**	32,723
Total trade creditors	**104,170**	103,987
Payables for purchase of equipment	**1,767**	2,013
Interest payables	**6,703**	7,350
Other taxes payables	**28,164**	11,015
Amounts due to related parties	**5,107**	3,986
Others	**9,477**	8,018
	155,388	136,369

15 SENIOR NOTES

	At 30 June 2023 *USD'000*	At 31 December 2022 *USD'000*
Senior Notes due 2024 *(Note)*	**341,607**	373,756

Note:

On 15 April 2019, the Group issued the Senior Notes due 2024 with a principal amount of USD440,000,000 which were listed on the Singapore Exchange Securities Trading Limited. The Senior Notes due 2024 bear interest at 9.25% per annum fixed rate, payable semi-annually, and due on 15 April 2024.

The Senior Notes due 2024 have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of early redemption option was initially recognised at its fair value of nil. The fair value of the derivative component of early redemption option as at 30 June 2023 was nil (31 December 2022: nil). The liability component was initially recognised at fair value of USD429,795,446, after taking into account attributable transaction costs of USD10,204,554 and is accounted on amortised cost subsequently. In 2022, the Group repurchased an aggregate principal amount of USD63,591,000 from Senior Notes due 2024. During the six months ended 30 June 2023, the Group repurchased an aggregate principal amount of USD33,160,000 from Senior Notes due 2024 *(See Note 7)*. As at 30 June 2023, the carrying amount of the liability component was USD341,607,000 (31 December 2022: USD373,756,000). The outstanding principal amount of the Senior Notes due 2024 is USD343,249,000 as at 30 June 2023 (31 December 2022: USD376,409,000).

Fair value of the derivative component was estimated by the Directors based on the binomial model.

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

(b) Equity settled share-based transactions

On 3 April 2023, 33,250,000 share options were granted to a director and the employees of the Company under the share option scheme (no share options were granted during the six months ended 30 June 2022). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 3 April 2024, 3 April 2025, 3 April 2026 and 3 April 2027 separately of 25% each, and then be exercisable until 3 April 2028.The exercise price is HKD3.26, being the closing price as stated in the daily quotations sheet issued by the Stock Exchange of Hong Kong Limited on the date of grant.

No options were exercised during the six months ended 30 June 2023 (six months ended 30 June 2022: 10,900,000).

(c) Perpetual notes

The Company issued perpetual notes which were listed on the Singapore Exchange Securities Trading Limited on 4 May 2017, with a principal amount of USD195,000,000 and with a fair value of USD75,897,000. Fair value of the perpetual notes was valued by the management with the reference to a valuation report issued by an independent valuer based on the discounted cash flow method.

On 15 April 2019, the Company redeemed a principal amount of USD23,972,000 with a carrying amount of USD9,328,000 through debt refinancing. After the debt refinancing, the outstanding principal amount of the perpetual notes was USD171,028,000 with a carrying amount of USD66,569,000. Pursuant to the Company's announcements dated 12 July 2022 and 23 November 2022, the Company repurchased a principal amount of USD22,120,000 and USD6,380,000, respectively, with a carrying amount of USD8,610,000 and USD2,483,000. As at 30 June 2023, the outstanding principal amount of the perpetual notes was USD142,528,000 with a carrying amount of USD55,476,000.

The perpetual notes have no fixed maturity and are redeemable at the Company's option. The distribution payments can be deferred at the discretion of the Company. So long as the perpetual notes are outstanding, the Company shall not declare or pay any dividend or make any distribution on or with respect to its capital shares; or redeem, reduce, cancel, buy-back or acquire for any consideration any of its capital shares.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

China's economy started to recover as the country ended its strict COVID-19 restrictions that were in place for nearly three years. According to The National Bureau of Statistics, China's GDP grew by 5.5% in the first half of 2023 compared to the same period in the previous year.

Chinese crude steel production increased to 535.6 Mt in the first half of 2023, representing a year-on-year ("**y-o-y**") modest increase of 1.3% from the same period in 2022, according to the data released by the World Steel Association. It was estimated by Fenwei Energy Information Services Co., Ltd ("**Fenwei**") that the domestic apparent crude steel consumption was 494.1 Mt in the first half of 2023, compared to 495.9 Mt in the first half of 2022. China exported 43.6 Mt of steel in the first half of 2023, marking a 30.1% y-o-y increase compared to 33.5 Mt recorded during the same period in 2022.

According to data compiled by Fenwei, coke output in China increased by 1.8% to 243.8 Mt in the first half of 2023 and China's coke consumption increased by 2.4% y-o-y to 236.6 Mt. China coke export remained flat at 4.1 Mt in the first half of 2023.

China's coking coal consumption was 291.6 Mt in the first half of 2023, according to Fenwei, representing a 4.8% increase from the same period in the previous year. Domestic coking coal production increased to 249.0 Mt, a y-o-y increase of 0.6%.

China's coking coal import rebounded due to withdrawal of COVID-19 pandemic-related import restrictions and significantly increased to 45.6 Mt, an increase of 74.7% y-o-y in the first half of 2023 compared to 26.1 Mt in the same period in the preceding year. Coking coal imported from Mongolia to China reached historical high levels to 22.3 Mt, y-o-y increase of 197.3%. The second biggest import source of coking coal to China originated from Russia which increased by 64.2% y-o-y to 13.8 Mt from 8.4 Mt recorded in the first half of 2022.

According to the data released by the National Statistics Office of Mongolia, Mongolia exported 29.5 Mt of coal to China in the first half of 2023, compared to 8.1 Mt exported during the same period in 2022.

