MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 975

ANNUAL REPORT 2014

Contents

Company Profile

Mongolian Mining Corporation ("**MMC**" or the "**Company**" and together with its subsidiaries, the "**Group**") (Stock Code: 975) is the largest producer and exporter of high-quality hard coking coal ("**HCC**") in Mongolia. MMC owns and operates an open-pit coking coal mine at the Ukhaa Khudag ("**UHG**") deposit located within the Tavan Tolgoi coal formation, and the Baruun Naran ("**BN**") coking coal deposit, both located in South Gobi, Mongolia.

Company Profile

MISSION, VISION AND VALUES

Our mission:

To undertake safe and profitable mining and processing of mineral resources while promoting the development of Mongolia, through combination of modern technology and human endeavor

Our vision:

We strive to become a leading mining company in the region by maximising value for our shareholders and for the communities where we operate

Our values and objectives:

We recognise that people are our key asset. Therefore:

- MMC makes the safety of our personnel the highest priority
- As a responsible employer, MMC provides equal employment opportunities within a meritocratic workplace

We believe that modern and cost-efficient technology will bring sustainable growth and prosperity. Therefore:

- MMC aims to use technology and innovate in the same to produce quality products safely at the lowest cost
- MMC continues to contribute to the development of technical standards in the global extractive industry

We are committed to environmental sustainability in our operations. Therefore:

- MMC strives to minimise the impact on the environment
- MMC complies with all required environmental standards, and take further measures to prevent and mitigate potential environmental impact

We are committed to socially responsible mining practices. Therefore:

- MMC strives to build mutually beneficial relationships with local communities and officials
- MMC contributes to social development through community development initiatives and other programs

We are committed to transparent and fair business practices. Therefore:

- MMC fosters mutually beneficial relationships with our suppliers and contractors
- MMC develops, maintains and values long-term relationships with our customers

We believe sound corporate governance is a cornerstone of MMC's management and operations. Therefore:

- MMC complies with the best international practices
- MMC continues to cultivate a culture of corporate governance as an integral part of its ongoing organisational development

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Odjargal Jambaljamts *(Chairman)*
Battsengel Gotov *(Chief Executive Officer)*

Non-Executive Directors

Oyungerel Janchiv
Batsaikhan Purev
Od Jambaljamts
Gankhuyag Adilbish

Independent Non-Executive Directors

Ochirbat Punsalmaa
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road East
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Ng Sin Yee, Clare

INDEPENDENT AUDITOR

KPMG
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10 Chater Road
Central, Hong Kong

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Ng Sin Yee, Clare

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40th Floor, Two Exchange Square
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LEGAL ADVISERS

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18th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

Economic & Legal Consultancy LLP
6th Floor, Shonkhor Tower
Genden Street 16
Sukhbaatar District
Ulaanbaatar 211213
Mongolia

Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Corporate Information

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

EBRD – European Bank for Reconstruction and Development, London, United Kingdom
FMO – Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Entrepreneurial Development Bank of Netherlands)
DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (The German Investment and Development Company)
BNP Paribas, Singapore Branch
Industrial and Commercial Bank of China Limited
Citibank, N.A., Hong Kong Branch
The Bank of East Asia, Limited, Hong Kong
Standard Chartered Bank (Hong Kong) Limited
Golomt Bank of Mongolia
Khan Bank of Mongolia
Trade and Development Bank of Mongolia

COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Directors and Senior Management

BOARD OF DIRECTORS (THE "BOARD")

Odjargal Jambaljamts, aged 49, is an executive Director and Chairman of the Board. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is also the Chairman of the Nomination Committee and member of the Remuneration Committee. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC (a controlling shareholder of the Company, and together with its subsidiaries, the "**MCS Group**"). Mr. Jambaljamts has been a director of Starain Limited since January 2011, director of Novel International Investment Limited and director of Novel Holdings Group Limited, a controlling shareholder of the Company, since March 2012. He was appointed as a director of MCS (Mongolia) Limited and MCS Mining Group Limited, both of which are controlling shareholders of the Company on 3 July 2012. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at the Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

Battsengel Gotov, aged 42, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. He joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. Since 2004, Dr. Gotov has served at various managerial positions in the MCS Group. He was appointed as the Chief Executive Officer of Khangad Exploration LLC on 7 December 2012. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation, and stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov is a board member of the Mongolian National Mining Association. He was appointed as a member of the Mineral Resources Policy Council on 7 October 2014. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

Directors and Senior Management

Oyungerel Janchiv, aged 60, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. Between 1979 and 1982, Dr. Janchiv served as a petroleum economist at the Oil Supply Management Authority. From 1982 to 1990, she served as an engineer and a chief economist at the Oil Supply Management Authority. From 1990 to 1996, she was the general director of the board of directors of the Neft Import Concern and was responsible for managing the importation and distribution of petroleum products. From 1996 to 2008, she was the general director of Petrovis LLC. Since 2008, Dr. Janchiv has been the chairperson of Petrovis LLC, the largest petroleum import and distribution company in Mongolia. She is also the largest shareholder of Petrovis Matad Inc. which is the largest shareholder of Petro Matad Limited. Since September 2012, Dr. Janchiv has been the deputy chair of Petro Matad Limited which is listed on the Alternative Investment Market of the London Stock Exchange and in November 2014, she was appointed as the acting chairperson of Petro Matad Limited. Dr. Janchiv was awarded a diploma of engineer-economist for the petroleum and gas industry and a PhD by the Gubkin State University of Oil and Gas in Moscow, Russia.

Batsaikhan Purev, aged 48, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of Shunkhlai Mining, a shareholder of the Company. He is a founder of Shunkhlai LLC, one of the first private companies in Mongolia and one of Mongolia's largest petroleum companies. He has been the General Director of Shunkhlai LLC and Shunkhlai Group LLC, and an executive director of Shunkhlai Mining LLC since 1993. Mr. Purev has been the Chairman of Skytel LLC since 2011 and Chairman and President of Shunkhlai Group LLC since January 2012. He is a Chairman of APU Company, a company listed on the Mongolian Stock Exchange. Mr. Purev was awarded a bachelor's degree in mechanical engineering by the Mongolian Technical University.

Directors and Senior Management

Od Jambaljamts, aged 50, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Corporate Governance Committee. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within the MCS Group. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in a diversity of fields. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts is also a director of MCS (Mongolia) Limited and MCS Mining Group Limited since July 2012 and director of Trimunkh Limited since July 2011, all of which are controlling shareholders of the Company. Mr. Jambaljamts was awarded a bachelor's degree in International Relations by the Institute for International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

Gankhuyag Adilbish, aged 37, is a non-executive Director of the Company. Mr. Adilbish was appointed as a non-executive Director of the Company on 13 October 2014. He is also a member of the Audit Committee. He is the managing director of MCS Holding LLC, a controlling shareholder of the Company. Mr. Adilbish joined the MCS Group in 1999 as a financial analyst of MCS International LLC, the former holding company of MCS Holding LLC and was subsequently appointed as the deputy managing director of MCS Electronics LLC, a then subsidiary of MCS Holding LLC in 2000. Mr. Adilbish became the vice president and chief financial officer of MCS Holding LLC in 2005 and was appointed as the managing director of MCS Holding LLC in 2009. In 2011, Mr. Adilbish was appointed as a director of MCS (Mongolia) Limited and MCS Mining Group Limited, both of which are controlling shareholders of the Company. He also sits on the board of directors of a number of other subsidiaries of MCS Holding LLC and its joint venture companies. In addition, Mr. Adilbish has been the Chief Financial Officer of the Company between 2010 and 2011. Mr. Adilbish is the director of Tugs Investment Limited. He was awarded a bachelor's degree in Finance and Economics by the National University of Mongolia in 1999.

Directors and Senior Management

Ochirbat Punsalmaa, aged 73, is an independent non-executive Director of the Company. Mr. Punsalmaa was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Punsalmaa is the Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee. During 1972 to 1990, Mr. Punsalmaa held various positions with the Government of Mongolia ("**GoM**"), including deputy minister of the ministry of power energy and mining, minister of the ministry of fuel and power energy of Mongolia, chairman of the state committee of external economic relations and cooperation of Mongolia and minister of the external economic relation of Mongolia. Mr. Punsalmaa was the President of Mongolia between 1990 and 1997. Since 1997, he has been the chairman of the board of Ochirbat Foundation. He was awarded a PhD in Technical Sciences by the Moscow Mining Institute, and Honorary Doctorate by Dankook University, South Korea, Mongolian Technical University and Saint Petersburg Mining Institute, Russia. He has been an Academician of Mongolian Academy of Science since July 2011. Mr. Punsalmaa was credited as a Barrister Emeritus by the School of Law, Texas Wesleyan University, United States.

Unenbat Jigjid, aged 52, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Corporate Governance Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. During the period from 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. Mr. Jigjid was a director of Resources Investment Capital from October 2010 to November 2013. Since 2009, Mr. Jigjid has been an executive director of the Corporate Governance Development Center in Mongolia. He is also a member of the supervisory board of the Bank of Mongolia and the board of Micro Finance Development Fund. From October 2010, Mr. Jigjid serves as a director of Golomt Bank. He has been the board member of Open Society Forum in Mongolia since March 2011. On 26 April 2013, Mr. Jigjid was appointed as an independent non-executive Director of APU Company, a company listed on the Mongolian Stock Exchange. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

Directors and Senior Management

Chan Tze Ching, Ignatius, aged 58, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and member of the Corporate Governance Committee. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan was appointed as a member of the board of directors of the Community Chest of Hong Kong in September 1999. From 28 November 2012 to 20 June 2014, Mr. Chan was appointed as an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**" or "**Stock Exchange**"). From 1 March 2011 to 19 June 2016, Mr. Chan is a member of the Sponsorship and Development Fund of the Open University of Hong Kong. In 2008, he was the deputy chief executive of the Bank of China (Hong Kong) Limited. Mr. Chan was appointed as a senior advisor of The Bank of East Asia Limited in March 2009. He was also appointed as a member of the Council of Hong Kong Red Cross in April 2010, senior advisor of CVC Capital Partners Limited in November 2010, member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission from 19 October 2012 to 18 October 2015, member of the Hong Kong Tourism Board from 1 April 2013 to 31 March 2017 and Deputy Chairman of Council of the Hong Kong Polytechnic University from 1 April 2014 to 31 March 2016, and Board Adviser of Hong Kong New Territories General Chamber of Commerce on 28 May 2013. He is also an Honorary Advisory Vice President of The Hong Kong Institute of Bankers for the period from 14 February 2011 to 31 December 2016. Mr. Chan was appointed as a Member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region for the period from 1 January 2014 to 31 December 2015. Mr. Chan was appointed as a member of the Financial Reporting Council (FRC) for the period from 1 December 2014 to 30 November 2016. Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited from 11 December 2009 and an independent non-executive director of Hong Kong Exchanges and Clearing Limited from 23 April 2009 to 23 April 2015, the shares of which are listed on the Stock Exchange. He was also appointed as a non-executive director of Rizal Commercial Banking Corporation, the shares of which are listed on the Philippines Stock Exchange on 28 November 2011. Mr. Chan was appointed as a non-independent non-executive director of Affin Holdings Berhad, the shares of which are listed on Bursa Malaysia from 6 August 2013 to 5 August 2016. Mr. Chan was awarded bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

Directors and Senior Management

SENIOR MANAGEMENT

Oyunbat Lkhagvatsend, aged 38, is the Executive Vice President and Deputy Chief Executive Officer of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013 and the Chief Executive Officer of Energy Resources Rail LLC on 8 February 2011. Mr. Lkhagvatsend has about 13 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the chief executive officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

Ulemj Baskhuu, aged 36, is the Executive Vice President and Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company's Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

Samuel Bowles, aged 33, is the Executive Vice President and Chief Operating Officer of the Company. Mr. Bowles was appointed as the Company's Chief Operating Officer responsible for mining and processing operations on 1 October 2012 and Chief Executive Officer of Enrestechnology LLC on 27 September 2012. Mr. Bowles has over 10 years of experience in mining sector, and held various engineering, operational and project management positions in coal mining operations with companies such as Leighton LLC, Rio Tinto Coal Australia Pty Ltd and Anglo Coal Australia Pty Ltd. He has extensive industry knowledge and expertise, including short and long term mine planning, capital and operating cost estimations, surface and underground coal mining operations and technical and operational personnel development. Mr. Bowles is a member of the Australian Institute of Mining and Metallurgy. Mr. Bowles holds a bachelor's degree in mining engineering by the University of New South Wales, Australia.

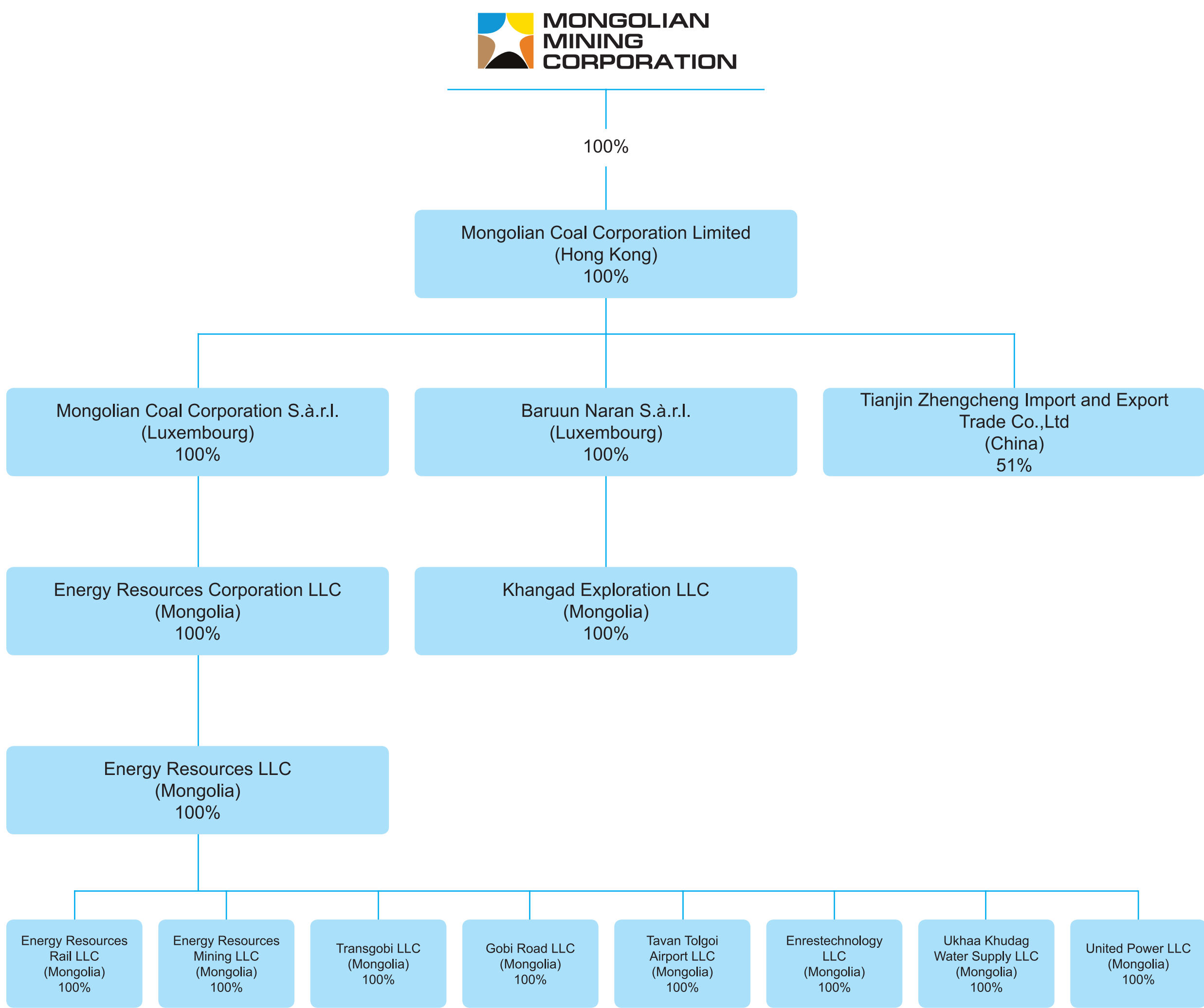
Directors and Senior Management

Uurtsaikh Dorjgotov, aged 51, is the Executive Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Program of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

COMPANY SECRETARY

NG Sin Yee, Clare, aged 54, was appointed as the Company Secretary of the Company in July 2010. Ms. Ng is a director of the Corporate Services Department of Tricor Services Limited. She is a Fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the UK. Before joining the Tricor Group, Ms. Ng has worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 28 years of experience in company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong.

Group Structure



Financial Highlights

	2014 USD'000	2013 USD'000	Change
Revenue	**328,307**	437,339	-24.9%
Cost of revenue	**335,510**	361,485	-7.2%
Gross (loss)/profit	**(7,203)**	75,854	-109.5%
Gross (loss)/profit margin	**-2.2%**	17.3%	-19.5 ppt
Loss attributable to the equity shareholders of the Company	**(282,837)**	(58,073)	387.0%
Net loss margin	**-86.2%**	-13.3%	-72.9 ppt
Basic loss per share	**(5.95) cents**	(1.26) cents	-4.69 cents
Diluted loss per share	**(5.95) cents**	(1.26) cents	-4.69 cents
Total non-current assets	**1,228,378**	1,449,851	-15.3%
Total current assets	**454,447**	449,019	1.2%
Total current liabilities	**413,012**	433,276	-4.7%
Total non-current liabilities	**872,975**	904,627	-3.5%
Net assets	**396,838**	560,967	-29.3%
Non-controlling interest	**292**	—	N/A
Equity attributable to equity shareholders of the Company	**396,546**	560,967	-29.3%
Net cash generated from operating activities	**41,173**	160,711	-74.4%
Net cash generated from investing activities	**25,782**	20,959	23.0%
Net cash generated from/(used in) financing activities	**109,524**	(199,296)	155.0%

Chairman's Statement

Dear Shareholders,

During the year, global coking coal markets experienced another year of continued price decline amid the situation of global oversupply. As a result, some international coal producers principally in Australia, United States, Canada and also The People's Republic of China ("**China**"), have announced substantial cuts in their production output. However, a large number of coal producers have also sought to offset the impact of lower coking coal prices through maximising production rate to minimise their unit cash cost of production, whilst simultaneously reducing manpower and outsourced services. In addition, weakening local currencies against the USD, particularly the Australian Dollar and Canadian Dollar, combined with the recent slump in oil prices, may have offered room to some producers to lower cost base and take opportunistic competitive advantage.

At the same time, many coal miners have artificially lowered their production cash costs by mining less waste and more coal, effectively high-grading their resources and reserves. This has been accompanied by delayed investment in mine development and exploration expenses. Such cost-cutting measures may work in the short term, however, they are not sustainable indefinitely. Eventually, productivity will fall and the supply side will be impacted by reduction in economic coal reserves available for commercial production under existing market conditions. This will ultimately lead to re-establishment of equilibrium between supply and demand within the global marketplace, with expected resulting improvement to pricing in the medium to long term.

The Group's management has continued to focus upon building a long term sustainable model, rather than addressing only short term issues. This focus has been directed at improvements in operational efficiency, and optimising productivity rather than simple mechanical cuts. These areas are integral to our operations, and are a key component in our long-term strategy which will allow MMC to strengthen its commitment as a reliable supplier of high quality coking coal products to end-user customers. Continuous cost reductions have been achieved, but unfortunately this was not sufficient to offset the continued sharp decline in pricing. For example, in 2011 our average selling price ("**ASP**") for washed HCC under Delivery-at-Place ("**DAP**") Ganqimaodu ("**GM**") terms was USD155.6 per tonne, declining to USD108.4 per tonne in 2012, USD92.1 per tonne in 2013 and further to USD69.3 per tonne in 2014.

Therefore, the management has prioritised resolving financial issues step-by-step, with absolute focus on preserving liquidity and balance sheet management. Successful steps taken have included (i) the divestment of certain non-core assets not required to be maintained under Group control, (ii) refinancing of existing loan facilities by renegotiating terms and extending the maturity dates, and (iii) recapitalisation via Rights Issue to strengthen the Group's capital base.

I am delighted that the Rights Issue has received such overwhelming support from our existing shareholders. The successful conclusion of the Rights Issue is a sign of the enormous and continued trust placed in our Company by the broader investment community, and I would like to extend our appreciation to all of them. This transaction strengthens our financial position and reinforces our investors base.

Chairman's Statement

In line with its strategic objectives, the Group has implemented a number of strategic initiatives to penetrate inland markets within China to further improve market access and sales chain. The Group entered into a joint venture agreement with Risun Mining Co., Ltd ("**Risun**"), a member of the largest independent coke and related coal-derived chemicals producer and supplier in China, to establish a joint venture company registered in China, for transportation, sales and distribution of coal products. This is expected to facilitate the increase of geographical market penetration in major steel and coke producing regions in China, namely in the Hebei and Shandong provinces.

Following our vision to build a globally competitive business platform, the Group participated in the bidding process re-launched by the GoM in August 2014 for the Tavan Tolgoi coalfield development. I am proud that our Company was able to form and lead a strong consortium comprising China Shenhua Energy Company Limited and Sumitomo Corporation ("**Consortium**"). I believe that the unique features of this Consortium, including competitive advantages contributed by each Consortium member, were key to our success in this bidding process. After the selection of the Consortium and subject to successful concluding of agreements with the GoM which shall grant stable investment environment, I am confident that the operational joint-ventures proposed to be established with our Consortium partners will enable the creation of game changing developments, and facilitate growth into one of the leading players in the global coking coal industry with strong competitive position.

Finally, in consideration of the internal improvement measures taken, and witnessing the way the Group dealt with the hurdles over the course of the year, it has helped to solidify my view that we have a strong foundation to continue to create long-lasting value for our shareholders through continued improvement in our operations and our committed nature to long-term economic and socially responsible development.

On behalf of the Board, I would like to express my sincere gratitude for the continuing long-term support of our shareholders. I would also like to especially thank our staff at MMC for their dedication and commitment which they have shown in helping us enter 2015 on a positive note after completing our initial growth and development strategies, and lying solid foundation to pursue further our vision to become a leading mining company in the region.

Odjargal Jambaljamts
Chairman

23 March 2015

Management Discussion and Analysis

Management Discussion and Analysis

In 2014, the coking coal markets experienced another year of continuing price decline amid the oversupply situation faced by the global industry. As a result, certain number of coal producers in Australia, United States of America and Canada, and also several Chinese coal producers have announced substantial cuts in their production output.

A large number of global coal producers have sought to offset the impact of lower international coal prices by maximising their production rates in an effort to lower their per unit cash cost of production, reducing manpower and outsourcing services. In addition, weakening local currency against USD and also slump in oil prices may offer room to some producers to lower cost base and take opportunistic competitive advantage. At the same time, many coal miners have optically lowered their production cash costs by mining less waste and more coal, effectively high-grading their resources and reserves. All of the above was accompanied by delaying investment in coal mining projects development and exploration expenses. Such cost-cutting measures may have worked in short term, but they cannot be maintained indefinitely as eventually in the long term mine productivity will fall and the supply side will be impacted by reduced coal resources and reserves available for commercial production under current market conditions. According to industry research reports, this will ultimately lead to a more balanced equilibrium between supply and demand, with expected improvements in pricing in mid to long term.

The sustainable improvements in operational efficiency and optimisation of productivity are integral parts of the Group's management objectives and a key component in its long-term strategy to establish itself as a reliable supplier of high quality coking coal products to end-user customers. While the continuous cost reductions were achieved, price continued to decline. For example, in 2011 the Group's ASP of HCC under DAP GM terms was USD155.6 per tonne, declining to USD108.4 per tonne in 2012, USD92.1 per tonne in 2013 and further to USD69.3 per tonne in 2014.

Therefore, the management has focused its efforts on preserving liquidity and balance sheet management. The steps taken by the Group in 2014 include: (i) divestment of certain non-core assets (ii) refinancing by renegotiating terms and extending the maturity for existing loan facilities, and (iii) attracting additional funding to strengthen capital base.

On 29 December 2014, the Company successfully completed the Rights Issue which raised approximately Hong Kong Dollar ("**HKD**") 1,556 million. Pursuant to the Rights Issue, a total number of 5,557,554,750 rights shares were issued at the subscription price of HKD0.28 per rights share on the basis of three rights shares for every two existing shares. The Rights Issue received overwhelming support from its existing shareholders with excess rights subscribed representing approximately 247.1% of the total number of rights shares available for subscription under the Rights Issue. The transaction not only highlights the Group's committed long-term shareholder support but also strengthened the Group's capital base in the current state of the market.

In line with its strategic objectives, the Group has implemented a number of initiatives to penetrate inland markets within China. The Group entered into a joint venture agreement with Risun, a member of Risun Group (the largest independent coke and related coal-derived chemicals producer and supplier in China), to establish Tianjin Zhengcheng Import and Export Trade Co., Ltd ("**TZ JV**"), a subsidiary of the Company registered in China, for transportation, sales and distribution of coal products. This is expected to facilitate the increase of geographical market penetration in major steel and coke producing regions in China, namely Hebei and Shandong provinces.

Management Discussion and Analysis

Moreover, in line with the Group's development objectives and its vision to build a globally competitive business platform, the Company has participated in the bidding process re-launched in August 2014 by the GoM for Tavan Tolgoi coalfield development. The Group was able to form and lead the Consortium. The Group believes that the unique features of the Consortium, creating competitive advantages contributed by each Consortium member, were a key to its success in this bidding process. The Consortium has been invited for negotiations with the GoM regarding the terms and conditions and no definitive agreements have been concluded as of the date of this report yet.

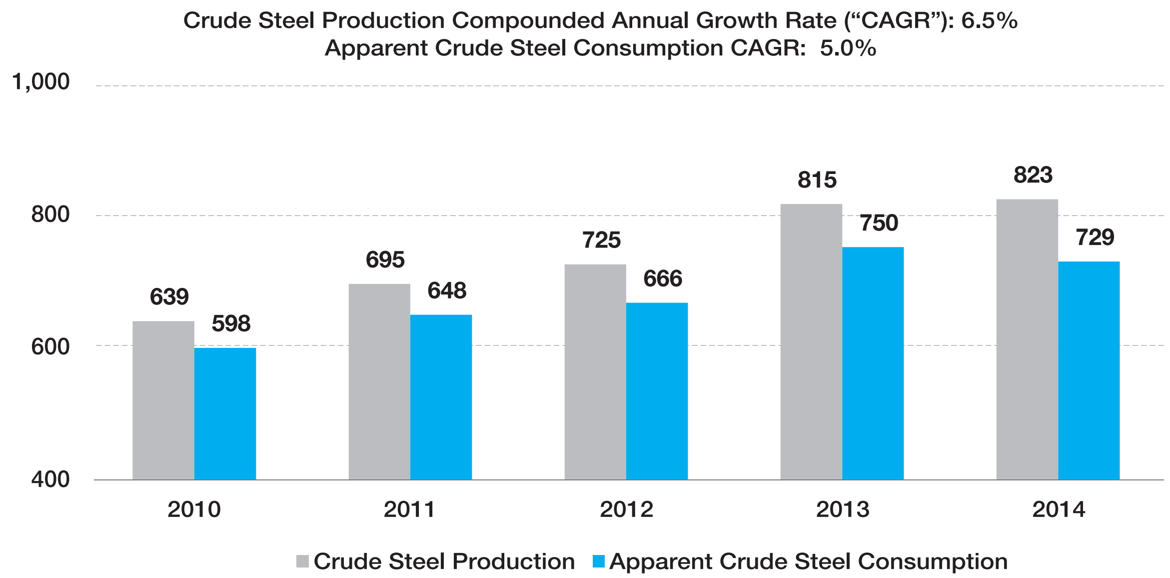
INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

World crude steel production reached around 1,661.5 million tonnes ("**Mt**") for the year 2014, representing a 1.2% increase compared to what was recorded in 2013. Annual crude steel production in Asia was higher than that of global average with growth rate of 1.4% and volume production reached 1,132.3 Mt. China's crude steel production, which is a half of the global steel production as of the end of 2014, was 822.7 Mt representing a modest increase of 0.9% compared to 2013. Deceleration in Chinese crude steel production growth rates is a reflection of the attributes of the "New Normal", a steady and sustainable development policy implemented by the Chinese government, where its annual Gross Domestic Product growth moderated to 7.4% in 2014 from 7.7% reported in the previous year according to National Bureau of Statistics.

With the slowing down of domestic consumption, Chinese steel producers turned to export markets in which steel products export increased to 93.9 Mt in 2014 from 62.3 Mt in 2013, representing a 50.7% increase year-on-year according to market research data.

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



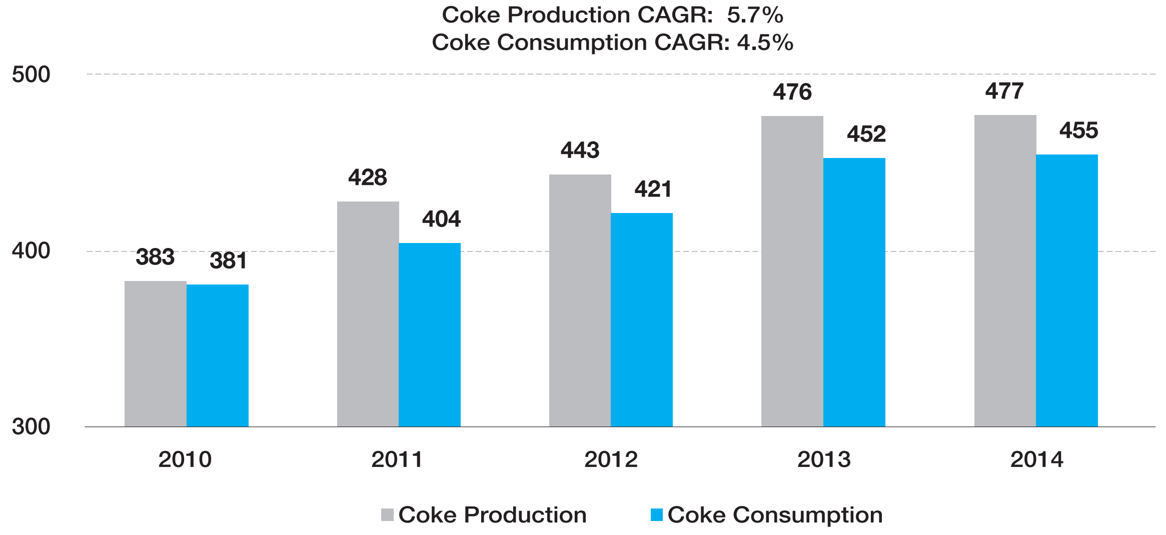
Source: World Steel Association, China Coal Resource

Management Discussion and Analysis

Chinese government continued to take measures to curb overcapacity faced by the steel industry. Ministry of Industry and Information Technology set a target to shut down 48 Mt of outdated steel smelting capacity between 2011 and 2015. And as reflection of this policy, China eliminated 31 Mt of outdated steel production capacity in 2014. It is expected that the government of China will continue to undertake strict control on illegal and unsafe production, overproduction, toxic elements as well as the Chinese sales and import of low-quality coal.

