MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

HIGHLIGHTS

For the year ended 31 December 2013, the Group's production increased to record levels of output in its mining, processing, transportation and sales activities. Key highlights being that the Group's total processed run-of-mine ("**ROM**") coal volume reached 10.7 million tonnes ("**Mt**"), representing an increase of 44.5% year-on-year, and export of 4.3 Mt of washed hard coking coal ("**HCC**") products in 2013, up by 26.5% year-on-year.

The Group's revenue derived from total export sales of 5.7 Mt of coal products amounted to USD437.3 million for the year ended 31 December 2013, with reduction compared to USD474.5 million for the year ended 31 December 2012, due to 15.0% decrease in the average selling price ("**ASP**") of HCC compared with previous year.

Despite demanding market conditions, the Group demonstrated improved financial performance in 2013 underpinned by the strong operating performance, implementation of prudent financial policies and stringent cost control measures. While ASP for HCC sold decreased, the Group was able to generate gross profit of USD75.9 million, representing 40.3% growth year-on-year, as a result of actions taken to control costs and boost productivities.

The loss attributable to the equity shareholders of the Company for the year ended 31 December 2013 was USD58.1 million compared to a loss of USD2.5 million for the year ended 31 December 2012. The basic loss per share attributable to the equity shareholders of the Company amounted to USD1.57 cents for the year ended 31 December 2013, as compared to basic loss per share of USD0.07 cents for the year ended 31 December 2012.

The major contributing factor toward the Group's net loss position aside from decrease to ASP is increase to the Group's finance costs due to (i) reductions in interest expenses capitalized as major construction and development activities of the Group were completed, (ii) negative change in the net fair value related to the Senior Notes, and (iii) foreign exchange losses due to depreciation of the Mongolian Togrog ("**MNT**") against United States Dollar ("**USD**") bringing total net finance cost to USD85.5 million.

The Board does not recommend the payment of dividend for the year ended 31 December 2013 (dividend in 2012: nil).

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

The board (the "**Board**") of directors (the "**Directors**") of Mongolian Mining Corporation ("**MMC**" or the "**Company**") is announcing the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2013 together with the comparative figures for the corresponding period in 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	**2013** *USD'000*	2012 *USD'000*
Revenue	*4*	**437,339**	474,480
Cost of revenue	*5*	**(361,485)**	(420,400)
Gross profit		**75,854**	54,080
Other revenue		**592**	1,121
Other net income		**7,073**	5,418
Administrative expenses		**(52,410)**	(48,183)
Profit from operations		**31,109**	12,436
Finance income		**9,551**	39,561
Finance costs	*6(a)*	**(95,095)**	(50,994)
Net finance costs		**(85,544)**	(11,433)
Share of losses of associates		**(1,087)**	(362)
(Loss)/profit before taxation	*6*	**(55,522)**	641
Income tax	*7*	**(2,551)**	(3,183)
Loss for the year		**(58,073)**	(2,542)
Other comprehensive income for the year (after reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(137,693)**	(20,929)
Total comprehensive income for the year		**(195,766)**	(23,471)
Loss attributable to the equity shareholders of the Company		**(58,073)**	(2,542)
Total comprehensive income attributable to the equity shareholders of the Company		**(195,766)**	(23,471)
Basic loss per share	*8(a)*	**(1.57) cents**	(0.07) cents
Diluted loss per share	*8(b)*	**(1.57) cents**	(0.07) cents

CONSOLIDATED BALANCE SHEET
As at 31 December 2013

	Note	2013 USD'000	2012 USD'000
Non-current assets			
Property, plant and equipment, net		**574,467**	527,358
Construction in process	*11*	**148,371**	242,838
Lease prepayments		**85**	103
Intangible assets	*12*	**696,354**	774,773
Interest in associates		**2,203**	3,808
Other non-current assets		**6,590**	26,727
Deferred tax assets		**21,781**	19,144
Total non-current assets		**1,449,851**	1,594,751
Current assets			
Assets held for sale	*13*	**56,906**	–
Inventories		**106,461**	90,290
Trade and other receivables	*14*	**209,117**	207,914
Cash at bank and in hand		**76,535**	284,322
Total current assets		**449,019**	582,526
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*15(b)*	**141,818**	81,818
Trade and other payables	*16*	**287,951**	247,057
Current taxation		**3,426**	3,950
Convertible bond	*17*	**–**	85,000
Obligations under finance leases		**81**	210
Total current liabilities		**433,276**	418,035
Net current assets		**15,743**	164,491
Total assets less current liabilities		**1,465,594**	1,759,242
Non-current liabilities			
Long-term borrowings, less current portion	*15(a)*	**150,089**	249,113
Senior notes	*18*	**594,329**	592,891
Provisions		**10,118**	15,538
Deferred tax liabilities		**149,627**	149,574
Obligations under finance leases		**9**	113
Other non-current liabilities		**455**	–
Total non-current liabilities		**904,627**	1,007,229
NET ASSETS		**560,967**	752,013
CAPITAL AND RESERVES			
Share capital		**37,050**	37,050
Reserves		**523,917**	714,963
TOTAL EQUITY		**560,967**	752,013

NOTES

1 CORPORATE INFORMATION

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

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

The Group entered into a share purchase agreement with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited (collectively the "**Seller**") on 31 May 2011 ("**Share Purchase Agreement**") in relation to the acquisition of the entire issued share capital of Baruun Naran Limited (the "**Acquisition**"). Baruun Naran Limited ultimately owns the Baruun Naran Coking Coal Mine ("**BN mine**"), which is located in southern Mongolia, Umnugobi Aimag (South Gobi province). The Acquisition was completed on 1 June 2011. In order to change the Seller's structure which was not cost effective for the Group, Mongolian Coal Corporation Limited owned by the Company (in its capacity as sole shareholder) made a decision to wind up Baruun Naran Limited voluntarily on 21 June 2012. Accordingly, Baruun Naran Limited (Gibraltar registered company) has been liquidated and all its assets were transferred to Mongolian Coal Corporation Limited on 16 July 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company and of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), promulgated by the International Accounting Standards Board ("**IASB**"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and related interpretations. The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

As of 31 December 2013, the Group had balance of cash at bank and in hand of USD76,535,000 and aggregate outstanding short-term borrowings and current portion of long-term borrowings of USD141,818,000 together with aggregate payables of USD291,377,000, which are due within the next twelve months. The Directors have taken measures to enhance the Group's liquidity and solvency position. Subsequent to the balance sheet date, the Group has refinanced the outstanding loan of USD130,000,000 and obtained additional loans with an amount of USD20,000,000 by increasing the size of the loan, refinanced short-term loans of USD40,000,000 into a revolving credit facility, and completed the sale of paved road and received the payment with amount of USD90,323,000 (converted at exchange rate on payment receipt date). Based on the management's estimation of the future cash flows of the Group, after taking into account (i) the additional loans obtained after the balance sheet date; (ii) the subsequent sales of paved road after the balance sheet date; (iii) the subsequent agreement of extension and adjustment on the repayment schedule for certain borrowings and payables that are due within the next twelve months as of 31 December 2013; and (iv) a planned reduction of inventory level for the next twelve months as of 31 December 2013, the Group is able to generate sufficient funds to meet its short term obligations as and when they fall due. Accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries and its interest in associates.

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

- Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- *Annual Improvements to IFRSs 2009-2011 Cycle*
- *Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities*
- IFRIC 20, *Stripping costs in the production phase of a surface mine*

IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when one of the two benefits, being (i) useable ore that can be used to produce inventory, or (ii) improved access to further quantities of material that will be mined in future periods, accrue to the entity from the stripping activity.

Upon adoption of IFRIC 20, the Group assessed the previously recognised stripping activity asset on the balance sheet as at 1 January 2012 and determined that there are identifiable components of the ore body with which this stripping activity asset can be associated. Accordingly, no opening consolidated balance sheet as at 1 January 2012 was presented as no opening balance adjustment was recorded.

In addition, the Group assessed the effect of the adoption of IFRIC 20 and determined that the effects to the Group's net loss for the year ended 31 December 2012 and the Group's financial position as at 31 December 2012 are not material and does not require any restatement of the comparative figures in these financial statements.

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

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

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

The consolidated financial statements are presented in USD, which is the presentation currency of the Group. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

(i) Reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. Reserve estimates are updated at regular basis and have taken into account recent production and technical information about the relevant coal deposit. In addition, as prices and cost levels change from year to year, the estimate of coal reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are depreciated and amortised based on the units produced.

(ii) Useful lives of property, plants and equipment

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

(iii) Impairment of assets

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

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

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

(iv) Obligation for reclamation

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

(v) Recognition of deferred tax assets

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

(vi) Derivative financial instruments

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

(vii) Exploration and evaluation expenditure

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

(viii) Capitalised stripping costs

Production stripping costs can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as stripping activity asset, where certain criteria are met. Significant judgement is required to distinguish between the production stripping that related to the extraction of inventory and what relates to the creation of stripping activity asset.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

Judgement is also required to identify a suitable production measure to be used to allocation production stripping costs between inventory and any stripping activity asset for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body, the most suitable production measure.

(ix) Taxations

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

(b) Sources of estimation uncertainty

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

4 REVENUE

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

	2013 ***USD'000***	2012 *USD'000*
Washed HCC	**392,487**	371,160
Washed semi-soft coking coal ("**SSCC**")	**2,452**	17,234
Washed thermal coal ("**middlings**")	**38,530**	57,341
Raw coal ("**ROM coal**")	**3,870**	28,745
	437,339	474,480

During the year ended 31 December 2013, the Group had two customers that individually exceeded 10% of the Group's turnover, being USD196,189,000 and USD108,088,000 respectively.

During the year ended 31 December 2012, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD168,300,000, USD115,601,000 and USD59,778,000, respectively.

5 COST OF REVENUE

	2013 *USD'000*	2012 *USD'000*
Mining costs	**137,268**	123,541
Processing costs	**38,824**	51,031
Transportation costs	**96,748**	130,871
Others#	**88,645**	114,957
	361,485	420,400

Others include USD26,621,000 (2012: USD34,756,000) relating to the royalty tax on the coals sold.

6 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2013 *USD'000*	2012 *USD'000*
Interest income	**(9,551)**	(20,345)
Net change in fair value of derivative component of senior notes	**–**	(7,500)
Foreign exchange gain, net	**–**	(11,716)
Finance income	**(9,551)**	(39,561)
Net change in fair value of derivative component of senior notes	**11,720**	–
Interest on bank and other borrowings	**21,456**	20,300
Net change in fair value of derivative component of convertible bond	**–**	(2,429)
Interest on liability component of convertible bond	**1,034**	6,766
Interest on liability component of senior notes	**54,688**	41,417
Transaction costs	**2,777**	3,822
Unwinding interest on		
– Obligations under finance lease	**35**	94
– Accrued reclamation obligations	**1,163**	1,070
Less: Interest expense capitalised	**(16,248)**	(20,046)
Net interest expense	**76,625**	50,994
Foreign exchange loss, net	**18,470**	–
Finance costs	**95,095**	50,994
Net finance costs	**85,544**	11,433

* Borrowing costs have been capitalised at a rate of 8.1% and 8.5% per annum for the years ended 31 December 2013 and 2012, respectively.

(b) Staff costs:

	2013	2012
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**36,240**	34,718
Retirement scheme contributions	**4,516**	2,602
Equity-settled share-based payment expenses	**4,720**	6,620
	45,476	43,940

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

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

(c) Other items:

	2013	2012
	USD'000	*USD'000*
Depreciation and amortisation	**65,132**	47,619
Provision for impairment losses on trade and other receivables *(Note 14)*	**7,029**	5,929
Impairment losses on trade and other receivables directly write off to profit or loss	**10,191**	–
	17,220	5,929
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	**4,196**	6,046
– hire of other assets (including property rentals)	**1,184**	1,317
	5,380	7,363
Net (gain)/losses on disposal of property, plant and equipment	**(7,270)**	900
Auditor's remuneration		
– audit services	**536**	595
– tax and other services	**399**	464
	935	1,059
Cost of inventories#	**361,485**	420,400

\# Cost of inventories includes USD90,637,000 (2012: USD76,208,000), relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also included in cost of inventories was transportation and stockpile losses amounted to USD7,850,000 (2012: USD19,478,000).

7 INCOME TAX

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

	2013	2012
	USD'000	*USD'000*
Current tax		
Provision for the year		
– Mongolian Enterprise Income Tax	**8,477**	12,870
Deferred tax		
Origination and reversal of temporary difference	**(5,926)**	(9,687)
	2,551	3,183

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

	2013	2012
	USD'000	*USD'000*
(Loss)/profit before income tax	**(55,522)**	641
Notional tax on (loss)/profit before taxation	**4,357**	(5,170)
Tax effect of non-deductible items *(Note (iii))*	**4,862**	2,207
Tax effect of non-taxable items *(Note (iv))*	**(5,987)**	(1,035)
Tax losses not recognised	**576**	7,392
Tax losses not recognised in previous years but utilised in current year	**(1,257)**	(211)
Actual tax expenses	**2,551**	3,183

Note:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2013 and 2012.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2013 and 2012.

(iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2013 and 2012.

(iv) Non-taxable items mainly represent the unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2013 and 2012.

8 LOSS PER SHARE

(a) Basic loss per share

For the year ended 31 December 2013, the calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of USD58,073,000 (2012: USD2,542,000) and the weighted average of 3,705,036,500 ordinary shares (2012: 3,705,036,500 ordinary shares).

(b) **Diluted loss per share**

For the years ended 31 December 2013 and 2012, basic and diluted loss per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

The convertible bond and equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2013 and 2012.

9 SEGMENT REPORTING

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

10 IMPAIRMENT OF LONG-LIVED ASSETS

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2013, according to IAS 36 Impairment of assets, management has undertaken a review on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets related to the UHG Mine and BN mine operations for impairment assessment. The impairment assessment did not result in the identification of an impairment loss and no impairment loss is recognised as at 31 December 2013. The Company believes that the estimates and assumptions incorporated in the impairment assessment are reasonable. However, the estimates and assumptions are subject to significant uncertainties and judgements.

11 CONSTRUCTION IN PROGRESS

	2013	2012
	USD'000	*USD'000*
At 1 January	**242,838**	183,229
Additions	**36,480**	214,528
Transfer to property, plant and equipment	**(52,598)**	(152,704)
Derecognised upon the termination of Concession Agreement	**(50,964)**	–
Exchange adjustments	**(27,385)**	(2,215)
At 31 December	**148,371**	242,838

The construction in progress is mainly related to coal handling and preparation plant and other mining related machinery and equipment.

Note:

Included in construction in progress as at 31 December 2012 was an amount of USD60 million relating to the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia (the "**UHG-GS Railway**") under a Build-Operate-Transfer Concession Agreement (the "**Concession Agreement**") with the GoM. On 6 May 2013, the GoM, represented by the Ministry of Road and Transportation ("**MRT**"), the State Property Committee, Mongolian Railway ("**MTZ**"), and the Group (together, the "**Parties**") signed an agreement pursuant to which the Parties agreed upon the terms and conditions according to which the Concession Agreement is terminated, and the existing contracts and obligations for the construction of the UHG-GS Railway will be reassigned to MTZ and/or its designated entity. The compensation amount for all the costs incurred by the Group in relation to the construction of the UHG-GS Railway was confirmed and agreed to be MNT93,677,314,158, of which MNT9,347,290,047 related outstanding payables to the engineering, procurement and construction contractor of the Project has been assumed by the GoM, after which the reimbursable amount totals to MNT84,330,024,111.

This amount is to be further decreased to MNT83,734,932,315 (equivalent to USD57,914,000 converted at exchange rate on transaction date), as a result of:

a. exclusion of withholding tax calculation amounting to MNT49,108,109 accrued to a contractor, due to the reason that the contractor is to receive the payment under the name of its Mongolian subsidiary;

b. exclusion of assets kept by the Group with net book value of MNT545,983,687.

Upon the termination of the Concession Agreement, the construction in progress relating to the UHG-GS Railway was derecognised and resulting in a gain of USD7 million credited to "other net income" in the consolidated statement of comprehensive income.