OPERATING ENVIRONMENT

Legal Framework

Regulations related to coal exports

On 8 February 2022, the Government of Mongolia ("**GoM**") issued Resolution No. 59 and assigned Mongolian Stock Exchange ("**MSE**") to undertake commodity trade activities. On 7 June 2023, the GoM also issued Resolution No. 223 and resolved that fluoride, iron, and coal as types and categories of the commodities to be traded through the MSE commodities trading platform. As such, in line with the Law on Mining Commodity Exchange, state-owned entities that undertake mining and export of these commodities are required to trade their products through the commodity exchange, whereas private entities are allowed to trade their mineral products through the commodity exchange on a voluntary basis.

On 17 April 2023, the Minister of Finance issued Order No. A/89 whereby the "Procedures for registering goods, products, and minerals in the unified database at each stage of production, export, and import" was approved. Pursuantly, producers, sellers and exporters of commodities are required to register their respective agreements, including sale and purchase agreement, foreign trade agreement, service agreement and other relevant agreements with the unified tax database at each stage of extraction, sale, and export.

On 1 May 2023, the Head of the Mongolian Agency for Standardization and Metrology approved Mongolian National Standard 6457:2023 "Classification of coal quality" as a national standard defining coal types by replacing its previous version adopted in 2022.

Regulations related to labour relations

On 22 June 2023, the "Collective (Tariff) Agreement of the Geology, Mining and Heavy Industry Sector" for 2023 to 2024 was executed by the relevant representatives of the state, trade union and employers of the sector industry replacing its previous version adopted in 2021. The minimum monthly wage of employees working in the mining sector increased to MNT1,100,000, while the national minimum wage is MNT550,000 as set by the National Trilateral Committee of Labor and Social Consensus. The Group does not expect any impact on its financial position from this requirement as its existing internal remuneration policies sufficiently cover the newly adopted minimum monthly wage requirements.

On 4 January 2023, the GoM approved the "Regulation on Labor Dispute Settlement with the Support of a Labor Mediator" and "Labor Arbitration Rule", respectively. Under these regulations, labor disputes will initially be settled through mediation and if such dispute is not settled with the support of a labor mediator, the disputing party may refer to the Tripartite Labor and Social Partnership Committee of the province or capital city to resolve the dispute through labor arbitration.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

The UHG deposit sits within the 2,960 hectares Mining License MV-011952 ("**UHG mining license**"), granted to the Group effective for 30 years from 29 August 2006, extendable twice by 20-year periods. Since the UHG mining license was granted, the Group has prepared four Australasian Joint Ore Reserves Committee ("**JORC**") compliant Coal Resource estimates, the most recent of which, stated as at 31 December 2021.

The most recent Coal Resource estimate has been made in accordance with the requirement of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). The last update stated as at 31 December 2022 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2022 to 31 December 2022 and no further exploration data was incorporated.

Resources are divided in order of increasing geological confidence, into inferred, indicated, and measured categories. The most recent resource update performed in 2021 focused on improving the details and accuracy of the 3D coal seam model. As a result, the unclassified, inferred, and indicated coal resources were moved to the measured resource category, representing higher confidence level. The updated resource report includes new information gathered from 16,935 metres ("**m**") of drilling by 89 boreholes and 6,108 samples with laboratory analysis that were completed between October to December of 2020.

Exploration activities conducted in the process of preparing the four preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2021, included:

- 1,645 individual boreholes drilled for 208,211m, including 116,709m of HQ-3 (63.1 millimetre ("**mm**") core, 96.0mm hole diameter) and 91,502m of 122mm diameter open hole drilling;

- 43,656 individual analytical samples collected and analysed;

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

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

JORC compliant Coal Resource estimate figures reported are based upon an in-situ density, at an as-received moisture basis, are summarised in Table 1.

Internal peer audit of these latest structural and coal quality models was conducted by Mr. Lkhagva-Ochir Said, employed by the Group as Chief Operating Officer. This peer audit confirmed that the Group's work to update the UHG geological model, and thus the Coal Resource estimate for the UHG mining license area, was in compliance with requirements of the JORC Code (2012).

Appendix I of the Group's 2021 Annual Report can be referred to for the detailed information required to be presented under the JORC Code (2012) upon release of a JORC (2012) Coal Resource estimate.

Table 1. UHG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2022 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	7	1	3	8	11
BHWE to 100m	62	4	13	66	79
From 100m to 200m	94	9	20	103	123
From 200m to 300m	133	6	14	139	153
From 300m to 400m	88	3	4	91	95
Below 400m	85	7	14	92	106
Sub-Total above 300m	296	20	50	316	366
Sub-Total below 300m	173	10	18	183	201
Total	**469**	**30**	**68**	**499**	**567**
Total (Rounded)	**470**	**30**	**70**	**500**	**570**

Notes:

*(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the Australasian Institute of Mining and Metallurgy (the "**AusIMM**") (Member #318198) and has over 13 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Barkhas consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 1 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2022, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

(ii) Mr. Lkhagva-Ochir Said is employed by the Group as Chief Operating Officer. Mr. Said is a member of the AusIMM (Member #316005) and has over 15 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

Baruun Naran (BN) deposit

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

In 2021, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 31 December 2021 for the BN and THG mining licenses. The last update stated for BN and Tsaikhar Khudag ("**THG**") as at 31 December 2022 was made only the basis of revised surface topography, to account for depletion as a result of mining activity between 1 October 2022 to 31 December 2022, and no further exploration data was incorporated.

The new resource update was done based on 8,335.4m of drilling data on the BN deposit. The drilling focused on the H pit mining boundary. 3,766 samples were collected and tested, confirming the coal quality and coal seam structure. As a result, the inferred and indicated coal resources were moved to the measured resource category, and the geological model was updated with improved accuracy. Moreover, based on 2018 exploration drilling result, the technical team improved the interpretation of the seam correlation between the BN and THG deposits and classified an indicated resource in THG resource estimation.