Similar to the steel industry, China coke production remained at 476.9 Mt which is a 0.1% increase compared to 476.4 Mt recorded in 2013. Also, Chinese coke consumption was 454.5 Mt in 2014 which is a slight 0.4% increase compared to 2013 production of 452.5 Mt. With domestic consumption decelerated and the cancellation of 40% coke export tax in 2013, Chinese coke export increased to 4.7 Mt in 2013, and 8.5 Mt in 2014, which is an increase of 82.1% year-on-year.

Figure 2. Chinese coke production and consumption (Mt):



Source: China Coal Resource

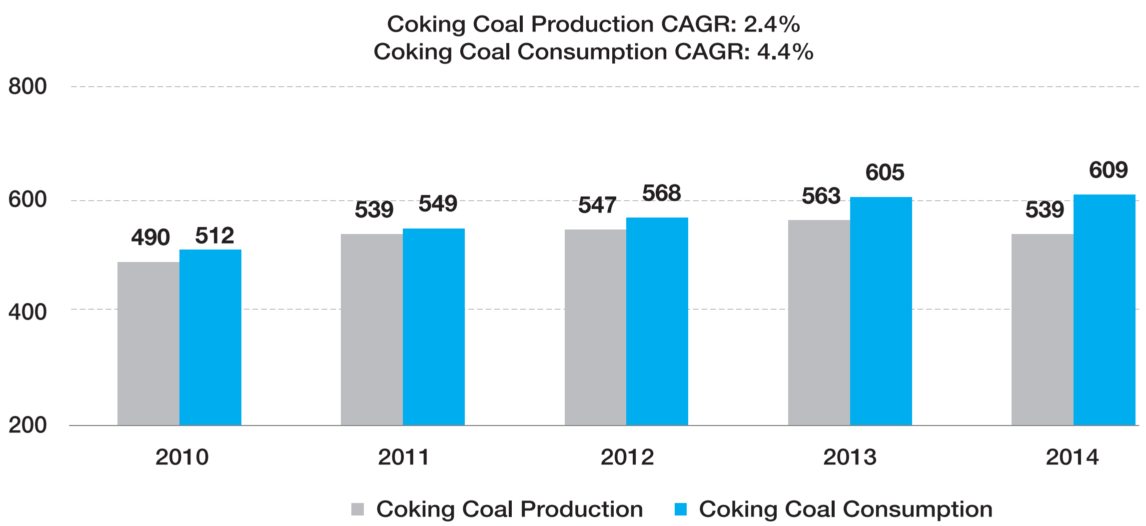
China National Coal Association ("**CNCA**") called for a 10% cut in domestic coal production to ease oversupply in the domestic market and as a result, some of the China's largest coal miners re-planned and reduced their productions towards the end of 2014. Shanxi, the largest coal producing province in China, reported that raw coal output was 976.7 Mt in 2014, which represents only 1.5% year-on-year increase as compared to an increase of 5.3% in 2013, and 4.7% in 2012. Inner Mongolia, the second largest coal producer in China reduced its raw coal output to 908.1 Mt, representing 11.9% fall in 2014 compared to 2013. Henan province, a major coal producer in Central China, produced 135.2 Mt of coal in 2014, declining by 11.8% year-on-year. Major coal mining companies also witnessed falls in their productions, particularly towards the end of the year after the government's call for production cut in response to domestic oversupply. As a result, China's coal production in 2014 fell approximately by 2.5% from the previous year, first year-on-year drop since 2000 according to CNCA.

Management Discussion and Analysis

The fixed asset investment in China's coal mining and washing industry dropped to Renminbi ("**RMB**") 468.2 billion, representing a 9.5% fall from the year before.

In 2014, China coking coal production reached 538.5 Mt, a decrease from 562.9 Mt reported for 2013, representing a decline of 4.3%. China's coking coal production fell by 10% year-on-year in the second half of 2014 from a 2% growth in the first half. Despite the production decline, China's coking coal consumption reached to 609.0 Mt, an increase of 0.7% from 604.6 Mt in 2013.

Figure 3. Chinese coking coal production and consumption (Mt):



Source: China Coal Resource

From October 2014, coal import duties were imposed at 5-6% for thermal coal and 3% for anthracite, coking coal and lignite. Moreover, the regulation was introduced in China on coal quality specifications, which limits ash content to 30% for lignite, and 40% for other coals, with sulphur content requirement to be below 1.5% for lignite and 3% for other coals. Additionally, starting from 2015 further measures were introduced, which limit imported coal products' trace elements in not exceeding the following levels: 0.6 μ g/g for mercury (Hg), 80 μ g/g for arsenic (As); and 0.15% for phosphorus (P), 0.3% for chlorine (Cl) and 200 μ g/g fluorine (F).

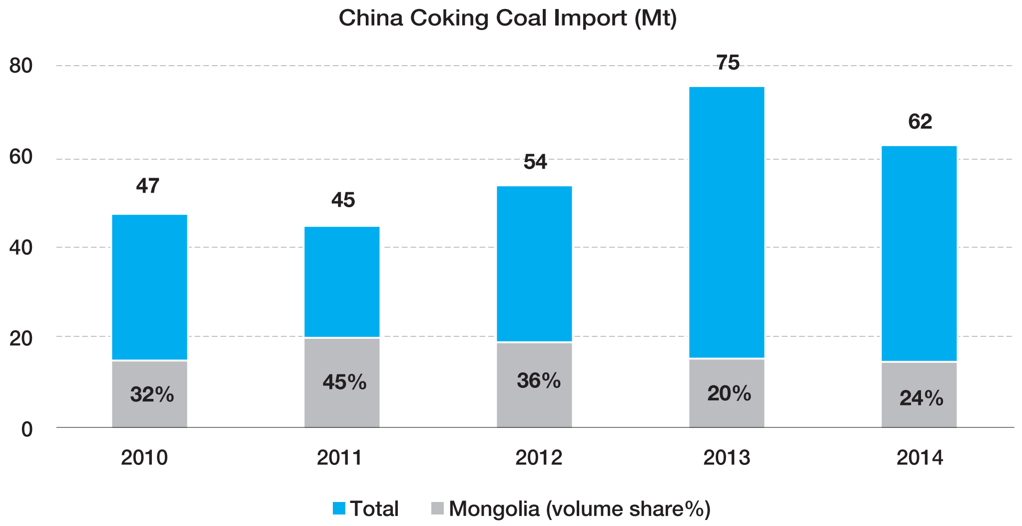
China has also taken actions to encourage coal exports by reducing its unprocessed coal export tax from 10% to 3% in 2015, as part of a continued effort to alleviate domestic market.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

In Figure 4, China General Administration of Customs data showed that China imported 62.4 Mt coking coal in 2014, a 17.2% drop year-on-year compared to 75.4 Mt in 2013. However, it was still higher compared to 53.5 Mt, 44.7 Mt and 47.2 Mt imported in 2012, 2011 and 2010, respectively. The largest supplier Australia's share in the China's coking coal import market continued to increase and reached 50.1% of market share as of the end of 2014 from 40.0% in 2013. Mongolia was ranked the second largest with share of 23.7%, an increase from 20.5% in 2013, followed by Canada with its share falling to 11.5% from 14.7%. Russia's share was down to 9.2% from 11.2%, USA's share shrank to 3.3% from 8.0%, and other suppliers' share diminished to 2.1% from 5.6% respectively in 2014 compared to the previous year.

Management Discussion and Analysis

Figure 4. Chinese coking coal import volumes (Mt):



Source: China Coal Resource

In Table 1, import from Mongolia fell by 4.4% year-on-year from 15.4 Mt in 2013 to 14.8 Mt in 2014, import from Australia increased by 3.7% to 31.3 Mt in 2014 from 30.1 Mt in 2013. Import from Canada fell by 35.0% to 7.2 Mt from 11.1 Mt, import from Russia fell by 31.8% to 5.8 Mt from 8.4 Mt, import from USA fell by 65.6% to 2.1 Mt from 6.1 Mt, and other countries' import fell to 1.3 Mt from 4.2 Mt, 68.6% fall on year-on-year in 2014 from 2013, respectively.

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

Countries	**2014**	2013	Change
Australia	**31.3**	30.1	3.7%
Mongolia (Note)	**14.8**	15.4	-4.4%
Canada	**7.2**	11.1	-35.0%
Russia	**5.8**	8.4	-31.8%
USA	**2.1**	6.1	-65.6%
Others	**1.3**	4.2	-68.6%
Total	**62.4**	75.4	-17.2%

Source: China Coal Resource

Note:

(i) Imports from Mongolia include both raw and washed coking coal; MMC remains as the only major producer and exporter of washed coking coal in Mongolia

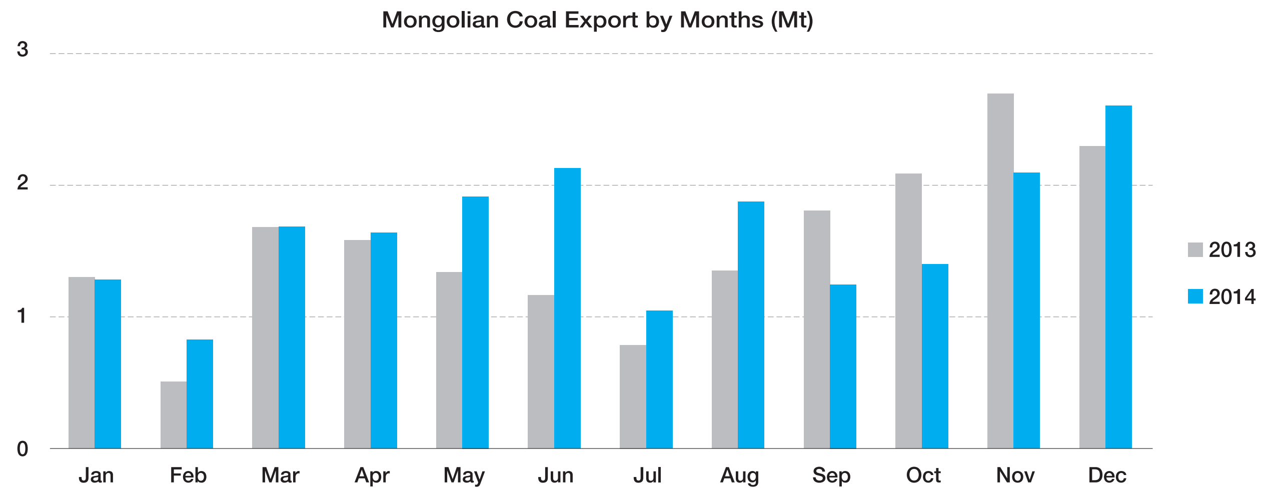
(ii) Due to rounding, discrepancy may exist between summary of volumes with total.

Management Discussion and Analysis

As the impact of economic growth deceleration and oversupply became more acute in the second half of 2014, China coking coal import decline accelerated as year-on-year fall reached 21.5% in the second half from 12.4% in the first half, hence major coking coal suppliers to China witnessed supply slowdown in the second half of 2014. For instance, Mongolian coal export to China decreased to 23.7% in the second half compared to 26.2% year-on-year increase reported in the first half of 2014.

Mongolian coal export to China in 2014 reached 19.5 Mt which represents a 6.1% increase from the 2013 export volume of 18.4 Mt, as such reversing the negative trend from 2013, when the export declined to 12.2% year-on-year. The Group accounted for approximately 27.6% of the total coal exports from Mongolia and it is retaining its position as the only major producer and exporter of washed coal from the country, with the highest pricing achieved.

Figure 5. Mongolian coal export monthly volumes (Mt):



Source: National Statistics Office

OPERATING ENVIRONMENT

Legal framework

Throughout 2014, the Parliament of Mongolia ("**Parliament**") and the GoM continued to take measures to maintain the country's economic growth and efficiency and to encourage foreign and domestic investment in Mongolia, particularly to the major projects in the mining and infrastructure sectors.

On 16 January 2014, the Parliament adopted a State policy on mineral sector that aims to develop a transparent and responsible mining industry that is export-oriented, compliant with modern international standards and capable of bringing sustainable economic development to the country. While encouraging private sector investment in a hope to develop a diversified and balanced economic structure in the short to medium term, the policy states that the GoM will provide support to projects in coal processing field as well as to the development of coking and chemical plants and production of various fuels derived from coal and shale oil.

Management Discussion and Analysis

The GoM's decision on 28 January 2014 to reduce the customs tax on imported gasoline and diesel from 3% to 1%, and the reduction in excise duty for imported diesel from Mongolian Togrog ("**MNT**") 109,000 to MNT30,000 per tonne, had positive impact by lowering these cost components within diesel pricing. This rate continued until 19 January 2015, where due to overall decline in imported oil products market pricing, the GoM decided to leave custom tax on imported gasoline and diesel at 1% but increase excise duty for imported gasoline with octane rate up to 90 from MNT30,000 to MNT252,000 per tonne, gasoline with octane above 90 from zero to MNT259,000 per tonne and diesel from MNT30,000 to MNT265,000 per tonne, which are imported through Sukhbaatar, Zamiin Uud, Ereentsav and Altanbulag border ports of Mongolia.

Following adoption of the Investment Law by the Parliament in 2013, the GoM passed a regulation governing investment agreements between investors and the GoM under the Investment Law on 21 February 2014. The regulation sets out the processes of requirements for applications, negotiation and execution of investment agreements, and provides provisions with regard to monitoring of investment agreements once executed. Based on this, the GoM may enter into investment agreement with investors who are seeking to invest more than MNT500 billion, allowing stabilization of their operational and tax environments.

On 6 June 2014, the Parliament adopted an amendment to the Law on Customs Tariff and Duty and introduced a new tax regime relieving the tax burden on investors seeking to invest in capital intensive projects such as establishment of construction material, oil, agricultural processing and export product production plant, and also projects that introduce nanotechnology, biotechnology and other innovative technologies. In addition, under this amendment, power plants and railway construction projects are granted an extension of partial payment of its customs duty and/or value added tax ("**VAT**") for their imported technical materials, equipment and components for a period of up to two years. The GoM approved its detailed regulations on 14 June 2014. This initiative by the GoM is intended to support investors and improve the overall investment climate by decreasing taxes payable, especially during capital intensive construction phases of projects in the above mentioned sectors.

The Parliament adopted an amendment to the Minerals Law on 1 July 2014. Under this amendment, the three-and-a-half year moratorium on new exploration licenses was lifted. The resumption of exploration activities in Mongolia is expected to positively influence restoration of foreign and domestic investors' confidence, and subsequently lead to increase in foreign direct investment. Furthermore, pursuant to this amendment, the GoM is entitled to determine boundary coordinates of the Mineral Deposits of Strategic Importance. The Parliament also approved a renewed Law on Petroleum on 1 July 2014, which provides for more detailed regulatory and operational guidelines for both domestic and foreign entities involved in the exploration, processing, transportation and marketing of crude oil originating from Mongolia. In the medium to long term, the development of the petroleum sector may potentially have a direct positive impact on the Group's operational cost by diversifying supply sources of diesel and other petrochemicals in use.

The GoM adopted Resolution No.88 dated 21 March 2014 along with "Methodologies" on (i) Determination and Calculation of Minerals Royalty, and (ii) Determination of Sales Value of Coal Sold to Foreign Markets for the Calculation of the Royalty. However, this resolution was invalidated and became ineffective upon the adoption of Resolution No.220 of the GoM on 4 July 2014.

Under the Resolution No.220 of 2014, the GoM adopted renewed Methodologies on (i) Determination and Calculation of Minerals Royalty, and (ii) Determination of Sales Value of Coal Sold to Foreign Markets for the Calculation of the Royalty.

Management Discussion and Analysis

In accordance with the amendment made by the GoM's Resolution No.89 dated 21 March 2014 to the GoM's Resolution 88 dated 4 April 2007, the market price source for the sales value of exported coal is given two options, one of which is contract price based on coal sold and exported by the license holder, whilst another of which is a price of China market price information source (http://en.sxcoal.com). However, this part of the GoM's Resolution No.89 dated 21 March 2014 was amended on 4 July 2014 by the Resolution No.220 of 2014 such that the first option is to become effective and be applied from 1 April 2014 until 1 January 2015, and the second option is to be applied from 1 January 2015.

When the sales value is to be determined based on the coal sales contract, sales value shall be calculated in accordance with the conditions and requirements of this methodology and such license holder shall deliver its quarterly and annual report of minerals royalty along with the information stated in this methodology. In particular, the sales value which is to be determined based on the coal sales contract shall be determined by the method of transaction price as per Article 17 of the Law on Customs Tariff and Duty. In order to determine the sales value based on the transaction price, cost of transportation up to the Mongolian border port and costs incurred for transportation and export documents, clearance fee, insurance premium, loading, unloading, restoring, and transit shipment shall be added to the contract price.

On 8 May 2014, the Parliament issued Resolution No.34 on "Some Measures to be Taken to Intensify the Economic Efficiency" and instructed the GoM to implement railway base structure development project between Tavan Tolgoi (UHG) and Gashuun Sukhait ("**GS**") under public and private partnership. This Resolution enables the private entities and investors to take part in major projects under certain terms and conditions.

On 29 May 2014, National Council for Standardization of Mongolia adopted "Coal Classification MNS 6456:2014" and "Coal and Coal Product Classification 6457:2014" standards. The new standards were developed by a research panel with vast experience in coal geology and related fields and are in full conformity with international standards. Experts believe that the adoption of these standards will be crucial in improving the competitiveness of Mongolian coal products and streamlining the coal exports flow.

In accordance with the Parliament Resolution No.34 of 2014, on 20 August 2014 the GoM issued Resolution No. 268, "About Certain Measures to be Taken on Tavan Tolgoi Deposit" and resolved to grant concession right to "build-own-operate-transfer" the railway base structure in direction from Tavan Tolgoi to GS to an investor to be selected as a result of conducting the Open Bid for Investors to Invest and Cooperate in the Tavan Tolgoi Coal Deposit and to undertake this project which includes an engagement in coal mining, processing, transportation and exploration activities at Tavan Tolgoi coal deposit in Mongolia at its own investment on condition to transfer 51% of the railway base structure to the state ownership free of charge after 30 years of the commissioning.

On 24 October 2014, the Parliament issued Resolution No.64 on "Some Measures to be Taken for the Implementation of the State Policy on Railway Transportation" and assigned the GoM to organise and implement construction of the railway base structure in direction from Tavan Tolgoi (UHG) to GS with the standard gauge of 1,435mm.

Energy Resources LLC ("**ER**") formed the Consortium with independent third parties including China Shenhua Energy Company Limited and Sumitomo Corporation and submitted the bid on 1 December 2014. The Consortium was informed that the bid was awarded the highest score based on the results of technical and financial proposals evaluation and the Consortium has been invited for negotiations with the GoM regarding the terms and conditions of an investment and cooperation agreement and such other ancillary agreements in accordance with Resolution No.268 (please refer to the voluntary announcement made by the Company on 23 December 2014).

Management Discussion and Analysis

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag deposit

The Group was previously granted Mining License MV-11952 ("**UHG mining license**") covering 2,960 hectares across the UHG coal deposit. Since issuance of the previous JORC (2004) Coal Resource estimate as at 30 June 2012, an ongoing program of infill exploration drilling has been conducted to ensure that appropriately detailed understanding of coal measures is maintained ahead of the advancing pit highwall. Sufficient additional exploration work has been completed to produce a new JORC (2012) Coal Resource estimate as at 31 December 2014, which has been completed as required and in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014).

During the period of exploration work between previous and updated Coal Resource estimates, the Group's geological team drilled an additional 24,890 metres across 121 new boreholes. Each borehole was geophysically logged, and analytical laboratory test work was performed on a total of 4,992 new samples collected. A total of 191,275 metres of drilling across 1,556 individual boreholes resulting in 37,548 individual analytical samples underpins the new updated Coal Resource estimate.

Previously, 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. The data collected 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 prior to June 2012, with analysis of these samples collected conducted at the ALS Group laboratory in Ulaanbaatar. Information resulting from both of these programs of work has been used in the development of the new Coal Resource estimate.

Data derived from these exploration activities was used to update the structural and coal quality model, and subsequently the new UHG mining license JORC (2012) Coal Resource estimate as at 31 December 2014, based on an in situ density at an as-received basis (Table 2). With no significant change to the previous modeling that was independently peer audited by Mr. Todd Sercombe from GasCoal Pty Ltd., an internal peer audit was conducted by Mr. Gary Ballantine. This confirmed compliance of the Group's work to update the UHG geological model, and thus the JORC (2012) Coal Resource estimate for the UHG mining license area.

Management Discussion and Analysis

Table 2: UHG mining license JORC (2012) Coal Resource by depth and category as at 31 December 2014 (Note):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	**2**	**3**	**5**	**6**	**10**
BHWE to 100m	**75**	**23**	**17**	**98**	**115**
From 100m to 200m	**95**	**48**	**26**	**143**	**169**
From 200m to 300m	**91**	**64**	**21**	**155**	**176**
From 300m to 400m	**57**	**35**	**16**	**92**	**108**
Below 400m	**40**	**44**	**30**	**84**	**114**
Sub-Total above 300m	**263**	**138**	**69**	**402**	**470**
Sub-Total below 300m	**97**	**79**	**46**	**176**	**222**
Total	**360**	**217**	**115**	**578**	**692**
Total (Rounded)	**360**	**220**	**120**	**580**	**690**

Note:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 7 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 (2012 Edition). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimate of the Coal Resource set out in Table 2 presented in this report are considered to be a true reflection of the UHG Coal Resource as at 31 December 2014, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The JORC Code (2012 Edition).

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

(iii) Mr. Gary Ballantine is employed by the Group as Executive General Manager for Exploration and Geology. 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, Mineral Resources and Ore Reserves, The JORC Code (2012 Edition).

It should be noted that the JORC Code (2012) in combination with the newly issued Australian Guidelines for the Estimation and Classification of Coal Resources (2014) to which it refers, are far more stringent and thorough in requirements than in previous versions.

Comparison between the previous Coal Resource estimate and the updated Coal Resource estimate, excluding depletion as a result of mining activity so that only the in situ models were compared, shows that there is a good agreement between the previous and updated Coal Resource estimates. The updated Coal Resource estimate determines an increase in total tonnes (Measured, Indicated and Inferred) of 20 Mt, which equals to approximately 3%.

Management Discussion and Analysis

In addition to the material increase reported, comparison of the expected error results of the two models indicates that the confidence level of the Measured category estimate improved by 1%, and the Indicated category estimate improved by 6%. Increases in tonnage and grade are advantageous; however, improvement in the confidence level of estimation of tonnage and grade stated can be more advantageous. As required under the JORC Code (2012), the information prescribed to be presented in the form of JORC Table 1 has been prepared for the updated Coal Resource estimate. This is set out in Appendix I on pages 202 to 235.

Baruun Naran deposit

Coal Resources of the BN deposit sit beneath the originally acquired Mining License 14493A ("**BN mining license**") of 4,482 hectares area, and Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area granted to the Group on 24 June 2013.

McElroy Bryan Geological Services Pty Ltd. ("**MBGS**") provided a JORC Code (2004) compliant Coal Resource statement for the BN mining license area as at 30 June 2012. This was estimated to contain 280 Mt of Measured and Indicated Resources, approximately 210 Mt of which occurs under less than 300 metres depth from natural surface. The estimate was based on an in situ density that assumed 6% in situ moisture content (Table 3).

The Group's geological team completed exploration work at BN during 2011 and 2012 under the Exploration License 4326X covering the Tsaikhar Khudag ("**THG**") area. A total of 9,963 metres of drilling was conducted 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.

MBGS prepared a JORC Code (2004) compliant Coal Resource statement for the THG mining license as at 30 April 2013. An Inferred Coal Resource of 55 Mt was estimated based on an in situ density that assumed 6% in situ moisture content (Table 4).

Table 3: BN mining license JORC (2004) Coal Resource by depth and category as at 30 June 2012 (Note):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**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	—	70	70
Below 400m	—	—	—		
Sub-Total above 300m	168	43	—	212	212
Sub-Total below 300m	40	30	—	70	70
Total	207	73	—	281	281
Total (Rounded)	210	70	—	280	280

Management Discussion and Analysis

Table 4: THG mining license JORC (2004) Coal Resource by depth and category as at 30 April 2013 (Note):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**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
Total (Rounded)	—	—	50	—	50

Note:

(i) Technical information in the BN Coal Resource estimation reports has been compiled by Mr. Paul Harrison, Senior Geologist, MBGS. For THG, Mr. Harrison reviewed the data and data handling methods used by the Group's geological team. 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.

(ii) The Coal Resource estimates 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).

(iii) The JORC Code requires rounding to appropriate significant figures, to reflect the degree of uncertainty in the estimate and relative confidence in the resource classification category. The application of rounding to appropriate significant figures, as applied in the Coal Resource originally stated for BN mining license as at 30 June 2012, and THG mining license as at 30 April 2013, was reviewed in 2014 resulting in reported Coal Resource totals being re-rounded to more fully comply with the requirements of the JORC Code. Following this review, previously reported Inferred Resources within the BN mining license have been discounted as this very small tonnage of Inferred Resources was at a depth of greater than 350m and is considered to be too far removed from the data to be of Indicated status. The Inferred Coal Resource total for THG mining license area first reported as at 30 April 2013, has been rounded to one significant figure, which is more appropriate for this Inferred Coal Resource, due to uncertainty resulting from the THG coal deposit's complex geological setting.

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

Management Discussion and Analysis

Since 30 June 2012, as part of the Group's strategic response to the coal market situation, mining activity within the BN mining license area has been halted with management refocused on the UHG operation. As such, no material change to the previously reported BN Coal Resource was considered. Similarly, since 30 April 2013, with no mining conducted within the THG mining license area, no material change to the previously reported THG Coal Resource was considered.

Commencing in the first quarter of 2014, the Group has embarked on a limited scale infill drilling program with intention to improve the understanding of coal quality and seam structure to assist development of future mining and processing schedules. Thus far, a total of 13,540 metres has been drilled across 33 individual HQ sized boreholes, with each geophysically logged and analytical laboratory test work performed on a total of 2,928 samples collected. This work is ongoing and is planned to continue similarly in 2015. Data correction and validation is being completed in parallel, and once sufficient additional information is gathered a JORC (2012) Coal Resource estimate will be able to be completed.

Open-cut Coal Reserves

RungePincockMinarco Limited was engaged in late 2012 to produce the most recent update of the Group's long-term mining schedules at both UHG and BN. In completing Life-of-Mine ("**LOM**") plans, JORC Coal Reserve estimations at both the UHG and BN deposits were subsequently updated as of 31 December 2012, consistent with requirements of the JORC Code (2012).

Coal Reserve estimations were based on open cut, multi seam, truck and excavator mining methods. Cost assumptions relied upon to prepare the estimations were based upon experience gained through historical records at both UHG and BN mines as outlined in the LOM integrated mine plan for UHG and BN. Revenue assumptions were based upon long term forecasts resulting from a market study completed by Shanxi Fenwei Energy Consulting Co. Ltd in 2012, that focused on the principal coking and thermal coal markets in China. Categorization of coal seams with regard to propensity for coking or thermal product designation was guided by Mr. John Trygstad from Norwest Corporation ("**Norwest**").

Pit optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by mining cost or coal price variance. Practical pit designs were created within the selected optimized pit shells, representative of the stated revenue and cost assumptions of the study.

The pit optimization algorithms used were limited to a vertical depth of 300 metres from the natural surface at UHG and 350 metres from the natural surface at BN respectively. These were based upon geotechnical recommendations regarding slope stability controls applicable at each deposit, which were provided by Mr. John Latilla of AMC Consultants Pty Ltd. 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 sequenced to maximize value derived.

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). Based upon mine survey measurement, production activity since 1 January 2013 until 31 December 2014 has depleted the stated UHG ROM Coal Reserve by approximately 14 Mt.

Management Discussion and Analysis

Table 5: UHG mining license area JORC (2012) Coal Reserve estimate (Note):

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

With the most recent Coal Resource update provided for the UHG mining license area as at 31 December 2014, sufficient time has not yet been available to prepare updated Coal Reserve estimate. The timing of the next Coal Reserve update will now be considered in conjunction with the outcomes of negotiations with the GoM regarding the East Tsankhi and West Tsankhi operations. If the Consortium were to succeed and conclude definite agreements with the GoM, the management expects to start the preparation of integrated LOM planning and Coal Reserve estimates incorporating these deposits, as well as UHG and BN, which shall be prepared to derive maximum advantage through operating cost and coal blending synergies can be achieved, subject to availability of Coal Resource estimates under JORC (2012) and if needed additional exploration work required to prepare such Coal Resource estimates under JORC (2012). 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). Based upon mine survey measurement, production activity since 1 January 2013 until 31 December 2014 has depleted the BN ROM Coal Reserve by less than 1 Mt, and is considered to impart no material change.

Table 6: BN mining license JORC (2012) Coal Reserve estimate (Note):

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

Until a further Coal Resource update is available for the BN mining license area, pending sufficient new exploration data in the process of being obtained, no further Coal Reserve update is necessary at this time.

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 Limited 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 JORC Code (2012 Edition). 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.