12 INTANGIBLE ASSETS

	Acquired mining right *USD'000*	**Operating right paved road** *USD'000*	**Total** *USD'000*
Cost:			
At 1 January 2012	596,557	86,839	683,396
Addition	105,000	–	105,000
Exchange adjustments	–	266	266
At 31 December 2012	701,557	87,105	788,662
At 1 January 2013	701,557	87,105	788,662
Classified as assets held for sale	–	(73,308)	(73,308)
Exchange adjustments	–	(13,797)	(13,797)
At 31 December 2013	701,557	–	701,557
Accumulated amortisation:			
At 1 January 2012	–	2,044	2,044
Charge for the year	3,110	8,942	12,052
Exchange adjustments	–	(207)	(207)
At 31 December 2012	3,110	10,779	13,889
At 1 January 2013	3,110	10,779	13,889
Charge for the year	2,093	7,960	10,053
Classified as assets held for sale	–	(16,402)	(16,402)
Exchange adjustments	–	(2,337)	(2,337)
At 31 December 2013	5,203	–	5,203
Carrying amount:			
At 31 December 2013	696,354	–	696,354
At 31 December 2012	698,447	76,326	774,773

Acquired mining right represents the mining right acquired during the acquisition of BN mine. The amortisation of acquired mining right and operating right of paved road charge for the year is included in "cost of revenue" and "other net income" in the consolidated statement of comprehensive income, respectively.

13 ASSETS HELD FOR SALE

On 8 December 2013, the Group entered into a road transfer agreement with Erdenes MGL LLC ("**Erdenes MGL**"), a stated owned enterprise, who was assigned by the GoM to take control of the UHG-GS Road assets along with all rights and responsibilities in relation to the operation and maintenance of the road (the "**Agreement**"). According to the Agreement, the operating right of paved road will be transferred to Erdenes MGL with a consideration of MNT157,847,184,615 (equivalent to approximately USD90,323,000 converted at exchange rate on payment receipt date).

The intangible asset related to the operating right of paved road with a carrying amount of MNT94,127,456,758 (equivalent to approximately USD56,906,000) was classified as assets held for sale. The operating right of paved road is not depreciated since it was classified as assets held for sale.

Subsequent to the balance sheet date, the transaction was completed on 13 February 2014 when the Group has received the payment pursuant to the Agreement and the rights and duties under the Agreement became enforceable. The transaction would result in a gain of MNT63,719,727,857 (equivalent to approximately USD36,462,000 converted at exchange rate on payment receipt date) for the current period after taking into account the net compensation received and the prevailing carrying value of the relevant assets concerned. Such gain will be credited to the Group's profit or loss in 2014.

14 TRADE AND OTHER RECEIVABLES

	2013	2012
	USD'000	*USD'000*
Trade receivables *(Note (a))*	**17,514**	35,819
Other receivables *(Note (c))*	**196,632**	178,024
	214,146	213,843
Less: allowance for doubtful debts *(Note (b))*	**(5,029)**	(5,929)
	209,117	207,914

Notes:

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. As at 31 December 2013 and 2012, all of the trade receivables are aged within one year.

(b) Impairment of trade receivables

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

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

	2013	2012
	USD'000	*USD'000*
At 1 January	**5,929**	4,145
Provision for impairment losses	**7,029**	5,929
Amounts written off	**(7,929)**	(4,145)
At 31 December	**5,029**	5,929

As at 31 December 2013, an allowance for doubtful debts amounting to USD5,029,000 (2012: USD5,929,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date, which have been included in "administrative expenses" in the consolidated statement of comprehensive income.

During the year ended 31 December 2013, certain customers of the Group were in financial difficulties and management assessed that the recoverability of trade receivables due from these customers is remote, and USD7,929,000 were written off against allowance for doubtful debts, while remaining USD10,191,000 was written off directly to profit or loss.

(c) Other receivables

	2013	2012
	USD'000	*USD'000*
Amounts due from related parties *(Note (i))*	**522**	94
Prepayments and deposits *(Note (ii))*	**63,903**	64,598
VAT and other tax receivables *(Note (iii))*	**68,531**	83,071
Derivative financial instruments *(Note (iv))*	**700**	12,420
Amounts due from the GoM in relation to the termination of the Concession Agreement *(Note 11 and (v))*	**50,623**	–
Others *(Note (vi))*	**12,353**	17,841
	196,632	178,024

Note:

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

(ii) At 31 December 2013 and 2012, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor and fuel supplier.

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

(iv) It represented the embedded derivative in the senior notes (see Note 18).

(v) It represented the compensation amount receivable from the GoM upon the termination of Concession Agreement of UHG-GS Railway, after taking into account of liabilities assumed by the GoM. The Group is negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.

(vi) At 31 December 2013, this item mainly represents the reimbursement receivables due from Erdenes MGL of USD3.2 million (2012: USD3.5 million) and GoM of USD3.5 million (2012: USD4.5 million) for the construction costs in relation to the expansion project of the border crossing in Mongolian side at Gashuun Sukhait, which are interest-free. Subsequent to the balance sheet date, the reimbursement receivables were fully recovered in February 2014. The remaining other receivables mainly represent the receivable of USD5.7 million due from other companies.

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

15 BORROWINGS

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

	2013 *USD'000*	2012 *USD'000*
Bank loan (secured)	**255,455**	337,273
Less: Current portion of long-term borrowings	**(101,818)**	(81,818)
Less: Unamortised transaction costs	**(3,548)**	(6,342)
	150,089	249,113

As at 31 December 2013, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH of USD92,727,000 (31 December 2012: USD103,636,000), USD19,637,000 (31 December 2012: USD26,182,000) and USD13,091,000 (31 December 2012: USD17,455,000), respectively, bearing interest of 6 months LIBOR + 3.25%~4.25%, were secured by the Group's property, plant and equipment and cash at bank

As at 31 December 2013, the Group's long-term interest-bearing borrowings from Standard Bank Plc of USD130,000,000 (2012: USD190,000,000) bearing interest of 3 months LIBOR + 5.25%, were secured by the Group's cash at bank and inventories. The attributable transaction cost amounts to USD2,292,000. On 19 December 2013, the Standard Bank Plc transferred all of its rights, title and interest in (and obligations under) the Standard Bank Facility to BNP Paribas, Singapore Branch.

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

	2013 *USD'000*	2012 *USD'000*
Within 1 year or on demand	**101,818**	81,818
After 1 year but within 2 years	**101,818**	101,818
After 2 years but within 5 years	**51,819**	153,637
	255,455	337,273

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

	2013 *USD'000*	2012 *USD'000*
Bank loans		
– Unsecured	**40,000**	–
Current portion of long-term borrowings		
– Bank loan	**101,818**	81,818
	141,818	81,818

The Group obtained USD40,000,000 short-term loan from Trade and Development Bank of Mongolia with an interest of 9.0% per annum.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the draw down loan balances would become payable on demand. During the year ended 31 December 2013, the Group negotiated with the banks and was granted with revised covenants requirements from the banks. According to the revised covenants requirements, the Group did not breach any financial covenants in respect of loans during the year ended 31 December 2013.

16 TRADE AND OTHER PAYABLES

	2013	2012
	USD'000	*USD'000*
Trade payables *(Note (i))*	**93,181**	45,718
Receipts in advance *(Note (ii))*	**20,603**	1,745
Amounts due to related parties *(Note (iii))*	**20,330**	14,109
Payables for purchase of equipment	**10,316**	38,706
Security deposit on construction work	**2,755**	2,223
Interest payables	**18,365**	15,271
Other taxes payables	**2,558**	4,152
Promissory notes *(Note (iv))*	**105,000**	105,000
Others *(Note (v))*	**14,843**	20,133
	287,951	247,057

Note:

(i) All trade payables are due and payable on presentation or within one month.

(ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.

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

(iv) On 27 November 2012, the Company issued two promissory notes to QGX Holdings Ltd., each in the amount of USD52,500,000, and shall bear interest at a rate of 3.0% per annum commencing on the issue date to the maturity date. The original maturity date was 22 November 2013. On 8 February 2013, an amendment agreement was signed by the Company and QGX Holdings Ltd. to extend the maturity date of two promissory notes from 22 November 2013 to 31 March 2014 and 31 December 2014, respectively.

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

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

17 CONVERTIBLE BOND

	The Group and the Company		
	Liability component	**Derivative component**	**Total**
	USD'000	*USD'000*	*USD'000*
At 1 January 2012	81,079	2,429	83,508
Interest charged during the year *(Note 6(a))*	6,766	–	6,766
Interest payable	(2,845)	–	(2,845)
Fair value adjustment *(Note 6(a))*	–	(2,429)	(2,429)
At 31 December 2012	85,000	–	85,000
At 1 January 2013	**85,000**	**–**	**85,000**
Interest charged during the year *(Note 6(a))*	**1,034**	**–**	**1,034**
Interest payable	**(1,034)**	**–**	**(1,034)**
Principal repaid amount	**(85,000)**	**–**	**(85,000)**
At 31 December 2013	**–**	**–**	**–**

On 1 June 2011, the Company issued the USD85,000,000 aggregate principal amount convertible bond ("convertible bond") to QGX Holdings Ltd. ("**Bondholder**"), related to the acquisition of BN Limited.

The convertible bond bears interest at 2.0% per annum. If the Group's consolidated leverage ratio exceeds 5.5:1, the interest rate of the convertible bond shall increase to 4.0% per annum. The initial maturity date of the convertible bond is 1 December 2012 and shall be extended but no later than 21 months from 1 June 2011.

The convertible bond has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The convertible bond has been fully repaid on 22 April 2013.

18 SENIOR NOTES

	USD'000
At 1 January 2013	592,891
Interest charged during the year	54,688
Interest payable	(53,250)
At 31 December 2013	594,329

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 ("**Senior Notes**") which were listed on the Singapore Exchange Securities Trading Limited. The Senior Notes bear interest at 8.875% per annum, payable semiannually in arrears, and will be due in 2017.

The Senior Notes may be redeemed at the option of the Company upon giving not less than 30 days or no more than 60 days notice to the holders.

The Company has agreed, for the benefit of the holders of the Senior Notes, to pledge all of the capital stock of Mongolian Coal Corporation Limited owned by the Company and to cause Mongolian Coal Corporation Limited to pledge all of the capital stock of Mongolian Coal Corporation S.a.r.l. owned by Mongolian Coal Corporation Limited. The Senior Notes are guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.a.r.l., Energy Resources Corporation LLC, Energy Resources LLC and Transgobi LLC.

The Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 were charged to the profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 31 December 2013 was USD700,000 (2012: USD12,420,000) which was presented as derivative financial instruments.

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account attributable transaction costs of USD13,213,000.

Fair value of the derivative component was valued by the directors with the reference to a valuation report issued by an independent business valuer based on the Binomial model.

19 DIVIDENDS

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2013 (dividend in 2012: nil).

20 SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

(a) On 13 February 2014, Energy Resources LLC ("**ER**"), the operating arm of the Group, pursuant to the Agreement (Note 13) received payment of MNT157,847,184,615 (equivalent to approximately USD90,323,295 at exchange rate on the payment receipt date) and the rights and duties of the parties under the Agreement became enforceable.

(b) On 5 March 2014, the Company as a borrower entered into a facilities agreement (the "**Facilities Agreement**") with two international banks as arrangers and original lenders for a coal pre-export loan facility of USD150 million with a greenshoe option of up to USD50 million to the Company and fully refinanced the existing BNP Paribas Facility.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is pleased to report that continued implementation of its strategy to create a fully integrated coking coal mining, processing, transportation and marketing platform has successfully positioned the Group as the largest coal mining company in Mongolia. Continued growth in production in 2013 further strengthened its position as a reliable supplier of high quality coking coal products. Ownership and control of an integrated coal chain from mines to market has provided crucial commercial advantage within context of current competitive market conditions in the global coal industry.

Record annual production by the Group in 2013 included 9.7 Mt of ROM coal mined and 10.7 Mt of ROM coal processed, resulting in production of 5.3 Mt of washed coking coal and 2.3 Mt of washed thermal coal for export. This has been delivered via increased productivity of assets under management, as part of measures to reduce unit cost of production. During 2013, the final pieces of infrastructure required to support production rate of 15 million tonnes per annum ("**Mtpa**") nameplate capacity were commissioned, including the third Coal Handling and Preparation Plant ("**CHPP**") module and Belt Filter Press ("**BFP**").

Production capacity of 15 Mtpa was assumed in the Life-of-Mine ("**LOM**") study prepared by RungePincockMinarco Limited ("**RPM**") in 2013. This exercise deliberately targeted synergies realizable through integration of the Ukhaa Khudag ("**UHG**") and Baruun Naran ("**BN**") coal mining, processing and blending schedules. The resultant schedule showed that the Group controls mines capable of supplying up to 15.8 Mt of ROM coking coal annually to the CHPP for the next 28 years. Subsequent to completion of the LOM study, the Group's JORC compliant Reserves were updated, with combined total ROM Reserve increasing by 29 Mt to 480 Mt as of 31 December 2012. Importantly, within the total reported ROM Reserve quantity reported, the coking coal component increased by 33 Mt at UHG and 19 Mt at BN.

Despite slower economic growth in China relative to levels seen within the past decade, annual production of crude steel of China reached 779.0 Mt, representing annual increase of 8.7%, slightly higher than the compound annual growth rate ("**CAGR**") of 7.8% from 2009 to 2013. Annual production of washed coking coal in China reached 583.6 Mt. In parallel to this, the global coking coal market continued to experience downward price pressure, due to imbalance resulting from excess in available supply. The growth of consumption resulting from the weak price environment subsequently drove annual import of coking coal in China to 75.4 Mt, a significant increase compared to the 53.5 Mt of coking coal imported in 2012. Under these market dynamics, Mongolia continued as one of the most important coking coal suppliers into China, and the Group had maintained its leading position in Mongolian coal export, reaching 31.5% of the total coal export from Mongolia in 2013.

Updated policy related to the coal mining industry communicated in 2013 by the GoM has been favourable to the Group's short and medium term objectives. As the GoM has continued to recognize the importance of the mining sector to the country's economic growth, it has implemented a number of initiatives to ensure a stable and supportive legal and investment environment. Under the newly approved Law on Investment dated 3 October 2013, restrictions on foreign investment have been softened, and investors can be assured of long term stability in regard to four major taxes for 5 to 18 years depending on size and sector of the investment. As this law intends to provide stability for both foreign and domestic investments under non-discriminatory principles, the Group is entitled to the benefits offered under the new legislation.

Furthermore, in the recently approved State Policy on Mineral Sector (the "**Policy**"), dated 16 January 2014, state support is offered on development of coal processing, coking and chemical plants, construction of power plants based on coal deposits, production of smokeless, liquid fuel and gas from thermal coal. In addition, the GoM announced support package to facilitate coal export on 16 August 2013, which includes construction of a cross border railway connecting Gashuun Sukhait ("**GS**") port in Mongolia to Ganqimaodu ("**GM**") port in China. Favorable results of this will include increased efficiency and capacity of export, and improved access for Mongolian coal to reach markets further inland within China.

The Chinese market remains as the Group's primary destination for coal sales, and the Group continues to strengthen relations with its Chinese end-user customers. Improvement in cost and efficiency has enabled the Group to continue to improve its competitive position against global suppliers, and has thus helped the Group to maintain market share and reputation as a long term sustainable and reliable supplier. Despite the challenging market conditions, in 2013 the Group was able to increase the volume of its HCC sales to 4.3 Mt, representing 26.5% year-on-year growth.

In order to maintain competitiveness within the challenging market environment, throughout 2013 the Group implemented a suite of initiatives to improve operational efficiency and productivity to sustainably drive down cost. As part of this strategy, the Group integrated the operational management and supporting services at UHG and BN mines. Focus on maximizing the productivity and efficiency of asset utilization yielded significant cost savings compared to the previous year's performance. As examples, the Group has seen notable reductions in processing costs of 38.4% from USD7.3 to USD4.5 per ROM tonne, and transportation costs of 27.5% from USD23.3 to USD16.9 per tonne in 2013.

The Group efficiently managed its cash flow and liquidity position by minimizing capital expenditure and optimizing operational cash outflows in line with production and sales schedule. Importantly, successful negotiation of payment terms with major suppliers and contractors enabled the Group to offset working capital required to sustain operation. In addition to this, the Group worked to dispose some of its infrastructure assets shared by third parties in the region. Under the support package for coal export announced by the GoM on 16 August 2013, the Group negotiated and agreed with the GoM to transfer its paved road to state ownership in return of net consideration of MNT157,847,184,615 as compensation, which is equal to approximately USD90.3 million as of the date of receipt of the payment, and was settled on 13 February 2014.