The Coal Resource stated as at 31 December 2022 incorporated additional exploration data gained from the exploration drilling program conducted in 2018. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated Coal Resource statement as at 31 December 2022:

- total of 135 exploration boreholes at BN, with a total of 36,875m drilled, of which 16,102m were HQ-3, 9,640m were PQ-3 (83.0 mm core, 122.6mm hole diameter) and 11,133m were 122mm diameter open boreholes;

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

- total of 12,502 (BN) and 3,824 (THG) coal samples collected and analysed; and

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

Internal peer review was conducted by Mr. Lkhagva-Ochir Said, the Group's Chief Operating Officer. These peer reviews confirmed compliance of the Group's work to update the Coal Resource estimations in compliance with the requirements of the JORC Code (2012).

Summary of the updated Coal Resources statement as at 31 December 2022 for BN and THG mining license areas are shown in Table 2 and Table 3. The figures in these tables represent calculation based upon in-situ density at an assumed 5% moisture basis.

Table 2. BN mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2022 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to BHWE	7	1	1	8	9
BHWE to 100m	61	9	5	70	75
From 100m to 200m	88	12	8	100	108
From 200m to 300m	89	13	8	102	110
From 300m to 400m	87	16	9	103	112
Sub-Total above 300m	245	35	22	280	302
Sub-Total below 300m	87	16	9	103	112
Total	**332**	**51**	**31**	**384**	**414**
Total (Rounded)	**330**	**50**	**30**	**380**	**410**

Table 3. THG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2022 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to BHWE	–	1	0	1	1
BHWE to 100m	–	13	4	13	17
From 100m to 200m	–	18	4	18	22
From 200m to 300m	–	19	5	19	24
From 300m to 400m	–	16	9	16	25
Sub-Total above 300m	–	51	13	51	64
Sub-Total below 300m	–	16	9	16	25
Total	**–**	**67**	**22**	**67**	**89**
Total (Rounded)	**–**	**70**	**20**	**70**	**90**

Notes:

(i) *Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the AusIMM (Member #318198) and has over 13 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Barkhas consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 2 and Table 3 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2022, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

(ii) *Mr. Lkhagva-Ochir Said is employed by the Group as Chief Operating Officer. Mr. Said is a member of the AusIMM (Member #316005) and has over 15 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

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

Coal Reserves

Ukhaa Khudag (UHG) deposit

The Group engaged Glogex Consulting LLC ("**Glogex**") to prepare an updated JORC (2012) Coal Reserve statement as at 1 January 2023 for the UHG deposit. The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods. Updated Coal Resource estimate served as a base to prepare such updated Coal Reserve estimate. The last reserve statement was made on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2022 to 1 January 2023.

Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by mining cost or coal price variance. Due to the increase in the measured resource concerning the coal seam structure accuracy improvement and movement of the unclassified, inferred, and indicated coal resource to the measured coal resource, the coal reserve increased. The pit algorithms used included for incorporation of:

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

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

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

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

The run-of-mine ("**ROM**") raw coal tonnages, resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2023 based upon an as-received basis with 3.64% total moisture for coking coal and 2.68% for thermal coal types, are shown in Table 4.

Table 4. UHG mining license JORC (2012) Coal Reserve estimate, as at 1 January 2023 (Notes):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	336	10	346
Thermal	19	–	19
Total	**355**	**10**	**365**

Notes:

(i) The estimate of Coal Reserve presented in Table 4 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the AusIMM (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 21 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement.

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

Baruun Naran (BN) deposit

Coal Reserve statement for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2023. The LOM mining plan prepared to underpin the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by operating cost and coal revenue variance. The last reserve statement was made on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 October 2022 to 1 January 2023.

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

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

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 5, with tonnage estimation based on an as-received basis with 1.8% total moisture for coking coal and 2.62% for thermal coal types.

Table 5. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2023 (Notes):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	246	23	269
Thermal	10	1	11
Total	**256**	**24**	**280**

Notes:

(i) The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the AusIMM (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 21 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit

optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement.

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

Production and Transportation

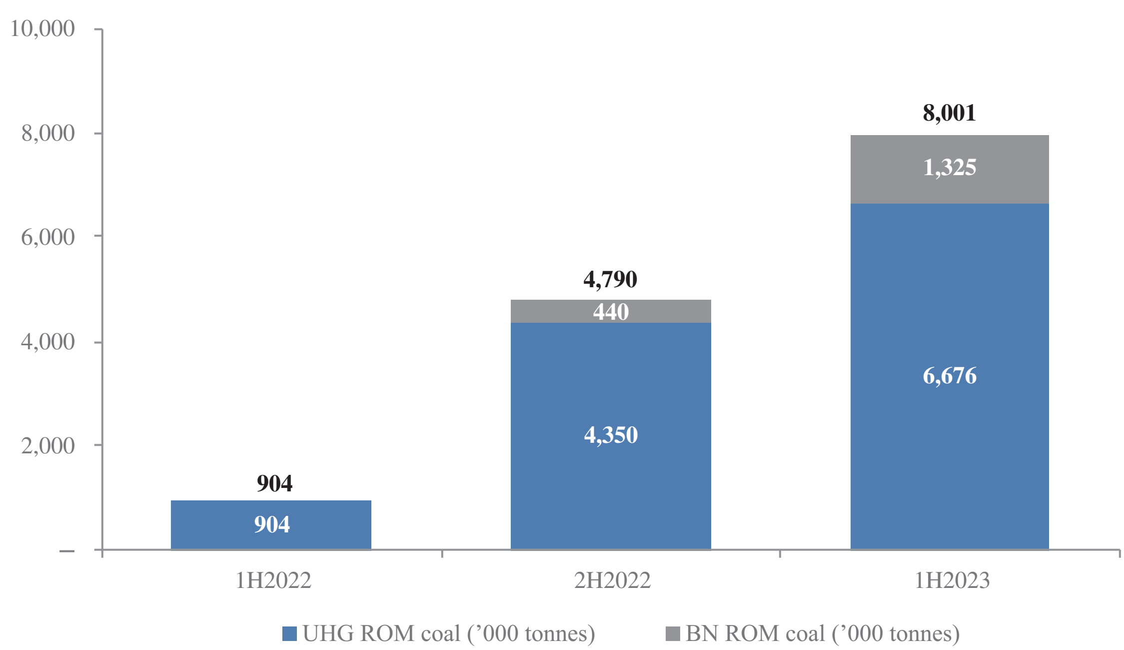
Coal Mining

The Group's total ROM coal production was 8.0 Mt in the first half of 2023, of which 6.7 Mt and 1.3 Mt of ROM coal was produced from the UHG and BN mine, respectively.