Management Discussion and Analysis

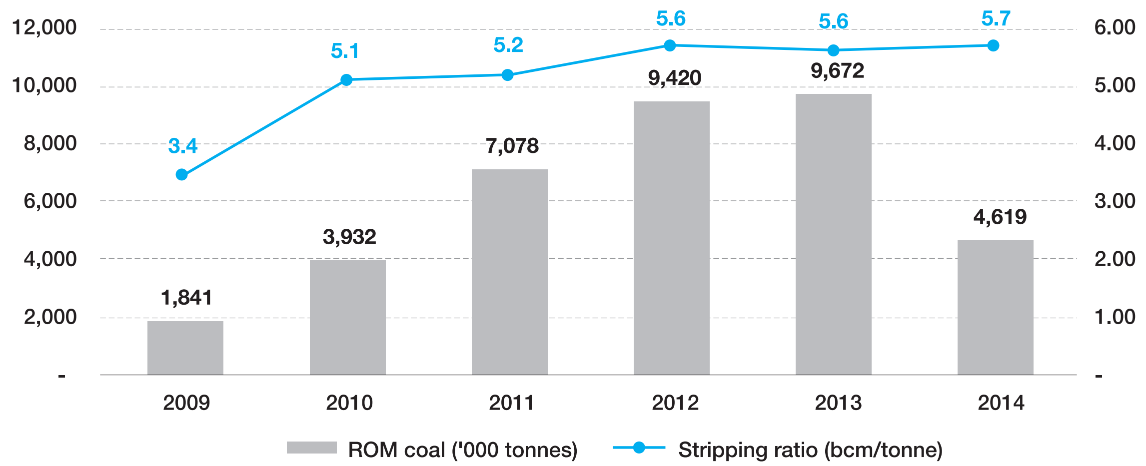
Production and Transportation

Coal Mining

During 2014, a total of 4.6 Mt of ROM coal was mined by the Group, with all from the UHG mine. This was achieved at an overall stripping ratio of 5.7 bcm of overburden per ROM tonne, as a result of moving approximately 26.2 million bank cubic metres ("**bcm**") of overburden, with historical annual ROM output shown in Figure 6.

Site management remained focused throughout the year upon ensuring that the limited equipment that was deployed during this period of reduced output remained productive and cost effective. There was continual focus upon selecting the lowest cost equipment for deployment, and in reducing the number of trucks required to operate through design and scheduling of shortest overburden haulage routes possible.

Figure 6. The Group's historical annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bcm per ROM coal tonne):

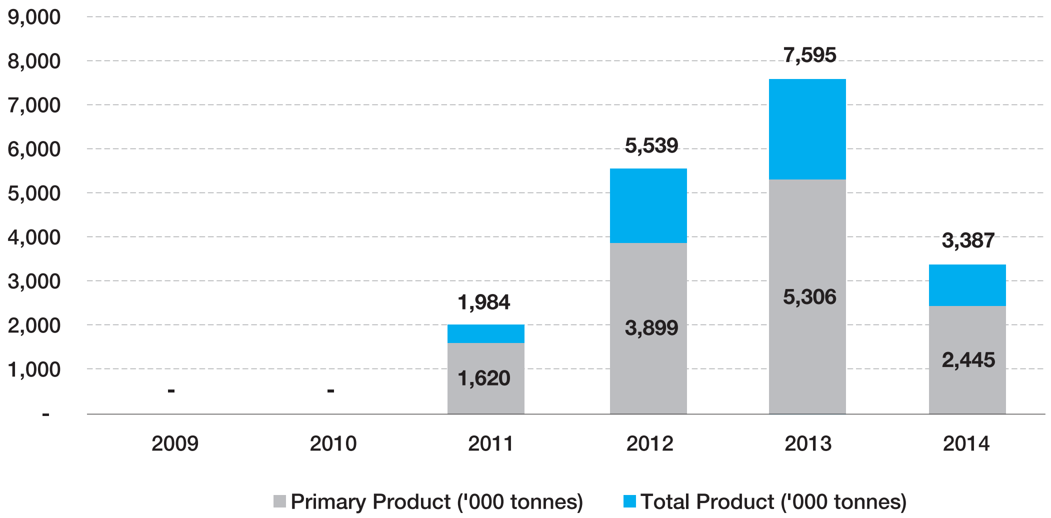


Coal Processing

A total of 4.9 Mt of ROM coal was processed by the Group in 2014, including 211 kilotonnes ("**kt**") that was washed for third parties under contractual fee for service arrangements. Resulting from this plant feed, the Group was able to produce 2.4 Mt of coking coal primary product (51.7% yield), and 0.9 Mt of middlings (19.9% yield). 2014 processed coal production volumes are shown, along with historical annual volumes, in Figure 7. Note that only processed coal production volumes owned by the Group are included, with contract washed product volumes excluded. This production was achieved through intermittent use of all three coal handling and preparation plant ("**CHPP**") processing modules, as well as the belt filter press which has been operated successfully since commissioning. Site based management responsible for processing activities utilised this period of low production to improve the effectiveness of the scheduled maintenance regime through refinement content within the Enterprise Resource Planning system implemented.

Management Discussion and Analysis

Figure 7. The Group's historical annual total and primary processed coal production volumes (in thousand tonnes):



Transportation and Logistics

During 2014, product stockpile volumes were reduced in line with strategy to minimise inventories, and due to this the transported and exported volumes were in excess of the actual production in period. Beyond this, transportation capacity was reduced in line with the reduced mining and processing output. The Group transported a total of 4.4 Mt of coal products from the UHG CHPP to the Tsagaan Khad ("**TKH**") coal stockpile and trans-shipping facility, and 5.5 Mt of coal products were exported from TKH to GM.

In addition, a further 148 kt of ROM coal that was mined and stockpiled previously to the current reporting period at BN was transported to UHG for processing, and 167 kt of ROM coal was transported from Tavan Tolgoi to UHG CHPP as part of a washing service contract. All of this volume was hauled utilising the Group's owned fleet of double trailer heavy haulage trucks, with no reliance at all upon third party haulage contractors. Short haul transportation between TKH and GM continued as in previous reporting periods, utilising third party Chinese haulage contractors.

Occupational Health, Safety and Environment

Across the operations under control of the Group, approximately 5.6 million man-hours were worked by employees and contractors during 2014. Within this period, a total of 7 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 achievement of annual LTIFR of 1.2 is consistent with its performance in 2013, when an annual LTIFR of 1.2 was also recorded. On this basis, the Group's LTIFR performance continues to trend favourably when benchmarked against publicly reported figures published by the main Australian coal producing states of Queensland and New South Wales.

In the period of 2013-2014, Australian Financial Year, the Queensland Government Department of Natural Resources and Mines reported an average LTIFR figure of 3.0, and the New South Wales Department of Resources and Energy reported an average LTIFR of 2.5, for surface coal mines across their respective jurisdictions.

Management Discussion and Analysis

The Group's ongoing commitment to deliver Occupational Health, Safety and Environment ("**OHSE**") related training to its employees, contractors and visitors continued throughout 2014. Records indicate that there were 5,328 individual attendances to training sessions, cumulating in a total of 20,146 man-hours OHSE targeted training being delivered.

Unfortunately, 2 of the 7 reported LTIs in 2014 represent fatalities that transpired within the Group's coal transportation and logistics operations. In March 2014, a fatality occurred at the TKH stockyard facility, and in September 2014, a fatality resulted due to traffic accident on the UHG – TKH haul road. Following both of these incidents, the Group has exceeded statutory requirements in supporting families of the deceased. Official statutory investigations have concluded that and no further corporate liability exists.

Marketing and Sales

Market conditions remained challenging in 2014 with slowdown in economic growth and steel industry negatively affecting steel making raw materials industries. Continued intense competitions have remained at large in the Chinese coking coal market for both Chinese and international participants.

The Group sold a total of 5.4 Mt coal products in 2014 of which 3.4 Mt was HCC, 1.9 Mt was middlings and 0.1 Mt was SSCC. HCC sales volume in 2014 decreased by 20.9% year-on-year compared to 4.3 Mt in 2013. In the contrary, the Group increased its middlings sales volume to 1.9 Mt in 2014 from 1.3 Mt in 2013, representing a 46.2% increase year-on-year.

Table 7. Sales volumes in 2014 (Note):

#	Product	Volume sold (Mt)	Volume share (%)
1	HCC	3.4	63.0%
2	Middlings	1.9	35.2%
3	SSCC	0.1	1.8%
	TOTAL	5.4	100.0%

Note:

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

Throughout 2014, the Group has started to develop its own sales and distribution channels within China. The Group simultaneously sold its products under DAP GM terms, which is at the Chinese side of the border crossing exclusive of Chinese fees and taxes, under Free-on-transport ("**FOT**") terms at nearby stockyards and at train stations from GM in Chinese territory, and under Cost-and-Freight ("**C&F**") terms by delivering to the end-users locations. The Group sold 0.4 Mt of HCC under FOT terms and 0.8 Mt of HCC under C&F terms delivering to end-user customers.

Management Discussion and Analysis

On 25 June 2014, the Group entered into a joint venture agreement with Risun, to establish the TZ JV registered in the Tianjin Airport Economic Zone of China, for joint transportation, sales and distribution of coal products. Risun is a member of the Risun Group (the largest independent coke and related coal-derived chemicals producer and supplier in China). Under this coal marketing structure, the Group holds 51.0% of the total equity interest in the TZ JV, and the registered capital of the TZ JV is RMB10 million which were contributed by the Group and Risun in proportion to their respective equity interest. The TZ JV received its business license on 15 August 2014, and until the end of 2014 it marketed a total of 197.1 kt of coking coal to customers such as Qiananshi Jiujiang Wire Co., Ltd, Tangshan Dafeng Coking Co., Ltd, Tangshan Jianlong Jianboat Steel Co., Ltd, and Hebei Risun Coke Plant, located mainly in Tangshan and Dingzhou markets in Hebei province. In line with slowdown in the market in the second half of 2014, the Group's HCC sales volume was 1.5 Mt in the second half of 2014 compared to 1.9 Mt in the first half, representing a decrease of 21.1%. Sales volume under DAP terms fell by 30.8%, and under FOT terms fell by 66.7%, but sales volume under C&F terms increased by 66.7% in the second half compared to the first half of the year.

Table 8. HCC sales and volume by terms:

#	Delivery terms	Sales volume (Mt)	Volume share (%)
1	DAP	2.2	64.7%
2	FOT	0.4	11.8%
3	C&F	0.8	23.5%
	TOTAL	3.4	100%

Note:

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

Transportation Infrastructure

Cross Border Railway

On 16 August 2013, the GoM adopted Resolution No.299 containing actions to be taken in support of coal exports from Mongolia. Pursuant to this Resolution, the GoM confirmed the decision to build a standard gauge (1,435 mm) cross border railway connecting the ports of GS in Mongolia and GM in China ("**Cross Border Railway**"). Subsequent to Resolution No. 299, on 21 April 2014, the Group together with Mongolian state-owned company Erdenes Tavantolgoi JSC ("**ETT**"), Tavantolgoi JSC ("**TT**") and Lodestar Investment Pte Ltd ("**Shenhua**") formed a joint venture named Gashuunsukhait Railway LLC ("**GS Rail JV**"). The purpose of this joint venture is to develop the Cross Border Railway. The Group, together with ETT and TT, hold 51% in equal portions of the equity interest in the GS Rail JV, with Shenhua holding the remaining 49%. In 2014, full scale feasibility study for the railway was completed and approved by the GoM and subsequent detailed design work is underway in its final stage of development. The Group plans to adopt a coordinated approach for the commencement of construction of the railway that is in line with the progress related to the negotiations with the GoM regarding Tavan Tolgoi coalfield development which includes UHG-GS Railway base infrastructure construction under concession agreement with the GoM.

Management Discussion and Analysis

Once completed, the Cross Border Railway is expected to facilitate export of up to 27 Mt per annum, with the Group having unrestricted access on a non-discriminatory and equal treatment basis. The Cross Border Railway is expected to be a significant step in facilitating Mongolian coal exports to the Chinese market, with reduced transportation costs and improved efficiency resulting for all companies involved.

UHG-GS Paved Road

The GoM Resolution No.299 of 16 August 2013 also included direction with regard to takeover under state ownership of the UHG-GS Road, including the border crossing facilities at GS. Following guidance from the Ministry of Economic Development of Mongolia, Erdenes MGL LLC was appointed to exercise state ownership, with transfer fully completed and compensation paid to the Group on 13 February 2014.

With completion of this transaction upon execution of all subsequent legal documents, the Group received net consideration of MNT157.8 billion as compensation, equal to approximately USD90.3 million based upon the exchange rate on the date of receipt of payment. After considering USD53.8 million carrying value of the UHG-GS Road, net gain of USD36.5 million in relation to the agreement, which was derived through recuperation of compensation for costs associated with depreciation and amortisation, road operation and maintenance, financing and management, overhead and administrative costs, was recognised as other net income in the consolidated statement of comprehensive income of the Company. Agreement to transfer the UHG-GS Road assets, which was signed on 8 December 2013, became effective on the date of actual payment settlement.

Under the Paved Road Operations and Maintenance Agreement signed with Erdenes MGL LLC, the Group continues to be involved in the operation and maintenance of the paved road. This is as part of a special purpose joint venture company, Gashuun Sukhait Road LLC ("**GS Road JV**"), founded jointly with the other main mining companies utilizing the paved road including ETT and TT.

Within this GS Road JV, the Group maintains 40% equity interest, while ETT and TT maintain 40% and 20% interest respectively. All personnel and operating capacities of Gobi Road LLC, the wholly-owned subsidiary of the Company responsible for paved road operation and maintenance prior to asset disposal, were transferred to the GS Road JV at the end of the reporting period in order to maintain uninterrupted continuity of the paved road operations and maintenance. The Group maintains unrestricted access to use the road capacity on a non-discriminatory, equal treatment basis. In 2014, the Group's transportation from mine site to GS via UHG-GS Road maintained with no interruption.

OUTLOOK AND BUSINESS STRATEGIES IN 2015

The global coking coal market is expected to continue to face significant downward pressure on coking coal prices due to persisting oversupply situation. As such, the management expects that this trend will continue in 2015. The management believes that in mid and long term, the industry will ultimately reach a more balanced equilibrium between supply and demand, which will lead to improved pricing.

The Group will continue to focus on key initiatives to improve its competitive position and establish itself as a leading coking coal producer in the region. The following strategies will be pursued by the management in order to reach its objectives: (i) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures arrangements; (ii) supporting initiatives to improve transportation infrastructure and capability, in particular railway development, to gain access to the Chinese railway network to reach customers in China and beyond; and (iii) continuing its strong commitment to safety, the environment and socially responsible operations in Mongolia.

Management Discussion and Analysis

The management will actively look at strategic long term partnerships to expand its relations and presence in China and Asia-Pacific market. As such, in line with the Group's development objectives and its vision to build a globally competitive business platform, the Group has participated in the bidding process re-launched in August 2014 by the GoM for the Tavan Tolgoi coalfield development. The Group was able to form and lead the Consortium jointly with China Shenhua Energy Company Limited and Sumitomo Corporation.

The Consortium has submitted its bid proposal on 1 December 2014 and eventually on 23 December 2014, it was selected as the winner by the working group established by the GoM. The Group believes that the unique features of the Consortium, creating competitive advantages contributed by each Consortium member, were a key to its success in this bidding process. The formal negotiation process has started from 5 January 2015 and is still ongoing as of the date of this report. The Group believes that subject to successful closing of negotiations with the GoM, with stable investment environment to be granted under the agreements considered, the operational joint ventures proposed to be established with its Consortium partners will provide a "game changing" concept to create one of the leading global players in the coking coal industry with strong competitive position in Asia-Pacific region.

The Company will make further announcement(s) in connection with its conclusion of definitive agreements with the GoM and its Consortium partners as and when required under the Listing Rules or other applicable rules and regulations.

Shareholders and potential investors should note that the Company may or may not enter into any definitive agreements with its Consortium partners, the GoM and/or its designated entities. Even if definitive agreements are entered into, completion and fulfillment of such agreements will be subject to satisfaction of the conditions precedent set out therein. Accordingly, the Company may or may not benefit from the Tavan Tolgoi coalfield development. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

FINANCIAL REVIEW

Revenue

Continuation of the prolonged global coking coal supply and demand imbalance was the subject of matter for 2014 with ASP trending further lower from 2013 level. During 2014, the management's ultimate focus was to maintain ample liquidity and tightly manage cash flow through strict measures on controlling operational costs and limiting capital outflow.

As part of its long term mission, the Group implemented initiatives to expand its integrated coking coal mining, processing, transportation and marketing platform through further penetrating the inland markets in China. Strategic measures to gain access to transportation infrastructure interconnecting Mongolia and China, and establishing supply network and channels to deliver its coal products to end-user customer base in main steel producing regions in China have been the Group's priority. These are expected to strengthen the Group's position as a reliable supplier of high quality coking coal products and further build its reputation for quality branded products in the market. The new initiatives to further penetrate inland markets within China resulted in new associated revenue and costs as noted below.

Management Discussion and Analysis

The Group booked a total revenue of USD328.3 million for the year ended 31 December 2014, compared to USD437.3 million for the year ended 31 December 2013. Revenue amounting to USD197.7 million, equivalent to 60.2% of the total revenue, was generated from sales at DAP GM terms, of which USD149.5 million and USD43.9 million were from sales of HCC and middlings, respectively. In 2013, all sales revenue were generated at DAP GM terms.

With the strategy to penetrate the inland markets in China being implemented from 2014, the Company generated 39.8% of the total revenue from sales under FOT and C&F terms amounting to USD40.3 million and USD90.3 million respectively, during the year ended 31 December 2014. These were sales of HCC only, while all middlings were sold at DAP GM terms. A majority of the sales revenue booked under FOT terms was realized in the first half of the year, representing USD31.9 million or 79.1% of the total revenue generated under FOT terms in 2014. The total HCC revenue including inland China sales was USD280.1 million, representing 85.3% of the total revenue for the year.

During 2014, the Group's pricing followed the negative trend apparent to all coking coal products in the global market. The ASP of HCC was USD83.5 per tonne for the year ended 31 December 2014, supported by higher HCC selling prices of inland China sales. The ASP of FOT and C&F term sales were USD91.4 per tonne and USD119.4 per tonne, respectively, while ASP of DAP GM sales was USD69.3 per tonne which was around 24.8% lower compared to USD92.1 per tonne in 2013.

The Group's total sales volume including inland China sales for the year ended 31 December 2014 reached approximately 5.4 Mt of coal products, representing a decrease of approximately 0.3 Mt or 5.3% compared to 5.7 Mt of coal products sold for the year 2013 (Table 9). Total sales volume for HCC for the year ended 31 December 2014 reached approximately 3.4 Mt, representing a decrease of 0.9 Mt or 20.9% compared to 4.3 Mt for 2013.

Table 9. Sales volume, revenue and ASP (Note):

	Year ended 31 December 2014				Year ended 31 December 2013			
	DAP GM	**FOT**	**C&F**	**Total**	DAP GM	FOT	C&F	Total
Sales volume (Mt)	**4.2**	**0.4**	**0.8**	**5.4**	5.7	–	–	5.7
HCC	**2.2**	**0.4**	**0.8**	**3.4**	4.3			4.3
SSCC	**0.1**			**0.1**	0.0			0.0
Middlings	**1.9**			**1.9**	1.3			1.3
Raw coal (Note)	**0.0**			**0.0**	0.1			0.1
Revenue ('000 USD)	**197,705**	**40,311**	**90,291**	**328,307**	437,339	–	–	437,339
HCC	**149,479**	**40,311**	**90,291**	**280,081**	392,487			392,487
SSCC	**4,277**			**4,277**	2,452			2,452
Middlings	**43,925**			**43,925**	38,530			38,530
Raw coal (Note)	**24**			**24**	3,870			3,870
ASP of HCC (USD/tonne)	**69.3**	**91.4**	**119.4**	**83.5**	92.1			92.1
ASP of SSCC (USD/tonne)	**37.9**			**37.9**	71.2			71.2
ASP of Middlings (USD/tonne)	**22.5**			**22.5**	29.9			29.9
ASP of Raw coal (USD/tonne)	**8.0**			**8.0**	27.3			27.3

Note: Raw coal represents domestic sales of raw thermal coal, which is mainly used in power generation.

Management Discussion and Analysis

For the year ended 31 December 2014, the Group derived individually more than 10.0% of its revenue from two customers, with the purchase amounts of approximately USD117.7 million and USD34.4 million, respectively. In 2013, the Group had two customers that individually exceeded 10.0% of annual revenue, with the purchase amounts of USD196.2 million and USD108.1 million respectively.

Cost of Revenue

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

The following tables present, 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 total product sold basis (Table 10 and Table 11):

Table 10. Cost of revenue by source:

	2014	2013	Change	**2014**	2013	Change
				Tonnes	Tonnes	
	USD'000	USD'000		**'000**	'000	
Cost of Revenue	**335,510**	361,485	-7.2%	**5,423.2**	5,724.6	-5.3%
Self-produced coal	**326,577**	361,485	-9.7%	**5,305.0**	5,724.6	-7.3%
Procured coal	**8,933**	–	100.0%	**118.2**	–	100.0%

During the year ended 31 December 2014, the total cost of revenue was USD335.5 million, compared to USD361.5 million in 2013. The cost of revenue of self-produced coal was reduced by 9.7% from USD361.5 million to USD326.6 million as a result of the continuous measures undertaken by the management of the Company to increase efficiency and reduce costs. The cost of revenue of procured coal, which was procured from third parties and sold by the Group's operating subsidiaries as an initial step to expand the Group's sales and marketing platform to integrated coal trading platform, was USD8.9 million.

Management Discussion and Analysis

Table 11. Total and individual costs of revenue and unit costs of revenue of self-produced coal:

	Year ended 31 December			
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD/tonne**	USD/tonne
Cost of revenue	**326,577**	361,485	**61.6**	63.1
Idling costs	**40,621**	—	**7.7**	—
Cost of revenue excluding idling costs	**285,956**	361,485	**53.9**	63.1
Mining cost	**126,841**	137,268	**23.9**	24.0
Variable cost	**66,599**	67,484	**12.6**	11.8
Fixed cost	**45,883**	52,806	**8.6**	9.2
Depreciation and amortisation	**14,359**	16,978	**2.7**	3.0
Processing cost	**31,596**	38,824	**6.0**	6.8
Variable cost	**12,448**	16,096	**2.4**	2.8
Fixed cost	**3,716**	6,336	**0.7**	1.1
Depreciation and amortisation	**15,432**	16,392	**2.9**	2.9
Handling cost	**5,975**	12,277	**1.1**	2.1
Transportation cost	**74,383**	96,748	**14.1**	16.9
Logistics cost	**9,763**	18,028	**1.8**	3.1
Variable cost	**3,549**	5,791	**0.6**	1.0
Fixed cost	**5,215**	7,485	**1.0**	1.3
Depreciation and amortisation	**999**	4,752	**0.2**	0.8
Site administration cost	**12,992**	12,369	**2.4**	2.1
Transportation and stockpile loss	**3,542**	7,850	**0.7**	1.4
Royalties and fees	**20,864**	38,121	**3.9**	6.7
Royalty	**13,656**	26,621	**2.6**	4.7
Air pollution fee	**2,719**	5,266	**0.5**	0.9
Customs fee	**4,489**	6,234	**0.8**	1.1

In accordance with the Group's policy to conserve cash outflow during such state of the market when ASP is trending lower, it made tactical sense for the Group to temporary suspend operations at certain times during the period under review for conservation and efficiency purposes. In relation to this, idling costs arose during certain periods when production was held on a limited level, which incurred associated costs of USD25.4 million, USD11.3 million and USD3.9 million of mining, processing and site administration costs respectively.

The mining cost during mine operations consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and costs paid to fuel suppliers. For the year ended 31 December 2014, the Group's total mining costs were approximately USD126.8 million (2013: USD137.3 million). Mining unit cost was USD19.7 per ROM tonne for 2014, compared to USD15.7 in 2013.

Management Discussion and Analysis

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:

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

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

iii) 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 accounting of mining unit costs is based on the strip ratio applicable to each component of the mine. Average accounting strip ratio for components mined during the year ended 31 December 2014 was 2.7 bcm per tonne, whilst for 2013 it was 2.5 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.

The processing cost during mine operations primarily includes the costs associated with the operations of CHPP including power and water costs. During the year ended 31 December 2014, the Group's processing cost was approximately USD31.6 million (2013: USD38.8 million), of which approximately USD15.4 million is related to the depreciation and amortisation of the CHPP, USD5.6 million incurred in the UHG Power Plant for the power generation and distribution, and USD1.9 million incurred in the UHG Water Supply Facility for the water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne increased by USD0.4 or 8.9% from USD4.5 per ROM tonne in the year ended 31 December 2013 to USD4.9 per ROM tonne in 2014. The increase was mainly due to increase of depreciation expenses with the full operation of CHPP since the commissioning of CHPP module 3 and not utilizing full capacity.

Table 12. Total processing cost and unit processing cost per ROM tonne:

	Year ended 31 December			
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD/ROM tonne**	USD/ROM tonne
Total processing costs	**31,596**	38,824	**4.9**	4.5
Consumables	**1,652**	3,245	**0.3**	0.4
Maintenance and spares	**3,293**	3,686	**0.5**	0.4
Power	**5,640**	7,403	**0.9**	0.9
Water	**1,863**	1,762	**0.3**	0.2
Staff	**2,636**	3,923	**0.4**	0.4
Ancillary and support	**1,080**	2,413	**0.1**	0.3
Depreciation and amortisation	**15,432**	16,392	**2.4**	1.9

Management Discussion and Analysis

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP, and also the removal of coarse reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2014, the Group's handling cost was approximately USD6.0 million (2013: USD12.3 million). Unit handling cost decreased by USD1.0 or 47.6% from USD2.1 per tonne in 2013 to USD1.1 per tonne in the year ended 31 December 2014. The decrease is mainly attributable to cost savings arising from reduced rehandle and increased direct feed from mining operation to CHPP, as a result of increased focus brought about through modification to mining contractor key performance indicator ("**KPI**") metrics.

Transportation costs include costs related to the transportation of ROM coal from the BN mine to the CHPP located at the UHG mine, the transportation of coal products from UHG to TKH, and the transportation of coal products to GM, including fees paid to third party transportation contractors.

During the year ended 31 December 2014, the Group's transportation costs during mine operations were USD74.4 million (2013: USD96.7 million), of which USD34.1 million was related to long-haul (UHG-TKH) transportation, and USD40.3 million was related to short-haul (TKH-GM) cross-border transportation.

The Group successfully decreased its overall transportation costs in the UHG-GM section by USD2.8 per tonne or 16.6% from USD16.9 per tonne in 2013, to USD14.1 per tonne for the year ended 31 December 2014. 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. During the period, the long-haul transportation was undertaken fully by the Group's own transportation fleet, without utilization of contractor services. The transportation cost in the long haul section has been successfully reduced by 19.8% from USD8.1 per tonne in 2013 to USD6.5 per tonne in the year ended 31 December 2014.

For the short-haul (TKH-GM) section, where the Group utilised fleet from third party contractors, the Group's transportation costs were reduced by 13.6% from USD8.8 per tonne in 2013 to USD7.6 per tonne for the year ended 31 December 2014 as a result of effective negotiations on haulage fees with the contractors.

The logistics cost is mainly related to costs associated with operating product stockpiles at UHG and TKH. For the year ended 31 December 2014, the Group's logistics cost was approximately USD9.8 million (2013: USD18.0 million). The reduction is partly due to the transfer of the UHG-GS Road, meaning the costs for paved road operations, maintenance and amortisation costs are now non-existent, and replaced by fixed toll fee.

The site administration cost during mine operations 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 the South Gobi desert. For the year ended 31 December 2014, the Group's site administration cost was approximately USD13.0 million (2013: USD12.4 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.

Management Discussion and Analysis

For the year ended 31 December 2014, total transportation loss was around USD1.3 million, compared to USD1.2 million in 2013. During 2014, the Group recorded unrealized inventory loss of USD2.3 million for ROM coal stockpile at UHG compared to unrealised loss of USD6.7 million recorded in 2013. The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the UHG and BN mines, and product coal stockpile inventories at UHG and TKH. Survey of coal quantity is a measurement of volume, and as for every bulk commodity, the conversion to tonnage requires the application of density assumption, which involves natural variance. Subsequently, the measurement of stockpile quantities is an estimation in which errors are inherent. Therefore, variations within 5% are tolerated, and any tonnages above/below this limit are recorded as stockpile gain/loss. The management expects that by maintaining lower levels of inventory and improving overall inventory management, the Company will be in a position to keep inventory losses under control.

Table 13. Transportation and stockpile gains and losses by amounts and volumes:

	Year ended 31 December			
	2014	2013	**2014**	2013
	USD'000	USD'000	**tonne'000**	tonne'000
Transportation and stockpile losses	**3,542**	7,850	**51.7**	241.3
Transportation loss	**1,283**	1,199	**23.4**	11.8
Washed coal	**1,283**	1,187	**23.4**	11.6
Raw coal	**—**	12	**—**	0.2
Stockpile loss/(gain)	**2,259**	6,651	**28.3**	229.5
Washed coal	**3,867**	4,125	**126.0**	87.0
Raw coal	**(1,608)**	2,526	**(97.7)**	142.5

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 is applied in the range of 5-8% for processed coal products and 5-10% for raw coal products. On 21 March 2014, the GoM adopted Methodologies on (i) the Determination and Calculation of Minerals Royalty, and (ii) the Determination of Sales Value of Coal Sold to Foreign Markets for the Calculation of the Royalty. On the same day, it also made an amendment to the GoM Resolution No. 88 of 2007, which defines sources of the mineral product pricing, and ruled to use contract prices for coal sold abroad for the calculation of the royalty. These resolutions became effective from 1 April 2014 but were renewed and amended on 4 July 2014, according to which, contract prices for the calculation of royalty on coal exported are to be used until 1 January 2015. Therefore, during the first quarter of 2014, royalty was calculated based on the monthly reference price determined by the Ministry of Mining of Mongolia at the time. Subsequently, starting from 1 April 2014, royalty was calculated based on the contract prices. The Group's applied royalty average rate for the year ended 31 December 2014 was around 5.0% for the revenue generated by Group's operating subsidiaries from coal exported from Mongolia based on the customs clearance documents (2013: 6.1%).

Management Discussion and Analysis

Gross Loss/Profit and Gross Loss/Profit Margin

The Group's gross loss for the year ended 31 December 2014 was approximately USD7.2 million, representing a decrease of approximately USD83.1 million from the gross profit of approximately USD75.9 million recorded for the year ended 31 December 2013. The gross loss was driven by (i) decrease of ASP of coking coal products supplied by the Group under the current state of the market, as coking coal pricing continued to be affected negatively by the global supply and demand imbalances; and (ii) HCC sales volume reduction.

Selling and Distribution Costs

The Group's selling and distribution costs of USD56.4 million for the year ended 31 December 2014 were associated with the new inland China market penetration strategy and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees (2013: nil).

The transportation cost of USD43.0 million, representing 76.2% of the selling and distribution costs, were incurred for delivering coal products from GM to the customers and the remaining USD13.4 million, representing 23.8%, were mainly related with logistics costs and import fees and charges incurred at GM, including coal loading and unloading costs, storage fees and agent fees. The average selling and distribution costs for sales and distribution of the Group's washed HCC in China were USD47.1 per tonne, with selling and distribution costs of USD28.3 per tonne under FOT terms and USD58.1 per tonne under C&F terms.