Despite demanding market conditions, the Group demonstrated improved financial performance in 2013 underpinned by strong operating performance, implementation of prudent financial policies and stringent cost control measures. Despite a 15.0% decrease to ASP for HCC sold, the Group was able to report gross profit of USD75.9 million and Earnings Before Interest, Taxes, Depreciation and Amortization and other non-cash and one-off costs of USD110.9 million. These figures represent improvement of 40.3% and 50.6% year-on-year, respectively.

INDUSTRY OVERVIEW

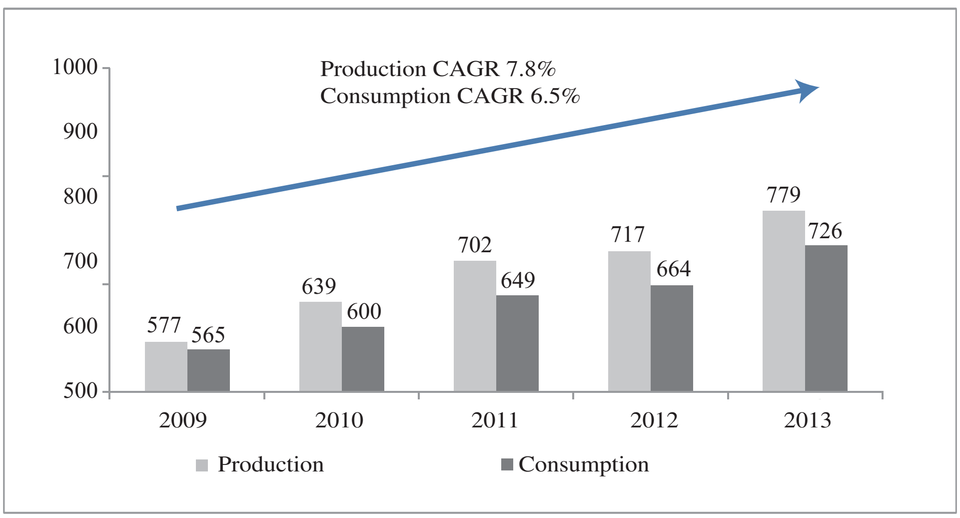
Chinese Steel Sector Performance

During the previous decade, there has been a substantial increase in global steel consumption driven by the urbanization and infrastructure development in emerging economies. This is particularly true in the Group's target market, China, which has underpinned the strong increase in demand for coking coal as one of the main steel making ingredients.

China's economy was stable throughout 2013 with steady annual growth in comparison to the preceding year. Gross Domestic Product ("**GDP**") increased by 7.7%, the same as reported in 2012.

World Steel Association ("**WSA**") data showed that worldwide total crude steel production reached 1,582.5 Mt in 2013. China continued to dominate as the world's largest steel producer, with annual production reaching record 779.0 Mt. This accounted for 49.2% of world steel production and increased 8.7% compared to annual production of 716.5 Mt in 2012.

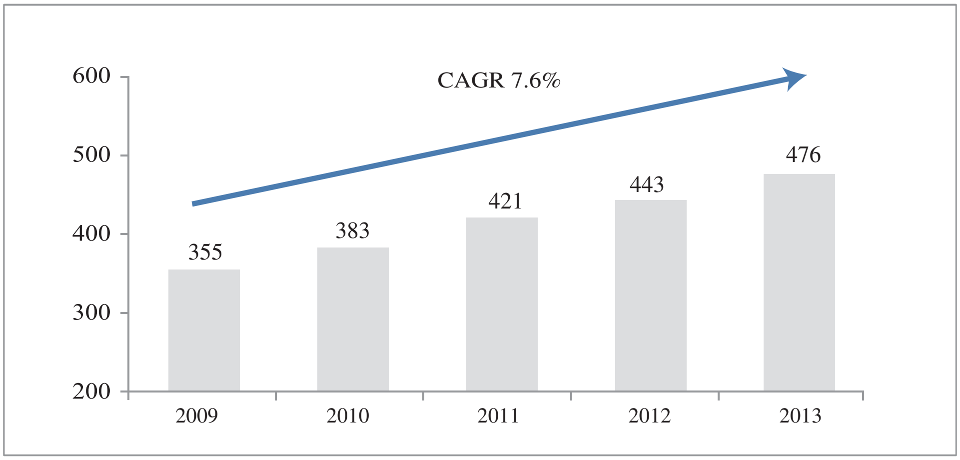
Figure 1: China crude steel production and apparent steel consumption (Mt):



Source: WSA, CISA

The slowdown of global growth and industrial output that was afflicted in 2012 also impacted upon 2013, although latter months showed early signs of recovery in demand from constituent countries within the Organization for Economic Co-operation and Development. During 2013 overcapacity of steel production negatively influenced steel price. Simultaneously, the global coking coal market continued to experience significant downward pressure on coking coal price due the impact of both decreased steel price, and oversupply of coking coal relative to demand. In-line with the increase in crude steel production, Chinese coke production reached 476.4 Mt in 2013, representing increase of 7.5% year-on-year. The growth rate was closer to 6.4% in the first half, but accelerated toward 9.1% in the second half of the year according to the data by the China Coal Resource.

Figure 2: China coke production (Mt):



Source: China Coal Resource

China's export of coke and semi-coke in December 2013 jumped to the highest level since April 2011, according to data compiled from the General Administration of Customs. Total coke exports in 2013 amounted to 4.7 Mt, increasing by 358.0% compared to 2012, primarily due to the removal of a 40% tax on the export metallurgical coke product.

Despite the Chinese steel and coke production increase in 2013, the crude steel manufacturing oversupply situation brought political focus from Chinese government authorities to address issues concerning air pollution, industry efficiency and competitiveness. Such issues are being addressed by a range of policies and measures, including to restrict new production capacity from coming on-stream.

Example of this includes the State Council of China ("**State Council**") strictly prohibiting banks from providing new loans to steel manufacturers to launch new projects without government permission, but putting aside funds for promotion of restructuring and merging of steel companies. In addition, the State Council is encouraging Chinese domestic steel companies to search for markets abroad to address their overcapacity.

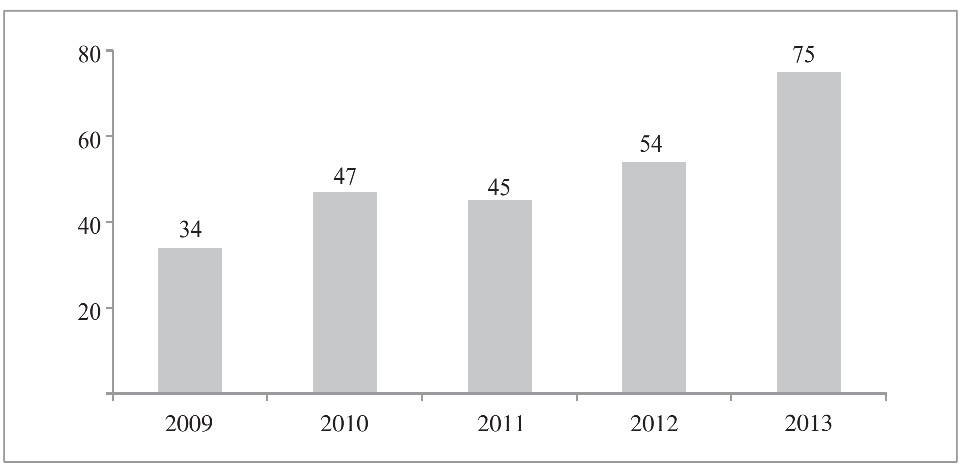
According to the China Iron and Steel Association, demand for steel produced in China will continue to grow in 2014 due to the continued focus on urbanization and resultant steady economic environment. It estimates that China's crude steel output will reach 810 Mt in 2014, an increase of 4% annually, with steel consumption expected to rise by 3.1% year-on-year to 750 Mt.

Dynamics of Chinese Coking Coal Imports and Mongolian Coking Coal Exports

Since the second half of 2012, global coking coal price have been impacted by weak steel prices and a surge in seaborne supply volumes. The seaborne supply has been impacted predominantly by Australian mining companies aggressively expanding their production capacity in attempt to reduce unit costs, and also by North American producers who in reaction to sluggish demand in the United States and Europe, have focused on expanding sales in the Asian market. Pricing pressure from steelmakers in combination with the surge of seaborne supply volumes have contributed to the sliding of coking coal prices in 2013.

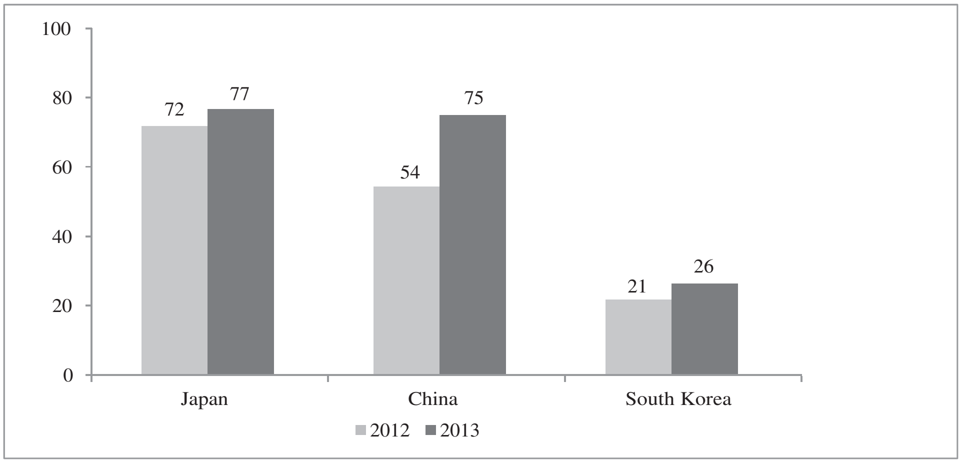
According to Chinese customs clearance statistics, China imported 75.4 Mt of coking coal in 2013 compared to 53.5 Mt imported in 2012, representing a 40.8% year-on-year increase amid cheaper seaborne supply against domestic prices. According to TEX Report data, China has closed the gap with Japan in terms of coking coal import quantity by country, and based upon continued forecast growth it will overtake Japan as the largest coking coal importer globally in 2014. China's growing dominance in the seaborne import market is having a significant effect on trading patterns across the industry.

Figure 3: China coking coal import (Mt):



Source: China Coal Resource

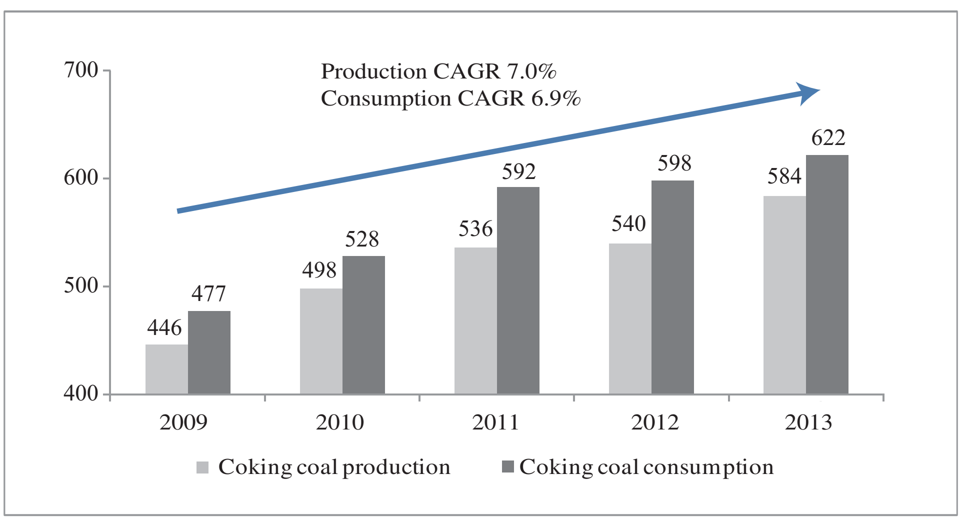
Figure 4: Major coking coal importers in the world (Mt):



Source: The TEX report, China Coal Resource

Total Chinese domestically produced coking coal increased by 43.8 Mt in 2013 from 539.8 Mt produced in 2012 to 583.6 Mt produced in 2013, an increase of 8.1% year-on-year.

Figure 5: China coking coal production and consumption (Mt):

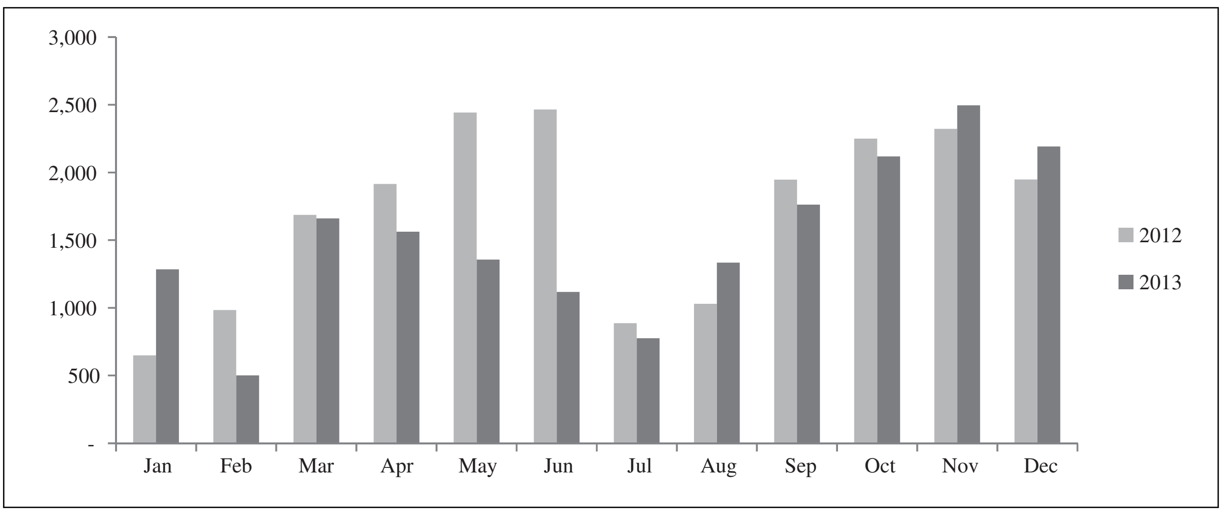


Source: China Coal Resource

The coal mining and processing industry in China saw a year-on-year profit drop in the first eleven months of 2013, according to the National Bureau of Statistics ("**NBS**"). The NBS data showed that China's coal industry realized a profit of RMB197.7 billion from January to November, declining by 37.0% compared with the same period of the previous year.

China is the principal market for Mongolian coal, and despite the decline in coal price from second half of 2012, Mongolia exported 18.4 Mt of coal in 2013. Whilst in total this represented a decline of 12.2% year-on-year, in the second half of 2013, Mongolian coal exports experienced 2.5% growth year-on-year relative to the same period in 2012. The rebound in the second half supply was as a result of some Mongolian coal producers resuming export shipments after temporarily halting and/or limiting their operations in the first half of the year in response to low prices and sluggish demand. Within this context, it should be noted that the Group was not affected to the same degree in the first half of 2013 compared to its domestic competitors, and leveraging off the infrastructure installed supporting the integrated mining, washing, transportation and marketing platform, the Group was able to increase its volume share in total Mongolian export year-on-year by 17.1%.

Figure 6: Mongolian coal export monthly volumes 2013 (in thousand tonnes):



Source: National Statistics Office of Mongolia

As illustrated in Table 1, a major part of the growth in supply of coking coal to China came from Australian exports in 2013, which has regained majority of the market share that was lost to Mongolia since 2011. Mongolian coking coal exports accounted for approximately 20.5% of the volume of total Chinese coking coal imports in 2013, preserving its importance as the second largest and one of the most important suppliers of coking coal to China, albeit reduced compared to the 35.7% volume share reported in 2012.

Table 1: China's coking coal import volumes by country of origin (Mt):

Countries of origin	2012	2013	Change
Total	**53.5**	**75.4**	**40.8%**
Australia	14.0	30.1	114.6%
Mongolia	19.1	15.4	(19.0)%
Canada	7.2	11.1	52.9%
Russia	4.8	8.4	75.9%
USA	4.5	6.1	35.3%
Others	4.1	4.2	3.4%

Source: China Coal Resource

The reduction in Mongolian coking coal exports in 2013 is a reflection of the challenging price environment, with infrastructure challenges presenting difficulty to the country's exporters to sell profitably. During 2013, global price competition influenced annual exports of coking coal from Mongolia, pressuring coking coal producers in Mongolia to improve cost structures and operational efficiency.