A total of 27.1 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 4.1 bcm per ROM tonne for the reporting period at UHG mine. At BN mine, a total of 9.6 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 7.2 bcm per ROM tonne for the reporting period.

The Group's combined semi-annual mine production from UHG and BN mines for the last three semi-annual periods is shown in Figure 1.

Figure 1. The Group's semi-annual ROM coal production volumes for 2022-2023 (in Kt):

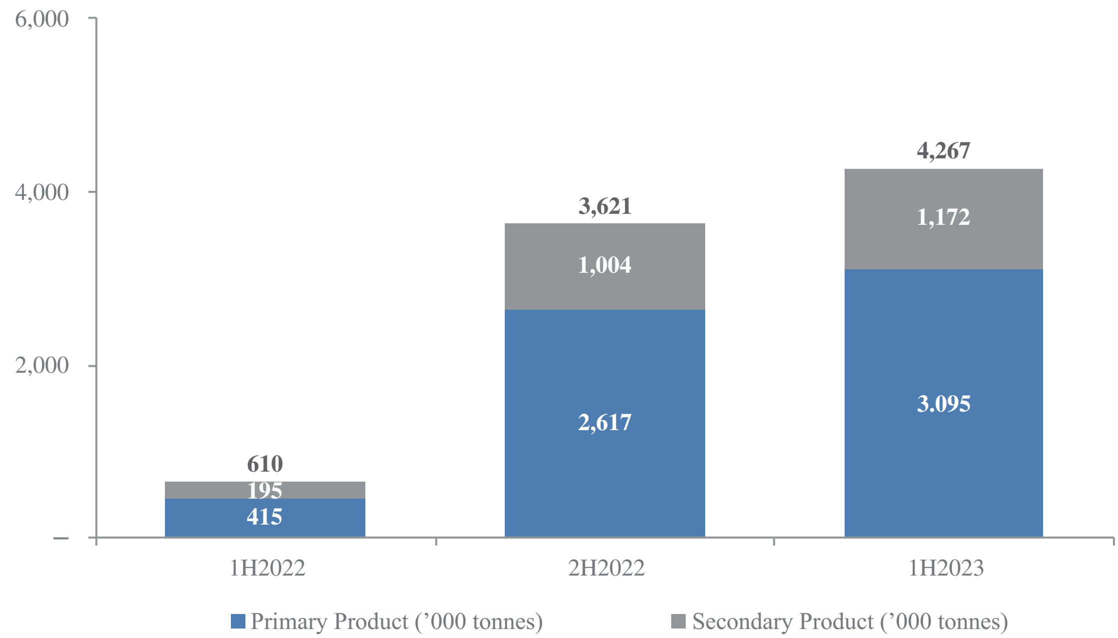


Coal Processing

The Group processed a total of 6.8 Mt of ROM coking coal in the first half of 2023, of which 5.6 Mt and 1.2 Mt was sourced from UHG and BN mine, respectively. The coal handling and preparation plant ("**CHPP**") has produced 3.0 Mt of washed coking coal as a primary product at 46% yield, and 1.2 Mt of middlings as a secondary product at 16% yield.

The Group's combined semi-annual processed coal production from UHG and BN mines for the last three semi-annual periods are shown in Figure 2.

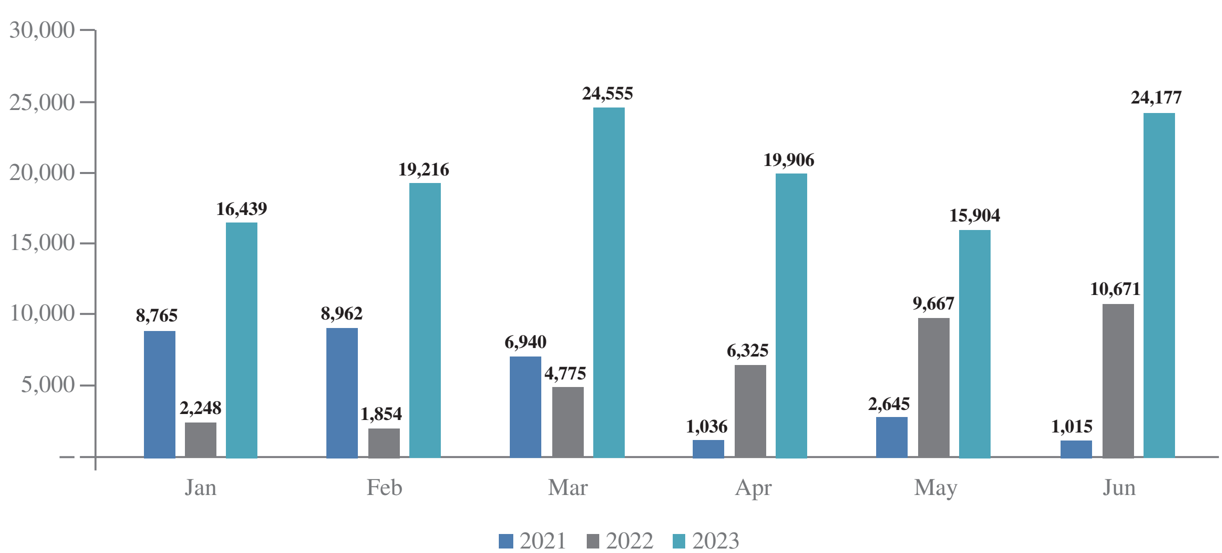
Figure 2. The Group's semi-annual processed coal production volumes for 2022-2023 (in Kt):



Transportation and Logistics

Following the improvement since the second half of 2022, cross-border traffic continued to remain strong in the first half of 2023. According to the data compiled by the Group and its customers, 120,197 coal-loaded trucks passed from Mongolia to China via the Gashuunsukhait-Ganqimaodu ("**GS-GM**") border in the first half of 2023, which represents an increase of 238.2% compared to the same period in the first half of 2022.