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 amortisation of office equipment and other expenses. The following table presents, for the periods indicated, individual general and administrative expenses in terms of amount and as a percentage of the Group's total administrative expenses (Table 14):

Table 14. General and Administrative expenses:

	Year ended 31 December			
	2014		2013	
	USD'000	**%**	USD'000	%
Staff costs	**5,450**	**17.6%**	7,381	14.1%
Consultancy and professional fees	**2,800**	**9.1%**	4,323	8.2%
Depreciation and amortisation	**1,830**	**5.9%**	1,824	3.5%
Allowance for doubtful debts	**8,806**	**28.5%**	17,220	32.9%
Share option	**3,475**	**11.2%**	4,720	9.0%
Others	**8,555**	**27.7%**	16,942	32.3%
Total	**30,916**	**100.0%**	52,410	100.0%

The Group successfully decreased its general and administrative expenses by approximately USD21.5 million or 41.0% from USD52.4 million for the year ended 31 December 2013 to approximately USD30.9 million for the year ended 31 December 2014.

Management Discussion and Analysis

Impairment Loss

In accordance with IAS 36 Impairment of Assets, entity shall assess at the end of each reporting period whether its assets are carried at value no more than their recoverable amount. Thus, the Company has undertaken a review on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets, with reference to independent valuation report; and impairment loss of USD190 million was recognized in relation to the BN mining right, considering the prolonged weakening global coking coal prices due to the supply and demand imbalances. The Impairment is an accounting related adjustment and a non-cash item and therefore, will not have any impact on the cash flow of the Company.

Net Finance Cost

Net finance cost for the year ended 31 December 2014 was approximately USD94.5 million (2013: USD85.5 million). Net finance cost for the year ended 31 December 2014 was primarily due to (i) USD69.6 million (2013: USD62.1 million) interest expense and other related expense of the credit facilities; (ii) USD24.7 million foreign exchange loss due to depreciating MNT against the USD; and (iii) less interest income earned.

Income Tax Expenses

The Group, on a net basis considering current taxation and deferred taxation, did not have income tax expense for the year ended 31 December 2014 due to the loss incurred during the year, but had income tax income of USD59.0 million due to the recognition of deferred tax asset. The Group's income tax expense for the year ended 31 December 2013 was approximately USD2.6 million.

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 2014 amounted to approximately USD282.8 million (2013: USD58.1 million). Major contributing factors of the Group's net loss position are (i) a decrease of ASP of coking coal products, (ii) foreign exchange loss due to depreciating MNT against the USD and (iii) impairment of assets.

Liquidity and Capital Resources

For the year ended 31 December 2014, the Company's cash needs had been primarily related to working capital requirements and debt repayments.

The Company's cash resources were funded mainly by proceeds of USD90.3 million from sale of the UHG-GS Road and an additional fund of USD20 million from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited Facility (the "**BNP and ICBC Facility**").

Management Discussion and Analysis

The following table sets out below certain information regarding the Group's combined cash flows for the periods indicated:

Table 15. Combined cash flows:

	2014	2013
	USD'000	USD'000
Net cash generated from operating activities	**41,173**	160,711
Net cash generated from investing activities	**25,782**	20,959
Net cash generated from/(used in) financing activities	**109,524**	(199,296)
Net increase/(decrease) in cash and cash equivalents	**176,479**	(17,626)
Cash and cash equivalents at the beginning of the year (excluding the time deposits with original maturity over three months)	**26,535**	44,322
Effect of foreign exchange rate changes	**(158)**	(161)
Time deposits with original maturity over three months	**50,000**	50,000
Cash and cash equivalents at the end of the year	**252,856**	76,535

Note: USD25.8 million generated from investing activities includes USD9.5 million incurred for acquisition of property, plant and equipment and construction in progress, USD58.0 million incurred for payments for deferred stripping activity, USD90.3 million generated from UHG-GS paved road disposal and USD3.0 million generated from other investing activities.

The Group took strict approach on cash management and took several measures to enhance the Group's liquidity position. During the first half of 2014, the Group refinanced and extended the maturity of the outstanding BNP and ICBC Facility of USD130 million and increased 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. Moreover, The Company issued new shares on 29 December 2014 by way of rights issue on the basis of three rights shares for every two existing shares held at the subscription price of HKD0.28 per rights share. A total of 5,557,554,750 rights shares were issued and the Company raised approximately HKD1,556 million from the issuance of the rights shares, net proceeds of which will be used to strengthen the capital base and provide greater financial flexibility for the Group, repay some of the existing indebtedness, and provide general working capital for the development of the Group's existing and future business and investment opportunities.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2014 was 46.6% before considering provision for impairment loss on non-financial assets, and was 51.9% after considering it (31 December 2013: 46.7%). All borrowings are denominated in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro and 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 2014, the Company had USD872.7 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Senior Notes, (ii) USD150 million BNP and ICBC Facility, (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 revolving credit line from Trade and Development Bank of Mongolia.

Management Discussion and Analysis

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 semi-annually. The Senior Notes will mature in March 2017, unless earlier redemption. As of 31 December 2014, 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.

On 5 March 2014, the Company as a borrower entered into the BNP and ICBC Facility Agreement 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 previous BNP Paribas facility of USD200 million. The loan bears an interest rate of LIBOR plus 6.00% per annum, and is repayable in 10 quarterly installments starting from September 2014 and ending in December 2016. As of 31 December 2014, the outstanding principal amount of such BNP and ICBC Facility was USD138 million. Under the BNP and ICBC 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 to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

The EBRD, FMO and DEG Loan Agreements bear interest on a semi-annual basis at the rate of six-month LIBOR plus 3.75%-4.25% per annum. The USD120 million principal amount of the loan is repayable in 11 semi-annual 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 2014, the outstanding principal amount was USD103.6 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 was originally a short term loan matured in March 2014. Such loan was refinanced into a revolving credit facility and maturity was extended by one year until March 2015 with an interest of 10.0% per annum. On 31 December 2014, the maturity date was extended to 20 March 2016, and interest for the extension period is 11.20% per annum. As of 31 December 2014, the outstanding principal amount was USD40 million.

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 2014, the Group had approximately USD37.0 million in trade receivables, USD125.4 million in other receivables and USD10.1 million for allowance of doubtful debts. For the year ended 31 December 2013, the Group had USD23.1 million in trade receivables (including non-current portion of trade receivable) and USD196.6 million in other receivables, as well as USD5.0 million for allowance of doubtful debts.

Management Discussion and Analysis

According to the Group's internal credit policy (the "**Credit Policy**"), the Company holds quarterly Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit based on quantitative and qualitative analysis. The purpose of the Credit Policy is to set limits for and monitor the unsecured credit provided to customers at an aggregated Group level and to single customer, and the maximum contractual term for unsecured limit. As of 31 December 2014, in accordance with the Credit Policy and based on the Credit Committee's assessment, certain debts in the amount of approximately USD3.7 million, recoverability of which was assessed as doubtful, were written off against the existing allowance for doubtful debts and provision of additional USD8.8 million was made for allowance for doubtful debts, in line with the overall increase of trade receivables balance and the assessment of aging of trade receivables balance in accordance with the Credit Policy as at 31 December 2014. The increase in trade receivables balance is due to sales revenue to be collected from end-users from inland China sales, where the most commonly used payment method is bank acceptance bills with average maturity of 3 to 6 months, which is a secured payment method and which can be converted earlier into cash at discounted price by Chinese local banks. Bank acceptance bills are issued under the title of the sales agent appointed by the Group, and can be discounted by the agent upon receipt of the Company's instruction, and if no such instruction is issued, the acceptance bill is held to maturity. As at 31 December 2014, the Company holds around RMB21.1 million acceptance bills under the agent's title. 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 customers and pertaining to the economic environment in which the customers operate, on an ongoing basis.

With regard to other receivables of USD125.4 million, this amount is mainly related to USD35.8 million VAT and other tax receivables, USD44.4 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 offset USD37.1 million against its other tax payments and payables to certain suppliers. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

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

Foreign Exchange Risk

For the two years ended 31 December 2014 and 2013, 100% and 99% of the revenue and 87.6% 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 2014, 19.8% and 80.2% of the revenues were denominated in USD and RMB respectively. 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 2014, 99.9%, 27.1% and 34.8% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD; while 20.2% and 0.3% of the operating expenditures and capital expenditures, respectively, were denominated in RMB; 0.3% and 5.7% 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. 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, with the remainder denominated in MNT.

Management Discussion and Analysis

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 2014 and 2013 amounted to USD245.8 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 2014 and 2013 amounted to USD143.6 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 2014, the Company pledged Energy Resources LLC'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 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 Inner Mongolia Risun Coal Industry Co., Ltd, Shenhua Bayannaoer Energy Co., Ltd, and Inner Mongolia Qinghua Group of China, and coal stockpile of ER for the BNP and ICBC Facility.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.à.r.l. are shared among the BNP and ICBC Facility and the USD600 million Senior Notes.

ER pledged its 4,207,500 common shares, being 16.46% 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 the above pledges is USD832.7 million as at 31 December 2014.

Contingent Liabilities

a) As at 31 December 2014, the Company has contingent liability in respect of the consideration adjustments for the Acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited ("**KMM**") on 31 May 2011 in relation to the acquisition of the entire share capital of QGX Coal Ltd (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

Management Discussion and Analysis

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

b) With respect to a claim brought by Enrestechnology LLC, wholly owned subsidiary of the Company, 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, please refer to page 46 of the interim results announcement of the Company for the six months ended 30 June 2014 for the background and development of the claim.

   On 30 April 2014, the Capital Administrative Court held court hearing and ruled to fulfill the Company's claim in its entirety, therefore to dismiss two disputing decisions issued by the customs officers.

   As of the date of this report, the court decision dated 30 April 2014 to dismiss two decisions of the custom officers is still valid and no appeal was made by the custom officers against the court decision. The legal timeframe for submission of claim to appeal court against the decision of first instance court has lapsed. Therefore, this case is closed since the court has resolved this dispute finally.

c) With respect to a claim 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, please refer to page 47 of the interim results announcement of the Company for the six months ended 30 June 2014 for the background and development of the claim. On 30 June 2014, the rehearing of the first instance court was held and the court ruled to dismiss court proceedings and close the case since the claimant LAE did not appear at the court hearing to support its claim, and failed to pay stamp duty.

   As of the date of this report, the court decision dated 30 June 2014 to dismiss court proceedings and to close the case is still valid and no appeal or re-submission was made by the LAE. The legal timeframe for submission of claim to appeal court against the decision of first instance court has lapsed. The case is closed, however the claimant is not prohibited to re-submit a new claim because the court declined to resolve this dispute due to inadequate support documents of the claim.

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" or "Options"**) subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

Under the Share Option Scheme, the Company granted two batches of Share Options to its Directors and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to Directors and employees respectively, at the exercise price of HKD6.66 and 3,000,000 and 32,200,000 Share Options were accepted by Directors and employees respectively. 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 2014, USD3.5 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Management Discussion and Analysis

The USD600 million 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 USD0.1 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 2014 was nil. 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 2014, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 16. Capital commitments:

	As at 31 December 2014 USD'000	As at 31 December 2013 USD'000
Contracted for	**560**	5,554
Authorised but not contracted for	**—**	681
Total	**560**	6,235

Table 17. The Group's historical capital expenditures for the years indicated:

	Year ended 31 December	
	2014 USD'000	2013 USD'000
CHPP	**1,441**	15,293
Water supply facility	**2,391**	12,552
Road	**—**	14
Fleet management system	**1,023**	—
Tetra Communications System	**758**	—
Power plant	**—**	1,821
Property (camp, airport and workshops)	**—**	6,769
Trucks and equipment	**—**	2,544
Others	**335**	2,897
Total	**5,948**	41,890

Operating Lease Commitments

As at 31 December 2014, the Company had contracted obligations consisting of operating leases which totalled approximately USD1.7 million with USD1.6 million due within one year and USD0.1 million due within two years. Lease terms range from one to five years, with fixed rentals.

Management Discussion and Analysis

Significant Investments Held

As at 31 December 2014, the Company did not hold any significant investments.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the year ended 31 December 2014, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

There have been no post balance sheet events subsequent to 31 December 2014 which require adjustment to or disclosure in this report.

Employees

As at 31 December 2014, the number of the Group's employees decreased to 1,950 from 2,272 employees as at 31 December 2013.

It is not mandatory that bonus follows every assessed performance but shall depend on the individual's and Company's target. It should also have the same effect as an award or motivation tool. As the actual bonus system has a tight link to the Company's performance and in view of the Company's unprofitability in 2014, 50% of the bonus for the year 2014 has not been paid. However, the remaining 50% of the bonus, which is linked to individual performance, had been paid based on performance evaluation.

The Group's remuneration policy is designed to attract, retain and motivate highly skilled individuals to ensure the capability of its workforce to implement its business strategy. 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.

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An Employee after the completion of his/her training shall be expected to put the knowledge into practice, and share the newly gained experience with coworkers of particular area. Direct management shall be responsible for support and supervision of the process.

In 2014, the Company focused on internally sourced trainings rather than outsourcing. As at 31 December 2014, total of 634 employees attended 29 different trainings, out of which 153 employees attended corporate trainings and 481 employees attended vocational training.

Management Discussion and Analysis

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Company has entered into the following connected transactions in the ordinary course of its business with certain of its connected persons for the year ended 31 December 2014. Set out below is a summary of the connected transactions entered by the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), as inclusive of related party transactions falling under the definition of "connected transaction" and "continuing connected transactions".

Non-exempt connected transaction

The following non-exempt connected transaction was recorded for the year ended 31 December 2014:

Naimdai Electrical Power Supply System Agreement

Principal Terms

On 3 April 2012, Ukhaa Khudag Water Supply LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including: (i) 38.5 km of 35 kilo volts ("**kV**") double circuit overhead power line; (ii) 40.2 km of 10kV overhead power line; (iii) 1 set of 10kV substation with 2x630 kilo volt-amperes ("**kVA**") step up transformer; (iv) 4 sets of 10kV substation with 1x630 kVA transformer; (v) 1 set of 100kVA 10/0.4kV substation; (vi) 18 sets of 63 kVA 10/0.4kV complete substation; and (vii) 1,000 metres of 10kV power cable, to Ukhaa Khudag Water Supply LLC for a period commencing from 3 April 2012 to 31 March 2013.

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which directly owns a 57.76% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by Ukhaa Khudag Water Supply LLC under this agreement is MNT8,381,584,566 (equivalent to approximately USD6,367,243) and was determined by tender proposal submitted by MCS International LLC for Naimdai electrical power supply system services.

Payments under this agreement must be made by Ukhaa Khudag Water Supply LLC in the following installments: 20% of the total consideration upon acceptance of the agreement; 40% of the total consideration on main equipment delivery at the site; 35% of the total consideration on mechanical completion and 5% of the total consideration on completion of whole of the works and issue of taking over certificate and completion of outstanding work.

Outstanding payment of MNT3,028,353,460 (equivalent to approximately USD1,666,760) was paid by Ukhaa Khudag Water Supply LLC under this agreement for the year ended 31 December 2014. As disclosed in the annual report for the year ended 31 December 2013, Naimdai electrical power supply system project was decelerated in 2013. The remaining works under this agreement were completed and the final payment was made in 2014.

Management Discussion and Analysis

Continuing connected transactions

The following continuing connected transactions (the "**CCTs**") were recorded for the year ended 31 December 2014 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules:

(1) Master Agreement for ICT Services and Supply

Principal Terms

On 3 April 2012, the Company entered into an agreement with MCS Electronics LLC, a then subsidiary of MCS Holding LLC, whereby MCS Electronics LLC agreed to provide services including (i) internet connection services; (ii) intranet services; (iii) iridium and satellite internet service for Ulaanbaatar headquarter office and camp sites located at the UHG and BN mines and TKH; (iv) IT equipment and server rent services; (v) fiber optic line rent and maintenance services; (vi) IP line rent services; (vii) services for the maintenance of sure clock system for registration of attendance of employees; (viii) services for the maintenance of reliable operations of a computer program in relation to finance and accounting; (ix) services for maintenance of GPS system installed with coal hauling trucks; (x) supply of laptops, computers, printers, copiers, projectors, UPS, monitors, flash discs, external HDD, cameras (Digital Video/Photo), CCTV, Kenwood radio (Hand device), tetra radio, servers storage, RFID (Reader for weigh bridges), video conference sets and other IT hardware; and (xi) fiber optic network installation in the areas between UHG mine to BN mine, UHG camp to Tavan Tolgoi Airport, inside of UHG mine site including CHPP, water supply facilities, power plant and Transgobi office, and 50 km far away boreholes in Naimdain Khundii and any additional site/area to the Group for a period commencing from 3 April 2012 to 31 December 2014.

Connected Person

Before May 2013, MCS Electronics LLC was a subsidiary of MCS Holding LLC which was in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owned a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company, at that time. As such, MCS Electronics LLC was a connected person of the Company before May 2013. As MCS Holding LLC disposed of its entire interest in MCS Electronics LLC in May 2013, MCS Electronics LLC is no longer a connected person of the Company from May 2013. However, as MCS Electronics LLC continues to sub-contract certain of its obligations under the agreement to certain subsidiaries of MCS Holding LLC who are connected persons of the Company, transactions under this agreement may be connected transactions. For the purpose of disclosure, the Directors have deemed all transactions under the agreement to be connected transactions.

Consideration

The fees payable by the Group to MCS Electronics LLC under this agreement were determined on an arm's length basis based on normal commercial terms between the Group and MCS Electronics LLC and will be paid on a monthly basis. Annual cap for this agreement is MNT4,792,342,208 (equivalent to approximately USD3,640,602) for the year ended 31 December 2014.

Transaction (excluding VAT) of MNT602,624,764 (equivalent to approximately USD331,676) was made by the Group for the year ended 31 December 2014 under this agreement.

Management Discussion and Analysis

(2) Power and Heat Generation, Distribution and Management Agreement

Principal Terms

On 9 May 2011, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including operating management of the UHG Power Plant, electricity distribution services, and heat distribution services to the Group for an initial period of 18 months commencing from 9 May 2011. On 3 April 2012, the parties entered into an amendment agreement whereby the parties agreed to extend the contract period of the agreement until 31 December 2014.

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which directly owns a 57.76% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

Annual cap for this agreement is MNT23,823,842,159 (equivalent to approximately USD18,098,273) for the year ended 31 December 2014 and will be paid on a monthly basis.

Transaction (excluding VAT) of MNT16,534,029,588 (equivalent to approximately USD9,100,082) was incurred at the Company for the year ended 31 December 2014.

The consideration was determined on an arm's length basis between Energy Resources LLC and MCS International LLC based on normal commercial terms.

(3) Power System Operation and Maintenance Agreement

Principal Terms

On 30 December 2014, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including: (i) UHG Power Plant and electricity distribution facilities operation and maintenance; (ii) heating facilities operation and maintenance; (iii) diesel generators operation and maintenance; and (iv) supply of electricity and heating to end customers and contractors of the Group and billing for the consumption to the Group. The agreement is for a term of three years commencing from 1 January 2015 to 31 December 2017.

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which directly owns a 57.76% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Management Discussion and Analysis

Consideration

The total consideration payable under this agreement, which equals to the sum of the annual caps for the three years ending 31 December 2017, is MNT86,332,146,634 (equivalent to approximately USD45,815,832) payable on a monthly basis within 60 days upon receipt of valid invoice from MCS International LLC. The annual caps were determined on an arm's length basis between the Group and MCS International LLC after taking into account (i) the negotiated fixed and variable charges; (ii) negotiated energy tariff; (iii) anticipated electricity production volume after considering production and business expansion; (iv) scheduled major overhauls of the power plant equipment; (v) VAT and other taxes; and (vi) contingencies that would be applicable and payable for the services of MCS International LLC under the agreement.

Services under this agreement are commencing from 1 January 2015. As such, no payment was made by the Group for the year ended 31 December 2014 under the agreement.

(4) Fuel Supply Agreement with NIC LLC

Principal Terms

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a fuel supply agreement with NIC LLC, pursuant to which NIC LLC agreed to supply fuel products including diesel fuel, lubricants and other types of fuel to the Group and provide other related services at the UHG mine site and BN mine site. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

Connected Person

NIC LLC is an associate of Dr. Oyungerel Janchiv, a non-executive Director and therefore, NIC LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is USD784,369,936 payable on a monthly basis within 60 days upon receipt of valid invoice from NIC LLC. The consideration was determined by the tender proposal submitted by NIC LLC which is based on market rate of fuel products. Annual cap for this agreement is USD202,808,966 for the year ended 31 December 2014.

Transaction (excluding VAT) of USD38,015,480 was made by the Group for the year ended 31 December 2014 under the agreement.

(5) Fuel Supply Agreement with Shunkhlai LLC

Principal Terms

On 18 October 2013, Transgobi LLC, an indirect wholly-owned subsidiary of the Company, entered into a fuel supply agreement with Shunkhlai LLC, pursuant to which Shunkhlai LLC agreed to supply fuel products including diesel fuel, gasoline and other types of fuel to the Group and provide other related services at the UHG mine site and TKH site for the Group's coal transportation and logistics operations. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

Management Discussion and Analysis

Connected Person

Shunkhlai LLC is an associate of Mr. Batsaikhan Purev, a non-executive Director and therefore, Shunkhlai LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is USD169,373,021 payable on a monthly basis within 60 days upon receipt of valid invoice from Shunkhlai LLC. The consideration was determined by the tender proposal submitted by Shunkhlai LLC which is based on market rate of fuel products. Annual cap for this agreement is USD51,846,268 for the year ended 31 December 2014.

Transaction (excluding VAT) of USD2,340,704 was made by Transgobi LLC for the year ended 31 December 2014 under the agreement.

(6) Service Agreement

Principal Terms

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a service agreement with Uniservice Solution LLC, a subsidiary of MCS Holding LLC, pursuant to which Uniservice Solution LLC agreed to provide office and camp supporting services to the Group for a term of three years commencing from 1 January 2014 to 31 December 2016.

Connected Person

As at the date of this annual report, Uniservice Solution LLC is a subsidiary of MCS Holding LLC which directly owns a 57.76% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, Uniservice Solution LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is MNT72,957,978,408 (equivalent to approximately USD43,026,555) payable on a monthly basis within 60 days upon receipt of valid invoice from Uniservice Solution LLC. The consideration was determined based on the size of the location where services are to be provided, the number of employees utilising the camp site, the temporary ger camp located at the UHG mine site and BN mine site, and on an arm's length basis between the Company and Uniservice Solution LLC based on the bid submitted by Uniservice Solution LLC. Annual cap for this agreement is MNT24,319,326,136 (equivalent to approximately USD14,342,185) for the year ended 31 December 2014.

Transaction (excluding VAT) of MNT10,130,720,113 (equivalent to approximately USD5,575,796) was made by the Group for the year ended 31 December 2014 under the agreement.

(7) Security Services Agreement

Principal Terms

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a security service agreement with MCS Armor LLC, a subsidiary of MCS Holding LLC, pursuant to which MCS Armor LLC agreed to provide security services, safeguarding and services for prevention of unlawful conducts and violations at the Ulaanbaatar office, UHG mine site, BN mine site, TKH site and other premises of the Group and vehicle inspection and safety assurance services for the Ulaanbaatar office of the Company on a day-to-day basis. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

Management Discussion and Analysis

Connected Person

As at the date of this annual report, MCS Armor LLC is a subsidiary of MCS Holding LLC which directly owns a 57.76% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS Armor LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is MNT12,933,103,680 (equivalent to approximately USD7,627,225) payable on a monthly basis within 60 days upon receipt of valid invoice from MCS Armor LLC. The consideration was determined on an arm's length basis between the Company and MCS Armor LLC based on the bid submitted by MCS Armor LLC. Annual cap for this agreement is MNT4,311,034,560 (equivalent to approximately USD2,542,408) for the year ended 31 December 2014.

Transaction (excluding VAT) of MNT3,199,466,999 (equivalent to approximately USD1,760,939) was made by the Group for the year ended 31 December 2014 under the agreement.

The independent non-executive Directors reviewed the CCTs of the Group pursuant to Rule 14A.55 of the Listing Rules.

In the opinion of the independent non-executive Directors, the CCTs were entered into by the Group:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditor of the Company stating that in respect of disclosed CCTs:

(a) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have not been approved by the Board;

(b) for the transactions involving the provision of goods and services by the Group, nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (7), nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the annual cap disclosed in the announcements made by the Company in respect of each of the disclosed CCTs.

In respect of the connected transactions and CCTs, the Company has complied with the disclosure requirements under the Listing Rules.

Sustainability Report

Sustainability Report

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

The Company's Sustainable Development Policy, coupled with its Corporate Social Responsibility Policy, defines our approach towards sustainability and our responsibility towards diverse stakeholder groups. The core of our approach are the needs and expectations of future generations that must be adequately considered in utilising natural resources and a belief that the benefits of economic activities must appropriately account for their respective social and environmental consequences.

We believe that further strengthening our sustainable development performance is crucial for our long-term business success and competitive advantage. Sound management of sustainability ensures that we are able to attract and retain our workforce, enhance our reputation, attract future investments, reduce business risks and find new opportunities.

Accountability, transparency, ethical behaviour, respect for stakeholders' interests, and respect for the rule of law and human rights are the principles that guide our efforts in creating value for our stakeholders.

BUSINESS INTEGRITY

Code of conduct

In MMC, we operate our business in a manner that respects human dignity and seeks to achieve management excellence. Our Code of Conduct (the "**Code**") restates our commitment to responsible action. The Code states that good governance and corporate social responsibility are essential principles for valuing employees, preserving the environment and contributing to the development of the communities in which MMC operates. The Code establishes a set of desirable behaviours, which promotes a positive and responsible professional attitude among employees and the Company's executives. According to this Code, all employees, including executives, must act with responsibility, honesty, trust, respect, and loyalty, obeying all applicable laws and regulations in effect. Violations of the Code are taken seriously and can result in disciplinary actions.

Human rights

MMC respects the fundamental tenets of human rights. This obligation is embedded in our corporate culture. While it is mainly the responsibility of the GoM to protect and promote human rights, in addition to guaranteeing fundamental freedoms, we believe that it is the duty of the private sectors to respect and promote them to the extent of their activities. We uphold the United Nations Universal Declaration of Human Rights, the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and the United Nations Guiding Principles for Business and Human Rights. MMC promotes human rights within its sphere of influence in the following ways:

- For employees, we endeavour to maintain a work environment that promotes professional and personal growth, free from workplace harassment and discrimination with regard to remuneration and equal pay, encouraging them to respect the rights of other stakeholders;
- In the value chain, we seek to establish relationships with suppliers and contractors under which they share our principles and values, promoting awareness and application of human rights protection;
- With local communities, we maintain relationships of continuous engagement, based on dialogue and mutual respect of their rights to access to land and water, freedom of movement, rights to self-determination and freedom of expression.

Sustainability Report

At our operational sites and offices, we aim to ensure that equal opportunity is afforded to all our employees irrespective of race, nationality, religion, age, gender, sexual orientation, disability, political opinion or any other basis. Our employees are free to exercise freedom of association and freedom of speech. We operate feedback boxes at the mine sites to allow our employees to express their opinions and report any breaches of ethical conduct and behaviour.

We have a community grievance handling mechanism that allows our host communities to freely express their complaints and grievances. A Human Rights Task Force established in 2010 conducted the Human Rights Risk Assessment and developed the Human Rights Program, which addresses our Sustainable Development Policy in the area of human rights. Within the framework of the program, we provide customised training on Voluntary Principles on Security and Human Rights to ensure that our security measures are responsible and do not violate human rights. Our security personnel, managers and human resources ("**HR**") staff are trained in relevant fields that include harassment, the advancement of equal opportunities and personnel search.

Forced labour & child labour

The Company does not engage in or support any type of forced or compulsory labour. Our employees have the right to leave the work premises after completing the standard workday and to terminate employment after giving reasonable notice. MMC does not employ a person who is under the national legal age of employment and in line with our recruitment policy, we employ people aged 18 or older. Our recruitment officers are trained to ensure that no child is employed at our sites. In the year under review, the Company has not employed any person under the age of 18.

Transparency

Ensuring maximum transparency that is commercially viable is of vital importance for us to gain and maintain the trust of our stakeholders. We regularly report our financial statements, and operational and sustainable development performance in accordance with all statutory requirements. Since the start of its operations in 2009, the Company has been disclosing its payments to the GoM as a signatory company of the Extractive Industry Transparency Initiative ("**EITI**") in Mongolia. This international initiative aims to improve governance in resource-rich countries through the verification and full publication of company payments and government revenues from the extractive industries. In 2014, the Company hosted a meeting of the sub-council of the National EITI Council in Umnugobi province. Representatives of the National EITI Council, civil society organisations, local administrators and local council members attended the meeting, at which the Company disclosed its payments to the GoM, spending on community development projects, tax payments to the local government, sponsorships and environmental issues, among others.

We also disclose project related information to our host communities every year in line with our Public Consultation and Disclosure Plan.

Fair operating practices

We do not tolerate any form of bribery and fraudulent actions and will take consistent and swift measures if any such violations are discovered. MMC strives to exercise socially responsible supply chain practices and anti-corruption practices by working closely with its suppliers and the relevant government agencies. A system is in place to ensure that our procurement practices are free of unfair business dealings.

Sustainability Report

We are committed to cooperative, respectful and positive dialogues with policymakers and other government agencies of Mongolia. We believe this should be based on genuine consultation and accountability. In doing so, MMC participates in and contributes to all major public policy discussions and initiatives through proactive engagement with policymakers on a wide range of issues that include dialogue on the operational and legal environment surrounding the mining industry in Mongolia. The Company does not tolerate the making of payments or payments in kind (gifts or favours) to influence individuals to award business opportunities to us or to make a business decision in our favour. Bribes, 'kick-backs', secret commissions and similar payments are strictly prohibited.

We recorded no incidents of corruption, fraud or unethical behaviour in 2014.

OUR PEOPLE

In MMC, employees are our greatest asset and attracting, retaining and developing a capable workforce are central to our continued successful operation. Hence, we aspire to create a safe, healthy and fair working environment where individuals can realise their full potential.

As a responsible employer, we seek to:

- Provide equal employment opportunities and respect the rights of our people;
- Recruit based on skills and experience and support local employment within the framework of our community development strategy whenever possible. Our aim is to recruit and maintain at least 30% of our workforce from host communities;
- Offer compensation and benefit schemes that are competitive within the Mongolian mining industry;
- Provide direction to our employees on ethical working standards and compliance with internal procedures of the Company through our Company's Code.

The Company's HR activities are in full compliance with the Mongolian Labour Law. Since 2012 we have undergone three state labour inspections, which we passed with outstanding results compared to other mining companies operating in Mongolia. In 2014, we were officially informed that there will be no labour inspection in the coming three years due to our exemplary HR performance.