In the context of these market dynamics in 2013, Mongolia continued as one of the important coking coal suppliers for China, with the Group successfully maintaining its leading position in Mongolian coal exports, responsible for 31.5% of the total coal exported from Mongolia in 2013 compared to its previous position of 26.9% reported in 2012.

China continues to be the key driver for global steel production and consumption, responsible for nearly half of each in 2013. According to CISA estimate, Chinese steel production and consumption based on growth rates seen in the previous two years will increase in 2014. Continued increase of China's steel production will continue to drive the demand for coking coal supply growth. With the increasing dominance of large-scale furnaces in the Chinese steel industry posing higher requirements on coke quality, including high coke strength after reaction and low sulphur content, the blending ratio of premium coking coals similar to that produced by the Group is expected to increase. Coking coals produced by the Group will offer commercial advantage compared with Chinese domestic producers in particular, and bodes well for increasing Group sales into China.

Chinese government initiatives to modernize the steel production industry whilst supporting continued urbanization and pollution reduction strategies will indirectly support the Group's activities. Constraints on production capacity, through steel industry consolidation and decommissioning of outdated and environmentally unfriendly technologies will lead to closure in the gap between supply and demand, providing impetus for steel price increase and consequent positive impact upon coke and coking coal prices.

According to a recently released guidance from the National Development and Reform Commission in December 2013, China plans to raise internal rail transportation capacity to 3 billion tonnes of coal per annum through development of a modern coal logistics system by 2020. Several measures are planned including building 11 large storage and distribution bases, as well as 30 coal logistic parks with throughput capacity greater than 20 Mtpa each.

Decommissioning of technologically uncompetitive steel production facilities will lead to development of modern coke and steel production facilities. This, in combination with the advent of increased rail and internal coal logistics capacity, will allow greater geographical market penetration of the Group's products, providing leverage for increased volume and price negotiation.

OPERATING ENVIRONMENT

Legal Framework

Regulations on Foreign Investment

In 2013, the GoM continued to recognize the significance of the mining sector in maintaining the country's economic growth, and in particular, the contribution from the coal industry to export revenue crucial to maintaining foreign trade balance and currency value. In order to encourage new foreign direct investment into Mongolia, especially in the mining and mineral processing sector, the GoM implemented a number of initiatives to ensure a stable and supportive legal environment for foreign investment. This was deliberately considered to restore confidence of international investors in Mongolia. As part of immediate steps taken in this regard, the Parliament of Mongolia adopted an amendment to the Law on Regulation of Foreign Investment Business Entities Operating in Sectors of Strategic Importance (the "**SEFIL**") on 19 April 2013. This was followed by a decision by the GoM (as Resolution No. 75 on 2 March 2013) which outlined the formal procedures of approval required under the SEFIL.

After extensive dialogue and consultation with key stakeholders in the Mongolian business sector, including those from both the international and domestic investment communities, on 3 October 2013 the Parliament of Mongolia introduced a new legislation to regulate investments in Mongolia under the name of the "Law on Investment". The Law on Investment is a comprehensive piece of legislation intended to encourage investment into Mongolia, by providing certainty on taxation and other key regulatory aspects for new investments. It is aimed to attract and maintain investors' interest in key business sectors within Mongolia.

The Law on Investment was developed on the basis of experience and results from previous similar legislation, and the new law serves to replace the "Law on Foreign Investment" (1993) and the SEFIL (2012), which were subsequently abolished by the Parliament of Mongolia on 1 November 2013 when the new Law on Investment came into force.

The Law on Investment provides certainties on the stability of the legal environment, and overall protection of investment for both foreign and domestic investors under non-discriminatory treatment of their interests. One of the key components of the new legislation is the introduction of a clear regime of tax stabilization for investors for defined periods of time. Under the Law on Investment, the following four major taxes can be stabilized for qualifying project investment for 5 to 18 years:

(a) Corporate income tax;

(b) Customs tax;

(c) VAT; and

(d) Royalty on mineral resources.

The periods of stabilization available depend upon the size of the investment made, its location and the industrial sector. The period of stabilization can be multiplied by 1.5 times for projects with total investment of more than MNT500 billion, which have significant importance for long term sustainable socioeconomic development and produce import substitutions with potential to generate export revenue. Stabilization regime under the Law in Investment is granted and documented by a certificate of stabilization issued by the state administrative body in charge of investment affairs. In addition, the Law on Investment also allows investors an option to apply and enter into an investment agreement with the Ministry for Economic Development for projects with investment over MNT500 billion.

Under the newly adopted Law on Investment the following business sectors remain classified as strategically important to the country:

(a) Mining;

(b) Banking and finance; and

(c) Media and Communications.

With the introduction of the Law on Investment, requirements for mandatory approval on foreign investment into strategically important sectors were eased. The Ministry of Economic Development has been appointed as the governmental body charged with approving foreign investments by state owned enterprises. This supercedes the previous requirement of high level Parliamentary or Governmental approval where an investment exceeds one third of total equity of an entity operating in strategically important sectors. The new legislation does not require approval for foreign investments by private entities in sectors of strategic importance.

In accordance with the Law on Investment, the GoM established a new agency named the "Investment Agency" under the Ministry for Economic Development on 9 November 2013, which is now responsible for implementation of the Law on Investment and state policy on investments. ER, as well as Khangad Exploration LLC, subsidiary of Baruun Naran S.a.r.l, the holder of mining license at BN mine, submitted their respective applications for available tax stabilization certificates on 24 February 2014 and are awaiting their applications to be processed.

State Policy on Mineral Sector

Following approval of the Law on Investment, the Parliament of Mongolia approved and adopted another piece of legislation during the subsequent autumn session of Parliament in 2013 demonstrating the continued effort by the GoM to improve the legal environment applicable to the strategically important mining sector.

On 16 January 2014, the Parliament of Mongolia approved the Policy through issue of Resolution No. 18. The Policy focuses on promoting the principal interests of the nation by developing a framework for transparency and responsibility within the mining sector, encouraging private sector investment with the aim to develop a diversified and balanced economic structure in the short to medium term. Concerning the coal industry, the Policy emphasizes that the state shall provide support on:

(a) the development of coal processing, coking and chemical plants;

(b) construction of coal fired power plants;

(c) production of smokeless, liquid and gas fuels from thermal coal; and

(d) production of liquid fuels from shale oil.

In terms of strategically important deposits, defined in 2007 by Resolution No. 27 issued by the Parliament of Mongolia, the Policy contains goals to improve their operational and economic productivity through advancement of public-private partnerships with optimized government involvement. The Policy Council, composed of equal representation from state organizations, investors and professional associations, is to be established with a mandate to issue recommendations on implementation of the Policy and to provide necessary support during the process.

Support Measures for Coal Export

On 16 August 2013 the GoM adopted Resolution No. 299, which pertained to actions necessary to support continued and increased coal exports. As part of the support outlined, the GoM has decided to build a narrow gauge (1,435 mm) railway lines a short distance across the border from China at the ports of GS and Shiveekhuren in Umnugobi connecting Mongolia to the respective ports of GM and Ceke in China, with targeted completion of railway construction by end of 2014. Furthermore, the GoM decided to take over the existing paved road between UHG-GS along with border crossing facilities at the GS border and transfer them under state ownership, in return of compensation payable to the Group, which developed and financed these infrastructure facilities.

Construction of cross border railway lines between Mongolia and China will have significant positive impact upon the capacity and cost of cross border transportation, and will be used primarily to facilitate coal exports. The transfer of the paved road into state ownership will increase road utilization, and as such is expected to result in decreased unit cost of coal transportation between mines in the Tavantolgoi region (including BN and UHG) to the GS border port.

As of 31 December 2013, the Group had commenced discussions with relevant Mongolian and Chinese counterparts in effort to implement the border crossing railway between GS and GM, including negotiation on possibilities of involvement in development of the project. Negotiation and legal documentation required to execute the transfer of road and border crossing assets to the GoM was completed by end of 2013, allowing closure of the transaction in February 2014. More details regarding this can be found in announcements issued by the Group on 6 October 2011, 19 August 2013 and 13 February 2014.

On 26 December 2013, a new Law on Border Port was approved by the Parliament of Mongolia and will come into force starting from 1 April 2014. The Law on Border Port provides for detailed framework on border point administrative structure, types and regimes covering operation, border point territory and infrastructure. According to the Law on Border Port, border points shall be divided into air, railway, and auto road categories and may be designated to have permanent, temporary, international and/or bilateral regimes. The border point territory perimeter shall be defined by the Parliament of Mongolia, and shall be divided into inspection, infrastructure and construction zones. Infrastructure, construction and inspection tools and equipment shall be owned by the GoM but these may be built by private sectors under public-private partnership arrangements with condition that they be transferred to state ownership. Other infrastructure and constructions in other areas of the border point may be subject to the state, private, or mixed forms of ownership. This allows private investors to participate in border point related infrastructure developments, thus facilitating flexibility and speed of increase regarding Mongolia's coal export capacity.

Regulations on Taxation

On 16 August 2013, the GoM adopted Resolution No. 296, which introduced further clarifications on GoM Resolution No. 286 (of 2010) and Resolution No. 193 (of 2011) regarding classification of mineral ore, concentrate and products and their coding for the calculation of VAT on exports. Under Resolution No. 296, the GoM ruled that the washed coking and thermal coals shall be classified and coded under final mineral products for export. Therefore, the VAT applicable to such coking and thermal coal products for export shall be set to zero.

On 7 June 2013, the Law on Customs Tax Exemption and the Law on Value Added Tax Exemption were approved by the Parliament of Mongolia, which are intended to provide financial relief for businesses engaged in production of coal, oil and oil shale derived petroleum products. Under these legislations, tax exemptions for imported technological equipment, spare parts and specific construction materials required for such production were granted for a period until 31 December 2018. Despite absence of immediate effect to the Group's operations, the Group may benefit from this in the future with development of potential coal-deep-processing chemical plants in Mongolia, which may bring reduced fuel cost to the Group.

Regulations on Water Usage

On 2 December 2013, by Resolution No. 4/9, the Citizens' Representatives Khural (Council) of Umnugobi aimag (province) nullified its previous Resolution No. 3/9 adopted on 2 July 2013. Resolution No. 3/9 previously resolved to stop water utilization for mining industry purposes starting from 1 January 2016. The intent of the original Resolution was to preserve water resources for potable and pastoral purposes, and restrict the granting of permits and licenses required to conduct exploration and drilling of wells whose purpose was for utilization by the mining industry from 1 August 2013. As restrictions are nullified there will be no implications on the Group's currently held permits and licenses for water utilization.

On 21 September 2013, in accordance with Article 15 of the Law on Environmental Resource Utilization Fee, the GoM adopted Resolutions No. 326 and No. 327. These Resolutions defined relevant rates to be used for calculating water reserve utilization fees. In accordance with these decisions, the underground water utilization fee used for industrial purposes was increased 6.4 times from MNT150 to MNT959 per cubic metre and the water utilization fee for livelihood purposes increased 1.9 times from MNT50 to MNT96 per cubic meter. Considering the commencement of the new BFP on 14 November 2013 that has capacity to decrease the amount of fresh water for industrial purposes required for coal processing by approximately 35 per cent, the cost for water utilization fee shall remain low in the overall production cost of the Group.

Law on Common Minerals

On 9 January 2014, the Law on Common Minerals was adopted by the Parliament of Mongolia. It establishes detailed legal framework on exploration and mining related activities for common minerals, which were previously regulated by the Mineral Law 2006. The definition and classification of common minerals remains the same as in the previous legislation, with industrial aggregates which could be used as construction materials now included.

Exploration and mining licenses for common minerals shall now be granted at municipal level by a governor of an aimag (province) or city, instead of by the state mineral authority. Exploration licenses over common minerals shall now be granted initially for 3 years and can be extended once for another 2 years. Mining licenses over common minerals shall now be granted initially for 15 years, and can be extended twice for 10 years each time.

Royalty rates for mining of common minerals were revised downward from the rate of 2.5-5.0% to a flat rate of 2.5%, which should be calculated on the sale price of all types of common mineral products. This new legislation provides clear regulations for any potential new exploration and mining activities for common minerals undertaken by the Group, or for any prospective construction project where the Group might have presence as a developer or partner. The new law came into force on 27 February 2014.

Political Framework

The main political event in Mongolia during 2013 was the Presidential election, which was held on 26 June 2013.

The Democratic Party ("**DP**") nominee, incumbent President Mr. Elbegdorj Tsakhia, was re-elected defeating both the Mongolian People's Party nominee Mr. Bat-Erdene Badmaanyambuu and the Mongolian People's Revolutionary Party nominee Ms. Udval Natsag.

Mr. Elbegdorj won 50.2% of the popular vote, while candidates Mr. Bat-Erdene and Ms. Udval received 41.9% and 6.5% of the popular vote, respectively. Mr. Elbegdorj's re-election reaffirmed the current dominance of the DP in Mongolian politics, with DP nominees taking the positions including the President of Mongolia, the Speaker of the Parliament and the Prime Minister of the Cabinet.

An important political milestone observed during 2013 was that consensus was reached among major political parties to improve the investment environment in Mongolia. This consensus was reached after realistic assessment of the deterioration in investment climate within Mongolia during late 2012 and early 2013, through open-minded, multi-party dialogue. It was apparent that all political parties consequently had a proactive attitude toward immediate support action, and engagement with key domestic and international stakeholders. Direct impact as a result of this was the calling of an extraordinary session of Parliament in September 2013, which enabled the Law on Investment to be passed, and revised Policy to be released.

The Group recognizes the importance of the Law on Investment, since it introduces legal framework for both direct and indirect investments covering both foreign and local investors. In such, it straightens understanding of investor rights and guarantees, as well as providing tax stabilization regimes upon grant of stabilization certificates. Please refer to "Regulations on Foreign Investment" of this section for detailed information.

BUSINESS OVERVIEW

UHG Deposit

Mining License MV-11952 ("**UHG mining license**") covers the UHG deposit with an area of 2,960 hectares. In the period of 2009 to 2012, the Group's geological team conducted extensive exploration activities within this license area, during which time approximately 166,385 metres of drilling was conducted. From the 1,435 boreholes drilled and geophysically logged, analytical laboratory test work was performed on a total of 32,556 samples collected.

Also during this period, the Group collaborated with Velseis Processing Pty Ltd to interpret data collected from 71 kilometres ("**km**") of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International. This was used to identify continuity and structure of coal seams, as well as to obtain valuable information on the potential of the deposit's underground Resource. Large-diameter, bulk-sample drilling was also completed, with analysis of these samples collected conducted in the Ulaanbaatar laboratories owned and operated by ALS Group.

The data from these exploration activities was used to update the geological and coal quality model, and subsequently the UHG mining license JORC Coal Resource estimate as at 30 June 2012, based on an in situ density at an air-dry basis (Table 2).

Independent peer audit of this model was conducted by Mr. Todd Sercombe from GasCoal Pty Ltd, which confirmed compliance of the Group's work carried out to update the UHG geological model, thus JORC Coal Resource estimates for the UHG mining license area.

Table 2. UHG mining license area Coal Resource by depth and category as at 30 June 2012 (Note):

Total Coal Resource Depth limit from topographic surface	**Resource Category (Mt)**				
	Measured	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to 100m	114	55	26	170	196
From 100m to 200m	94	55	26	149	175
From 200m to 300m	80	51	17	131	148
From 300m to 400m	50	33	11	83	94
Below 400m	42	34	12	77	88
Sub-Total above 300m	288	162	69	449	519
Sub-Total below 300m	92	68	24	159	183
Total	**379**	**229**	**92**	**608**	**701**

Note:

(i) Technical information in the UHG coal Resources estimation report has been compiled by Mr. Gary Ballantine, Executive General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 24 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, Minerals Resources and Ore Reserves, The JORC Code (2004 Edition). Mr. Ballantine consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resources set out in Table 2 presented in this report are considered to be a true reflection of the UHG coal Resources as at 31 December 2012 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 (2004 Edition).

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

Minimal exploration related activities continued in 2013, with the scope reduced in line with the Group's focus on cost reduction. Drilling contractor costs were agreed to be deferred until second half of 2014, improving liquidity in 2013, and work completed was tailored to minimum required to ensure sufficient detailed understanding of coal measures ahead of the highwall advance. Commencing in the fourth quarter of 2013, thirteen boreholes were drilled totaling 3,525 metres of drilling. From this work, 500 samples were analyzed at the Group's onsite laboratory. Modeling and interrogation of data collected thus far has yet to commence.