Figure 3. Total monthly coal-loaded trucks crossing via GS-GM in 2021-2023:



The Group shipped its coal products for exports to China by utilising its trans-shipping facility at Tsagaan Khad ("**TKH**") and GS Terminal, except the volume sold under ex-works ("**EXW**") UHG and free-carrier ("**FCA**") Khangi terms.

Coal was transported from UHG to TKH and from TKH to GS Terminal exclusively by the Group's own trucking fleet. Coal was stockpiled at TKH and after export clearance by Mongolia Customs, it was shipped further by trucks from TKH to Ganqimaodu ("**GM**"). The transportation of coal from TKH to GM was performed by own trucking fleet and by third party contractors, while coal exported from GS Terminal was exported by third party contractors. In addition, the Group has been utilising the UHG rail terminal stockyard to run trial shipments to the Khangi terminal for exports.

The Group's export shipment from Mongolia to China was 4.5 Mt in the first half of 2023, which consisted of: (i) 2.8 Mt of HCC; (ii) 0.4 Mt of SSCC; and (iii) 1.3 Mt of middlings.

Occupational Health, Safety and Environment

During the reporting period, approximately 5.9 million man-hours were recorded as worked by employees, contractors, and sub-contractors of the Group, as compared to 2.3 million man-hours worked during the same period in 2022. During the first half of 2023, eight occurrences of Lost Time Injury ("**LTI**") were recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 1.36 LTIs per million man-hours worked equivalent being recorded as compared to 0.0 LTIs per million man-hours worked recorded during the same period in 2022.

Unfortunately, two fatal traffic accidents involving the Group's staff occurred outside its premises in the first half of 2023. The Group has fully cooperated with relevant authorities conducting the investigation process. Applicable insurance coverage and financial assistance were provided to the families in line with the applicable laws and internal regulations.

The Total Recordable Injury Frequency Rate ("**TRIFR**") for the period was at 18 Total Recordable injuries ("**TRI**"), resulting in a 12-month rolling average TRIFR of 3.05 per million man-hours worked equivalent being realised, as compared to 0.0 TRIs per million man-hours worked during the same period in 2022.

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

The Group continued to deliver Occupational Health, Safety and Environment specific training to employees, contractors, sub-contractors, and visitors, with 11,889 training sessions to individuals, totaling 49,157 man-hours in the first half of 2023. During the reporting period, safety training materials and methods were updated and manuals were developed to provide management with clear guidance on managing health and environmental risks. The Group organised a culture survey to determine overall attitude towards safety, team members and departmental structures. Action plans were discussed and developed based on the findings of the survey.

The Group has an internal rating scale for environmental incidents based on their severity, which was last updated in July 2019. Accordingly, the risk rating scale uses five classifications which are low, minor, moderate, high, and extreme. More specific classifications were developed for each environmental risk subjects including oil spills, waste disposal, land disturbance, air emissions and others.

The Group successfully passed another round of periodic audit by the AFNOR Group, an international standardisation and accreditation institution and a member of the International Organization for Standardisation, for a successful implementation of Integrated Management System (IMS), which includes ISO45001:2018.

In the first half of 2023, the Group did not record any cases of occupational diseases or environmental incidents.

Sales and Marketing

During the first half of 2023, the Group delivered to and sold coal mainly at TKH, stockyard on the Mongolian side of the border, under FCA TKH terms. Coal was further shipped from TKH to GS Terminal and sold under FCA GS Terminal terms for exports. The Group also sold coal on Delivery-at-Place ("**DAP**") GM and FOT GM basis. Washed coking coal products are exported from Mongolia to designated customs bonded stockyards at GM, where coal are sold under DAP GM terms. Once import customs clearance and quality inspections are completed by relevant authorities in the PRC, washed coking coal products are delivered to ultimate customers under FOT GM terms. The Group has also shipped coal through the railway to the east to be delivered and sold at the Khangi border stockyard in Mongolia under FCA Khangi terms. A small volume of coal were also sold at mine gate, under EXW UHG terms.

As part of the GoM's initiative for coal auction sales through the MSE's commodities exchange, the Group sold a total of 0.3 Mt of coal in the first half of 2023 through auctions.

The Group sold a total of 4.9 Mt of coal in the first half of 2023, a 419.4% y-o-y increase. Sales split by product type as follows: (i) 3.2 Mt of primary products, including 2.8 Mt of HCC and 0.4 Mt of SSCC; and (ii) 1.7 Mt of secondary products.

OUTLOOK AND BUSINESS STRATEGIES IN 2023

The Company remains committed to pursuing its key strategies in order to maintain and enhance its competitive position as a major washed coking coal producer in Mongolia: (i) maintaining an adequate capital structure by implementing prudent financial policy; (ii) scaling up production and sales volumes by maximising assets utilisation; (iii) supporting initiatives to improve logistics infrastructure providing access to its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint venture arrangements, and also identifying possible investment targets in Mongolia; and (v) remaining fully committed to safety, environment and socially responsible operations.

FINANCIAL REVIEW

Revenue

As a result of the GS-GM border throughput increase, the Group's financial performance during the six months ended 30 June 2023 improved substantially compared to the same period in 2022. The Group sold approximately 4.9 Mt of coal products and generated a total revenue of USD516.7 million during the six months ended 30 June 2023, compared to 0.9 Mt of coal products sold and USD106.5 million of revenue generated during the six months ended 30 June 2022. This represented an increase of 385.0% in revenue generation. Total sales volume for the reporting period comprises of approximately 3.2 Mt of primary products, including 2.8 Mt of HCC and 0.4 Mt of SSCC, and 1.7 Mt of secondary products.