Highlights of 2014

- Benefits scheme for our relocated employees was updated to include transfer of property and land ownership rights to employees based on their performance and years of employment with the Company;
- Updated the Relocation Policy, which enables all of our mine site employees to buy an apartment with financial assistance from the Company;
- Updated the staff payroll system;
- Changed the grading system and organisational structure of the Company to improve organisational integration and communications; and
- Approved formal standardised terminology for organisational divisions, departments, sections, sub-sections and units, and job sections of the Company.

Sustainability Report

Non-discrimination & equal opportunity

The Company does not tolerate discrimination based on race, gender, nationality, age, religious belief, political views, union affiliation or any other factors, and abides by the applicable national laws with respect to employee non-discrimination. As at 31 December 2014, we had a total of 1,950 employees, of which 41% were from the local community.

All of our employees signed employment contracts with us that detail, among other things, their duties and responsibilities, remuneration, as well as the grounds for termination of employment. We employ people on the basis of job requirements and matching skills, but seek to give preference to local employment where possible in order to create value in the communities in which we operate.

Figure 8. Employee statistics

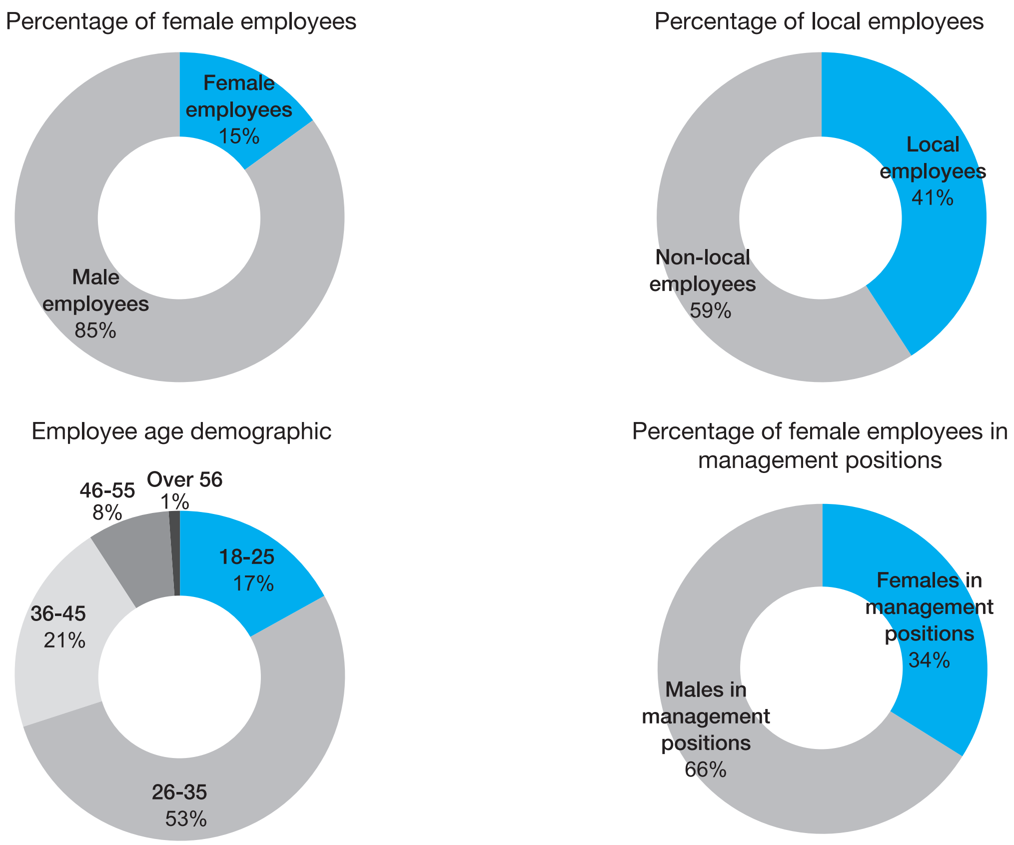


Table 18. HR statistics

		31/12/2013	**31/12/2014**
1.	Total number of employees	2,272	**1,950**
2.	Number of female employees	324	**296**
3.	Number of female employees in management positions	9	**15**
4.	Percentage of local employees	43.3%	**40.6%**

Sustainability Report

In line with our equal opportunity policy, we pay equal base salary to all employees working in the same position under the same establishment or working conditions and do not tolerate wage discrimination between men and women or local and non-local employees. Salary variation is therefore due to employees' seniority, grade system and level of expertise.

The proportion of women among all employees stands at 15.2%. Of the women working in MMC, 28.3% hold technical positions (operational and administrative), 46.3% are specialists (analysts, engineers, geologists, etc.), 11.5% are supervisors and 13.9% are managers.

During the year under review, no cases of discrimination were recorded at our sites and offices.

Employee remuneration and benefits

Our remuneration and compensation strategy aims to provide our employees with competitive remuneration packages, comprising monetary remuneration and benefits. MMC offers all its employees competitive wages and allowances which are reviewed annually to account for the individual's role at the Company and local market trends. We offer competitive compensation packages and welfare benefits consistent with the Mongolian labour markets to all employees.

MMC employees are offered a range of benefits that include:

- Bonus and incentives schemes;
- Parental leave;
- Free-of-charge comprehensive medical check-ups;
- Assistance with housing costs;
- Access to low interest loans;
- Monetary allowances for phone use and transportation;
- Subsidies for a range of health and wellness activities;
- Compensation for damages caused by industrial accidents, acute poisoning or occupational diseases;
- Personal accident insurance;
- International health insurance; and
- Others.

The benefits are offered to all employees irrespective of their position at and length of employment with the Company. In 2014, the Company spent approximately MNT3.1 billion on its employees' remuneration and benefits.

Bonuses and incentives plans are tied to our financial performance as well as individual employee and team performance. To date, the challenges we face in recruitment and retention have been addressed through updates to our salary scale, which introduce a more comprehensive benefits scheme and offer share options.

In 2014, a total of 1,525 employees received free comprehensive health screening, with the Company spending MNT310.9 million on these expenses.

Sustainability Report

Employee turnover

In 2014, our total employee turnover rate stood at 18%, a decline of 9.9% compared to 2013, which was mainly due to increased effort of the Company to better respond to economic challenges as compared to other Mongolian mining companies.

The Company has implemented a Relocation Policy, which enables all its employees working on site to buy an apartment with financial assistance from the Company. Since November 2013, approximately 200 employees have relocated to Tsetsii town with their families.

In addition, the Company has an employee retention policy tied to our commitment to supporting the development of local infrastructure (housing, health, education and leisure), continuous education, as well as employee work performance, careers and succession management.

Training and development

In MMC, training and development are recognised as vital aspect of our achievement, and the performance of each employee effectively impacts the Company's performance as a whole. The need for qualified personnel is a challenge in the Mongolian mining sector, and we consistently invest in the training of skilled professionals. Our training programs encompass training in technical, management development and other relevant fields.

In 2014, MMC focused mainly on conducting in-house training rather than outsourcing with an aim to cut costs and improve operational efficiency. During the year under review, we conducted 27 types of training sessions, eight of which involved professional and vocational training such as heavy equipment operators' training and maintenance training while the remaining 19 involved general corporate skills training.

A total of 634 employees participated in corporate and vocational skills training for almost 13,000 man-hours, with average training hours per employee of 20.5 hours.

Table 19. Training highlights

Total number of participants in professional and vocational training sessions	481
Total number of participants in corporate skills training sessions	153

HEALTH, SAFETY & ENVIRONMENT

Throughout the reporting period, considerable focus was given to the continual review, development and improvement of the documentation involving the integrated Health, Safety and Environment ("**HSE**") Management System to ensure that it meets Mongolian legislative requirements and the international standards for Safety OSHAS 18001:2007 and Environment ISO 14001:2004. The review process of the HSE Management System will be carried forward to 2015 and is expected to receive third party certification for both international standards towards the end of the year.

Our integrated HSE policy ensures that we are committed to 'Zero harm' to our people and host communities and minimal adverse impact on the environment. The policy has strengthened leadership role of managers at all levels and ensures that everyone is responsible for and must be involved in the implementation of the HSE policy. Within the framework of the HSE policy, we are committed to the following HSE objectives:

- Identifying, assessing and managing the risks to employees, contractors, communities and the environment;

Sustainability Report

- Complying with the applicable national and international legal and other requirements;
- Enforcing an accountability mechanism that ensures each and every employee contributes to providing a safe, healthy workplace and preventing all types of environmental pollution;
- Providing relevant HSE training for employees, contractors and our local community;
- Ensuring that the Company management at all levels are HSE role models and lead by example;
- Taking all necessary measures to prevent industrial accidents and environmental incidents. In the event of any accidents or incidents, we will investigate the root cause and take swift action to rectify the risk and prevent the re-occurrence of the same incident;
- Assessing, reporting and managing any potential HSE risks, which is a duty of all employees;
- Reviewing our HSE management system and taking measures to rectify any non-conformance;
- Reviewing and assessing the HSE performance of individual employees;
- Supporting and rewarding the practice of receiving HSE risk reports from local community members and actively cooperating with them to eliminate potential risks.

In 2014, the Company continued with its efforts to prevent illnesses, injuries and environmental incidents by continuously monitor and review HSE performance. Whenever required, new standards and procedures were developed as part of the integrated HSE Management System and were implemented at the workplace.

Occupational health and safety

The health, safety and well-being of our employees are the core values of MMC. Consequently, we pursue excellence in Occupational Health and Safety ("**OHS**") and are committed to meeting the most vigorous OHS standards and practices to ensure an incident-free, safe and healthy workplace where our employees can realise their full potential. Our systems and processes aim to provide our employees and contractors the necessary tools and skills to practise safe work behaviours and make each individual accountable for the implementation of the HSE Management System and its accompanying standards, rules and procedures.

We believe that if we are to succeed in our aim of incident-free workplaces, we need to understand the potential health risks and establish suitable mitigation measures. Hence, controlling, reducing and preventing health hazards in our operations is one of our core objectives. The main occupational health challenges that pose threats to our employees' well-being are fatigue, muscular-skeletal injuries, noise induced hearing loss, dust related respiratory illnesses and infectious diseases. In accordance with our Occupational Health and Disease Policy, we identify job positions in which our employees are exposed to occupational health hazards, and actions are taken to prevent and mitigate discovered hazards. Other preventative measures include building awareness and knowledge of disease and other health hazards through internal trainings and awareness campaigns.

We have 24/7 stand-by medical and emergency response teams working on-site to ensure immediate responses to any accidents and emergencies. Site-based emergency response teams also respond to fire and emergency calls within the local community. Our employees are also a part of the local communities in which we operate, and any public health issues confronting the communities affect our workforce as well. Local health authorities often lack available resources to deal with major public health challenges. Therefore, we work in partnership with local stakeholders to improve their education on, protection from and prevention of public health risks and widespread diseases. Over the past years, the Company has implemented a number of free-of-charge community health screenings and health awareness campaigns.

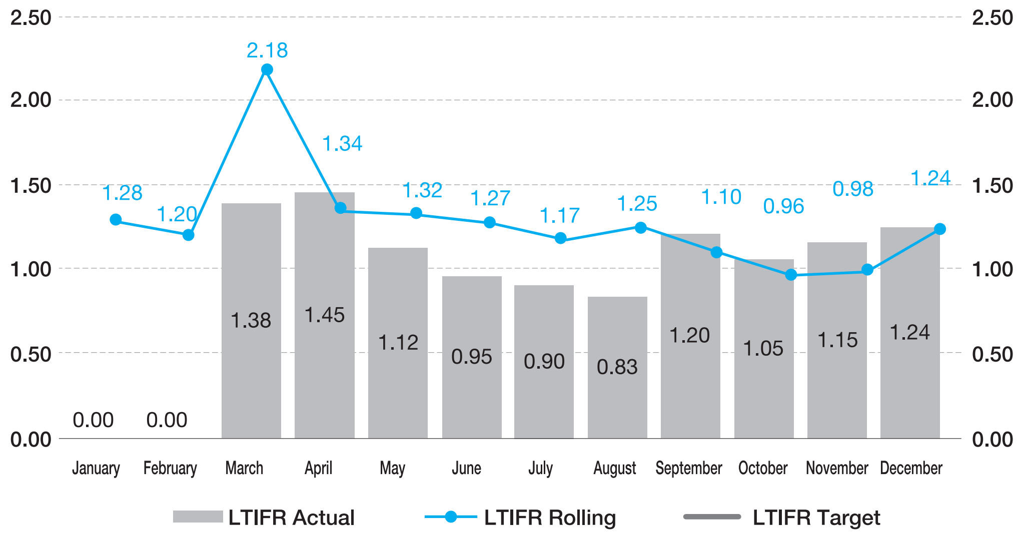
Sustainability Report

The followings are the key highlights in the area of OHS in 2014:

- Achieved a LTIFR of 1.24 expressed as the number of injuries per one million hours worked. The Company's LTIFR continues to trend favourably when benchmarked against the Australian coal industry producing states of Queensland's and New South Wales' reported statistics: Queensland, Australia reported an average LTIFR of 3 for its surface mines and New South Wales surface mines reported an average LTIFR of 2.5;
- No occupational illnesses were recorded;
- No fines were imposed for OHS compliance breaches;
- A Super Crew safety program was introduced to the mining and mining maintenance workforce with a great response and uptake;
- Department Risk Assessments were completed to identify Class 1 Risks (risks that can result in fatality) and to identify suitable control measures to manage the identified Class 1 Risks.

Across MMC, there were 5,643,141 man-hours worked by employees and contractors at our controlled sites and a total of seven recorded LTIs.

Figure 9. LTIFR (YTD) and LTIFR (12 months rolling)



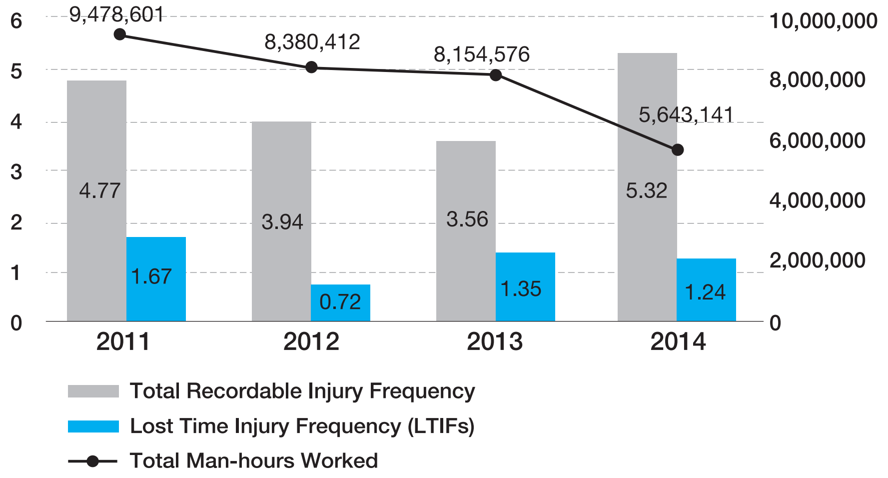
The Company is committed to ensuring the health and safety of all personnel at sites under our management. Regrettably, despite our best efforts, two fatal incidents were registered in 2014. In March 2014, a fatality occurred at the Tsagaan Khad stockyard facility, and in September 2014, a fatality was recorded in a traffic accident on the UHG - TKH haul road. Following both incidents, the Company exceeded the statutory requirements in terms of assistance to the families of the deceased. Official statutory investigations have been concluded, and no further corporate liability exists.

Sustainability Report

Table 20. 2014 Safety statistics

	2013	**2014**
Total man-hours worked	8,154,576	**5,643,141**
Fatalities	1	**2**
Total Recordable Injury Frequency Rate ("**TRIFR**")	3.56	**5.32**
LTIFR	1.23	**1.24**
Legal compliance	No state inspection in 2013	**87%**
Incidences (total lost workdays/ total hours worked)	0.000028	**0.000158**
Safety inductions (number of employees and contractors covered)	12,881	**12,681**

Figure 10. TRIFR and LTIFR



In April 2014, an external audit was conducted by the Mongolian State Emergency Response Agency at the UHG mine site. Several minor incidents of non-conformance were identified and a corrective action plan was developed and implemented.

In September 2014, all areas of UHG operations were audited by the Mongolian Local Specialised Inspection Agency to ensure effective implementation of the legislation on Occupational Safety and Hygiene. The resulting report indicated that 99% compliance was reached in safety and 76% in Occupational Hygiene.

In order to improve workplace conditions, an Occupational Hygiene Action Plan was developed and implemented to include occupational hygiene measurement, monitoring, training and information sessions for the workforce. Information sessions on Pneumoconiosis and other workplace diseases were delivered by on-site physicians to members of the Water Supply and Transgobi workforces as part of the plan.

Workplace occupational hygiene monitoring was conducted across all operational areas at scheduled rate of frequency throughout the year. The types of monitoring included workplace temperature, excessive noise, adequate lighting, whole body vibration, respirable and irrespirable dust particulate, and gas monitoring for oxygen and toxic gases in the atmosphere.

Sustainability Report

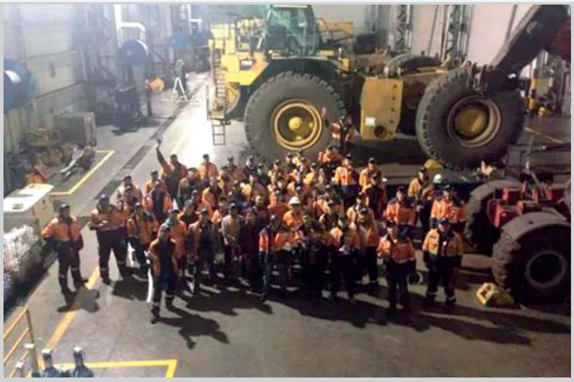
Throughout 2014, site safety inspections were performed across all operations with a total of 188 inspections being completed, of which 1,215 instances of non-conformance were identified. Corrective action plans were developed and the completion rate currently stands at 77%.

Each operational department completed risk assessments to identify Class 1 Risks and suitable controls to manage the identified Class 1 Risks. Throughout the year, a total of 74 risk assessments were completed in both operational and maintenance activities to minimise or eliminate work related hazards and to enhance awareness of daily safety routines among the employees.

Super crew safety program

CASE STUDY

The program intends to help improve the Company's safety performance and see the active participation of its workforce. As part of the initiative, Maintenance and Mining crews self-rate their safety performance in their previous shifts, designating grades of either as an A, B or C. Supervisors lead the discussions at pre-shift meetings and encourage the crew members to reflect on their safety performance. Each crew's safety performance is displayed on a large record sheet, and the leading crew from both the Maintenance and Mining Departments are recognised regularly throughout the year. The site employees are very enthusiastic about this initiative with a number of A days already recorded for zero incidents and the achievement of a significant safety improvement.



Mining maintenance Super Crew

Environmental stewardship

Our commitment to responsible environmental stewardship is outlined in our HSE policy and is central to our continued operation. We aim to minimise the adverse impacts of our operations on the environment through robust environmental management systems and processes that include assessment and identification of risks and opportunities, compliance monitoring and reporting of performance.

Key environmental challenges for MMC operations are the reduction of dust and noise emissions, the efficient use of water and land resources, the responsible management and handling of biodiversity issues and the prevention of all forms of environmental pollution and incidents.

Individual management plans are devised along with key performance indicators ("**KPIs**") based on the results of our project Environmental and Social Impact Assessment, which were conducted early in the project cycle. The following six environmental management plans are in place to ensure that we are accountable for our environmental footprint: the Dust Management Plan, Erosion and Sediment Control Plan, Waste Management Plan, Hazardous Waste Management Plan, Tailings Storage Facility Management Plan, Mining Closure and Reclamation Plan, and Monitoring Plan.

The implementation of environmental management plans are reviewed annually against various KPIs. Based on the outcomes of the review, corrective actions are taken with the aim of continuous improvement.

Sustainability Report

The followings were our key activities and performance in 2014:

- In June 2014, the Company planted over 8,000 Saxaul plants covering an area of 6 hectares in the Naimdain Valley, approximately 50 km north east of the UHG mine site. This project is an example of successful biodiversity off-set activities;
- UHG achieved a score of 94% in an external audit by the GoM authorised audit provider performed in October 2014;
- Soil restoration activity was carried out on the earth road parallel to the paved road to Tavan Tolgoi Airport. The area was fenced off and local native trees and shrubs were planted, including species of Tamarisk, Elm and Saxaul;
- The site based water quality testing laboratory has been authorised by the National Standardisation Agency to undertake internal control on water quality in line with the national standards;
- The introduction of a bulk Methyl Isobutyl Carbinol ("**MIBC**") storage tank resulted in the reduction of 750 drums requiring annual disposal.

Environmental incidents

All occurrences of environmental incidents are investigated, remedied, monitored and reported by our environmental team to prevent re-occurrence in the future. The main types of environmental incidents applicable to our operations are noise and dust exceeding allowed limits, hydrocarbon spills, improper use and storage of chemical substances and hazardous materials, wildlife deaths, improper disposal of waste and other incidents that negatively impact the environment. We developed an internal rating scale for incidents according to their severity. Environmental risk ratings are classified as low, moderate, high and critical, the definitions of which can be found below.

Table 21. Environmental incident classification

Risk rating	Definitions
Low	Incidents in which the environment is not affected (waste sorting, soil degradation)
Moderate	Incidents with short-term, low environmental impact or involve procedural non-compliance (sewage spill, environmental hygiene, chemicals, hazardous waste, oil spill)
High	Incidents with long-term moderate environmental impact
Critical	Environmental pollution with no rehabilitation methods

Only one incident was classified as "high" as the result of the dumping of empty antifreeze drums in an unacceptable area. Soil contamination occurred due to spillage of the antifreeze chemical. The area was successfully de-contaminated, an investigation was conducted and appropriate actions were put in place to prevent re-occurrence.

In 2014, The State Specialised Inspection Agency conducted an environmental compliance inspection at the UHG mine site. The only single non-compliance issue that was identified was the height of the topsoil stockpile exceeding the limit as per national standards. Corrective action was included in the 2015 Mine Plan.

Sustainability Report

Biodiversity

Conserving biological diversity is one of the important aspects of the environmental planning and management activities of the Company. The Company is committed to conducting its activities in a manner that avoids, minimises, and mitigates adverse impacts on flora, fauna, and the regional ecosystem based on our project's Biodiversity Action Plan ("**BAP**"). It is a regulatory requirement to have in place active biodiversity management plans which are reviewed annually and include a set of budgets for planned activities. We have been conducting flora and fauna monitoring since 2011. A comparison of monitoring data from 2013 and 2014 shows no significant change in the number of species observed.

Due to minimal snowfall in Mongolia's southern region last winter, wild animals were at risk of dehydration. As part of the UHG project's BAP, the Company's environmental team provided ice to hoofed mountain animals in the region, including the Siberian ibex and argali (wild sheep) in several locations in Tsogttsetsii soum throughout the winter months. In March 2014, hay and fodder were also placed for wild animals in the mountains to help them live through the harsh months of winter.

During the year in accordance with our BAP, five birdhouses were built to support habitat nesting sites for birds of prey. It is essential to increase the population of such birds in the areas where there are no natural nesting sites.

Trial plantings of "Olgaea leucophylla", an endangered and endemic species in Gobi region, were undertaken based on the requirements of the National Standard MNS 6191:2010 general requirements for cultivating rare plants.

The growth success rate of the endangered species was 100% after the planting in the nursery area and the survival rate was estimated at 95% by the end of the year. Initial results of experimental trials indicate that it is possible to successfully propagate and plant this plant species for the purposes of conservation.

Land

Host communities and local governments seek a demonstration of effective land stewardship from mining companies. Thus, securing access to land and responsible management are essential components of our commitment to sustainable development and the ability to maintain our social license to operate. We want to ensure that in the future, disturbed land becomes available for other uses such as grazing and housing. Our land management plan provides a sound framework for undertaking rehabilitation and other land management programs which involve levelling and contouring, reshaping, adding topsoil and re-vegetating land to restore the land for future use.

We manage approximately 22,710.13 hectares of land, of which about 49.4% is used for mining, 41.1% for mining infrastructure, 3% for plants, and 6.5% for worker accommodations. In line with the leading practices, we aim to conduct land rehabilitation as it comes out of use rather than waiting until all operations have ceased.

In 2014, soil restoration activity was undertaken on the disused earth road located next to the paved road to Tavan Tolgoi Airport. The eroded areas were levelled and fenced off, and local trees and shrubs including tamarisk, elm and saxaul were planted. This type of land rehabilitation offers numerous benefits including absorption of emissions and noise created by vehicles and the provision of shelter and habitats for small mammals and invertebrates.

Sustainability Report

Land restoration of former earth road

Landscaping at mine workshop

In 2014, the mine maintenance staff successfully landscaped and planted grass in the 600 square meter area in front of the mine maintenance workshop.

In 2009, the Company established 2.5 hectares of nursery field with the aim of determining the most suitable trees and plants to grow in the Gobi region for the use in reclamation and other landscaping projects around the project site and the soum centre.

The nursery field currently has 30,000 shrubs, trees and perennial plants of 20 endemic and non-endemic species including elm, tamarisk, aspen tree, pine, spruce, saxaul, and seabuckthorn.

In 2014, 8,500 seedlings were sourced from the nursery field and used for the Saxaul forest project and landscaping.

In 2011, a project was initiated to plant a windbreak greenbelt area 5 km northwest of the Tsogttsetsii soum centre. The windbreak not only provides shelter from wind and soil erosion but also provides an opportunity for local people to plant vegetables in the vegetable garden that was also established.

The windbreak now has over 13,000 trees and species that include elm, aspen, tamarisk, silverberry and seabuckthorn planted in 26 rows. The survival rate of planted trees was 95% in 2014. A drip irrigation system is used by the project team to minimise water consumption for irrigation. The irrigation regime will be gradually decreased to let the trees adapt to the natural conditions.

The windbreak currently covers an area of 23 hectares. The plan is to extend the windbreak area to 50 hectares in the future.

Sustainability Report

Silverberry 1 year in nursery area

Silverberry after 5 years of growth at windbreak

Saxual forestation

CASE STUDY

The Saxaul (Haloxylon ammodendron) is one of the most important and useful native plants growing in the arid and windy climate of the Gobi region. In desert and semi-desert areas, Saxaul forests protect the soil from erosion, and provide diverse habitats for animals and fodder for wildlife and livestock. In June 2014, the Company planted over 8,000 Saxaul plants covering an area of 6 hectares in the Naimdain Valley, approximately 50km north east of the UHG mine site. There are already three hectares of Saxaul forest in the Naimdain Valley in Tsogttsetsii soum, and by tripling the seed distribution area of the Saxaul trees the Company aims to offset soil erosion and desertification which are considered to be significant ecological problems in the Gobi region. Saxaul seedlings were provided from the nursery field to focus on research to determine the most suitable trees and plants for growing in the Gobi and which will be used in re-vegetation later in the project cycle. This project is an example of successful biodiversity offset activities initiated by MMC.

Saxaul forestation

Sustainability Report

Water

Water is a scarce resource in the arid Gobi region. Therefore, effective water management is an essential part of maintaining the operational integrity of the project and limiting negative environmental impacts associated with the project during both the construction and operational phases. To achieve this, a Water Management Plan will guide the project staff and contractor actions relating to stakeholders. Specifically, this includes effective management of groundwater, taking into consideration its use by local herders.

The ecological and economic value of water has led to greater scrutiny of responsible water use and increased expectations from our stakeholders for improved water stewardship. The Company has been supplying filtered water for the local community at a subsidised rate since 2011, and we welcome their participation in our water monitoring activities.

At our operations, water is sourced from groundwater boreholes and is stored in two water reservoirs with a total storage volume of 56,000 m^3, which prevents evaporation. In 2014, a total of 1.24 million m^3 of ground water was extracted and used at the UHG project for industrial purposes and domestic purposes at the workers' camp and soum residents.

We use a combination of both groundwater and recycled water at our mine sites.

To date, we have undertaken several major technical projects that aim to reduce groundwater use. These include:

- Construction of a Belt Filter Press facility that dewaters the tailings waste, resulting in an increase in water recycling from 35% to 70%, through avoidance of evaporation losses in the Tailing Storage Dam. The facility became fully operational in 2014;
- Monitoring of herder wells around the UHG mine and Tsogttsetsii soum centre conducted on a monthly basis. There are 10 groundwater boreholes installed in the UHG mine licensed area and two boreholes in the BN mine site for ground water monitoring, which allows us to control contamination as well as to control groundwater levels;
- In 2013, the Company established a waste water treatment plant in the soum centre with the potential to treat 1,200 m^3 waste water per day. The water treatment process can remove up to 96% of the contaminants, bringing water quality to comply with the requirements of the national standards;
- In September 2014, a solid waste clean-up campaign was organised in area of located within a 30 km radius of the UHG mine site where there are four natural springs and six herder wells and in an area located within a 10 km of the BN mine site with three herder wells.

Waste

In 2014, the total amount of solid waste generated from the mine site activities was reduced by 16% compared to 2013.

Table 22. Solid waste recycling

	2013	**2014**
Solid waste, m^3	14,520	**12,261**
Proportion recycled, %	71	**68**

Sustainability Report

In 2014, the Company established a small scale waste recycling facility on site which production was greatly expanded since then. More and more scrap materials are used in the making of products such as garbage bins, metal fencing, sliding doors, wooden benches, blocks, insect protection nets and horse rugs.

Hazardous non-mineral waste is delivered back to suppliers for re-use or is disposed in an appropriate manner. Plastic waste, waste metal and waste paper are sent to designated recycling facilities in other provinces. Batteries and printer cartridges are sent back to distributors for recharging and refilling.

Used oil: Collecting and recycling used oil is crucial for preventing oil contamination to soil and groundwater. Used oil is collected in a dedicated 35-ton tank every month and sent to a recycling factory which produces fuel and other raw materials.

Chemical containers: The chemical MIBC is used in the fine coal flotation process. The introduction of a bulk MIBC storage tank instead of the use of drums has resulted in a reduction of 750 chemical contaminated drums each year.

Air quality and noise

Dust and air quality are significant issues for our neighbouring communities, and minimising the effects of these impacts from our operations has been and will remain a key focus for us. During the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the Dust Management Plan, including the following measures:

- Regular spraying of the haulage roads at our mine site with treated waste water;
- Improvement of the haul road in the mine pit using a mixture of red and orange coloured earth materials extracted during the coal mining process;
- Improvement of operational efficiency, which resulted in a reduction of our coal stockpile;
- Built and maintained 10-metre high special wire fence to surround our coal stockpile at TKH that reduces wind speed and dust dispersion;
- Better management of vehicle speeds; and
- Covering of truck loads.