Due to the review process of the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves in relation to the JORC (2012) standard has not yet been completed, the Group is waiting to commit to timing with regard to further Resource update pending finalized requirements. With no further exploration data available, no material change is applicable to the previously reported JORC Resource. For reference, since 30 June 2012 a total of 14 Mt as measured by official mine survey as at 31 December 2013 has been mined. This represents depletion from the stated Resource.

BN Deposit

The Group's geological team last completed exploration work at BN in 2011 to 2012 under Exploration License 4326X covering the Tsaihkar Khudag ("**THG**") area. A total of 9,963 metres of drilling was carried out during this period, with 32 boreholes completed and geophysically logged. Analytical laboratory test work was also performed on a total of 2,307 coal samples collected.

Consequently, application was submitted to the Mineral Resources Authority of Mongolia and Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013. This was in addition to the pre-existing mining license 14493A ("**BN mining license**") with 4,482 hectares area, both covering the Baruun Naran coking coal deposit area ("**BN Deposit**"), located in Khankhongor soum (county) of Umnugobi aimag (province).

McElroy Bryan Geological Services Pty Ltd most recently provided a JORC Resources statement for the BN mining license area as at 30 June 2012. This was estimated to contain 282 Mt of JORC Measured, Indicated and Inferred Coal Resources, based on an in situ density including assumed 6% total moisture content (Table 3).

Table 3. BN mining license area Coal Resource by depth and category as at 30 June 2012 (Note):

Total Coal Resource Depth limit from topographic surface	**Resource Category (Mt)**				
	Measured	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to 100m	45	9	–	54	54
From 100m to 200m	66	15	–	81	81
From 200m to 300m	58	19	–	77	77
From 300m to 400m	40	30	1	70	70
Below 400m	–	–	–		
Sub-Total above 300m	168	43	–	212	212
Sub-Total below 300m	40	30	1	70	70
Total	**207**	**73**	**1**	**281**	**282**

McElroy Bryan Geological Services Pty Ltd most recently provided a JORC Resource statement for the THG Mining License area as at 30 April 2013. This was estimated to contain 55 Mt of Inferred Coal Resource, based on an in situ density including assumed 6% total moisture content (Table 4).

Table 4. THG mining license area JORC Coal Resource by depth and category as at 30 April 2013, (Note):

Total Coal Resource Depth limit from topographic surface	**Resource Category (Mt)**				
	Measured	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to 100m	–	–	13	–	13
From 100m to 200m	–	–	20	–	20
From 200m to 300m	–	–	15	–	15
From 300m to 400m	–	–	7	–	7
Below 400m	–	–	–	–	–
Sub-Total above 300m	–	–	48	–	48
Sub-Total below 300m	–	–	7	–	7
Total	**–**	**–**	**55**	**–**	**55**

Note:

(i) Technical information in the BN and THG Coal Resource estimation reports has been compiled by Mr. Paul Harrison, Senior Geologist, McElroy Bryan Geological Services Pty. Ltd. Mr. Harrison is a member of the Australasian Institute of Mining and Metallurgy (Member #110251) and has over 25 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, Minerals Resources and Ore Reserves, The JORC Code (2004 Edition). Mr. Harrison consents to the inclusion in the release of the matters based on this technical information in the form and context in which it appears. The estimates of the Coal Resources presented in these reports are considered to be a true reflection of the BN Coal Resource in Table 3 as at 30 June 2012 and THG Coal Resource in Table 4 as at 30 April 2013, 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 (2004 Edition).

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

During 2013, the Group conducted no further exploration within the BN or THG mining license areas. Ongoing desktop reviews are in progress, with the Group awaiting finalization of the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves in relation to the JORC (2012) standard before committing to further Resource estimate revision.

Since 30 June 2012, as part of the Group's strategic response to the coal market situation, there has been minimization of mining activity within the BN mining license area with priorities focused on UHG. This is also aligned with guidance resulting from the integrated mining and processing schedule developed to maximize synergistic value achievable from BN and UHG mines. As such, no material change to previously reported BN Resource was considered.

Since 30 April 2013, with no mining conducted within the THG mining license, no material change to previously reported THG Resource was considered.

Open-cut Coal Reserves

In 2013, RPM updated the Group's long-term mining schedules at UHG and BN, preparing an integrated LOM study underpinning update of JORC Coal Reserve estimations at both of the UHG and BN deposits which were stated as of 31 December 2012.

Coal Reserve estimation was based on open cut, multi seam, truck and excavator mining methods as currently used at both UHG and BN mines, with both ex-pit and in-pit dumping of waste considered. Categorization of coal seam propensity for coking and thermal product was guided by Mr. John Trygstad from Norwest Corporation ("**Norwest**") within the integrated LOM study.

Industry standard whittle pit optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating a range of coal selling prices. These three dimensional approaches provided a series of pit shells reflecting incrementally different economic scenarios as impacted by changes such as depth limitation, mining cost or coal price variance.

Practical pit designs including ramp accesses to coal were then created within the selected optimized pit shells, representative of the stated revenue assumptions with the study. The pit optimization algorithms used were limited to a vertical depth of 300 metres at UHG and 350 metres at BN, based upon current geotechnical knowledge regarding slope stability criteria of each deposit.

Through application of estimated mining and metallurgical factors, mineable in situ coal within the pit shell was converted to ROM and product coal quantities. From this, mine schedules were able to be sequenced effectively to maximize value derived from open-pit mining operations.

Combined, the total ROM Coal Reserve under the Group's control increased from 460 Mt as at 31 December 2011 to 480 Mt as at 31 December 2012, an increase of 20 Mt, excluding the depletion of 9.4 Mt Reserve as a result of mining activity at UHG and BN mines in 2012.

Within the total combined ROM Coal Reserve quantity, the coking coal component increased by 63 Mt, including allowance for mining depletion during 2012, with the thermal coal Reserve component decreasing correspondingly by 33 Mt.

The open-cut ROM Coal Reserve for the UHG coal deposit was estimated as at 31 December 2012, based on an as-received basis with 5% total moisture (Table 5).

Table 5. UHG ROM Coal Reserve (Note):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	155	81	236
Thermal	64	16	80
Total	**218**	**97**	**315**

The UHG ROM Coal Reserve was previously reported by Norwest to contain an estimated 275 Mt as at 31 December 2011. The Reserve reported by RPM was estimated to contain 315 Mt as at 31 December 2012. Compared to previously reported Reserve figures, including 9 Mt attributable to coal mining depletion during the period between 31 December 2011 and 31 December 2012, an additional 49 Mt from Coal Resource identified on 30 June 2012 Resource estimate was also determined as economically mineable via open-pit methods.

With no further exploration data available, nor further update of LOM plan considered, no material change is applicable to the previously reported JORC Reserve. For reference, since 31 December 2012 a total of 9 Mt as measured by official mine survey as at 31 December 2013 has been mined. This represents depletion from the stated ROM Reserve.

The open-cut ROM Coal Reserve for the BN coal deposit was estimated as at 31 December 2012, based on an as-received basis with 6% total moisture (Table 6).

Table 6. BN ROM Coal Reserve (Note):

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

Under previous ownership, BN ROM Coal Reserve was previously reported by SRK Consulting ("**SRK**") totaling 185 Mt as at 31 March 2011. As an outcome of independent technical studies, conducted during the transition of ownership, it was confirmed that the final total Reserve was approximately 189 Mt applying the same Reserve calculation parameters, as it was defined and stipulated in the relevant share purchase agreement.

After acquisition in June 2011, the Group has begun to conduct its own studies and analyses for the future development of the BN mine in synergy with the UHG mining schedule. As such, the Group guided RPM to re-estimate the BN ROM Coal Reserve using modified Reserve calculation parameters, including mine design, scheduling and cost estimation parameters based on the Group's actual operating experience. As part of this re-estimation, the BN coal quality was reviewed on the basis of integrating BN and UHG coal mining, blending and processing operations.

The Coal Reserve estimate reported by RPM totaling 165 Mt as at 31 December 2012 does not include any coal from the THG mining license area, due to it containing inferred category of Coal Resource only. With approximately 1 Mt attributable to the coal mining depletion during the period between 31 March 2011 and 31 December 2012, the difference between the SRK and RPM estimations is an overall decrease of 19 Mt of BN ROM Coal Reserve. This is as result of changes to Reserve calculation parameters. However, using this integrated mining, blending and processing approach, the estimated coking coal component of the Reserve at BN has increased by 19 Mt, whilst quantity of the thermal coal has decreased. The proportion of a coking coal within the total BN ROM Coal Reserve has increased to 85%.

Based upon mine survey measurement, production activity in 2013 has depleted the BN ROM Coal Reserve by less than 1 Mt, and is considered to impart no material change.

Importantly, the integrated LOM mining study RPM was developed inclusive of complementary coal mining, blending and processing schedules for UHG and BN mines. It demonstrated potential to conduct sustainable operations with up to 15.8 Mtpa combined ROM coking coal output, for a period between 2013 and 2040. The thermal coal production volumes from UHG and BN mines were scheduled in this study to ramp up in 2016, in anticipation of completion of construction of the UHG-GS Railway project.

Note:

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

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

Production and Transportation

Coal Mining

Total ROM coal production achieved by the Group in 2013 amounted to 9.7 Mt, up by 2.7% on 2012 performance. Access to this coal required movement of 53.9 million bank cubic metres ("**Mbcm**") of overburden, at a stripping ratio of 5.6 bank cubic metres ("**bcm**") per ROM tonne. On the basis of total material movement, production output from the Group's mining activities exceeded 60 Mbcm for the first time, reaching 60.4 Mbcm.

Compared to 2011 and 2012 production, there was less fluctuation between the first and second half stripping ratios, as seen in Figure 7. Annual stripping ratio remained steady in comparison to 2012, despite increasing depth of mining. Second half stripping ratio was again lower, as a result of concentrated drawdown of ROM stockpile inventories in the first half requiring less coal mining to meet CHPP feed requirements.

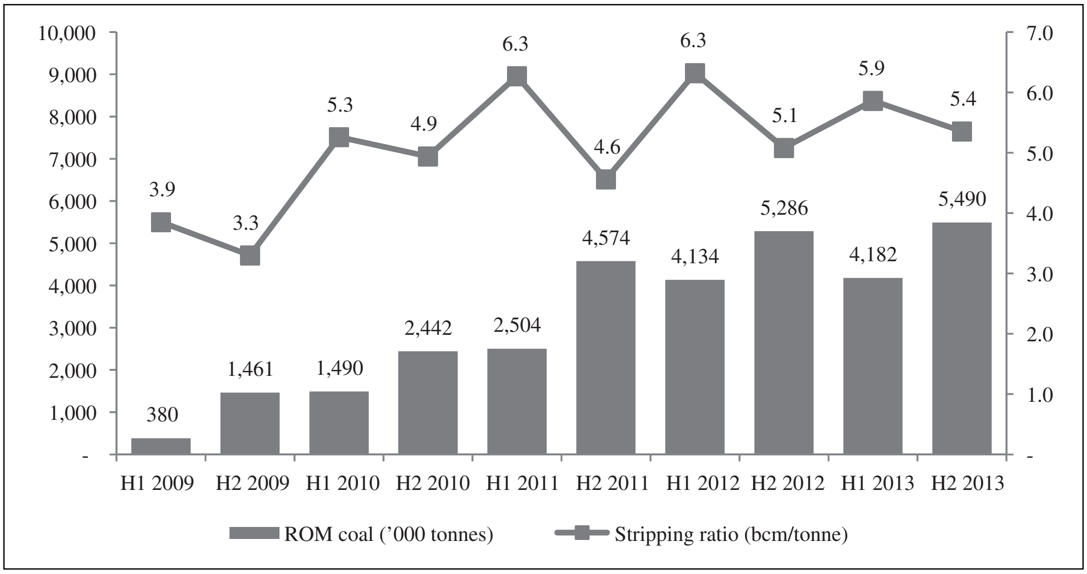
The Group has focused on improving efficiency, minimizing cash costs and reducing operational cash outflows throughout 2013, with site based operational activities streamlined to support these strategies. In the first half of 2013, mining operations at UHG and BN mines were integrated under unified management, specifically with regard to mining, maintenance and technical services. Functional support services were also integrated as part of the Group wide consolidation measures.

Unification allowed for controlled reduction of output from BN mine in the first half of 2013 without affecting CHPP feed requirements, via redeployment of personnel and equipment from BN to UHG. The overall benefit of this approach was reduced cost through off-hiring of rental equipment previously in use, and delay to recruitment and training of additional workforce in support of ongoing fleet expansion at UHG.

Whilst production output from BN mine resumed in the second half of 2013, focus on reducing cash cost and cash outflow did not abate. Measures were taken at both BN and UHG to ensure that equipment was as productive as possible, allowing reduced equipment deployment to achieve planned output with subsequent cost reductions achieved. Major initiatives to reduce mining costs included increased utilization of ROM stocks, delay of waste stripping, and shortening of waste haulage distances as possible. The last of these measures has capitalized on some creative engineering, which will not impact in later stages of mine development, with short haul waste dump areas exploited in locations not previously considered.

Continued effort to refine mining and blasting services contractor key performance indicator ("**KPI**") metrics, to ensure alignment of values with delivery of coal chain efficiency, has delivered evident and sustained improvement. Mining contractor KPIs were updated from the third quarter of 2013, and agreements with blasting services contractors were renewed in the fourth quarter of 2013. Many of these revised KPIs were implemented to target cost reductions, with main initiatives targeting increased mining truck tyre life and cheaper blend of explosives used, whilst several were clearly aimed at reducing costs through improved efficiencies such as indexed excavator and drill productivities and targeted reductions in ROM coal re-handle.

Figure 7. The Group's historical semiannual ROM coal production volumes and actual stripping ratio (in bcm per ROM coal tonne):

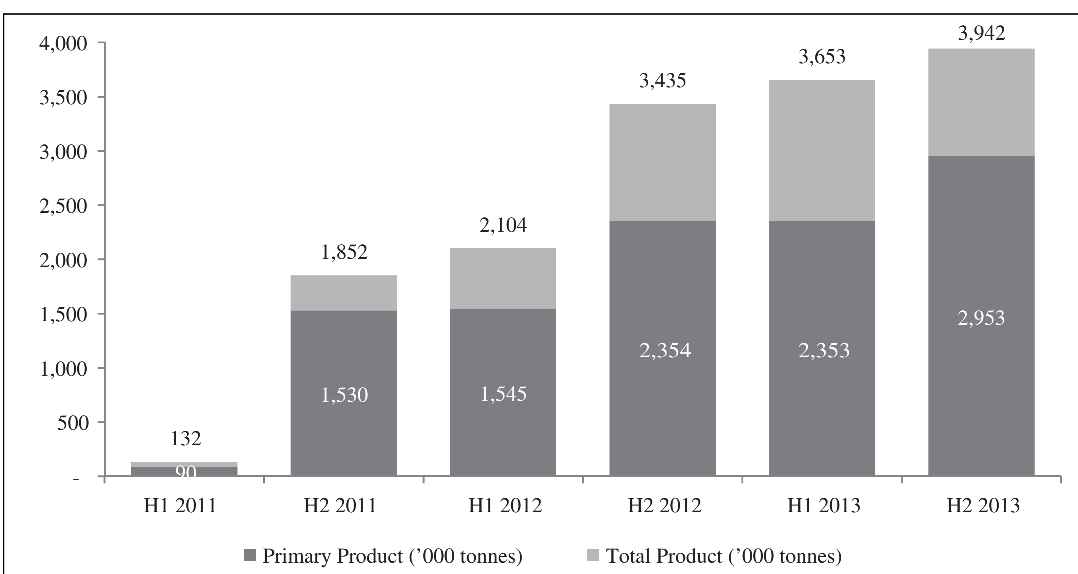


Coal Processing

During 2013, the Group processed a total of 10.7 Mt of ROM coal, including 0.1 Mt of feed under contract washing arrangement for third parties. This was achieved utilizing only two of the now three available CHPP modules, and represented an increase of 44.5% year-on-year.

The Group's total washed product derived from this feed included 5.3 Mt of coking coal, up 36.1% year-on-year, and 2.3 Mt of thermal coal, up 39.6% year-on-year. Historical semiannual production is shown in Figure 8.