The Group's ASP for HCC, excluding applicable VAT in PRC, was USD161.8 per tonne during the first half of 2023, compared to USD141.3 per tonne during the first half of 2022. Historically, the pre-COVID-19 delivery period from signing of sales contracts to revenue recognition upon delivery averaged around 1-2 weeks with minimal difference between the ASP and market price. However, during the COVID-19 pandemic period, including the first half of 2022, the delivery period prolonged to around 250 days due to reduced border throughput. This created a difference between the realised ASP from the presale contracts upon delivery and the market price. With the recovery of the border throughput, the delivery period shortened to 108 days in the first half of 2023.

During the reporting period, the Group derived individually more than 10.0% of its revenue from one customer, with purchase amount of approximately USD123.4 million. For the six months ended 30 June 2022, the Group derived individually more than 10.0% of its revenue from three customers, with purchase amounts of approximately USD24.8 million, USD19.5 million and USD13.2 million.

Cost of Revenue

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

During the six months ended 30 June 2023, the total cost of revenue was USD291.6 million. The total cost of revenue for the six months ended 30 June 2022 was USD126.4 million, of which USD24.4 million was attributable to idling cost. The increase in cost of revenue was mainly due to higher sales volume.

From the total cost of revenue for the reporting period, USD244.0 million was attributable to coal products sold from the UHG mine and USD47.6 million was attributable to coal products sold from the BN mine.

Table 6. Total and individual costs of revenue:

	Six months ended 30 June	
	2023	2022
	(USD'000)	*(USD'000)*
Cost of revenue	**291,597**	126,425
Idling cost	**–**	24,379
Cost of revenue excluding idling cost	**291,597**	102,046
Mining cost	**124,285**	26,942
Variable cost	**78,429**	13,615
Fixed cost	**19,612**	8,016
Depreciation and amortisation	**26,244**	5,311
Processing cost	**29,472**	7,332
Variable cost	**12,910**	1,765
Fixed cost	**5,586**	1,459
Depreciation and amortisation	**10,976**	4,108
Handling cost	**8,336**	1,592
Transportation cost	**41,831**	31,454
Logistic cost	**5,959**	3,664
Variable cost	**3,109**	2,114
Fixed cost	**2,100**	734
Depreciation and amortisation	**750**	816
Site administration cost	**12,828**	6,157
Transportation and stockpile loss	**6,921**	856
Royalties and fees	**61,965**	24,049
Royalty	**59,441**	23,115
Air pollution fee	**459**	568
Customs fee	**2,065**	366

The mining costs consist of costs associated with overburden and topsoil removal and ROM coal extraction, including costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and fuel costs. The mining contractor's base fee is indexed to the market coal price and is charged based on the total number of fleets utilised under the mining contract.

The Group identifies components of the ore body in accordance with the mine plan. Accounting of the unit mining cost is based on the accounting stripping ratio applicable to each component of an ore body, which was mined during the respective reporting periods. The average accounting stripping ratio for components mined during the six months ended 30 June 2023 was 4.1 bcm per tonne (first half of 2022: 3.9 bcm per tonne).

Unit mining cost was USD17.5 per ROM tonne during the reporting period, compared to USD16.8 per ROM tonne during the same period in 2022. The increase in unit mining cost is mainly due to increase in fuel cost, plant cost and higher accounting stripping ratio.

Table 7. Unit mining cost per ROM tonne, excluding idling cost:

	Six months ended 30 June	
	2023	2022
	(USD/ROM tonne)	*(USD/ROM tonne)*
Mining cost	**17.5**	16.8
Blasting	**1.3**	1.0
Plant cost	**5.8**	5.2
Fuel	**3.9**	2.2
National staff cost	**0.8**	1.1
Expatriate staff cost	**0.2**	0.3
Contractor fee	**1.7**	3.5
Ancillary and support cost	**0.1**	0.2
Depreciation and amortisation	**3.7**	3.3

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

Processing costs primarily include costs associated with operations of the CHPP including power generation and water extraction costs. During the six months ended 30 June 2023, the Group's processing costs were approximately USD29.5 million (first half of 2022: USD7.3 million), of which approximately USD11.0 million was related to the depreciation and amortisation of the CHPP, USD3.6 million was costs related to power generation and distribution and USD1.4 million was costs incurred for water extraction and distribution related to the washed coal sold during the reporting period.

Unit processing cost calculated per ROM coal in-feed tonne was USD4.3 for the six months ended 30 June 2023, compared to USD4.6 per ROM tonne for the six months ended 30 June 2022. The decrease in unit processing cost was mainly due to a higher volume of ROM coal in-feed during the reporting period compared to the same period in 2022, which resulted in lower depreciation and amortisation cost per ROM tonne basis.

Table 8. Unit processing cost per ROM tonne, excluding idling cost:

	Six months ended 30 June	
	2023	2022
	(USD/ROM tonne)	*(USD/ROM tonne)*
Unit processing cost	**4.3**	4.6
Consumables	**0.5**	0.3
Maintenance and spares	**0.7**	0.6
Power	**0.5**	0.1
Water	**0.2**	0.1
Staff	**0.3**	0.4
Ancillary and support	**0.5**	0.5
Depreciation and amortisation	**1.6**	2.6

Handling costs are related to feeding ROM coal from coal stockpiles to the CHPP, raw and thermal coal handling, and the removal of course reject (primarily rock and sediment separated from coal) after coal processing. The Group's handling costs increased to approximately USD8.3 million in the first half of 2023 (first half of 2022: USD1.6 million) mainly due to higher sales volume.