There are a number of sources of noise that are typically associated with our mining operations. They include dump trucks, large earth-moving equipment such as excavators and processing plants. Blasting activities, which are an essential component of our mine operations, cause ground vibration as well as overpressure, and can occasionally be felt or heard by our closest neighbours. We understand that noise and vibrations can impact the neighbouring communities, something we take very seriously. In accordance with our noise management plan, we identify and evaluate sources of noise and vibration and implement measures to mitigate these impacts. Some of the practical steps we undertake to minimise noise and vibration include:

- Maintaining machinery to ensure that they operate as quietly as possible;
- Working with our suppliers to provide machinery that is designed to operate more quietly;
- Storing and starting equipment as far as possible from residential areas;
- Providing a community hotline service to which residents can report concerns over noise or vibration; and
- Blasting only when weather conditions are deemed favourable.

Sustainability Report

Air quality monitoring is an integral part of our Dust Management Plan. Dust concentration, dust deposition, noise level and pollutant gases are the main parameters for monitoring. The portable tools (Dust trak 8530, Casella Cel 240 and Testo XL 350) are used to monitor air quality. Air quality monitoring measurements are conducted throughout project areas on a monthly basis.

We monitor PM2.5 dust levels at 17 different sites in and around the UHG and BN mine sites. Other air emissions such as sulfur dioxide and nitrogen dioxide are regularly measured by the Central Environmental and Metrological Laboratory against the national air quality standards (MNS 4585:2007), and carbon monoxide and other air quality emission measurements at the UHG power plant are performed against the national air quality standards (MNS 5919:2008).

During the reporting period, PM2.5 measurements were conducted 120 times in the Tsogttsetsii soum and TKH area against the national MNS 4585:2007 standard. The average level of PM2.5 was below the value of national air quality standard of 0.05 mg/m^3 at most of the measuring points. To improve operational transparency, our dust monitoring report is published on the UHG monthly bulletin for public viewing.

Noise levels are measured at 15 monitoring points around the UHG and BN mine sites and the measurement results were in compliance with the national standard.

Environmental monitoring

Regular monitoring and measuring of the impact of our activities on the environment are conducted at 144 specific points within the project impact area to ensure that they are within the nationally-accepted levels. Our monitoring activities include biodiversity studies and the monitoring of dust emissions, noise levels, air pollution, soil erosion, groundwater pollution and shallow water pollution. Every year, our environmental monitoring plans are approved by the national environmental authorities and the monitoring activity is conducted on monthly, quarterly and annual basis depending on their type. The sampling and measurements are performed in compliance with the national environmental standards using the latest equipment and measurement devices. Samples are tested at accredited national and international laboratories. Monitoring results are incorporated into our annual environmental report submitted to the national and local environmental authorities. The community members are involved in our environmental monitoring activities throughout the year.

Community members and environmental monitoring

CASE STUDY

In 2014, the Company continued to provide opportunities for members of the local communities to participate in our environmental monitoring activities such as measurement of water, dust and noise levels and monitoring of wildlife in their habitats. Through these collaborative efforts, local community members learn more about the Company's business and environmental protection activities. During the reporting period, 24 local residents, including herders, school children and local government officials, took part in the Company's environmental monitoring activities.

Local residents taking part in a water monitoring activity

Sustainability Report

Environmental external audit

CASE STUDY

An environmental external audit was undertaken at our mine site in October 2014, in accordance with the amendments to the Law on Environmental Protection.

The Company achieved a compliance performance score of 94% in the final audit report based on legal and other requirements established by the audit team.

The audit report concluded that the Company fulfilled its commitment to responsible mining by avoiding, minimising and mitigating the negative impacts on the environment during all stages of its operations starting from the design and planning stages through to project completion.

The following projects were highlighted by the audit team as having followed the best practices of environmental protection:

- Belt press facility;
- Waste water treatment plant;
- Endemic tree and plants nursery field;
- Environmental monitoring program; and
- Solid waste recycling facility.

Environmental protection awareness

The Company organises voluntary environmental protection activities and awareness campaigns for its employees on a regular basis. On the National Tree Planting Day, our employees planted over 400 trees in and around the UHG project mine site and the workers' camp. Also, the Company's 'Uram' environmentalist club celebrated the World Water Day on 22 March 2014 to raise public awareness and promote sensible use of water. The Company also provided information on its environmental-friendly technologies to the local residents.

A dedicated team of site-based HSE staff provided comprehensive training to all employees on the Company's HSE policies, procedures and guidelines, and emergency prevention and response including topics relating to environmental protection such as waste management, spill control, dust control, water and energy consumption. Besides general induction, a thematic training is organised to provide additional information on environmental protection for specific tasks such as topsoil stripping for dozer operators, and storage and handling of cleansing and disinfecting agents for cleaners. During the reporting period, environmental induction was organised for a total of 1,200 man-hours.

In order to improve environmental awareness of the employees, information graphics were posted regularly on a special information board.

Sustainability Report

OUR COMMUNITY

As a responsible mining company, MMC aims to contribute to the country's socio-economic development, improve people's living conditions, strengthen relationships with communities, respect local cultures, perform structural actions and minimise the impact of its actions.

We conduct socio-economic baseline studies and impact and risk assessments to determine both the positive and negative impacts of our operations on the community, prior to the commencement of our operations and before undertaking any new projects. Based on the findings of the assessments, we develop individual plans to mitigate any adverse impacts associated with our activities, and at the same time, initiate programs and investments that support positive impacts on and contribute to the sustainable development of the region. Specifically, our community directed management plans include the:

- Public Consultation and Disclosure Plan;
- Resettlement Action Plan;
- Grievance Management Plan;
- Cultural Heritage Management Plan;
- Economic and Physical Displacement Management Plan; and
- Community Health & Safety Management Plan.

Through our community investments, we seek to deliver long-term sustainable outcomes for the communities in which we operate by empowering local people to develop independently of the Company's continued support when our mining activities cease.

We generate economic value for the communities through employment, taxes and royalties, infrastructure development as well as the purchase of local goods and services. In 2014, we purchased goods and services worth over MNT1.1 billion from local communities, provided employee wages and benefits in excess of MNT31.9 billion, paid MNT15 billion in taxes and fees and spent MNT889.3 million on community development programmes.

Highlights of 2014

- Committed to contributing financial assistance to the construction of a new inter-soum hospital in Tsogttsetsii soum;
- Supported start-ups and small-and-medium-sized enterprises ("**SME**") of local herders through Sustainable Livelihood Support Program ("**SLSP**");
- For the third consecutive year, continued the initiative to support local vegetable growers and organised training on vegetable processing;
- Established a cabinet at the Tsogttsetsii soum museum showcasing the UHG mine development process to date; and
- Supported the Gobi Shankhi Long Song contest.

Sustainability Report

Community engagement

Fostering robust relationships and building trust with local community members, local governments and other stakeholders are pivotal in sustaining a successful business operation.

We understand that our mining operations have significant economic, social and environmental impacts on the local communities and in turn, the communities' concerns, needs, aspirations and activities impact our business in a multitude of ways. We provide factual and reliable information on the Company's operations and future plans to the local community, and engage in face-to-face interaction with the project affected communities to understand their concerns and expectations. Since its inception, MMC has strived to develop effective ways to engage with its local stakeholders. We consult and engage with our host communities in a number of ways, including:

- Community surveys (socio-economic baseline studies, satisfaction surveys);
- Community site tours;
- Community development programs;
- Dedicated community engagement staff maintaining regular contact with affected herder households and resettled families;
- Regular meetings with local administration;
- Initiating monthly meetings with Community Development Advisory Councils established in each impacted soum to provide a better platform for dialogue between the Company and the local community;
- Annual public consultation and disclosure activities (Open ger events);
- Information centres and hotlines;
- Publication of monthly environmental monitoring data on our monthly bulletin;
- Annual reports; and
- News bulletins.

In MMC, we are proud that a series of external monitoring and evaluations performed by international experts has assessed our engagement practice to be one of the strongest assets in the UHG project.

Grievance management

Our operations have in place a local process to receive, assess and resolve community concerns, complaints and grievances with regard to the performance or behaviour of the Company and its people.

The Company has established a Grievance Management Plan to assess whether the Company is responsive to community and worker complaints, and whether these complaints are acted on in a comprehensive and consistent manner.

We receive grievances through all kinds of communication methods including internet, telephone, mail and face-to-face meetings. Upon receiving such complaints and grievances, appropriate actions are taken and the complainants are informed of the outcome. In line with the Grievance Handling Mechanism, we aim to respond to all complaints within 30 days of submission, and more quickly in urgent cases. All complaints are treated in a confidential manner, and in all cases, grievances are addressed without prejudice. Most importantly, the resolution of community complaints and grievances is reported to the public in our annual reports.

Sustainability Report

In 2014, a total of two complaints and 22 requests were received and handled. Of the two complaints received, one was related to livestock deaths on the coal haul road and the other was on getting access to a business loan. Due to the transfer of the coal haul road to the GoM, livestock deaths on the coal haul road was beyond the Company's jurisdiction, so the local herder was advised to contact the relevant law enforcement authorities. In cases where the Company's trucks were found to be responsible for accidents involving livestock, we have taken appropriate measures and provided further road safety training and instructions to our drivers.

The Company has been implementing the SLSP to create economic opportunities for herders affected by the project, by offering them interest-free loans. Since the complainant had an outstanding business loan from another bank, he was promptly advised that he would not be eligible for the business loan under the SLSP until he paid off the outstanding loan first.

Of the 22 requests received via our grievance mechanism, half were related to financial and material assistance, 9.1% were requests to visit the UHG mine site and Gallery camp, 9.1% were requests to supply goods to the Company and the remaining involved internship opportunities, utilising deep wells of Naimdai Valley area and technical assistance from the engineering team.

Community investment

MMC invests in its host communities to make positive contributions to the sustainable development of the local communities based on the principle of "shared value".

Our contributions range from improving the local infrastructure, promoting access to education, and developing the local workforce to building the capacities of local SMEs. Activities comprising local procurement, various community targeted programs such as the SLSP, Good Neighbourhood Initiative, or community health support program, aim to bring long-term positive impact on the local communities including herdsmen. In 2014, the Company spent approximately MNT4.1 billion on community investment activities.

Table 23. Community investment in 2014

		MNT
1.	Local infrastructure development	2,104,426,810
2.	Community development programs	889,304,517
3.	Grants & Sponsorships	37,500,000
4.	Local procurement (Umnugobi province)	1,114,040,474
TOTAL		**4,145,271,801**

We believe that we have an economic and social responsibility to make a positive contribution to the development of the communities where we operate. Since our operations began in Tsogttsetsii soum in 2009, we have carried out several major local infrastructure development projects, including construction of the Tsogttsetsii soum inter-road, provision of an uninterrupted supply of filtered water and electricity at subsidised rates; construction of the "*Muruudul*" school, kindergarten and dormitory complex, a joint investment between the Company and Umnugobi aimag administration; establishment of "*Tsetsii Town*", a residential township project in Tsogttsetsii soum, to meet the demand for modern housing from our employees and members of the local community.

Sustainability Report

Our investments in community infrastructure are aligned with our business objectives as well as the needs of local communities. For example, MNT500 million in financial aid for the construction of an inter-soum hospital will help the local administration improving the quality of health care services for residents of Tsogttsetsii soum and other neighbouring soums in the region. Furthermore, the Company's relocated employees and their family members will also benefit from the improved public health care services.

Financial support to build an inter-soum hospital — CASE STUDY

As part of its commitment to contribute to the local community development and to enhance the quality of and access to health for the community, the Company signed a Memorandum of Understanding ("**MOU**") with the local Government to support construction of a new inter-soum hospital during the 90th anniversary celebration marking the establishment of the Tsogttsetsii soum in August 2014.

Under the MOU, the Company committed MNT500 million to the construction of a new inter-soum hospital due to open in 2015. The contribution will help to build the hospital's technical capacity, including its emergency response capacity, surgical capacity and laboratory equipment, among others. The new hospital will not only cater the needs of Tsogttsetsii soum but also residents of other soums in the region.

Community development programs

We support a wide range of community projects in the areas of education, health and well-being, cultural heritage and local business development, to build stronger and more sustainable communities. Based on the needs of the community identified through regional plans, consultation and our socio-economic baseline studies, we design and prioritise our community development programs.

As part of the "*Good Neighbourhood*" initiative, the Company provides various types of in-kind assistance to the communities. During the period under review, the Company carried out the following activities as in-kind assistance:

- Supply of thermal coal at no cost to the Dalanzadgad power plant and the Company's three impacted soums including Tsogttsetsii, Bayan-Ovoo and Khanbogd, during the harsh winter months. In addition, 6,100 bundles of hay and fodder were given to herders to tide them through the winter;
- Gift of seedlings to Tsogttsetsii soum administration and the local residents for use in various landscaping projects in the soum;
- In response to requests from local herders from Tsagaan Ovoo bagh of Tsogttsetsii soum, the Company made two water wells available for their use. In the following two months, around 50 households watered over 20,000 of their livestock. The Company's effort was much appreciated by the herders and local administration alike.

Sustainability Report

Preservation of intangible cultural heritage

CASE STUDY

A two-string instrument known as the horse-head fiddle is an essential part of ceremonies, rituals and everyday life in the nomadic Mongolian society. Nergui, a horse fiddle player from Dundgobi province, re-arranged the "Tsetsii Jonon", melody which has been passed down from generations in the Gobi region. To get the melody back into vogue in the South Gobi region and to promote this intangible cultural heritage to the younger generation, the Company organised training for local horse fiddle players and children of Tsogttsetsii soum. As a result, a horse fiddle band of 15 children was formed. The Company also provided the new band with necessary musical instruments including professional and grand horse head fiddles and performance costumes.

Presenting necessary musical instrument to the local band

The "Gobi Shankhi" long song is one of the valuable intangible cultural heritages among the Gobi people. The Company's Community Relations team has been organising the "Gobi Shankhi" long song contest every year since 2010. The contest was initiated by the community members with an aim to pass on this unique cultural heritage to the younger generation. In 2014, the "Gobi Shankhi" long songs were officially registered by the Mongolian Cultural Heritage Centre as an intangible cultural heritage of the communities. In addition, the Mongolian Cultural Heritage Centre provided a certificate of validation for senior citizens who had inherited the traditional long song, to acknowledge their status as inheritors of intangible cultural heritage of the Gobi people.

Establishment of a new cabinet at the soum museum

CASE STUDY

In 2014, MMC built a cabinet in the Tsogttsetsii soum museum and showcased various models of mining machinery and paleontological objects, including different types of stones and fossils found at the UHG mine site during our mining operations. In future, we plan to display such archaeological and paleontological findings by collaborating with the Paleontological Institute of the Mongolian Academy of Sciences, and give local people a first-hand opportunity to witness the discoveries.

Museum cabinet newly established by the Company

Sustainability Report

Sustainable Livelihood Support Program

To create new economic opportunities for affected and resettled herders, the Company is implementing a three-year program that focuses on supporting start-ups and SMEs of local herders. The program was developed based on a comprehensive socio-economic household survey conducted in 2011 among 64 herder households in the UHG project direct impact area. The results of the survey highlighted the potential for herder households to start a new business or expand their existing enterprises in livestock husbandry, crop farming and other start-up business initiatives and boost their household income.

In 2014, the partnering non-governmental organisations ("**NGOs**"), namely Success Formula NGO and Gobi Development Era NGO, organised training for herder households based on their training needs, including business management, marketing, development of cooperatives and intensive livestock farming. As a result, herder households were able to clearly define their business objectives and managed to gain an understanding of their business direction. Fifteen of these households now have their respective business plans finalised and received a business loan from XacBank to expand their businesses. The remaining 49 herder households are in the process of developing their business plans with the support of Gobi Development Area NGO in areas where they have more resources and advantages. Success Formula NGO is currently helping these herder households to efficiently manage their secured bank loans. The Company collaborated with XacBank to issue interest-free loans to these households.

Vegetable farming courses for the local community

CASE STUDY

The Company has provided various forms of assistance to members of the local community who grow vegetables in the wind belt, by providing them with arable land, an irrigation system, and vegetable gardening farming courses since 2012. In 2014, a total of 80 households at Tsogttsetsii soum grew 20 different types of vegetables in the land provided, including potatoes, carrots, onion, cabbage, beetroot and watermelon, among others.


Local community members at the vegetable processing training

With the support of MMC, the vegetable farming and processing training was held in Tsogttsetsii soum, Umnugobi province for members of the local community who grow vegetables in the wind belt near the soum centre. Mr. Poli Ts, an experienced farmer from Bulgan soum, Umnugobi province, and a trainer of Mercy Corps, conducted the course and taught useful techniques on seed collection and storage, as well as simple and easy vegetable processing techniques. Through their enrolment, the members of the local community were given necessary skills and opportunities to increase their household income and improve their knowledge of food security and healthy living.

Sustainability Report

SOCIO-ECONOMIC CONTRIBUTION

MMC strongly believes that as a good corporate citizen, it must continuously contribute to the country's socio-economic development, community well-being and sustainability. While remaining one of the major employers and tax contributors in Mongolia, we remain committed to maintaining our cooperation with local governments, communities and other stakeholders, and play a part in improving local health, education, employment and living standards.

Job creation

Despite the challenging market and economic conditions, we continued with our efforts to retain our employees and hired and trained locals wherever possible during the reporting period. As at the year ended 2014, MMC had 1,950 employees, 41% of whom were local hires.

Tax contribution

During the reporting period, MMC contributed MNT74 billion to the state and local budget through direct taxes and commissions, a significant amount given the size of the country's economy.

Infrastructure development

In addition to our wider economic contribution, we were involved in building the following facilities in support of the local infrastructure and sustainable development, during the reporting period.

- "Tsetsii Town", a residential township project financed by the Company, currently holds a total of 12 apartment blocks and provides comfortable, all-modern living conditions for both the Company's employees who resettled in Tsogttsetsii soum and local residents. With more than 560 households already moved in, the residential town grew quickly during the reporting period and now comprises all kinds of service facilities including health care units, a day care centre and supermarkets, etc.
- As part of our community investment and capacity building activities, MMC committed MNT500 million to the construction of a new inter-soum hospital in Tsogttsetsii soum. The financing will be used mainly to purchase modern medical equipment for the new hospital and is expected to bring vital positive changes in improving the quality of health care services in a remote rural district. According to the current estimates by the local authorities, construction of the new inter-soum hospital is to be completed by the end of 2015.

Procurement

We recognise the value of our operations brings to the local economy and encourage and develop local partnerships wherever possible. As part of our sustainable development efforts, we aim to provide a strong foundation for regional economic growth and cooperate with potential contractors in various ways. We follow ethical business practices in our purchase and supply management and give priority to local businesses. In the reporting year, MMC purchased products and services worth around MNT443 billion from approximately 500 suppliers and contractors and continued to strengthen existing business relationships with the local businesses in Mongolia. We support host community businesses through our Sustainability Livelihood Development Program and aim to create market opportunities by making them aware of our standards, procedures and performance expectations. In the reporting period, a total of 15 herder households expanded their business activities through the aforementioned projects. In 2014, our operations' combined expenditure on goods and services such as transport, utilities, construction, food, etc. from local Umnugobi businesses reached approximately MNT1.1 billion.

Sustainability Report

COMPANY AWARDS AND ACCOLADES

During the reporting period, MMC received the following accolades for its sustainable operations and significant contributions to the country's socio-economic development.

Entrepreneur 2014

MMC was given the "TOP Entrepreneur" award for the sixth consecutive year and ranked second among the nation's top 10 enterprises. Organised annually by the GoM and the Mongolian National Chamber of Commerce and Industry, the prestigious award showcases the Company's strong local presence and tangible contributions to the nation's economy. The selections are based on the amount of tax paid to the state budget as well as achievements in the corporate social responsibility and related fields.

TOP 150 Companies

Jointly with the GoM, the Mongolian National Chamber of Commerce and Industry recognises 150 leading national companies that excel in business operations and socio-economic contributions on an annual basis. This year, MMC met all applicable criteria and was listed among the top 5 entities out of the selected 150 companies, for its continued contribution to the country's economic development as well as socially responsible activities and advances in technology.

Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2014.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules.

In the opinion of the Directors, throughout the year under review, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision E.1.2 which states that the Chairman of the Board should attend the annual general meeting ("**AGM**") of the Company. The related details are set out under "Communication with Shareholders and Investor Relations" below.

The Company will continue to review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code and the rising expectation of the Shareholders and investors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2014.

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

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises nine members, including two executive Directors, four non-executive Directors and three independent non-executive Directors.

EXECUTIVE DIRECTORS:

Mr. Odjargal Jambaljamts, *Chairman of the Board, Chairman of the Nomination Committee and member of the Remuneration Committee*
Dr. Battsengel Gotov, *Chief Executive Officer*

NON-EXECUTIVE DIRECTORS:

Dr. Oyungerel Janchiv
Mr. Batsaikhan Purev
Mr. Od Jambaljamts, *member of the Corporate Governance Committee*
Mr. Gankhuyag Adilbish, *member of the Audit Committee*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Ochirbat Punsalmaa, *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*
Mr. Unenbat Jigjid, *Chairman of the Corporate Governance Committee and member of the Audit Committee, the Nomination Committee and the Remuneration Committee*
Mr. Chan Tze Ching, Ignatius, *Chairman of the Audit Committee and member of the Corporate Governance Committee*

The relationship between the members of the Board and the biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 12 of the annual report for the year ended 31 December 2014.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-Executive Directors

During the year ended 31 December 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors which represented one-third of the Board with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate Governance Report

Non-Executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election. Every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the non-executive Directors and independent non-executive Directors is appointed for a specific term of two years and is subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the overall management of the Company's business. The Board provides leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors make decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve a conflict of interest), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all relevant information of the Company. The Directors may seek independent professional advice under appropriate circumstances at the Company's expense, upon making request to the Board, for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

Continuous Professional Development of Directors

The existing Directors are continually kept up-to-date with the legal and regulatory developments, and business and market changes to facilitate the discharge of their responsibilities.

Newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Corporate Governance Report

During the year ended 31 December 2014, the Company provided to all Directors training materials prepared by qualified professionals for the Directors and links to video released by the Stock Exchange on (i) Amendments relating to the Connected Transaction Rules, Review of the Implementation of Inside Information Regime and Continuing Obligations under the Listing Rules, and Environmental, Social and Governance training; and (ii) Updates on Rules and Regulations and the Major Rules and Responsibilities of a Director. Directors namely Mr. Odjargal Jambaljamts, Dr. Battsengel Gotov, Dr. Oyungerel Janchiv, Mr. Batsaikhan Purev, Mr. Od Jambaljamts, Mr. Gankhuyag Adilbish, Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid have read the relevant training materials. The Company also organised an induction session conducted by qualified professionals for Mr. Gankhuyag Adilbish on Continuing Obligations, Connection Transactions, Model Code and Company's Operations and Business.

Mr. Unenbat Jigjid attended various training sessions during the year including Asian Roundtable on Corporate Governance, Global Institute of Directors Networking Meeting, Business and Human Rights, Corporate Secretary Training of Trainers and World Finance Conference conducted by various authorities and qualified professionals. Mr. Chan Tze Ching, Ignatius also attended various training sessions including Bank on Integrity–Managing Staff Integrity, Asian Financial Forum, Luncheon Talk: An Outlook of Organic Light Emitting Diode and The Challenges by Professor Ching W. Tang, LME Asia Seminar, Core Program for Banking (Module B), Independent Non-Executive Directors Forum, and Non-Executive Director Programme: Crisis Management – How will your board respond in a crisis? conducted by various authorities and qualified professionals during the year.

In addition, relevant reading materials including legal and regulatory update and seminar handouts have been provided to the Directors for their reference and studying.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Audit Committee

The Audit Committee comprises four members which includes one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise. There are three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius (chairman), Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid, and one non-executive Director, namely Mr. Gankhuyag Adilbish in the Committee. Mr. Gankhuyag Adilbish has been appointed as a member of the Audit Committee when Ms. Enkhtuvshin Gombo resigned as member of the Audit Committee of the Company on 13 October 2014.

The principal duties of the Audit Committee include the following:

- To review the financial statements and reports and to consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, the internal auditor or the external auditor before submission to the Board;
- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and to make recommendations to the Board on the appointment, reappointment and removal of the external auditor;

Corporate Governance Report

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and

- To review arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings during the year ended 31 December 2014 to review annual financial results and report in respect of the year ended 31 December 2013, and interim financial results and report for the six months ended 30 June 2014, and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, continuing connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditor twice during the year.

Remuneration Committee

The Remuneration Committee comprises three members, with a majority of independent non-executive Directors. The members are Mr. Ochirbat Punsalmaa (chairman) and Mr. Unenbat Jigjid, being independent non-executive Directors, and Mr. Odjargal Jambaljamts, executive Director.

The primary functions of the Remuneration Committee include determining the remuneration packages of individual executive Directors and senior management, making recommendation on the remuneration policy and structure for all Directors and senior management, assessing performance of executive Directors, approving the terms of executive Directors' service contracts, and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held one meeting during the year ended 31 December 2014 to review and determine the remuneration packages of the executive Directors and senior management and make recommendations to the Board on the overall remuneration policy and structure of the Company. Where appropriate, decisions were also taken by way of circulated resolutions.

The Company has established a formal and transparent procedure for formulating policies on the remuneration of the Directors and senior management of the Group. Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2014 is set out below:

Table 24. Remuneration band of the senior management

	2014
HKD3,500,001 to HKD4,000,000	**1**
HKD4,000,001 to HKD4,500,000	**—**
HKD4,500,001 to HKD5,000,000	**1**
HKD5,000,001 to HKD5,500,000	**2**

Details of the remuneration of each of the Directors for the year ended 31 December 2014 are set out in note 9 to the consolidated financial statements.

Corporate Governance Report

Nomination Committee

The Nomination Committee comprises three members, with a majority of independent non-executive Directors. The members are Mr. Odjargal Jambaljamts (chairman), executive Director, and Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid, independent non-executive Directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and to make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and the succession planning of Directors; and
- To assess the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to skills, industry experience, background, race, gender and other qualities. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee held two meetings during the year ended 31 December 2014 to review the structure, size, composition and diversity of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the AGM. The Nomination Committee also made recommendation to the Board on the appointment of Mr. Gankhuyag Adilbish as non-executive Director. Where appropriate, decisions were also taken by way of circulated resolutions. The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Committee

The Corporate Governance Committee comprises three members with a majority of independent non-executive Directors. The members are Mr. Unenbat Jigjid (chairman) and Mr. Chan Tze Ching, Ignatius, being independent non-executive Directors, and Mr. Od Jambaljamts, executive Director.

The Corporate Governance Committee was established by the Board for performing the functions set out in the code provision D.3.1 of the CG Code. The principal duties of the Corporate Governance Committee include the following:

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- To review and monitor the training and continuous professional development of Directors and senior management;

Corporate Governance Report

- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Corporate Governance Committee held one meeting during the year ended 31 December 2014. The Company's corporate governance policies and practices on compliance with legal and regulatory requirements, continuous professional development of directors and senior management, compliance of the Model Code, the Employees' Written Guidelines and the CG Code, and disclosure in the Corporate Governance Report were reviewed.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2014 is set out in Table 25 below:

Table 25. Attendance records

	Attendance/Number of Meetings						
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Corporate Governance Committee	Annual General Meeting	Extraordinary General Meeting
Odjargal Jambaljamts	5/5	2/2	1/1	N/A	N/A	0/1	1/1
Battsengel Gotov	5/5	N/A	N/A	N/A	N/A	0/1	1/1
Oyungerel Janchiv	3/5	N/A	N/A	N/A	N/A	0/1	0/1
Batsaikhan Purev	5/5	N/A	N/A	N/A	N/A	0/1	0/1
Od Jambaljamts	5/5	N/A	N/A	N/A	1/1	0/1	1/1
Enkhtuvshin Gombo (resigned on 13 October 2014)	5/5	N/A	N/A	2/2	N/A	0/1	0/0
Gankhuyag Adilbish (appointed on 13 October 2014)	0/0	N/A	N/A	0/0	N/A	0/0	0/1
Ochirbat Punsalmaa	5/5	2/2	1/1	2/2	N/A	0/1	0/1
Unenbat Jigjid	5/5	2/2	1/1	2/2	1/1	0/1	1/1
Chan Tze Ching, Ignatius	5/5	N/A	N/A	2/2	1/1	1/1	0/1

Apart from regular Board meetings, the Chairman also held meetings with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

Corporate Governance Report

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2014.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 111 to 112.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2014 amounted to USD536,000 and USD272,000 respectively.

An analysis of the remuneration paid to the external auditor of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2014 is set out below:

Table 26. Remuneration paid to the external auditor of the Company

Service Category	Fees Paid/ Payable
Audit Services	USD536,000
Non-audit Services[1]	USD272,000
	USD808,000

[1] including the fees for tax services and professional fees in relation to the Rights Issue.

INTERNAL CONTROLS

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Company and its subsidiaries, including financial, operational and compliance controls, risk management functions, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

COMPANY SECRETARY

Ms. Ng Sin Yee, Clare of Tricor Services Limited, external service provider, has been engaged by the Company as the Company Secretary. Her primary contact persons in the Company are Dr. Battsengel Gotov, executive Director and Chief Executive Officer and Ms. Uurtsaikh Dorjgotov, Executive Vice President and Chief Legal Counsel of the Company.

During the year ended 31 December 2014, Ms. Ng has complied with the professional training requirement of taking no less than 15 hours of relevant professional training as set out in Rule 3.29 of the Listing Rules.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company (the "**Articles**"), any one or more members of the Company holding on the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit the Board does not to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

Pursuant to Article 85 of the Articles, any member duly qualified to attend and vote at a general meeting who wish to propose a person other than a retiring director at the meeting for election as Director of the Company may lodge a Notice signed by the member (other than the person to be proposed) of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected at the Company's head office at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia or at the Registration Office at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, provided that the minimum length of the period, during which such Notice(s) are given, shall be at least 7 days, and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Shareholders who wish to put forward other proposals at general meetings may follow the procedures set out in the previous paragraph to request the Company to convene an extraordinary general meeting for business specified in the written requisition.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia
(For the attention of the Board of Directors/Chief Investor Relations Officer)

Email: contact@mmc.mn

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address apart from other specified address, if any, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. All members of the Board including non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the AGMs to meet shareholders and answer their enquiries.