Figure 8. The Group's historical semiannual total and primary processed coal production volumes:



Encouragingly, CHPP production exceeded nameplate capacity of 5 Mt per Module per annum, despite some interruptions to operation posed by Module 3 commissioning requirement for integration into the combined materials handling system. Eclipsing of nameplate capacity was primarily due to improved CHPP availability, a notable achievement within context of tightened budget and that effective from 1 January 2013, the Operational Management Contract with Sedgman was ended.

In the first half of 2013, as part of the Group's efforts to reduce operational cash outflows and maintain suitable liquidity, ROM coal mining volumes were adjusted down on the basis of scheduling more CHPP feed from existing stockpile inventories. Whilst some impact on yield resulted (as expected, due to increased feed proportion of lower grade coals), overall the approach enabled reduction in cash outflow and unit cash cost during the period as was the focus of the Group.

As forecast and communicated previously, primary yield in the first half of 2013 was reduced (46.1%), but rebounded strongly in the second half of 2013 (53.9%), resulting in an overall primary yield in 2013 of 50.1%. The higher yield experienced in the second half of 2013 is expected to be maintained now that ROM stockpile inventories of lower grade coals have been largely depleted. Secondary yield performance results were converse, with higher (25.4%) recorded in the first half of 2013 compared to lower (18.0%) in the first half of 2013 for overall 2013 secondary yield of 21.6%.

Construction milestones were reached in relation to CHPP development in 2013, with state commissioning completed for both the third processing module and BFP fine tailings dewatering plant projects. Installed nameplate capacity for the UHG CHPP is now 15.0 Mt ROM coal feed per annum, based upon 850 tonnes of ROM coal per hour and 6,000 operating hours per calendar year. Sufficient processing capacity is now installed as planned for intended and communicated LOM coking coal production rates, with no further major capital works related to CHPP planned.

The newly commissioned BFP will serve to reduce the Group's dependence upon raw ground water extraction, reducing both environmental footprint and the cost of operation. With expected recycling of greater than 60.0% of water utilized within the fines processing circuits, this facility will double the rate of water recovery compared to the existing, traditional system of tailing dam reclamation, through avoidance of water evaporation. Operation of the BFP commenced in December 2013 with ramp up to full capacity and fine tuning expected to progress in the first half of 2014.

Transportation and Logistics

Coal Transportation

During 2013, the Group continuously focused on maximizing utilization of its transport and logistics assets consisting of 272 km of paved road connecting the Group's mines to the border of Mongolia, 300 double-trailer heavy haul trucks as well as coal storage and handling facilities at mine gates and border of Mongolia that are all under the Group's full control and ownership.

Together, the Group maintained full capacity to handle and transport about 12 Mtpa of coal, which was sufficient to move and handle coal products from UHG and BN mines to the GM border port in China, via its coal handling, custom bonded stockpile facility at Tsagaan Khad ("**TKH**") on the Mongolian side of the border.

As a result, the Group's owned fleet has transported a total of 6.8 Mt of coal on its main long-haul section between UHG and TKH, representing an increase of 65.9% compared to 4.1 Mt transported on the same route in 2012 by owned fleet.

In achieving this level of production on the long-haul section, the Group was able to take complete control over the domestic movement of coal with its own trucks, eliminating dependency on third party contractors on this transportation section. Doing so required improvement in operational efficiency of owned fleet and has consequently resulted in a significant reduction of unit cost performance. Unit cost of transport per tonne in this sector decreased to a record low USD8.1 per tonne, down by USD3.8 per tonne compared to the results of USD11.9 per tonne in 2012, an improvement of 31.9% year-on-year. The increased operational efficiency is demonstrable in roundtrip performance on the long-haul section, where round trips per truck per month have increased from an average of 12 in 2012 to 20 in 2013, an improvement of 66.7%.

Third party contractors continued to be utilized by the Group in 2013 for cross-border transportation between TKH and GM. Sufficient capacity and control on coal movement across the border between Mongolia and China was maintained to allow export transportation of approximately 5.8 Mt on this short-haul section in 2013.

The Group has continued to support its heavy haul truck fleet which maintained an average of 85.0% availability in the period reported, largely as a result of facilities available at its dedicated 4,300 square metre truck maintenance and repair workshop at UHG, and auxiliary service truck facility at TKH completed in 2013.

The 240 km paved road between UHG and the GS border crossing in Mongolia (the "**UHG-GS Road**"), has been relied upon by the Group as primary support infrastructure, enabling delivery of products. With this infrastructure in place, the Group has been able to achieve large improvements in transportation reliability and efficiency, whilst third party coal and other freight movement on the UHG-GS Road has been allowed via toll fee arrangement. The 32 km paved road between BN and UHG mines has proven effective in maintaining capacity to support interconnected operation of the BN and UHG mines, with the road allowing efficient transport of coal from the BN mine to coal processing facilities at UHG.

In addition to the expansion at the GS border checkpoint on the Mongolian side, (co-funded jointly by the Group and Erdenes MGL in 2012), the Group has seen infrastructure improvement at the GM border checkpoint on the Chinese side in 2013. Improvement consisted of expansion of the truck "wait-and-clear road" in direction of exit from GM toward Mongolia, as well as commissioning of an extra five toll gate lanes, doubling capacity in operation to ten lanes for truck in-and-out crossing. This improvement is expected to increase border-crossing capacity at GS-GM to an estimated 25-30 Mtpa, sufficient to eliminate potential bottleneck on both sides of the border crossing, supportive of the Group's operational objectives.

UHG-GS Railway

Resolution No. 121 of the GoM dated 3 November 2013, ordered consolidation of various railway projects in Mongolia into a unified railway project (the "**Project**"), to be managed and implemented under government authority. In relation to this, the Group negotiated with the GoM, represented by the MRT, the State Property Committee and MTZ, on measures to be taken regarding implementation. Conditions of settlement were outlined in the Agreement, executed and signed on 6 May 2013.

Pursuant to the Agreement, the Parties agreed upon terms and conditions according to which the Concession Agreement, entered by and between the GoM and the Group on 31 May 2012, was terminated. The major terms under the Agreement are as follows:

- Compensation for all costs incurred by the Group in relation to the construction of the UHG-GS Railway confirmed and agreed MNT83,734,932,315, or approximately USD50.6 million at balance sheet date exchange rate as at 31 December 2013;

- Parties will enter into negotiation regarding potential investment in the Project. Depending on the outcome of the negotiation, the above compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the Project and/or in cash;

- The Group will be granted access to 50% of the capacity of the UHG-GS Railway; and

- Existing contracts and obligations for the construction of the UHG-GS Railway will be reassigned to MTZ and/or its designated entity.

Following execution of the Agreement, the Group commenced discussion with the GoM regarding potential investment into the Project in which the Group has an option to convert its compensation amount into equity of the special purpose enterprise where the GoM invites potential international and domestic investors. In the meantime, related project documents and contracts along with some project personnel have been transferred to the GoM and its contractors from the Group.

Cross Border Railway (GS-GM)

On 16 August 2013, the GoM adopted Resolution No. 299 regarding necessary actions to be taken to support coal export of Mongolia. As part of the support, the GoM decided to build narrow gauge (1,435 mm) cross border railway at connecting the ports of GS in Umnugobi province and GM port in China ("**Cross border railway**"), with target completion by end of 2014. Subsequently, on 25 October 2013 the Group signed a Memorandum of Understanding with fellow coal mining companies in the Tavantolgoi region, including Erdenes Tavantolgoi and Tavantolgoi companies, as well as Shenhua Group Corporation of China, to jointly develop the Cross border railway as a Consortium of Mongolia-China coal companies. During an official visit by the Prime Minister of Mongolia to China on 25 October 2013, the Consortium signed a subsequent Memorandum of Understanding with MTZ to develop the Cross border railway.

As of 31 December 2013, the Group has been in process of discussions with Mongolian and Chinese counterparts in combined effort to implement the Cross border railway, and has been in negotiation regarding potential involvement in development of the project. Successful construction and completion of this project should bring significant benefits to the Group, principally improvement in efficiency and reduction in cost of short-haul cross border coal transportation between TKH and GM. This, in conjunction with immediate loading into rail wagons, will increase the cost competitiveness of Mongolian sourced coal in the Chinese market and increase the capability for geographical market penetration of the Group's products in China. Increased customer base will allow for improved strength in pricing negotiation and general market ability to absorb increased production.

UHG-GS Paved Road

On 16 August 2013, the GoM adopted Resolution No. 299 regarding necessary actions to be taken to support coal export of Mongolia. As part of the support, the GoM decided to take over under state ownership the existing UHG-GS Road along with the border crossing facilities at GS. This decision was implemented under guidance from the Ministry of Economic Development where Erdenes MGL was appointed to exercise state ownership with compensation payable to the Group.

The UHG-GS Road was solely funded and constructed in 2011 by the Group under Build-Operate-Transfer ("**BOT**") concession rights for a period of 10 years. In order to implement this decision to take over the paved road and transfer into state ownership prior to expiry of BOT term, the GoM appointed a working group consisting of representatives of relevant ministries, including Ministry of Economic Development, Ministry of Finance, MRT and Erdenes MGL, who worked through August to November 2013 determining the amount of the compensation payable.

Based on findings of the working group, the Group negotiated and agreed with GoM on the compensation amount and signed the Agreement to transfer road assets with Erdenes MGL on 8 December 2013. As agreed with the parties, the Agreement to transfer road assets was to become effective on the date of actual payment settlement, which was received on 13 February 2014, with all subsequent legal documents executed. The Group received net consideration of MNT157,847,184,615 as compensation, equal to approximately USD90.3 million as of the date of receipt of payment.

The Group, together with prospective users of the paved road including Erdenes Tavantolgoi and Tavantolgoi companies, agreed and signed a subsequent Paved Road Operations and Maintenance Agreement ("**O&M Agreement**") with Erdenes MGL on 8 December 2013. Under the O&M Agreement, the Group will continue to be jointly involved in the operations and maintenance of the paved road via involvement in a special purpose joint venture company, to be appointed and managed jointly by the mining companies using the road, whom are ultimately responsible for the operation and maintenance of the road.

Transfer of the paved road to state ownership is expected to increase efficiency of road utilization, as common infrastructure will effectively be shared among mining companies, while decreasing unit cost of coal transportation between UHG and Tavantolgoi coal mines to the GS border port. The Group maintains unrestricted access to use the road capacity on non-discriminatory, equal treatment basis.

Occupational Health, Safety and Environment

Consolidation of support services within the Group during 2013 guided Occupational Health, Safety and Environment ("**OHSE**") measures being implemented toward international best practice, with efforts targeted to upgrade and standardize internal controls across subsidiary companies.

Commitment to developing employees to understand and implement systematic policies, plans and procedures continued throughout the year. Example of this included 24,026 individual training sessions recorded targeting OHSE specific topics, totaling 44,843 man-hours of training delivered to employees, contractors and visitors.

Within the Group during the year 2013, over 8.1 million man-hours were worked by employees and contractors on managed sites. During this time a total of 10 Lost Time Injuries ("**LTIs**") were recorded, resulting in an overall Lost Time Injury Frequency Rate ("**LTIFR**") of 1.2 LTIs per million man-hours worked.

The Group's performance in terms of LTIFR is again favorable in comparison to the industry statistics publicly reported. Examples of comparable industry statistics, taken from Provisional 2011-2012 data reported by Safe Work Australia, would include comparison against the following activities (all of which included engaged employees and contractors within the Group managed operations in the calculation of reported LTIFR):

- Coal mining – 3.2
- Exploration – 6.6
- Electricity supply – 2.3
- Water supply, sewerage and drainage services – 3.0
- Accommodation, cafes and restaurants – 8.1
- Road freight transport – 13.3

In contrast to the above efforts and performance, tragically in November 2013 an incident occurred inside UHG mine whereby despite best efforts of the internal Emergency Response Team and others immediately upon the scene, fatality of an MMC employed maintenance technician resulted.

Following the incident, the Group has exceeded statutory requirements in terms of assistance to the family of the deceased. The tragedy has served as further encouragement for continued cultivation of quality safety management, and development of inherent safety culture amongst all employees. The cause and liabilities arising from the incident are still under review by relevant authorities.

Marketing and Sales

In 2013, the Group continued to follow its main objective to produce and sell washed coking and thermal coal products under its own brand name, further strengthening its position as a reliable supplier of high quality coking coal products and expanding its end-user customer base in the target market region, within China. The Chinese market remains the Group's primary destination for its coking and thermal coal products, where the Group faced strong competition under continued price pressure throughout the reporting period among global coking coal exporters to China. Successfully, the Group established itself as the leading exporter of washed coking and thermal coal from Mongolia, leveraging on its competitive advantage of integrated coal production, processing, transport and marketing platform, and accounted for 31.5% of total coal export from Mongolia.

Further improvement in cost and efficiency in 2013 enabled the Group to continue to improve its competitive position in its principal market against global suppliers, and thus helped the Group to maintain its market and brand name as a long term sustainable and reliable supplier.

Throughout 2013, the Group witnessed continued pressure in global coking coal price. The ASP for the Group's washed coking coal decreased 15.0% from USD108.4 to USD92.1 per tonne DAP at GM. However, the Group was able to keep relatively slower pace in such downward trend compared to the sharp decline in price of 22.4% observed for equal quality coking coal in Tangshan area, a major steel producing region of China. Besides continued pressure on price, increased supply at seaborne market drove some Chinese coking coal consumers located in coastal areas to buy more seaborne coal in preference to other sources. Such a situation focused the Group to divert major supply from Hebei, Tangshan market to more inland markets towards the second half of the year where prices were less volatile than coastal areas.

Despite the challenging market condition, the Group was able to increase sales volume of its primary product, washed HCC, to 4.3 Mt representing about 26.5% year-on-year growth, while keeping total volume of coal sales at 5.7 Mt in 2013, including 1.3 Mt of washed thermal coal.

During 24 and 25 October 2013, the Prime Minister of Mongolia paid official visit to China and held talks with the Prime Minister of China on broader economic cooperation of Mongolia and China and signed an agreement outlining key areas of cooperation for the development of strategic partnership in the medium and long term between the two countries. As part of the cooperation, during this visit Mongolian coal producers, including the Group, signed a Memorandum of Understanding with Shenhua Group Corporation of China to cooperate on export of 1 billion tonnes of coal in the next 20 years from Mongolia to China. Moreover, Mongolian and Chinese companies agreed to create a partnership, where the Group is member, to improve infrastructure capacity for coal export between the two countries and signed a memorandum of understanding with MTZ on 25 October 2013 in the presence of the Prime Ministers of Mongolia and China.

The Group expects that significant rebound in steel and its upstream raw material markets will not eventuate in 2014 unless global economic recovery accelerates leading to significant impact on the China market, and/or the Chinese government reconsiders stimulus measures to boost their domestic economy.

As market sentiments change and infrastructural developments open more opportunities, besides focusing on increasing its market share in the highest selling price markets, the Company continues to explore potential new markets that are emerging as result of enabling infrastructure developments.

OUTLOOK AND BUSINESS STRATEGIES IN 2014

In 2013, the global coking coal market continued to experience significant downward pressure on coking coal prices due to increased supply and the management expects that this trend will continue in 2014 as well. The management maintains a positive outlook over the long term as the fundamentals of demographics associated with increasing industrialization will continue to create demand for steel across Asia and other emerging markets. However, the industry will ultimately need to reach a more balanced equilibrium between supply and demand, in order to see pricing improvement.

The management believes that with all major development project related capital expenditure complete, liquidity improvement initiatives and maintenance of competitive cost structure by virtue of its robust production profile and efficient cost control measures, the Company is well positioned to demonstrate sufficient flexibility to face headwinds in this more challenging environment.

The Company intends to pursue the following key strategies in order to maintain and enhance its position as a leading Asian washed coking coal producer: (i) maximizing assets utilization to drive unit fixed costs down; (ii) supporting initiatives to improve transportation infrastructure and capability, in particular cross border railway development, to gain access to the Chinese railway network to reach customers in China; (iii) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures agreements; and (iv) continuing its strong commitment to safety, the environment and socially responsible operations.

In 2014, the Group will aim to maximize utilization of its CHPP capacity by processing ROM coal sourced from the Group's own mines and also neighboring mines under mutually beneficial contract washing cooperation arrangements. Regarding transportation and logistics, the management will support infrastructure development to enable further cost reductions, in particular the cost of cross-border transportation between TKH and GM, with continued dialogue in progress between Mongolian and Chinese authorities to build the cross border railway.