Logistics costs are associated with loading and unloading of coal products at UHG, TKH and GS Terminal. The Group's logistics costs were USD6.0 million during the reporting period, compared to USD3.7 million during the first half of 2022. The increase in logistics costs was mainly due to higher sales volume.

During the six months ended 30 June 2023, the Group's transportation costs were USD41.8 million (first half of 2022: USD31.5 million), including fees paid for the usage of the UHG-GS paved road.

The Group used two-step shipment for coal export transportation from the mine area to GM during the reporting period. The first step is around 240 km long-haul section from UHG to TKH, the transshipment yard on the Mongolian side of the border. The Group used solely its own double-trailer trucking fleet on the long-haul section with transportation cost of USD6.8 per tonne during the six months ended 30 June 2023, compared to USD8.8 per tonne during the six months ended 30 June 2022. The decrease in unit transportation cost on the long-haul section was mainly attributable to increased sales volume.

The second step is around 20 km cross border short-haul shipment between TKH and GM, the Chinese side of the Sino-Mongolian border crossing. During the reporting period, on this short-haul section, the Group utilised a combination of its own trucking fleet, third party contractors' fleet, as well as the containerised GS terminal. The improvement of the border throughput resulted in a decline in contractors' tariff. As a result, the transportation cost on the short-haul section reduced to USD13.3 per tonne in the first half of 2023, compared to USD44.4 per tonne recorded during the first half of 2022. The total unit transportation cost was USD13.1 per tonne in the first half of 2023, compared to USD40.2 per tonne in the first half of 2022. The decrease in total unit transportation cost was mainly due to the majority of the coal products being sold under FCA TKH term during the reporting period and lower contractors' tariff.

For the six months ended 30 June 2023, the Group recorded a total transportation loss of around USD0.5 million (first half of 2022: USD0.1 million), and unrealised inventory loss of USD6.4 million for ROM coal and washed coal product stockpiles (first half of 2022: USD0.7 million). The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpiles at the mine sites and coal stockpiles at UHG, TKH and inland China. These surveys are conducted to assess the volume of coal stockpiles. Same as every bulk commodity, the conversion of volume to tonnage requires the application of density assumption, which involves natural variance. Hence, the measurement of stockpile quantities is an estimation in which errors are inherent.

Site administration costs are primarily associated with the site support facilities, such as overall supervision and management of the Group's mining, processing, transportation and other supporting activities. Site administration costs were USD12.8 million during the six months ended 30 June 2023 compared to USD6.2 million during the same period in 2022, a period when the Group's mining and processing operations were suspended for the majority of the period.

Governmental royalties and fees are related to royalties, air pollution fees and customs fees paid in accordance with the applicable laws and regulations of Mongolia. The progressive royalty rate is applied in the range of 5% to 8% for exported processed coal products and 5% to 10% for exported raw coal products based on a monthly reference price determined by the relevant governmental authorities of Mongolia. Historically, the Group's ASP was more closely aligned with the reference prices. However, since July 2021, as a result of prolonged delivery period and the lack of spot trades due to border throughput issues, the reference prices set by the authorities deviated substantially from the contract prices. Therefore, the royalties charged to the Group were higher than historical levels since July 2021. With the border throughput improvement, the gap between reference prices and contact prices started to narrow, and the effective royalty rate was 11.5% for the first half of 2023 based on customs clearance documentation (first half of 2022: 21.7%).

Gross Profit

The Group's gross profit for the six months ended 30 June 2023 was approximately USD225.1 million, reflecting a substantial improvement compared to the gross loss of USD19.9 million recorded in the first half of 2022. The increase in gross profit was mainly driven by higher sales volume and ASP, as well as lower transportation costs and royalty fees recorded during the reporting period.

Non-IFRS Measure

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

The Group's adjusted EBITDA for the reporting period was approximately USD258.0 million, compared to the adjusted LBITDA of approximately USD8.7 million recorded for the same period in 2022.

Selling and Distribution Costs

The Group's selling and distribution costs were USD2.1 million for the six months ended 30 June 2023 (first half of 2022: USD0.6 million) which were associated with inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges, and agent fees. The selling and distribution costs are associated with the sales volume realised under FOT GM term for inland China sales activities. The increase in selling and distribution costs was mainly attributable to higher sales volume realised under FOT GM term compared to the prior reporting period.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, donations, depreciation and amortisation of office equipment and other expenses. For the six months ended 30 June 2023, the Group's general and administrative expenses were approximately USD14.0 million (first half of 2022: USD7.4 million). The increase in general and administrative expenses was mainly driven by 231.3 Kt of middlings supplied free of charge to Tavan Tolgoi Tulsh LLC, a state-owned entity designated for manufacturing and distributing coal briquettes to Ulaanbaatar residents under the GoM's programme to reduce air pollution and improve air quality, as part of the Group's social contribution during the reporting period (first half of 2022: 5.3 Kt).

Net Finance Costs

Net finance costs for the six months ended 30 June 2023 were approximately USD25.7 million (first half of 2022: USD24.6 million). Net finance costs are comprised of (i) accrued interest expense of 9.25% per annum on the Senior Notes due 2024 with outstanding principal amount of USD343,249,000, (ii) amortisation of the difference between the fair value and the principal amounts due on the Senior Notes due 2024 using the effective interest rate method, and (iii) foreign exchange net loss. The Group's total interest expense of its senior notes decreased to USD18.2 million in the first half of 2023, from USD23.0 million in the first half of 2022. On the other hand, the Group incurred foreign exchange net loss of USD7.5 million in the first half of 2023 due to RMB depreciation against USD.

Repurchase of Senior Notes due 2024

During the six months ended 30 June 2023, the Company repurchased a total principal amount of USD33,160,000 of the Senior Notes due 2024 from the open market for a total consideration of approximately USD28,978,000.