According to CG Code Provision E.1.2, the chairman of the board should attend the AGM. Mr. Odjargal Jambaljamts, Chairman of the Board was unable to attend the 2014 AGM held on 14 May 2014 due to a business engagement. He will use his best endeavours to attend all future shareholders' meetings of the Company.

During the year under review, the Company has not made any changes to its Articles. An up to date version of the Company's Articles is also available on the Company's website and the Stock Exchange's website.

Directors' Report

The Directors submit herewith their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, its headquarters and principal place of business in Mongolia is located at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia, and its principal place of business in Hong Kong is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining, production, transportation and sale of coking coal products. The principal activities and other particulars of the subsidiaries and associates are set out in note 18 and note 19 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 27.

Table 27. Sales and purchases attributable to the major customers and suppliers

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	35.8%	
Five largest customers in aggregate	69.3%	
The largest supplier		34.9%
Five largest suppliers in aggregate		46.2%

Dr. Oyungerel Janchiv, Director of the Company, holds interests in NIC LLC which is one of the five largest suppliers disclosed above. Each of MCS Mining Group Limited, the controlling shareholder of the Company and Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts, Directors of the Company, has interests in MCS International LLC which is one of the five largest suppliers disclosed above.

Save as disclosed above, to the best knowledge of the Directors, none of the Directors nor any of their close associates nor any shareholder who holds more than 5% of the Shares has any interests in the customers or suppliers disclosed above.

Directors' Report

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2014 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 113 to 194.

TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividend, of USD282,837,000 (2013: loss of USD58,073,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 118.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2014. The Board does not recommend the payment of a dividend for the year ended 31 December 2014 (dividend for the year ended 31 December 2013: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2014 amounted to USD21,000 (2013: USD2,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment for approximately USD61,022,000. Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2014 are set out in note 25 to the consolidated financial statements. The borrowing amount totals USD276.8 million and all of it is in USD. The borrowing of USD40 million is at fixed rate and the remaining borrowings are at variable rate (with a fixed margin over LIBOR).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 195.

Directors' Report

DIRECTORS

The Directors during the financial year and up to the date of this annual report are:

Executive Directors

Mr. Odjargal Jambaljamts (Chairman of the Board)
Dr. Battsengel Gotov (Chief Executive Officer)

Non-executive Directors

Dr. Oyungerel Janchiv
Mr. Batsaikhan Purev
Mr. Od Jambaljamts
Ms. Enkhtuvshin Gombo (resigned on 13 October 2014)
Mr. Gankhuyag Adilbish (appointed on 13 October 2014)

Independent non-executive Directors

Mr. Ochirbat Punsalmaa
Mr. Unenbat Jigjid
Mr. Chan Tze Ching, Ignatius

In accordance with the Articles, Mr. Odjargal Jambaljamts, being an executive Director, Mr. Gankhuyag Adilbish and Dr. Oyungerel Janchiv, being non-executive Directors, and Mr. Chan Tze Ching, Ignatius, being an independent non-executive Director, will retire from directorship at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 12.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent in accordance with the guidelines set out under the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years. Each of the non-executive Directors and independent non-executive Directors is engaged on a letter of appointment with the Company for a term of two years.

None of the Directors proposed for re-election at the forthcoming AGM has entered into any service agreement with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed under the section headed "Connected transactions and continuing connected transactions" in this directors' report and "Material Related Party Transactions" in note 34 to the consolidated financial statements, no contract of significance, to which the Company or its subsidiary or its shareholder was a party and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

NON-COMPETITION UNDERTAKING

Pursuant to a deed of non-competition dated 20 September 2010, and as amended on 3 April 2012 and 4 July 2012 (the "**Deed of Non-competition**") executed by Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, MCS Mining Group Limited and MCS (Mongolia) Limited (collectively the "**Undertakers**") in favour of the Company (for itself and on behalf of the Group), the Undertakers undertake, among other things, that at any time when the shares of the Company are listed on the SEHK and for so long as the Undertakers and its associates together hold, whether individually or taken together, 30% or more of the issued share capital or are otherwise regarded as a controlling shareholder of the Company under the Listing Rules, the Undertakers will not, and will procure that its associates (excluding the Group) will not, directly or indirectly, either on its own account or with each other or in conjunction with or on behalf of any person, firm or company, except through a member of the Group, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business (except for their aggregate 10% interest in Quincunx (BVI) Ltd) which is or may be in competition with the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) of any member of the Group from time to time. In the event that a business opportunity in relation to the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) is made available to the Undertakers and/or any of their associates, the Undertakers shall promptly notify the Company in writing and refer such business opportunity for the Company's consideration and the Undertakers shall not and procure his/their associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity has been rejected by the Company and the principal terms on which the Undertakers or his/their associates invest or participate are no more favourable than those made available to the Company. Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2014, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition.

Each of the Undertakers has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2014.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2014, the interest and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**") as recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Table 28. Interests in Shares

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	3,564,524,011 (L)	38.48%
		2,815,457,053 (S)	30.40%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	3,368,638,731 (L)	36.37%
		2,921,761,960 (S)	31.54%
Dr. Oyungerel Janchiv (Note 3)	Interest of controlled corporation	282,083,332 (L)	3.05%
Mr. Batsaikhan Purev (Note 4)	Interest of controlled corporation	457,500,000 (L)	4.94%
Mr. Gankhuyag Adilbish (Note 5)	Interest of controlled corporation	29,548,948 (L)	0.32%
		11,819,579 (S)	0.13%

(L) - Long position (S) - Short position

Notes:

1. Mr. Odjargal Jambaljamts, through Novel Holdings Group Limited which is 100% owned by him, is interested in 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited held the entire interest of MCS Mining Group Limited which in turn held 3,102,876,464 shares and had a short position in 2,815,457,053 shares in MMC. Novel Holdings Group Limited also directly held 461,647,547 shares in MMC under its name.

2. Mr. Od Jambaljamts, through Trimunkh Limited which is 100% owned by him, is interested in 28.69% of MCS (Mongolia) Limited. MCS (Mongolia) Limited held the entire interest of MCS Mining Group Limited which in turn held 3,102,876,464 shares and had a short position in 2,815,457,053 shares in MMC. Trimunkh Limited also directly held 265,762,267 shares and had a short position in 106,304,907 shares in MMC under its name.

3. Dr. Oyungerel Janchiv, through Lotus Amsa Limited which is 100% owned by her, held 282,083,332 shares in MMC.

4. The shares were registered in the name of Shunkhlai Mining. Mr. Batsaikhan Purev is interested in 50% of Shunkhlai Group LLC which holds the entire interest of Shunkhlai Mining LLC which in turn holds the entire interest of Shunkhlai Mining.

5. Mr. Gankhuyag Adilbish, through Tugs Investments Limited which is 100% owned by him, held 29,548,948 shares and had a short position in 11,819,579 shares in MMC.

Directors' Report

Table 29. Interest in underlying Shares

Name of Director	Nature of interest	Ordinary shares of USD0.01 each Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme	Approximate percentage of total issued share capital
Dr. Battsengel Gotov	Beneficial owner	8,000,000 (L)	0.09%

(L) - Long position

Save as disclosed above, as at 31 December 2014, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO).

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date (the "**Adoption Date**"). Share Options could be granted within a period of 10 years from the Adoption Date. Therefore, as at 31 December 2014, the remaining life of the Share Option Scheme was approximately 5 years and 9 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

Eligibility

The Directors may invite any person belonging to any of the following classes of participants to take up options to subscribe for Shares:

a) any employee or proposed employee (whether full time or part-time and including any executive Director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest;

b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

c) any supplier of goods or services to any member of the Group or any Invested Entity;

d) any customer of the Group or any Invested Entity;

e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The basis of eligibility of any of the classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Company.

Directors' Report

Grant of options

Unless terminated by a resolution adopted at general meeting, the Directors shall be entitled at any time within a period of 10 years commencing on the Adoption Date to make an offer to such participant as the Directors may select to subscribe for such number of Shares at the subscription price as the Directors shall determine.

The option period of an option within which the Shares must be taken up may not end later than 10 years from the date of offer ("**Offer Date**"), while the Directors may fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the option can be exercised upon the grant of an option to participant. HKD1.00 is payable on acceptance of the option within 28 days from the Offer Date.

Subscription price

The subscription price in respect of any option must be at least the highest of:

a) the closing price of the Shares as stated in the SEHK's daily quotations sheet on the Offer Date;

b) the average closing price of the Shares as stated in the SEHK's daily quotations sheet for the five business days immediately preceding the Offer Date; and

c) the nominal value of the Shares.

Exercise of options

An option shall be exercisable in whole or in part by giving notice in writing to the Company accompanied by a payment for the full amount of the subscription price for the shares. An option shall be personal to the grantee and shall not be transferable or assignable.

Maximum number of shares available for subscription

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date which amounts to 359,712,250 Shares, representing 3.88% of the issued share capital of the Company as at the date of this annual report.

The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital from time to time. No option may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded.

Directors' Report

Maximum entitlement of each participant

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-months period must not exceed 1% of the Shares in issue. Each grant of options to a Director, chief executive or substantial Shareholder or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

Details of the movements in Share Options of the Company during the year ended 31 December 2014 are as follows:

Table 30. Director

					Number of Share Options				
Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2014	Granted during the year ended 31 December 2014	Lapsed during the year ended 31 December 2014	Cancelled during the year ended 31 December 2014	Exercise during the year ended 31 December 2014	Balance as at 31 December 2014
Dr. Battsengel Gotov	12 October 2011	(Note 1)	HKD6.66	3,000,000	–	–	–	–	3,000,000
	28 November 2012	(Note 2)	HKD3.92	5,000,000	–	–	–	–	5,000,000

Table 31. Employees of the Group other than the Directors

				Number of Share Options				
Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2014	Granted during the year ended 31 December 2014	Lapsed during the year ended 31 December 2014	Cancelled during the year ended 31 December 2014	Exercise during the year ended 31 December 2014	Balance as at 31 December 2014
12 October 2011	(Note 1)	HKD6.66	24,362,500	–	1,012,500	–	–	23,350,000
28 November 2012	(Note 2)	HKD3.92	17,750,000	–	1,000,000	–	–	16,750,000

Directors' Report

Notes:

1. The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:
   (1) first 25% of the Share Options granted - 12 October 2012 to 12 October 2019
   (2) second 25% of the Share Options granted - 12 October 2013 to 12 October 2019
   (3) third 25% of the Share Options granted - 12 October 2014 to 12 October 2019
   (4) fourth 25% of the Share Options granted - 12 October 2015 to 12 October 2019
2. The Share Options are subject to vesting scale in three tranches. The exercise periods are as follows:
   (1) first 25% of the Share Options granted - 28 November 2013 to 28 November 2020
   (2) second 25% of the Share Options granted - 28 November 2014 to 28 November 2020
   (3) third 50% of the Share Options granted - 28 November 2015 to 28 November 2020

Treatment of lapse of the share options

Pursuant to the Share Option Scheme, in the event that an employee ceases to be an employee of the Company before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine. The offer letter to grantees also states that any option shares that have not yet vested according to the vesting scales shall be considered "Unvested Shares", and upon cessation of employment or services on behalf of the Company for any reason, no further vesting of the option will occur and any unvested portion of the option will terminate.

The Directors determined that in the event that an employee ceases to be an employee of the Company before exercising the option in full, only unvested share options (but not all the outstanding share options) will lapse effective from 1 August 2013.

Adjustments of the exercise price and the number of Shares subject to the Options under the Share Option Scheme arising from the Rights Issue

As a result of the Rights Issue completed on 29 December 2014, adjustments are required to be made to the exercise price and the number of Shares falling to be issued upon the exercise of the Share Options in accordance with the terms of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the adjustment of share options under Rule 17.03(13) of the Listing Rules.

Directors' Report

A total of 48,100,000 Options are outstanding under the Share Option Scheme as at the completion of the Rights Issue. The exercise price and the number of the Shares falling to be issued under the outstanding Share Options have been adjusted pursuant to Clause 11 of the Share Option Scheme (the "**Option Adjustments**") as follows with effect from 1 January 2015, and such adjustments have been reviewed and confirmed by the independent financial adviser of the Company, Somerley Capital Limited:

Date of grant	Exercise period	Original Subscription Price (HKD)	Original number of Shares subject to Options	Adjusted Subscription Price (HKD)	Adjusted number of Shares subject to Options	Basis of additional Shares pursuant to the Option Adjustments
12 October 2011	12 October 2012 to 12 October 2019 12 October 2013 to 12 October 2019 12 October 2014 to 12 October 2019 12 October 2015 to 12 October 2019	6.66	26,350,000	4.53	38,750,000	8 additional Shares for every 17 Shares subject to Options
28 November 2012	28 November 2013 to 28 November 2020 28 November 2014 to 28 November 2020 28 November 2015 to 28 November 2020	3.92	21,750,000	2.67	31,985,294	8 additional Shares for every 17 Shares subject to Options

The above adjustments satisfy the requirements of the Supplementary Guidance on Main Board Listing Rule 17.03(13) issued by the Stock Exchange on 5 September 2005.

Separate notification regarding the adjustments will be sent by the Company to each holder of the Share Options.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2014 had the Company or any of its subsidiaries or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, so far as was known to any Director or chief executive of the Company and based on the information publicly available, shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Table 32. Interest in the Shares and underlying Shares

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
MCS Mining Group Limited (Note 1)	Beneficial owner	3,102,876,464 (L)	33.50%
		2,815,457,053 (S)	30.40%
MCS (Mongolia) Limited (Note 1)	Interest of controlled corporation	3,102,876,464 (L)	33.50%
		2,815,457,053 (S)	30.40%
Novel Holdings Group Limited (Note 1)	Interest of controlled	3,564,524,011 (L)	38.48%
	corporation/Beneficial owner	2,815,457,053 (S)	30.40%
Trimunkh Limited (Note 1)	Interest of controlled	3,368,638,731 (L)	36.37%
	corporation/Beneficial owner	2,921,761,960 (S)	31.54%
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	3,564,524,011 (L)	38.48%
		2,815,457,053 (S)	30.40%
Ms. Munkhsuren Surenkhuu (Note 1)	Interest of spouse	3,368,638,731 (L)	36.37%
		2,921,761,960 (S)	31.54%
Kerry Mining (UHG) Limited ("**KMUHG**") (Note 2)	Beneficial owner	750,000,000 (L)	8.10%
KMM (Note 2)	Interest of controlled corporation	750,000,000 (L)	8.10%
Fexos Limited ("**Fexos**") (Note 2)	Interest of controlled corporations	756,890,120 (L)	8.17%
Kerry Holdings Limited ("**KHL**") (Note 2)	Interest of controlled corporations	756,890,120 (L)	8.17%
Kerry Group Limited ("**KGL**") (Notes 2 and 3)	Interest of controlled corporations	1,103,925,491 (L)	11.92%
Trade and Development Bank of Mongolia	Beneficial owner	507,749,999 (L)	5.48%

(L) - Long position (S) - Short position

Directors' Report

Notes:

(1) The entire issued share capital of MCS Mining Group Limited is owned by MCS (Mongolia) Limited. MCS (Mongolia) Limited is owned as to approximately 49.84% by Novel Holdings Group Limited which in turn is wholly-owned by Mr. Odjargal Jambaljamts, and 28.69% by Trimunkh Limited which in turn is wholly-owned by Mr. Od Jambaljamts. MCS Mining Group Limited held 3,102,876,464 shares and had a short position in 2,815,457,053 shares in MMC. Novel Holdings Group Limited and Trimunkh Limited each also directly held 461,647,547 shares and 265,762,267 shares in MMC. Trimunkh Limited had a short position in 106,304,907 shares in MMC. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.

(2) (a) KMUHG is a direct wholly-owned subsidiary of KMM. Fexos controls more than one-third of the voting power of KMM. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL were deemed to be interested in the 750,000,000 shares that KMUHG was interested.

(b) Fexos controls more than one-third of the voting power of Kerry Asset Management Limited ("**KAM**"). Fexos, KHL and KGL were deemed to be interested in the 6,890,120 shares that KAM was interested.

(3) Out of KGL's corporate interest in 1,103,925,491 shares of the Company, KGL's wholly-owned subsidiaries (other than KHL) were interested in 347,035,371 shares of the Company, KHL (through companies that it controls more than one-third of the voting power) was interested in 756,890,120 shares of the Company.

Save as disclosed above, as at 31 December 2014, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2014, the non-exempted connected transactions of the Group were USD1,666,760 and the CCTs were USD57,124,677.

The details of non-exempt connected transactions and CCTs for the year ended 31 December 2014 are set out on pages 53 to 58 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2014, the Company pledged Energy Resources LLC'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; 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 Group pledged its Collection and Cash Collateral accounts with BNP Paribas, coal sales contracts with Inner Mongolia Risun Coal Industry Co., Ltd, Shenhua Bayannaoer Energy Co., Ltd and Inner Mongolia Qinghua Group of China and coal stockpile of ER for the BNP and ICBC Facility.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.à.r.l. are shared among the BNP and ICBC Facility and the USD600 million Senior Notes.

Directors' Report

ER pledged its 4,207,500 common shares, being 16.46% of the common shares held by it in International Medical Centre LLC pursuant to the Share Pledge between Energy Resources LLC 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 the above pledges is USD832.7 million as at 31 December 2014.

EMOLUMENT POLICY

The emolument policy of the Group is set to (1) recruit, retain and motivate qualified and experienced staff, including directors and senior management, (2) apply a responsible and sustainable remuneration practice, that is determined by reference to the performance of the individual, and the operational and financial results of the Group and is in line with the market practice and conditions, (3) ensure that no individual participates in deciding his/her own remuneration, and (4) ensure that the base salary levels and annual incentives are competitive in the market and comparable to the similar jobs in the peer companies.

The emolument of executive directors and senior management of the Group is determined by the remuneration committee of the Board, the emolument of non-executive directors and independent non-executive directors is recommended by the remuneration committee of the Board and determined by the Board and the emolument of staff is determined by the group management.

In addition to a base salary, the emolument of staff and directors and senior management is structured to include bonuses (such as a discretionary bonus), and benefits.

The Company has a Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company. The Company has not granted any Share Options to its employees for the year ended 31 December 2014.

The required competencies, skills and performance of the individual concerned and the specific role and responsibilities of the relevant position are considered in determining the emolument of an individual director or member of senior management.

RETIREMENT SCHEME

The Group participates in retirement benefit schemes pursuant to the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 7% of the eligible employees' salaries. Based on collective agreement signed in 2013 and outcome of meeting with officials from Ministry of Mining, Labour union and the employers' representatives of mining industry, each employee who retires from mining industry shall receive payment equal to double of the minimum wage of the industry multiplied by the number of years worked in the mining industry.

The Group has no other retirement schemes beyond the retirement contributions described above. Particulars of the retirement scheme are set out in note 6 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors' Report

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

On 9 June 2011, MCS Mining Group Limited, the controlling shareholder of the Company, entered into a share charge over the Shares with Standard Bank Plc ("**SB Charged Shares**") in respect of 334,483,750 Shares of the Company and on 27 November 2012, 15 March 2013, 5 April 2013, 10 April 2013 and on 3 December 2013 entered into further share charge of 465,516,250, 83,337,955, 100,000,000, 83,000,000 and 45,172,994 Shares, respectively, in respect of the SB Charged Shares, whereby MCS Mining Group Limited granted security over the SB Charged Shares in favour of Standard Bank Plc. On 18 December 2013, Standard Bank Plc resigned as security agent and BNP Paribas Hong Kong Branch was appointed as replacement security agent. On 17 December 2014, MCS Mining Group Limited entered into a share charge over the Shares with BNP Paribas Hong Kong Branch in respect of 1,667,266,423 Shares of the Company.

On 18 November 2011, MCS Mining Group Limited entered into a share charge over the Shares with International Finance Corporation in respect of 36,679,681 Shares of the Company and on 28 December 2011, International Finance Corporation exercised its conversion right to convert loan into 19,706,308 Shares, whereby MCS Mining Group Limited granted shares in favour of International Finance Corporation.

ISSUE OF EQUITY SECURITIES

On 29 December 2014, the Company issued 5,557,554,750 rights shares to the qualifying shareholders by way of rights issue at the subscription price of HKD0.28 per rights share on the basis of three rights shares for every two existing shares held by qualifying shareholders whose names appeared on the register of members of the Company on 2 December 2014. Approximately HKD1,556 million was raised from the issuance of the rights shares, net proceeds of which will be used to strengthen the capital base and provide greater financial flexibility for the Group, repay some of the existing indebtedness, and provide general working capital for the development of the Group's existing and future business and investment opportunities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 34 to the consolidated financial statements. In respect of those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Rules 8.08(1) (a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the SEHK) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, and must have an expected market capitalisation at the time of listing of not less than HKD50 million.

Directors' Report

At the time of listing, the Group applied to the SEHK to request the SEHK to exercise, and the SEHK exercised its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of the Company of 20% or such higher percentage of the issued share capital as would be held by the public in the event that the whole or a part of the over-allotment option is exercised (which discretion may be exercised in respect of issuers with an expected market capitalization at the time of listing of over HKD10,000 million) on the basis that the SEHK was satisfied that the number of the shares concerned and the extent of their distribution would enable the market to operate properly with the lower percentage, and on the condition that the Company would make appropriate disclosure of the lower prescribed percentage of public float in the prospectus of the Company dated 28 September 2010 and confirm sufficiency of public float in the successive annual reports after listing. At the time of the listing of the Company on 13 October 2010, the market capitalization exceeded HKD10,000 million.

The over-allotment option was fully exercised on 18 October 2010 in respect of an aggregate of 107,914,000 shares and accordingly the lower public float percentage of the Company accepted by the SEHK is approximately 22.3%. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

POST BALANCE SHEET EVENTS

There have been no post balance sheet events subsequent to 31 December 2014 which require adjustment to or disclosure in the annual report.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2014. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 14 May 2014.

Messrs. KPMG will retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of Messrs. KPMG as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Odjargal Jambaljamts
Chairman

Hong Kong, 23 March 2015

Independent Auditor's Report

Independent auditor's report
to the shareholders of Mongolian Mining Corporation
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Mongolian Mining Corporation ("the Company") and its subsidiaries (together "the Group") set out on page 113 to 194, which comprise the consolidated and company statement of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 March 2015

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

	Note	2014 USD'000	2013 USD'000
Revenue	4	**328,307**	437,339
Cost of revenue	5	**(335,510)**	(361,485)
Gross (loss)/profit		**(7,203)**	75,854
Other revenue		**3,319**	592
Other net income		**34,171**	7,073
Selling and distribution costs	6(c)	**(56,445)**	—
General and administrative expenses		**(30,916)**	(52,410)
Impairment loss	6(c)	**(190,000)**	—
(Loss)/profit from operations		**(247,074)**	31,109
Finance income	6(a)	**3,911**	9,551
Finance costs	6(a)	**(98,431)**	(95,095)
Net finance costs	6(a)	**(94,520)**	(85,544)
Share of losses of associates		**(19)**	(1,087)
Share of losses of joint venture		**(70)**	—
Loss before taxation	6	**(341,683)**	(55,522)
Income tax	7	**58,978**	(2,551)
Loss for the year		**(282,705)**	(58,073)
Attributable to:			
Equity shareholders of the Company		**(282,837)**	(58,073)
Non-controlling interests		**132**	—
Loss for the year		**(282,705)**	(58,073)
Basic loss per share	8	**(5.95) cents**	(1.26) cents
Diluted loss per share	8	**(5.95) cents**	(1.26) cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	**2014** **USD'000**	2013 USD'000
Loss for the year		**(282,705)**	(58,073)
Other comprehensive income for the year (after reclassification adjustments)	12		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(80,512)**	(137,693)
Total comprehensive income for the year		**(363,217)**	(195,766)
Attributable to:			
Equity shareholders of the Company		**(363,349)**	(195,766)
Non-controlling interests		**132**	—
Total comprehensive income for the year		**(363,217)**	(195,766)

The notes on pages 121 to 194 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2014

	Note	**2014 USD'000**	2013 USD'000
Non-current assets			
Property, plant and equipment, net	14	**594,926**	574,467
Construction in progress	15	**58,421**	148,371
Lease prepayments	16	**73**	85
Intangible assets	17	**511,089**	696,354
Interest in associates	19	**63**	2,203
Interest in joint venture		**15**	—
Other non-current assets	20	**25,823**	6,590
Deferred tax assets	27(b)	**37,968**	21,781
Total non-current assets		**1,228,378**	1,449,851
Current assets			
Assets held for sale	21	**484**	56,906
Inventories	22	**48,900**	106,461
Trade and other receivables	23	**152,207**	209,117
Cash and cash equivalents	24	**252,856**	76,535
Total current assets		**454,447**	449,019
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	25(b)	**114,818**	141,818
Trade and other payables	26	**298,118**	287,951
Current taxation	27(a)	**68**	3,426
Obligations under finance leases		**8**	81
Total current liabilities		**413,012**	433,276
Net current assets		**41,435**	15,743
Total assets less current liabilities		**1,269,813**	1,465,594

Consolidated Statement of Financial Position

At 31 December 2014

	Note	2014 USD'000	2013 USD'000
Non-current liabilities			
Long-term borrowings, less current portion	25(a)	**161,978**	150,089
Senior notes	28	**595,906**	594,329
Provisions	30	**12,995**	10,118
Deferred tax liabilities	27(b)	**101,640**	149,627
Obligations under finance leases		**—**	9
Other non-current liabilities		**456**	455
Total non-current liabilities		**872,975**	904,627
NET ASSETS		**396,838**	560,967
CAPITAL AND RESERVES			
Share capital	31(c)	**92,626**	37,050
Reserves		**303,920**	523,917
Total equity attributable to equity shareholders of the Company		**396,546**	560,967
Non-controlling interests		**292**	—
TOTAL EQUITY		**396,838**	560,967

Approved and authorised for issue by the board of directors on 23 March 2015.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 121 to 194 form part of these financial statements.

Statement of Financial Position

At 31 December 2014

	Note	2014 USD'000	2013 USD'000
Non-current assets			
Interests in subsidiaries	18	**1,428,668**	1,337,384
Total non-current assets		**1,428,668**	1,337,384
Current assets			
Trade and other receivables	23	**7**	707
Cash at bank and in hand	24	**14,506**	519
Total current assets		**14,513**	1,226
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	25(b)	**63,000**	80,000
Trade and other payables	26	**88,887**	122,476
Total current liabilities		**151,887**	202,476
Net current liabilities		**(137,374)**	(201,250)
Total assets less current liabilities		**1,291,294**	1,136,134
Non-current liabilities			
Long-term borrowings, less current portion	25(a)	**70,805**	47,708
Senior notes	28	**595,906**	594,329
Total non-current liabilities		**666,711**	642,037
NET ASSETS		**624,583**	494,097
CAPITAL AND RESERVES			
Share capital	31(a)	**92,626**	37,050
Reserves		**531,957**	457,047
TOTAL EQUITY		**624,583**	494,097

Approved and authorised for issue by the board of directors on 23 March 2015.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 121 to 194 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

		Attributable to equity shareholders of the Company							
	Note	Share capital USD'000 (Note 31 (c))	Share premium USD'000 (Note 31 (e)(i))	Other reserve USD'000 (Note 31 (e)(ii))	Exchange reserve USD'000 (Note 31 (e)(iii))	Retained earnings/ (accumulated losses) USD'000	Total USD'000	Non-controlling interests USD'000	Total equity USD'000
At 1 January 2013		37,050	608,650	22,835	(93,957)	177,435	752,013	–	752,013
Changes in equity for 2013:									
Loss for the year		–	–	–	–	(58,073)	(58,073)	–	(58,073)
Other comprehensive income		–	–	–	(137,693)	–	(137,693)	–	(137,693)
Total comprehensive income		–	–	–	(137,693)	(58,073)	(195,766)	–	(195,766)
Equity-settled share-based transactions	29	–	–	4,215	–	505	4,720	–	4,720
At 31 December 2013		37,050	608,650	27,050	(231,650)	119,867	560,967	–	560,967
At 1 January 2014		**37,050**	**608,650**	**27,050**	**(231,650)**	**119,867**	**560,967**	**–**	**560,967**
Changes in equity for 2014:									
Loss for the year		**–**	**–**	**–**	**–**	**(282,837)**	**(282,837)**	**132**	**(282,705)**
Other comprehensive income		**–**	**–**	**–**	**(80,512)**	**–**	**(80,512)**	**–**	**(80,512)**
Total comprehensive income		**–**	**–**	**–**	**(80,512)**	**(282,837)**	**(363,349)**	**132**	**(363,217)**
Issuance of shares under rights issue		**55,576**	**139,877**	**–**	**–**	**–**	**195,453**	**–**	**195,453**
Contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**160**	**160**
Equity-settled share-based transactions	29	**–**	**–**	**3,475**	**–**	**–**	**3,475**	**–**	**3,475**
Appropriation to statutory surplus reserve		**–**	**–**	**14**	**–**	**(14)**	**–**	**–**	**–**
At 31 December 2014		**92,626**	**748,527**	**30,539**	**(312,162)**	**(162,984)**	**396,546**	**292**	**396,838**

The notes on pages 121 to 194 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	Note	2014 USD'000	2013 USD'000
Cash flows from operating activities			
Loss before taxation		**(341,683)**	(55,522)
Adjustments for:			
Depreciation and amortisation	6(c)	**46,145**	65,132
Impairment loss on trade and other receivables	6(c)	**8,806**	17,220
Impairment loss on non-financial assets	6(c)	**190,000**	—
Share of losses of associates and joint venture		**89**	1,087
Gain on disposal of property, plant and equipment and assets held for sale	6(c)	**(36,881)**	(7,270)
Net finance costs	6(a)	**94,520**	85,544
Equity-settled share-based payment expenses	6(b)	**3,475**	4,720
Employee benefit accrued		**59**	—
Changes in working capital:			
Decrease/(increase) in inventories		**42,061**	(33,075)
Decrease/(increase) in trade and other receivables		**10,427**	(10,559)
Increase in trade and other payables		**48,195**	97,698
(Increase) /decrease in other non-current assets		**(23,865)**	455
Cash generated from operations		**41,348**	165,430
Income tax paid	27(a)	**(175)**	(4,719)
Net cash generated from operating activities		**41,173**	160,711
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(67,465)**	(183,465)
Proceeds from disposal of property, plant and equipment and assets held for sale		**92,664**	—
Payment for acquisition of an associate, net of cash acquired		**(107)**	—
Withdrawal of time deposits		**—**	190,000
Interest received		**690**	14,424
Net cash generated from investing activities		**25,782**	20,959

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	Note	2014 USD'000	2013 USD'000
Financing activities			
Proceeds from issue of shares		**195,453**	–
Proceeds from borrowings		**146,200**	60,000
Repayment of borrowings		**(163,818)**	(186,818)
Interest paid		**(68,471)**	(72,478)
Contributions from non-controlling interest		**160**	–
Net cash generated from/(used in) financing activities		**109,524**	(199,296)
Net increase/(decrease) in cash and cash equivalents		**176,479**	(17,626)
Cash and cash equivalents at beginning of the year		**26,535**	44,322
Effect of foreign exchange rate changes		**(158)**	(161)
Cash and cash equivalents at end of the year	24	**202,856**	26,535

The notes on pages 121 to 194 form part of these financial statements.