The management will continue to strengthen existing and create new long-term relations with its end-user customers. Additionally, the management will actively look at strategic long term partnerships to expand its relations and presence in China.

FINANCIAL REVIEW

The Group navigated through a challenging year marked by adverse global coking coal market conditions. The Chinese coking coal market experienced increased supply from domestic mines which continued to expand, and import momentum remained robust which led to depressed ASP where demand remained resilient. The Group continued its dedication to improving operational efficiency and seamless execution of cost control in Group-wide operations, which resulted in higher gross profit in 2013 year-on-year, even whilst the Group generated lower sales revenue in 2013 compared to 2012 as result of lower ASP.

The Group's revenue for the year declined by 7.8% to USD437.3 million for the year ended 31 December 2013 (2012: USD474.5 million) due to unfavorable pricing environment. Notably, revenue of USD392.4 million was generated from HCC sales, representing more than 89.7% of total revenue in 2013 (2012: USD371.2 million and 78.2%, respectively).

In 2013, the Group's pricing for its washed coking coal products followed the market trend, and as a result ASP of HCC decreased by 15.0% to USD92.1 per tonne from USD108.4 per tonne in 2012. The pricing of middlings, a high calorific value thermal coal by-product in the process of washing raw coal also faced pressure during the course of the year. The ASP of middlings was USD29.9 per tonne in 2013 (2012: USD36.9 per tonne).

The Group's sales volume of coal products reached 5.7 Mt in 2013, which is equivalent to 2012, representing only slight increase of 0.1 Mt, or 1.8%. In 2013, the Group exported 4.3 Mt of HCC and 0.03 Mt of SSCC (2012: 3.4 Mt and 0.2 Mt, respectively). In addition, the Group exported 1.3 Mt of middlings in 2013 (2012: 1.6 Mt).

For the year ended 31 December 2013, the Group had two customers that individually exceeded 10.0% of annual revenue, with purchase amounts of USD196.2 million and USD108.1 million respectively. In 2012, the Group had derived more than 10.0% of its annual revenue from three customers, with purchase amounts of USD168.3 million, USD115.6 million and USD59.8 million, respectively.

The breakdown of sales volume and revenue by individual coal product type and ASP for individual coal product types for the periods are indicated in Table 7.

Table 7. Sales volume, revenue and ASP:

	Year ended December 31		
	2013	**2012**	**Change**
Sales volume (Mt)	**5.7**	5.6	1.8%
HCC	**4.3**	3.4	26.5%
SSCC	**0.0**	0.2	-100.0%
Middlings	**1.3**	1.6	-18.8%
Raw coal *(Note)*	**0.1**	0.4	-75.0%
Revenue ('000 USD)	**437,339**	474,480	-7.8%
HCC	**392,487**	371,160	5.7%
SSCC	**2,452**	17,234	-85.8%
Middlings	**38,530**	57,341	-32.8%
Raw coal *(Note)*	**3,870**	28,745	-86.5%
ASP (USD/tonne)	**76.4**	84.8	-9.9%
HCC	**92.1**	108.4	-15.0%
SSCC	**71.2**	78.1	-8.8%
Middlings	**29.9**	36.9	-19.0%
Raw coal *(Note)*	**27.3**	72.9	-62.6%

Note: Raw coal sold in 2013, represents raw thermal coal, which is a non-caking coal mainly used in power generation, and it differs from raw HCC reported in 2012.

Cost of Revenue

Due to continued volatility in global economic conditions and depressed commodity prices, the Group strengthened primary focus on cost management, realizing a number of incremental cost savings during 2013. Despite increase in sales volume, the Group's decreased costs in processing, handling, transportation, logistics, royalties and fees and transportation and stockpiles losses resulted in decreased total cost of revenue from USD420.4 million in 2012 to approximately USD361.5 million in 2013.

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

The following table presents, for the periods indicated, the Group's total and individual costs of revenue in terms of amount and also unit costs of revenue calculated on a per tonne total product sold basis (Table 8):

Table 8. Total and individual costs of revenue and unit costs of revenue:

	Year ended December 31			
	2013	2012	**2013**	2012
	USD'000	*USD'000*	***USD/tonne***	*USD/tonne*
Cost of revenue	**361,485**	420,400	**63.1**	75.1
Mining cost	**137,268**	123,541	**24.0**	22.1
Variable cost	**67,484**	70,398	**11.8**	12.6
Fixed cost	**52,806**	49,921	**9.2**	8.9
Depreciation and amortization	**16,978**	3,222	**3.0**	0.6
Processing cost	**38,824**	51,031	**6.8**	9.1
Variable cost	**16,096**	19,074	**2.8**	3.4
Fixed cost	**6,336**	15,174	**1.1**	2.7
Depreciation and amortization	**16,392**	16,783	**2.9**	3.0
Handling cost	**12,277**	13,164	**2.1**	2.4
Transportation cost	**96,748**	130,871	**16.9**	23.3
Logistics cost	**18,028**	23,252	**3.1**	4.2
Variable cost	**5,791**	6,700	**1.0**	1.2
Fixed cost	**7,485**	9,802	**1.3**	1.8
Depreciation and amortization	**4,752**	6,750	**0.8**	1.2
Site administration cost	**12,369**	10,938	**2.1**	2.0
Transportation and stockpile losses	**7,850**	19,478	**1.4**	3.4
Royalty and fees	**38,121**	48,125	**6.7**	8.6
Royalty	**26,621**	34,756	**4.7**	6.2
Air pollution fee	**5,266**	6,033	**0.9**	1.1
Custom fee, VAT	**6,234**	7,336	**1.1**	1.3

Mining costs consist of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment together with base and performance fees paid to the mining contractor, drill and blasting contractor fees, and costs paid to fuel suppliers. In 2013, the Group's total mining costs were USD137.3 million (2012: USD123.5 million). Depreciation and amortization experienced a sharp increase from USD3.2 million in 2012 to USD17.0 million in 2013 which was associated with the change in accounting standards. According to IFRIC 20, deferred stripping activity assets are carried at cost less depreciation, amortization and impairment losses if any. Leading on, the increase was due to the depreciation of deferred stripping activity assets, which are depreciated based on the Units of Production method.

For calculation of mining costs, new accounting standard IFRIC 20 was adopted effective from 1 January 2013, for accounting of the stripping activity in the production phase of a surface mine. IFRIC 20 requires that the costs of stripping activity which provides a benefit in the form of improved access to ore is recognized as a non-current 'stripping activity asset' where the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

- the entity can identify the component of the ore body for which access has been improved; and

- the costs relating to the stripping activity associated with that component can be measured reliably.

Therefore, with the adoption of IFRIC 20, the Group identified components of the mine in accordance with the mine plan, and started accounting mining unit costs based on the strip ratio applicable to each component of the mine.

Average accounting strip ratio for components mined during the 2013 was 2.5 bcm per tonne, whereas prior to the adoption of IFRIC 20, average accounting strip ratio was 3.2 bcm per tonne.

The mining cost is not only recorded in the income statement, but also the costs of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average strip ratio, which is capitalized in the balance sheet as mining structure.

Processing costs primarily included costs associated with the operations of the CHPP, including power and water costs. In 2013, the Group's processing costs were USD38.8 million (2012: USD51.0 million), of which USD16.4 million was related to the depreciation and amortisation. Also, processing costs included power generation and distribution costs of USD7.4 million incurred in the UHG Power Plant and the water extraction and distribution costs of USD1.7 million incurred in the UHG Water Supply Facility related to the washed coal sold in 2013.

Unit processing cost calculated per ROM coal in-feed tonne decreased by 38.4% or USD2.8 from USD7.3 per ROM tonne in 2012 to USD4.5 per ROM tonne in 2013. The decrease was mainly achieved due to economies of scale. Furthermore, moving to own operation management of CHPP and eliminating the operation management previously performed by contractor (Table 9) aided cost reduction.

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

	Year ended December 31			
	2013	2012	**2013**	2012
	USD'000	*USD'000*	***USD/ROM tonne***	*USD/ROM tonne*
Total processing costs	**38,824**	51,031	**4.5**	7.3
Consumables	**3,245**	2,993	**0.4**	0.4
Maintenance and spares	**3,686**	4,810	**0.4**	0.7
Power	**7,403**	8,368	**0.9**	1.2
Water	**1,762**	2,903	**0.2**	0.4
Staff	**3,923**	3,446	**0.4**	0.5
Contractor fee	**–**	8,251	**–**	1.2
Ancillary and support	**2,413**	3,477	**0.3**	0.5
Depreciation and amortization	**16,392**	16,783	**1.9**	2.4

Handling cost related to feeding ROM coal from stockpiles to the CHPP and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. In 2013, the Group's handling cost was USD12.3 million (2012: USD13.2 million). Unit handling cost decreased by 12.5% or USD0.3 from USD2.4 per tonne in 2012 to USD2.1 per tonne in 2013. Increasing the proportion of in-feed ROM coal being directly dumped to the CHPP feed reduced coal re-handling activity required, which lowered the total handling cost.

Transportation costs are derived primarily from costs related to the transportation of coal products from UHG to TKH, transportation of ROM coal from the BN mine to the CHPP located at the UHG mine and the transportation of coal products to the selling point destinations as stipulated under sales contracts, including fees paid to third party transportation contractors.

The Group successfully decreased its overall transportation costs in 2013, by 26.1% to USD96.7 million from USD130.9 million in 2012 and per tonne basis decreased by 27.5% or USD6.4 per tonne to USD16.9 per tonne in 2013 from USD23.3 per tonne in 2012. Transport cost in the UHG-GM section decreased by 22.8% or USD5.0 per tonne from USD21.9 per tonne in 2012, to USD16.9 per tonne in 2013.

The management focused on maximising the utilisation of the Group's own transportation fleet and improving efficiency in its main long-haul transport (UHG-TKH) section. As a result, the transportation cost using its own fleet in the long-haul (UHG-TKH) section has been reduced from USD9.4 per tonne in 2012 to USD8.1 per tonne in 2013, which represents USD1.3 or 13.8% decrease per tonne year-on-year basis. In addition, round trips per truck increased from 12 per month in 2012 to 20 per month in 2013 further increasing own fleet utilization. The Group's own transport fleet carried the majority (99.7%) of transportation on the UHG-TKH long haul section, while the remaining small volume (0.3%) was transported by third party contractors. Therefore, the combined cost of transportation on long-haul has been reduced by 31.9% from USD11.9 per tonne in 2012 to USD8.1 per tonne in 2013.

For the short-haul (TKH-GM) section, where the Group utilised a contracted fleet for the majority of its transportation, the Group's transportation costs were USD8.8 per tonne in 2013, compared to USD10.0 per tonne recorded in 2012, representing a decrease of 12.0% or USD1.2 per tonne.

Logistics costs are mainly related to costs for paved road operations, maintenance and amortisation costs and also costs associated with operating product stockpiles at UHG and TKH. In 2013, the Group's logistics costs were USD18.0 million (2012: USD23.3 million), of which USD4.6 million was related to the amortisation of the UHG-GS paved road. The paved road operations, maintenance and amortization costs are partially offset by toll fee revenue generated from third party cargo on commercial terms in accordance with conditions stipulated in the BOT agreement entered between GoM and the Group in May 2010.

The site administration cost is primarily related to the site support facilities such as the airstrip operations, and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations at UHG and BN mines, both located in South Gobi province. In 2013, the Group's site administration costs were USD12.4 million (2012: USD10.9 million). The Group is implementing policies to shift the employees' work place and to promote relocation to the site base for the purpose of increasing operational efficiency at site. This in turn resulted in an increase of the site administration cost, whilst on the other hand, it reduced general administrative expenses.

For 2013, the Group recorded lower transportation and stockpile net loss of USD7.9 million compared to net loss of USD19.5 million recorded in 2012. The decrease was attributable to overall lower ROM coal inventory stock volume, and due to improved transportation and stockpile management. The inventory losses are assessed based on periodic survey measurements of the Group's ROM coal inventories of ROM coal stockpiles at the UHG and BN mines, and also coal products inventories of product stockpiles at UHG and TKH. (Table 10):

Table 10. Transportation and stockpile losses by amounts and volumes:

	Year ended December 31			
	2013	2012	**2013**	2012
	USD'000	*USD'000*	***tonne '000***	*tonne '000*
Transportation and stockpile losses	**7,850**	19,478	**241.3**	754.5
Transportation loss	**1,199**	3,782	**11.8**	80.7
Washed coal	**1,187**	3,718	**11.6**	78.2
Raw coal	**12**	64	**0.2**	2.5
Stockpile loss	**6,651**	15,696	**229.5**	673.8
Washed coal	**4,125**	6,683	**87.0**	110.5
Raw coal	**2,526**	9,013	**142.5**	563.3

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid according to the applicable laws and regulations in Mongolia. The progressive royalty rate, in the range of 5-8% for processed coal products and 5-10% for raw coal, was based on the monthly reference price determined by the Ministry of Mineral Resources and Energy of Mongolia at the time. However, during the period between 1 January 2013 and 1 April 2013, the contract prices were used for calculating royalty rates based on the GoM issued Resolution No. 74 dated 6 October 2012, which was temporarily suspending the use of the monthly reference price system. The Group's effective royalty rate for 2013 was around 6.1% (2012: 7.3%).

Gross Profit and Gross Profit Margin

In 2013 the Group recorded both higher gross profit and gross profit margin whilst experiencing lower sales revenue compared to 2012, highlighting the Group's successful cost management measures taken during 2013.

The Group's gross profit for the year ended 31 December 2013 was approximately USD75.9 million, representing an increase of USD21.8 million, or 40.3%, from gross profit of USD54.1 million recorded for the year ended 31 December 2012. In 2013, gross profit margin was 17.3%, compared with 11.4% in 2012.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortization of office equipment and other expenses. The following table presents, for the periods indicated, individual administrative expenses in terms of amount and as a percentage of the Group's total administrative expenses (Table 11):

Table 11. General and administrative expenses:

	Year ended December 31			
	2013		2012	
	USD'000	***%***	*USD'000*	*%*
Staff costs	**7,381**	**14.1%**	10,451	21.7%
Consultancy and professional fees	**4,323**	**8.2%**	5,585	11.6%
Depreciation and amortisation	**1,824**	**3.5%**	4,327	9.0%
Allowance for doubtful debts & receivable write-off	**17,220**	**32.9%**	5,928	12.3%
Share option	**4,720**	**9.0%**	6,620	13.7%
Others	**16,942**	**32.3%**	15,272	31.7%
Total	**52,410**	**100.0%**	48,183	100.0%

Note: Others include costs incurred in relation to the social responsibility and community support expenses, insurance cost, travelling expenses, rental fees and other expenses.

In 2013, the Group's administrative expenses increased by approximately USD4.2 million or 8.8% from USD48.2 million in 2012 to approximately USD52.4 million in 2013. The Group's administrative expenses in 2013 by category have all decreased compared to 2012, except for the allowance for doubtful debts and receivable write-off, which is a provision for potential credit related circumstances due to challenging market conditions in China and credit risk of each individual trade credit. Credit Committee assessed the recoverability of USD18.1 million of receivables as either aged over 1 year or doubtful and altogether was written off.

Net Finance Cost/(Income)

Net finance cost for the year ended 31 December 2013 was approximately USD85.5 million (2012: net finance cost of USD11.4 million). Net finance cost was primarily due to (i) USD11.7 million negative change in net fair value related to the Senior Notes; (ii) less interest expenses capitalized during 2013 compared to 2012, since major part of the construction and development activities of the Group are completed; (iii) USD18.5 million foreign exchange loss due to depreciating MNT against the USD; and (iv) less interest income earned.

Income Tax Expenses

The Group's income tax expense for the year ended 31 December 2013 decreased from USD3.2 million in 2012 to approximately USD2.6 million in 2013 due to lowered profitability of the Company during the period.

Loss/Profit for the Year

As a result of the costs listed above, losses attributable to equity shareholders of the Company for the year ended 31 December 2013 amounted to approximately USD58.1 million. Major contributing factors of the Group's net loss position are (i) a decrease of ASP of coking coal products and (ii) an increase in the Group's finance costs related to the Senior Notes and other facilities, resulting in a total net finance cost of approximately USD85.5 million.