The excess of derecognised carrying value of the Senior Notes due 2024 over the consideration to settle the financial liabilities, amounting to approximately USD3,970,000 (six months ended 30 June 2022: nil) has been recognised as a gain and credited to profit or loss during the six months ended 30 June 2023.

Income Tax Expenses

The Group's income tax expenses for the six months ended 30 June 2023 were approximately USD54.1 million (first half of 2022: income tax credit of USD22.4 million). The increase in income tax expenses was primarily due to higher taxable income, resulting from higher sales volume and ASP recorded during the six months ended 30 June 2023.

Profit for the Period

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2023 was approximately USD136.6 million, compared to USD32.4 million of loss attributable to equity shareholders recorded in the first half of 2022.

Liquidity and Capital Resources

For the six months ended 30 June 2023, the Group's cash needs were primarily related to working capital requirements.

Table 9. Combined cash flows:

	Six months ended 30 June	
	2023	2022
	(USD'000)	*(USD'000)*
Net cash generated from operating activities	**247,810**	80,332
Net cash used in investing activities	**(52,239)**	(36,116)
Net cash used in financing activities	**(46,241)**	(17,694)
Net increase in cash and cash equivalents	**149,330**	26,522
Cash and cash equivalents at the beginning of the period	**64,695**	25,937
Effect of foreign exchange rate changes	**(5,806)**	(1,620)
Cash and cash equivalents at the end of the period	**208,219**	50,839

Note: USD52.2 million used for investing activities comprises of (i) USD33.3 million incurred for payments of deferred stripping activity, (ii) USD10.0 million prepayment paid for acquisition of a subsidiary, (iii) USD9.1 million used for acquisition of property, plant and equipment and other assets and (iv) USD0.2 million generated from interest income.

The gearing ratio (calculated based on the fair value of total bank and other borrowings as stated in the consolidated financial statements of the Group as at 30 June 2023 divided by total assets) of the Group as at 30 June 2023 was 17.2% (30 June 2022: 24.3%). All borrowings are denominated in USD.

Indebtedness

As at 30 June 2023, the Group had USD343.2 million outstanding principal payment of Senior Notes due 2024.

Credit Risk

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

As at 30 June 2023, the Group had approximately USD11.9 million in trade receivables and USD95.0 million in other receivables. As at 31 December 2022, the Group had approximately USD4.4 million in trade receivables and USD87.7 million in other receivables.

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

With regards to other receivables of USD95.0 million, this amount is mainly related to USD53.5 million of other deposits and prepayments and USD40.5 million of VAT receivables. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

Foreign Exchange Risk

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 30 June 2023 and 31 December 2022 amounted to USD153.6 million and USD21.5 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate amounted to nil as at 30 June 2023 and 31 December 2022.

Contingent Liabilities

As at 30 June 2023, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd. and Kerry Mining (Mongolia) Limited on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December, in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves.

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

Financial Instruments

On 16 June 2021, the Company adopted a share option scheme ("**Share Option Scheme**"), in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

On 3 April 2023, the Company granted 10,000,000 and 23,250,000 Share Options to a director and employees, respectively, at the exercise price of HKD3.260 under the Share Option Scheme.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the six months ended 30 June 2023, USD0.7 million (six months ended 30 June 2022: nil) was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

As at 30 June 2023, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 10. Capital commitments:

	As at 30 June 2023 ***(USD'000)***	As at 31 December 2022 *(USD'000)*
Contracted for	**6,793**	–

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

	Six months ended 30 June	
	2023 ***(USD'000)***	2022 *(USD'000)*
CHPP	**243**	155
Investment in associate company	**–**	6,951
Others	**8,821**	1,467
Total	**9,064**	8,573

Significant Investments Held

As at 30 June 2023, the Company did not hold any significant investments.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

On 10 January 2023, the Company entered into an investment agreement with Erdene Mongol LLC ("**EM**") and Erdene Resource Development Corporation to subscribe for 50% of the share capital of EM, a company engaged in the exploration of gold and other precious metals for a total consideration of USD40.0 million (the "**Investment Agreement**"). Pursuant to the Investment Agreement, the Company has paid USD10.0 million to EM during the first half of 2023 and the remaining USD30.0 million is expected to be made during the course of 2023 subject to the completion of a series of milestones. Following the third closing under the Investment Agreement, EM will become a subsidiary of the Company and its financial results will be consolidated into that of the Group. For further details on the terms and conditions of the Investment Agreement, and other information related to, inter alia, EM, please refer to the announcement of the Company dated 11 January 2023.

Other and Subsequent Events

Save as disclosed in this interim results announcement, there have been no events subsequent to 30 June 2023 which require adjustment to or disclosure in this interim results announcement.

Employees

As at 30 June 2023, the number of employees of the Group was 2,285, compared with 1,783 employees as at 30 June 2022.

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

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice and share the newly gained experience with co-workers. The immediate management shall be responsible for the support and supervision of the process.

As at 30 June 2023, a total of 14,545 employees attended different professional trainings, out of which 230 employees attended general skills training, 11,411 employees attended occupational, health, and safety training and 2,904 employees attended professional development training.

The Group continued to utilise the online safety training, launched in 2019, for all employees and contractors. The Group was able to increase the number of total employees attending trainings by utilising online training methods during the reporting period. In order to improve the skills and methods of the Group's training instructors, they were enrolled in different ISO module trainings as well as given first aid training and additional general skills training.

For the six months ended 30 June 2023, the Group's staff costs were USD20.3 million, compared to USD10.3 million for the six months ended 30 June 2022.

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

For the six months ended 30 June 2023, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

Dividend

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2023 (dividend for the six months ended 30 June 2022: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2023.

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

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance and has complied with all applicable code provisions set out in the CG Code during the six months ended 30 June 2023.

Review by Audit Committee

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

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

Publication of the 2023 Unaudited Consolidated Interim Results and 2023 Interim Report

This interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the 2023 Interim Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above-mentioned websites in due course.

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

Hong Kong, 15 August 2023

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