Liquidity and Capital Resources

In light of market volatility, the Group took strict approach on cash management. The Company took several measurements to enhance the Group's liquidity position, notably subsequent to the balance sheet date the Group refinanced and extended the maturity of the outstanding BNP Paribas facilities of USD130 million and increasing the size by additional USD20 million to USD150 million. The Group also refinanced and extended maturity of short-term loans of USD40 million into a revolving credit facility. Operating working capital was substantially improved from negative USD61.7 million in 2012 to positive USD177.6 million in 2013 by successfully negotiating payments terms such as extending payables time frame with major suppliers. Furthermore, the Group completed the sale of the UHG-GS paved road receiving payment amount of USD90.3 million (converted at exchange rate on payment receipt date).

For the year ended 31 December 2013, the Company's cash needs had been primarily related to repayment of USD85 million Convertible Bond to QGX Holdings Ltd and costs associated with construction of CHPP Module 3.

The Company's cash resources were funded mainly by proceeds of USD600 million Senior Notes issued in 2012.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 31 December 2013 was 46.7% (2012: 46.3%). All borrowings are in USD. Cash and cash equivalents are held in MNT, USD, RMB, EUR and Hong Kong Dollars ("**HKD**"). The Company's policy is to monitor regularly current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Indebtedness

As of 31 December 2013, the Company had USD886.2 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Senior Notes, (ii) BNP Paribas Facility of USD200 million, (iii) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), and (iv) USD40 million short-term loan from Trade and Development Bank of Mongolia.

The Senior Notes, rated at Caa2 by Moody's Investors Service, Inc. and CCC+ by Standard and Poor's Ratings Services, bear a fixed interest rate of 8.875% per annum payable semiannually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 31 December 2013, the outstanding principal amount was USD600 million. Upon the sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions of all or substantially all of the properties or assets of the Company to any person other than one or more of the beneficial owners of less than 30% of the total voting power of the Company, the Company must make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

The BNP Paribas Facility was initially contracted with Standard Bank Plc with facility amount of USD300 million. Such facility was drawn down from Standard Bank Plc in the amount of USD200 million in March 2012 and the remaining available facility of USD100 million was cancelled by the Company. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interests in (and obligations under) the Standard Bank Facility to BNP Paribas, Singapore Branch. The loan bears an interest rate of LIBOR plus 5.25% per annum, and is repayable in 10 quarterly installments starting from December 2012 and ending in March 2015. As of 31 December 2013, the outstanding principal amount of such BNP Paribas Facility was USD130 million. Under the BNP Paribas Facility, the Company shall not issue any shares if such issue results in (i) the creation of a new share class of the issued share capital of the Company and (ii) a change of control by controlling shareholder of the Company, ceasing a beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company. Subsequent to the year end, on 5 March 2014, the Company as a borrower entered into the Facilities Agreement with two international banks as arrangers and original lenders for a coal pre-export loan facility of USD150 million with a greenshoe option of up to USD50 million to the Company and fully refinanced the existing BNP Paribas Facility.

The EBRD, FMO and DEG Loan Agreements bear interest on a semiannual basis at the rate of six-month LIBOR plus 3.25%-4.25% per annum. The USD120 million principal amount of the loan is repayable in 11 semiannual installments ending on 15 May 2016, and the USD60 million principal amount of the loan is repayable in two equal installments on 15 May 2015 and 15 May 2016, respectively.

As at 31 December 2013, the outstanding principal amount was USD125.5 million. Under the EBRD, FMO and DEG Loan Agreements, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the Company than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Company, or the Company may not cease to be directly majority owned by entities domiciled in Mongolia.

The Trade and Development Bank of Mongolia loan is a short term loan maturing in March 2014. The loan bears interest of 9.0% per annum. As of 31 December 2013, the outstanding principal amount was USD40 million. Subsequent to year end, the Company refinanced the loan into a revolving credit facility and extended maturity by one year.

Credit Risk

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

For the year ended 31 December 2013, the Group had approximately USD23.1 million in trade receivables, including non-current portion of trade receivables, USD196.6 million in other receivables and USD5.0 million for allowance of doubtful debts. For the year ended 31 December 2012, the Group had USD35.8 million in trade receivables and USD178.0 million in other receivables, as well as USD5.9 million for allowance of doubtful debts.

The Company holds monthly Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit. As of 31 December 2013, in accordance with the Credit Policy and based on the Credit Committee's assessment, certain debts in amount of approximately USD8.0 million aged over one year and USD10.1 million debts, recoverability of which was assessed as doubtful, were written off against the existing allowance for doubtful debts and any remainder was charged directly to profit or loss. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to the current ability to pay, and takes into account information specific to the customer and pertaining to the economic environment in which the customer operates, on an ongoing basis.

With regard to other receivables of USD196.6 million, this amount is mainly related to USD68.5 million VAT and other tax receivables, USD50.6 million from the GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax authority audit and approval of the VAT tax refund, the Group mainly offsets the VAT refund with its other tax payments. As at 31 December 2013, the Group has USD23.0 million of approved VAT receivables, ready to be offset against other taxes payables or refunded by cash. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. Management believes that there is no issue in the collectability of such receivables.

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

Foreign Exchange Risk

During the two years ended 31 December 2012 and 2013, 100% and 99.9% of the revenue and 35.5% and 45.6% of the purchases in each respective year were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

For the year ended 31 December 2012, 75.6% of the revenues were denominated in USD, with the remaining revenue denominated in RMB. For the year ended 31 December 2013, 43.3% and 56.6% of the revenues were denominated in USD and RMB respectively, with the remaining revenue denominated in MNT.

For the year ended 31 December 2012, 91.3%, 31.7% and 14.0% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD, with the remainder denominated in MNT. For the year ended 31 December 2013, 3.0%, 14.2% and 81.7% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD; while 8.7% and 0.2% of the operating expenditures and capital expenditures, respectively, were denominated in RMB; 0.1% and 1.3% of the operating expenditures and capital expenditures, respectively were denominated in other currencies than the USD, RMB and MNT; and the remainder was denominated in MNT.

Although the majority of the Group's assets and operating expenses are denominated in MNT, a large portion of expenses, including fuel and capital expenditures, are import costs and are thus linked to USD and RMB prices. Also, the majority of the Group's finance costs are denominated in USD. Therefore, the Group believes that there is a natural hedge that partially offsets foreign exchange risk.

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2012 and 2013 amounted to USD282.4 million and USD72.7 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2012 and 2013 amounted to USD147.3 million and USD165.5 million, respectively.

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

Pledge of Assets of the Group

As at 31 December 2013, the Company pledged ER's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, its Debt Reserve Account for loan repayment, cooperation contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC; engineering, procurement and construction management ("**EPCM**") contract for the CHPP constructed at the UHG site with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; and water facilities for the EBRD, FMO and DEG Loan Agreements.

The Company pledged its Collection and Cash Collateral accounts with BNP Paribas, coal sales contracts with Winsway Resources Holdings Private Limited, Shenhua Bayannaoer Energy Co., Ltd, Bayannur Conglin Mining Co., Ltd, Wulate Zhongqi Jingshun Da Color Steel Engineering Co., Ltd and Inner Mongolia Qinghua Group of China, and coal stockpile of ER for the BNP Paribas Facility.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.a.r.l. are shared among the BNP Paribas Facility and the Senior Notes.

ER pledged its 4,207,500 common shares, being 25.5% common shares held by it in International Medical Centre LLC pursuant to Share Pledge between ER and EBRD dated 24 June 2013 to secure loan repayment obligation of International Medical Centre LLC in proportion to its equity interest in International Medical Centre LLC.

The total amount of indebtedness covered with above pledges is USD846.2 million as at 31 December 2013.

Contingent Liabilities

a) As at 31 December 2013, the Company has contingent liability in respect of the consideration adjustments for the Acquisition of BN mine pursuant to the Share Purchase Agreement, which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semiannual production target fixed on the date of the determination of the total reserves in each semiannual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

   Under the royalty provisions for excessive coal production at the BN mine pursuant to the Share Purchase Agreement and the Settlement Agreement, the specified semiannual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

b) On 14 February 2013, Enrestechnology LLC, wholly-owned subsidiary of the Company, brought a claim to the Capital Administrative Court of Mongolia against two decisions No.101/12 and 102/12 both dated 26 December 2012, of the customs officers of General Customs Office of Mongolia.

   These disputing decisions were made as a result of customs post-clearance audit, of which scope of inspection was 'importing activities due course of CHPP module I and II Construction Project' of the Company. Specifically, these decisions were made in relation to costs incurred in accordance with four interconnected contracts within a scope of EPCM services contracts signed with EPCM contractor.

   In particular, in terms of cost type, these disputing decisions were made upon customs officers' assumption that "procurement management service payments" stated in EPCM contracts where "brokerage service fees" as well as "design and engineering management service payments" were addable costs to the declared values of the particular imported goods in the CHPP construction period, pursuant to Article 10.3 of the Law on Custom Tariff and Tax of Mongolia.

   The total amount of these decisions was MNT7,984,088,870 (equivalent to USD4,826,848), which includes customs and VAT with relevant penalty. The amount claimed against Enrestechnology LLC under the customs officer's first disputing decision is MNT4,630,328,449 (equivalent to USD2,799,304) and the amount claimed under the second disputing decision is MNT3,353,760,421 (equivalent to USD2,027,544).

   As of the date of this disclosure, since the Company and its subsidiary Enrestechnology LLC disagree with the customs officer's decisions and this matter did not reach the final decision, no payment was made by the Company or Enrestechnology LLC in accordance with these two disputing decisions.

   On 26 February 2013, the Capital Administrative Court instituted the administrative legal proceeding on this case, which started litigation process of the first instance court hearing. Defendants submitted their response explanations to the Capital Administrative Court on 14 March 2013.

On 21 May 2013, the Judge for Capital Administrative Court ruled to appoint a linguistic expert and on 5 September 2013 it further ruled to extend the number of experts. The Group specialists appointed by the court submitted their compiled opinion to the Capital Administrative Court on 1 October 2013 in their capacity of experts.

The court hearing of the first instance was held on 17 January 2014 after number of postponements of the court session. During the court hearing, the defendants made request to re-appoint an expert raising their disagreement with an expert opinion issued. The judge resolved to accept the request and issued an order on 17 January 2014 to suspend litigation procedure until the re-appointed experts' opinion is rendered.

The Company disagreed with that order and submitted its complaint on 27 January 2014 to the Capital Administrative Court of Appeal. The hearing of the Court of Appeal was held on 27 February 2014 and ruled in favor of the Company dismissing the order of the first instance court to re-appoint a linguistic expert on this case. Therefore, first instance court procedure shall resume.

The Company is expecting that Court of First Instance will hear the case within the third quarter of 2014. It is difficult to estimate probability of the court decision at this stage of the litigation. If Enrestechnology LLC was found to be liable to the claim, the under-paid customs duties and VAT would result in an increase in the cost of the Group's property, plant and equipment and the penalty would be charged to the Group's profit or loss.

c) The Group received a claim of MNT57,675,632,400 (approximately USD34,868,286) on 28 March 2013, filed in a district court of Ulaanbaatar by the Lawyer's Association for Environment ("**LAE**") regarding allegations against the Group in relation to possible damages to the environment due to its coal hauling operation.

On 8 August 2013, the first instance district court ruled that Group has to pay MNT52,235,485,740 (approximately USD31,579,400) in relation with the claim issued by the LAE on 28 March 2013 regarding allegations in relation to possible damages to the environment due to coal hauling operation.

The Group disagreed with the court decision and submitted its appeal. An appeal court hearing was held on 11 December 2013 and decided to dismiss previous decisions made by the first instance court and therefore to transfer the case for rehearing by the first instance court.

The rehearing of first instance court is anticipated to be held within the second quarter of 2014. The Group is taking necessary preparation for the rehearing of first instance court, and it is difficult to predict the final outcome. If the Group were to be found liable to the claim, the claimed amount would be charged to the Group's profit or loss.

Financial Instruments

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

Under the Share Option Scheme, the Company granted two batches of Share Options to its directors and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to directors and employees respectively, at the exercise price of HKD6.66. On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to directors and employees respectively, at the exercise price of HKD3.92.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the year ended 31 December 2013, USD4.7 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

The Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD4.9 million, and the attributable transactions costs of USD0.11 million were charged to the profit or loss for the year ended 31 December 2012.

The fair value of the derivative component of the Senior Notes as at 31 December 2013 was USD0.7 million, and was presented as a derivative financial instrument. The liability component was initially recognised at an amortised cost of USD591.7 million after taking into account USD13.2 million as attributable costs.

Capital Commitments and Capital Expenditures

As at 31 December 2013, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 12. Capital commitments:

	2013 ***USD'000***	2012 *USD'000*
Contracted for	**5,554**	35,409
Authorised but not contracted for	**681**	69,427
Total	**6,235**	104,836

Table 13. The Group's historical capital expenditures for the periods indicated:

	2013 ***USD'000***	2012 *USD'000*
CHPP	**15,293**	87,119
Road	**14**	21,644
Railway	**–**	24,899
Water supply facility	**12,552**	27,730
Power plant	**1,821**	554
Property (camp, airport and workshop)	**6,769**	29,974
Trucks and equipment	**2,544**	14,589
Others	**2,897**	5,992
Total	**41,890**	212,501

Operating Lease Commitments

As at 31 December 2013, the Company had contracted obligations consisting of operating leases which totaled approximately USD2.1 million with USD1.6 million due within one year and USD0.5 million due between two and five years. Lease terms range from 1 to 5 years, with fixed rentals.

Significant Investment Held

As at 31 December 2013, the Company did not hold any significant investments.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

For the year ended 31 December 2013, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

a) The GoM at its cabinet meeting held on 16 August 2013 resolved to implement certain measures to support coal exports from Mongolia. One of such measures was to purchase by the GoM the UHG-GS paved road from Gobi Road LLC, an indirect wholly-owned subsidiary of the Company with an aim to decrease transportation costs, an important factor for coal export support.

   On 8 December 2013, ER and Gobi Road, entered into the Agreement with Erdenes MGL assigned by the GoM to take control of the UHG-GS Road assets along with all rights and responsibilities in relation to the operation and maintenance of the road pursuant to Government Resolution No. 299 on "Certain actions to be taken to support coal export" dated 16 August 2013. On 13 February 2014, ER, pursuant to the Agreement received payment of MNT157,847,184,615 (equivalent to approximately USD90,323,295 at exchange rate on the payment receipt date) and the rights and duties of the parties under the Agreement became enforceable.

   Upon completion of the transfer of the UHG-GS paved road, the Company will continue to have unrestricted access to the UHG-GS Road by paying tariff in accordance with the relevant Mongolian laws and agreement concluded between Gobi Road LLC and Erdenes MGL for road utilization and road maintenance services.

b) On 5 March 2014, the Company as a borrower entered into the Facilities Agreement with two international banks as arrangers and original lenders. The Facilities Agreement provides a coal pre-export loan facility of USD150,000,000 with a greenshoe option of up to USD50,000,000 to the Company. According to the Facilities Agreement, the purpose of the facilities is to refinance the existing term loan of USD200,000,000 with the outstanding balance of USD130,000,000, and the remaining balance of the facilities allows the Company to extend maturity of funding facilities, and to finance general working capital and capital expenditure requirements of the Company. The facilities shall be repaid by the Company in installments with the last repayment date falling on the earlier of thirty-third month from the first drawdown date of the Facilities Agreement and 1 December 2016.

Employees

As at 31 December 2013, the number of the Group's employees decreased to 2,272 from 2,568 employees as at 31 December 2012.

The Group's employees are remunerated with reference to their individual performance, experience, qualifications and the prevailing salary trends in the local market, which is subject to periodic review. With reference to the Group's financial and operational performance, employees may also be rewarded other benefits such as discretionary bonuses and Share Options pursuant to the Company's Share Option Scheme.

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

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("**AGM**") of the Company. Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director to attend and answer questions on his behalf at the 2013 AGM due to important business engagement. The Company has complied with all other applicable code provisions as set out in the CG Code.

Closure of the Register of Members

The register of members of the Company will be closed from Friday, 9 May 2014 to Wednesday, 14 May 2014, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to the attendance of the forthcoming AGM of the Company to be held on 14 May 2014, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 8 May 2014.

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 Mr. Ochirbat Punsalmaa. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2013.

Publication of Information on the Stock Exchange's Website and the Company's Website

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2013 will be despatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 10 March 2014

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Dr. Oyungerel Janchiv, Mr. Batsaikhan Purev, Mr. Od Jambaljamts and Ms. Enkhtuvshin Gombo, being the non-executive Directors, and Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.