Notes to Consolidated Financial Statements

1 CORPORATE INFORMATION

Mongolian Mining Corporation ("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 (together referred to as "the Group") are principally engaged in the mining, processing, transportation and sale of coal.

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

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 rationalise 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 its all assets were transferred to Mongolian Coal Corporation Limited on 16 July 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), promulgated by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

As of 31 December 2014, the Group had balance of cash and cash equivalents of USD252,856,000 and aggregate outstanding short-term borrowings and current portion of long-term borrowings of USD114,818,000 together with aggregate payables of USD298,194,000, which are due within the next twelve months.

In order to enhance the Group's liquidity and solvency position, the directors of the Company have taken measures, including but not limited to (i) banking facilities available from the Group's bankers; (ii) pursuing discussions to reach long term coal offtake arrangements with its existing and new customers; and (iii) renegotiating contractual arrangements, including payment terms, to elevate the working capital requirements carried by suppliers and contractors.

Based on the Group's business plan and cash flow forecast, and with the ongoing support from its bankers and its shareholders, the Group expects to have sufficient financial resources to cover its operating costs and to meet its financing commitments. Therefore the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 December 2014. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates and a joint venture.

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

– Financial instruments classified as available-for-sale or as trading securities (see Note 2(f));

– Derivative financial instruments (see Note 2(g)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to see (see Note 2(x)).

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.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

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

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- IFRIC 21*, Levies*
- Amendments to IAS 32, *Financial instruments: Presentation - Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Impairment of assets: Recoverable amount disclosures for non-financial assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of adoption of the new or amended IFRSs are discussed below:

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

Amendments to IAS 32, Financial instruments: Presentation - Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Impairment of assets: Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements, as the Group estimates impairment loss or impairment reversal been recognised for the year ended 31 December 2014 based on value in use.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 2(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an interest in an associate (see Note 2(e)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see Note 2(x)).

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale (see Note 2(x)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities which do not fall into categories of investments in securities held for trading neither dated debt securities are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position as cost less impairment losses (see note 2(k)).

When the investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment, which consist of buildings, plant and equipment, motor vehicles, office equipment, mining properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

In open pit mining operations, the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Stripping costs incurred during the development phase of a mine are capitalised as stripping activity asset forming part of the cost of constructing the mining properties.

Stripping costs incurred during the production phase of a surface mine are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred (Note 2(l)), unless the stripping activity can be shown to give rise to probably future economic benefits from the mineral property by improving the access to the ore body, the component of the ore body for which assess has been improved is identifiable and the costs associated with that component can be reliably measured, in which case the stripping costs would be capitalised as stripping activity asset included in property, plant and equipment – mining properties.

All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised at cost less impairment losses (Note 2(k)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (Note 2(w)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than mining properties, over their estimated useful lives using the straight-line method, after taking into account the estimated residual values.

The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
– Buildings and plants	10-40 years
– Machinery and equipment	10 years
– Motor vehicles	5-10 years
– Office equipment	3-10 years

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Mining properties, except for stripping activity assets related to capitalised stripping costs incurred during the production phase, are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Stripping activity assets related to stripping costs incurred during the production phase are depreciated using a units-of-production basis over the proven and probable coal reserves of the component to which they relate.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets

Intangible assets (acquired mining rights and softwares) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(k)).

Intangible assets (acquired mining rights) are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Amortisation of other intangible assets with finite useful lives is recognised in profit or loss on a straight-line basis over the expected useful lives. The softwares are amortised over 10 years from the date they are available for use.

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iv) Lease prepayments

Lease prepayments represent the costs of acquiring the land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(k)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets

(i) Impairment of investment in debt and equity securities and other receivables

Investment in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associate and joint ventures accounted for under the equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(k)(ii).

— For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(i) Impairment of investment in debt and equity securities and other receivables (Continued)

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— lease prepayments;

— intangible assets;

— other non-current assets (excluding receivables); and

— investment in subsidiaries, associates and joint ventures in the Company's statement of financial position.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss for the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(k)(i) and (ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

Coal inventories are physically measured or estimated and valued at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated future sales price of the product the Group expects to realise when such item is sold or processed, less estimated costs to complete and bring the product to sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued for the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in an other reserve within equity. The fair value is measured at grant date using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interests in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in Mongolia. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure, which is included in the mining properties. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. 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 and the corresponding asset are recognised at the appropriate discount rate.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue associated with the sale of coal is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Translation of foreign currencies

The presentation currency of the Group is USD. The functional currency of the Company and the investment holding companies is USD and the functional currency of other group entities located in Mongolia is Mongolian Togrog ("MNT"). Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Translation of foreign currencies (Continued)

The results of operations in Mongolia are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into USD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale the non-current asset is not depreciated or amortised.

Notes to Consolidated Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to Consolidated Financial Statements

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. In addition to those disclosed in Note 29 about equity-settled share-based payment transactions and in Note 33(c) about the environmental contingencies, other significant accounting estimates and judgements were summarised as follows:

(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 properties (the numerator). The capitalised cost of mining properties 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.

Notes to Consolidated Financial Statements

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(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 in the provision of the impairment loss and affect the Group's net asset value.

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

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

(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.

Notes to Consolidated Financial Statements

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(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

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

There are two types of stripping activity:

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

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

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

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

Notes to Consolidated Financial Statements

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(viii) Capitalised stripping costs (Continued)

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

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

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

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

(ix) Taxation

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

Notes to Consolidated Financial Statements

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(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).

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. Revenue during the year ended 31 December 2014 include approximately USD130,602,000 (the year ended 31 December 2013: nil) which arose from sales of washed hard coking coal to customers through agent sales arrangements for diversifying and expanding the Group's sales channels. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2014 **USD'000**	2013 USD'000
Washed hard-coking coal ("**HCC**")	**280,081**	392,487
Washed semi-soft coking coal ("**SSCC**")	**4,277**	2,452
Washed thermal coal ("**middlings**")	**43,925**	38,530
Raw coal ("**ROM coal**")	**24**	3,870
	328,307	437,339

During the year ended 31 December 2014, the Group had two customers that individually exceeded 10% of the Group's turnover, being USD117,673,000 and USD34,427,000, respectively. 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.

Details of concentrations of credit risk arising from these customers are set out in Note 32(b).

Notes to Consolidated Financial Statements

5 COST OF REVENUE

	2014 **USD'000**	2013 USD'000
Mining costs	**126,841**	137,268
Processing costs	**31,596**	38,824
Transportation costs	**74,383**	96,748
Others (Note (i))	**62,069**	88,645
Cost of revenue during mine operations	**294,889**	361,485
Cost of revenue during idled mine period (Note (ii))	**40,621**	—
Cost of revenue	**335,510**	361,485

Note:

(i) Others include USD13,656,000 (2013: USD26,621,000) relating to the royalty tax on the coals sold.

(ii) Cost of revenue during idled mine period for the year ended 31 December 2014 includes USD27,954,000 (2013: nil) of mining contractor costs and depreciation expense relates to idled plant and equipment.

Notes to Consolidated Financial Statements

6 LOSS BEFORE TAXATION

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

(a) Net finance costs:

	2014 USD'000	2013 USD'000
Interest income	**(3,911)**	(9,551)
Finance income	**(3,911)**	(9,551)
Net change in fair value of derivative component of senior notes (Notes 23 and 28)	**700**	11,720
Interest on bank and other borrowings	**22,575**	21,456
Interest on liability component of convertible bond	**—**	1,034
Interest on liability component of senior notes (Note 28)	**54,827**	54,688
Transaction costs	**3,440**	2,777
Unwinding interest on		
— Obligations under finance lease	**8**	35
— Accrued reclamation obligations (Note 30)	**808**	1,163
Less: Interest expense capitalised into construction in progress	**(8,617)**	(16,248)
Net interest expense	**73,741**	76,625
Foreign exchange loss, net	**24,690**	18,470
Finance costs	**98,431**	95,095
Net finance costs	**94,520**	85,544

* Borrowing costs have been capitalised at a rate of 8.1% per annum for both years ended 31 December 2014 and 2013.

(b) Staff costs:

	2014 USD'000	2013 USD'000
Salaries, wages, bonuses and benefits	**25,167**	36,240
Retirement scheme contributions	**3,015**	4,516
Equity-settled share-based payment expenses (Note 29)	**3,475**	4,720
	31,657	45,476

Notes to Consolidated Financial Statements

6 LOSS BEFORE TAXATION (Continued)

(b) Staff costs: (Continued)

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 whereby the Group is required to make contributions to the Schemes at a rate of 7% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

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

(c) Other items:

	2014 USD'000	2013 USD'000
Selling and distribution costs (Note (i))	**56,445**	—
Depreciation and amortisation	**46,145**	65,132
Provision for impairment losses on trade and other receivables (Note 23(b))	**8,806**	7,029
Provision for impairment loss on non-financial assets (Note (ii))	**190,000**	—
Impairment losses on trade and other receivables directly written off to profit or loss	**—**	10,191
	198,806	17,220
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	**2,224**	4,196
– hire of other assets (including property rentals)	**2,006**	1,184
	4,230	5,380
Net gain on disposal of property, plant and equipment and assets held for sale	**(36,881)**	(7,270)
Auditor's remuneration		
– audit services	**536**	536
– tax and other services (Note (iii))	**272**	399
	808	935
Cost of inventories (Note (iv))	**335,510**	361,485

Notes to Consolidated Financial Statements

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

Note:

(i) Selling and distribution costs

Selling and distribution costs during the year ended 31 December 2014 represent fees and charges incurred for importing coal into China, logistics and transportation costs, governmental fees and charges and fixed agent fees associated with the new market penetration strategy to diversify and expand sales channels in inland China.

(ii) Impairment of non-financial assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2014, according to IAS 36, Impairment of assets, management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress, intangible assets and long-term prepayments related to the UHG Mine and BN Mine operations (collectively referred to as "UHG and BN Assets") with reference to independent valuation reports. For the purpose of this, the UHG and BN Assets are treated as a cash generating unit ("CGU").

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

– Recoverable reserves and resources

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

– Growth rate

Instead of using a steady growth rate over the estimation period longer than five years, the cash flow projection made at the year end of 2014 and the year end of 2013 followed the same mechanism as coal product price multiplied by sales quantity, which was consistent throughout the whole life-of-mine time.

– Coal prices

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

Coal price for the next five years estimated at the year end of 2014 declined by approximately 30% than that at the year end of 2013, which was updated with reference to the BN Mine product price in 2014 and the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate. The treatment was consistent among estimations made at the year end of 2013 and the year end of 2014.

Notes to Consolidated Financial Statements

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

(ii) Impairment of non-financial assets (Continued)

– Sales quantity/production profile

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

Compared with the estimated production volumes as at the year end of 2013, changes were made between years in 2014 assumption, to reflect the latest production plan standing as at 31 December 2014. Nonetheless, total production volume for the whole life-of-mine time remained the same between 2013 and 2014 assumptions as the mining activity would resume based on market conditions. The management will make decision in due course on the resumption of mining activities and operation of the BN mine.

– Operating costs

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

– Capital expenditure

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

– Discount rate

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

With reference to the independent valuation report, post-tax discount rate of 20% was applied to the future cash flows projection at the year end of 2014, and 21.5% at the year end of 2013. Such change was a combined result of the updates on target capital structure of debt-to-equity ratio, risk-free rate and other risk premium factors. Further, the updates were made to match with the latest cash flow projection modeling.

As at 31 December 2014, the carrying amount of the CGU exceeds its recoverable amount by USD190,000,000. In light of a regular portfolio review, inflation pressures on operating costs, different product quality different mine has, also following the latest coal price environment as elaborated below, the impairment loss of USD190,000,000 has been recognised in relation to the mining rights of BN Mine to reflect significant downward pressure on coking coal prices due to persisting oversupply situation in the coal industry (see Note 17).

Notes to Consolidated Financial Statements

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

(ii) Impairment of non-financial assets (Continued)

The BN Mine was acquired by the Company on 31 May 2011 when the Group entered into a share purchase agreement ("Share Purchase Agreement") with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited (collectively the "Seller") in relation to the acquisition of the entire issued share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "Acquisition"). Baruun Naran Limited ultimately owns the BN Mine. The Acquisition was completed on 1 June 2011. In order to rationalise the Seller's structure which was not cost-effective for the Group, Mongolian Coal Corporation Limited, a wholly-owned subsidiary of the Company which acted as the buyer of the Acquisition, decided to wind up Baruun Naran Limited voluntarily on 21 June 2012. Accordingly, Baruun Naran Limited (a Gibraltar registered company) was liquidated and all of its assets were transferred to Mongolian Coal Corporation Limited on 16 July 2012.

The relevant amount of intangible assets relevant to the mining right of the BN Mine as at the time of acquisition was USD596,557,000 of cost. Pursuant to the Share Purchase Agreement, the Group agreed with the Seller that, the consideration for the Share Purchase Agreement may be adjusted as follows: in approximately 18 months to 21 months from the date of the Share Purchase Agreement, an additional payment may be payable to the Seller or a clawback may be payable by the Seller in the amount of USD3.00 per tonne to the extent that total proved and probable reserves (as defined under the Australian Code for Reporting of Mineral Resources and Ore Reserves) contained in the BN Mine (the "Total Reserves") exceeds 150,000,000 tonnes or are less than 150,000,000 tonnes, respectively (the "Reserve Adjustment"). Under the Reserve Adjustment, the maximum amount payable to the Seller would be US$105,000,000 which was consistent with the Seller's own estimation of the Total Reserves being approximately 185,000,000 tonnes based on a report issued by SRK Consulting (Australasia) Pty Ltd. in March 2011.

The Group has, according to the relevant clauses in the Share Purchase Agreement, conducted additional geological and technical work to verify the estimations of the Total Reserves. In November 2012, independent technical review work confirmed the final Total Reserves as set out in the Share Purchase Agreement and pursuant to the Share Purchase Agreement, the Group shall pay to the Seller an aggregate amount of USD105,000,000 (the "Reserves Adjustment Payment").

The Reserve Adjustment Payment was highly linked to the results of the independent valuations/ quantifications of the physical coal reserves by both the Seller and the Group. Given the nature of coal reserves, whose existence is unaffected by the passage of time, the management of the Company viewed the Reserve Adjustment Payment as consideration for the purchase of additional coal reserves and therefore considered that the Reserve Adjustment Payment should be recognised in the consolidated balance sheet on a basis consistent with the right to mine the 150,000,000 tonnes covered by the initial consideration under the Share Purchase Agreement. The amount of USD105,000,000 was therefore recognised as an addition to the acquired mining right.

Therefore, the relevant amount of intangible assets relevant to the mining right of the BN Mine after the independent re-valuation performed was USD701,557,000 of cost (comprising an initial amount of approximately USD596,557,000 and an additional amount of approximately USD105,000,000 due to the Reserve Adjustment).

Coking coal products from the BN Mine are mainly SSCC. Due to the fact that the coking coal market experienced continuing price decline in 2014 amid the oversupply situation faced by the global industry and also China market, the average selling price of SSCC of DAP GM terms declined from USD71.2 per tonne at year end of 2013 to USD37.9 per tonne at year end of 2014.

Notes to Consolidated Financial Statements

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

(ii) Impairment of non-financial assets (Continued)

The management, therefore, refocused on the UHG Mine operation as part of the Group's strategic response to the declining coal market situation. Consequently, no mining activity at the BN Mine areas throughout the financial year ended 31 December 2014. There is no clear timetable set for any possible resumption of mining operations at the BN mine. All will be subject to market conditions. The management will monitor market situation and make relevant decisions in connection with the overall Company's strategy to minimize operating and capital expenses and focus on liquidity management.

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

	USD'000
1% decrease in long-term coal price	27,861
1% decrease in the estimated production volume	25,654
One percentage point increase in pre-tax discount rate	72,793
1% increase in the estimated operating costs	37,905
5% increase in the estimated capital expenditure	3,080

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

(iii) Tax and other services

Tax and other services fees include the fees for tax services and professional fees in relation to the rights issue.

(iv) Cost of inventories

Cost of inventories includes USD79,333,000 (2013: USD90,637,000), 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 USD3,542,000 (2013: USD7,850,000).

Notes to Consolidated Financial Statements

7 INCOME TAX

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

	2014 USD'000	2013 USD'000
Current tax		
Provision for the year (Note 27(a))	**8,492**	8,477
Deferred tax		
Origination and reversal of temporary difference (Note 27(b))	**(67,470)**	(5,926)
	(58,978)	2,551

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

	2014 USD'000	2013 USD'000
Loss before income tax	**(341,683)**	(55,522)
Notional tax on (loss)/profit before taxation	**(62,580)**	4,357
Tax effect of non-deductible items (Note (iii))	**3,436**	4,862
Tax effect of non-taxable items (Note (iv))	**(677)**	(5,987)
Tax losses not recognised	**843**	576
Tax losses not recognised in previous years but utilised in current year	**—**	(1,257)
Actual tax expenses	**(58,978)**	2,551

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 MNT 3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2014 and 2013. According to the Corporate Income Tax Law of China, the Company's subsidiary in China is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2014 and 2013.

(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 2014 and 2013.

(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 2014 and 2013.

Notes to Consolidated Financial Statements

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of USD282,837,000 (2013: USD58,073,000) and the weighted average of 4,751,758,537 ordinary shares (2013: 4,617,054,604 ordinary shares after adjusting for the rights issue in 2014) in issue during the year. In calculating basic loss per share, the weighted average number of shares outstanding during the years ended 31 December 2014 and 2013 were calculated as if the bonus elements without consideration included in the rights issue had been existed from the beginning of the comparative year.

(b) Diluted loss per share

For the years ended 31 December 2014 and 2013, basic and diluted loss per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

The equity-settled share-based payment transactions (see Note 29) are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2014 and 2013.

9 DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed are as follows:

	Year ended 31 December 2014					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	18	229	—	17	—	264
Battsengel Gotov	18	175	18	14	639	864
Non-executive directors						
Enkhtuvshin Gombo (resigned on 13 October 2014)	14	—	—	—	—	14
Oyungerel Janchiv	18	—	—	—	—	18
Batsaikhan Purev	18	—	—	—	—	18
Od Jambaljamts	18	—	—	—	—	18
Gankhuyag Adilbish (appointed on 13 October 2014)	4	—	—	—	—	4
Independent non-executive directors						
Ochirbat Punsalmaa	24	—	—	—	—	24
Unenbat Jigjid	27	—	—	—	—	27
Chan Tze Ching, Ignatius	58	—	—	—	—	58
Total	217	404	18	31	639	1,309

Notes to Consolidated Financial Statements

9 DIRECTORS' REMUNERATION (Continued)

	Year ended 31 December 2013					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	18	205	–	15	–	238
Battsengel Gotov	18	131	–	10	938	1,097
Non-executive directors						
Enkhtuvshin Gombo	18	–	–	–	–	18
Oyungerel Janchiv	18	–	–	–	–	18
Batsaikhan Purev	18	–	–	–	–	18
Od Jambaljamts	18	–	–	–	–	18
Independent non-executive directors						
Ochirbat Punsalmaa	24	–	–	–	–	24
Unenbat Jigjid	27	–	–	–	–	27
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	217	336	–	25	938	1,516

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2014 and 2013.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2014	2013
Directors	**1**	1
Non-directors	**4**	4
	5	5

Notes to Consolidated Financial Statements

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the directors are disclosed in Note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2014	2013
	USD'000	USD'000
Basic salaries, allowances and benefits in kind	**735**	313
Discretionary bonuses	**167**	443
Retirement scheme contributions	**61**	51
Equity-settled share-based payment expenses (Note 29)	**1,789**	2,651
	2,752	3,458

The emoluments of the remaining individuals with the highest emoluments are within the following band:

	2014	2013
HKD4,500,001 to HKD5,000,000	**1**	—
HKD5,000,001 to HKD5,500,000	**2**	—
HKD5,500,001 to HKD6,000,000	**1**	1
HKD6,000,001 to HKD6,500,000	**—**	2
HKD8,000,001 to HKD8,500,000	**—**	1

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2014 and 2013.

Note:

These represent the estimated value of share options granted to the key management under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(q)(ii) and, in accordance with that policy, included adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and Note 29.

Notes to Consolidated Financial Statements

11 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to the equity shareholders of the Company includes loss of USD68,442,000 (2013: USD88,356,000) which has been dealt with in the financial statements of the Company.

12 OTHER COMPREHENSIVE INCOME

	2014	2013
	USD'000	USD'000
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**8,523**	30,774
– net investment	**75,788**	117,811
Reclassification adjustments for amounts transferred to profit or loss:		
– disposal of net investment	**(3,799)**	(10,892)
	80,512	137,693

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2014 and 2013.

13 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.

Notes to Consolidated Financial Statements

14 PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Cost:						
At 1 January 2013	205,958	145,070	60,267	7,818	161,946	581,059
Additions	17,614	1,778	453	234	125,125	145,204
Transfer from construction in progress (Note 15)	48,553	–	–	–	4,045	52,598
Disposals	(101)	(793)	(2,419)	(184)	–	(3,497)
Exchange adjustments	(38,063)	(23,056)	(9,266)	(1,242)	(33,119)	(104,746)
At 31 December 2013	233,961	122,999	49,035	6,626	257,997	670,618
At 1 January 2014	233,961	122,999	49,035	6,626	257,997	670,618
Additions	128	3,287	823	84	56,700	61,022
Transfer from construction in progress (Note 15)	40,252	46,603	–	–	–	86,855
Transfer to assets held for sale	(2,910)	–	–	–	–	(2,910)
Disposals	(470)	(363)	(5,456)	(373)	–	(6,662)
Exchange adjustments	(33,927)	(16,462)	(5,456)	(1,745)	(33,746)	(91,336)
At 31 December 2014	237,034	156,064	38,946	4,592	280,951	717,587
Accumulated amortisation and depreciation:						
At 1 January 2013	11,040	19,186	19,353	2,439	1,683	53,701
Charge for the year	7,776	15,258	9,656	1,504	20,884	55,078
Written back on disposals	(44)	(420)	(437)	(86)	–	(987)
Exchange adjustments	(2,357)	(4,206)	(3,791)	(516)	(771)	(11,641)
At 31 December 2013	16,415	29,818	24,781	3,341	21,796	96,151
At 1 January 2014	16,415	29,818	24,781	3,341	21,796	96,151
Charge for the year	10,408	16,286	7,764	997	10,686	46,141
Transfer to assets held for sale	(87)	–	–	–	–	(87)
Written back on disposals	(31)	(99)	(5,078)	(181)	–	(5,389)
Exchange adjustments	(3,700)	(4,222)	(2,734)	(462)	(3,037)	(14,155)
At 31 December 2014	23,005	41,783	24,733	3,695	29,445	122,661
Carrying amount:						
At 31 December 2014	214,029	114,281	14,213	897	251,506	594,926
At 31 December 2013	217,546	93,181	24,254	3,285	236,201	574,467

Notes to Consolidated Financial Statements

14 PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

The Group (Continued)

Note:

(a) Majority part of the Group's property, plant and equipment are located in Mongolia.

(b) Mining properties at 31 December 2014 include stripping activity assets carrying book value of USD223,451,000 (2013: USD207,519,000) and application fee for the mining rights of USD627,000 (2013: USD700,000) in relation to the Group's mine deposits.

(c) The addition of mining properties for the year ended 31 December 2014 include the increase of reclamation provision of USD3,467,000 (2013: decrease of reclamation provision of USD3,631,000) (see Note 30).

(d) As at 31 December 2014, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with net book values of USD105,290,000, USD27,629,000 and USD3,008,000, respectively (31 December 2013: USD123,836,000, USD33,901,000 and USD3,803,000, respectively) (see Note 25).

(e) As at 31 December 2014, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2014 is approximately USD10,535,000. The directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.

15 CONSTRUCTION IN PROGRESS

	The Group	
	2014	2013
	USD'000	USD'000
At 1 January	**148,371**	242,838
Additions	**6,314**	36,480
Transfer to property, plant and equipment (Note 14)	**(86,855)**	(52,598)
Transfer to intangible assets (Note 17)	**(4,909)**	—
Derecognised upon the termination of Concession Agreement (Note 21)	**—**	(50,964)
Exchange adjustments	**(4,500)**	(27,385)
At 31 December	**58,421**	148,371

The construction in progress is mainly related to water supply facility and other mining related machinery and equipment.

Notes to Consolidated Financial Statements

16 LEASE PREPAYMENTS

	The Group	
	2014	2013
	USD'000	USD'000
Cost:		
At 1 January	**93**	112
Exchange adjustments	**(10)**	(19)
At 31 December	**83**	93
Accumulated amortisation:		
At 1 January	**8**	9
Charge for the year	**1**	1
Exchange adjustments	**1**	(2)
At 31 December	**10**	8
Net book value:	**73**	85

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in Mongolia, with original lease period from 15 years to 60 years.

Notes to Consolidated Financial Statements

17 INTANGIBLE ASSETS

The Group

	Acquired mining right USD'000	Operating right paved road USD'000	Softwares USD'000	Total USD'000
Cost:				
At 1 January 2013	701,557	87,105	—	788,662
Addition for the period	—	—	—	—
Classified as asset held for sale	—	(73,308)	—	(73,308)
Exchange adjustments	—	(13,797)	—	(13,797)
At 31 December 2013	701,557	—	—	701,557
At 1 January 2014	**701,557**	**—**	**—**	**701,557**
Addition for the period	**—**	**—**	**7**	**7**
Transfer from Construction in progress (Note 15)	**—**	**—**	**4,909**	**4,909**
Exchange adjustments	**—**	**—**	**(178)**	**(178)**
At 31 December 2014	**701,557**	**—**	**4,738**	**706,295**
Accumulated amortisation and impairment loss:				
At 1 January 2013	3,110	10,779	—	13,889
Amortisation charge for the period	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**
At 1 January 2014	**5,203**	**—**	**—**	**5,203**
Amortisation charge for the period	**—**	**—**	**3**	**3**
Impairment loss (Note 6(c))	**190,000**	**—**	**—**	**190,000**
Exchange adjustments	**—**	**—**	**—**	**—**
At 31 December 2014	**195,203**	**—**	**3**	**195,206**
Carrying amount:				
At 31 December 2014	**506,354**	**—**	**4,735**	**511,089**
At 31 December 2013	696,354	—	—	696,354

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

Notes to Consolidated Financial Statements

18 INTERESTS IN SUBSIDIARIES

	The Company	
	2014	2013
	USD'000	USD'000
Amount due from subsidiaries	**1,428,668**	1,337,384

Particular of subsidiaries at 31 December 2014 are as follows:

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company Direct	Equity attributable to the Company Indirect	Principal activities
Mongolian Coal Corporation Limited	Hong Kong	1 share of HKD1 each	100%	–	Investment holding
Mongolian Coal Corporation S.a.r.l	Luxembourg	6,712,669 shares of USD10 each	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	103,800,000 shares of USD1 each	–	100%	Investment holding
Energy Resources LLC	Mongolia	75,000,185 shares of USD2 each	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia	15,300,000 shares of MNT1,000 each	–	100%	Railway project management
Transgobi LLC	Mongolia	9,122,642 shares of MNT1,000 each	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia	5,795,521 shares of MNT1,000 each	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia	374,049,073 shares of MNT1,000 each	–	100%	Coal plant management
Ukhaa Khudag Water Supply LLC	Mongolia	96,016,551 shares of MNT1,000 each	–	100%	Water exploration and supply management
United Power LLC	Mongolia	100,807,646 shares of MNT1,000 each	–	100%	Power supply project management
Gobi Road LLC	Mongolia	50,000 shares of MNT1,000 each	–	100%	Construction of road

Notes to Consolidated Financial Statements

18 INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company Direct	Equity attributable to the Company Indirect	Principal activities
Khangad Exploration LLC	Mongolia	34,532,399 shares of USD1 each	–	100%	Exploration and development of coal mine
Baruun Naran S.a.r.l	Luxembourg	24,918,394 shares of EUR1 each	–	100%	Investment holding
Energy Resources Mining LLC	Mongolia	72,001,000 shares of USD1 each	–	100%	Mining and technical management
*Tianjin Zhengcheng Import and Export Trade Co., Ltd.	China	2,035,998 shares of RMB1 each	–	51%	Trading of coals and machinery equipment

* Company not audited by KPMG. The financial statements of the subsidiary not audited by KPMG reflect total net assets and total turnover constituting approximately 0.1% and 7.0% respectively of the corresponding consolidated totals.

The following table lists out the information relating to Tianjin Zhengcheng Import and Export Trade Co.,Ltd, the only subsidiary of the Group which has material non-controlling interest (NCI). Tianjin Zhengcheng Import and Export Trade Co., Ltd is a sino-foreign equity joint venture established under the PRC law. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2014 USD'000
NCI percentage	**49%**
Current assets	**13,475**
Non-current assets	**8**
Current liabilities	**(12,888)**
Non-current liabilities	**—**
Net assets	**595**
Carrying amount of NCI	**292**
Revenue	**23,131**
Profit for the year	**270**
Total comprehensive income	**263**
Profit allocated to NCI	**132**
Dividend paid to NCI	**—**
Cash flows from operating activities	**3,249**
Cash flows from investing activities	**(6)**
Cash flows from financing activities	**331**

Notes to Consolidated Financial Statements

19 INTEREST IN ASSOCIATES

	THE GROUP	
	2014	2013
	USD'000	USD'000
Share of net assets	**63**	2,203

Note:

(i) On 14 January 2011, the Group invested in International Medical Centre LLC (the "International Medical Centre") and had 25.5% interest in International Medical Centre, an entity incorporated in Mongolia with issued and paid up capital of MNT22,522,500,000 (16,500,000 shares of MNT1,365 each). The principal activities of International Medical Centre are the provision of health care, diagnostic and treatment services.

As the capital injection by other investors in January 2014, interest had by the Group in International Medical Centre changed to 16.46%. With no significant influence thereafter, the Group accounted for its interest in International Medical Centre as financial assets available-for-sale at using the cost method in the consolidated financial statements (see Note 20).

(ii) On 30 May 2011, the Group invested in International Technical College LLC (the "International Technical College") and had 33.33% interest in International Technical College, an entity incorporated in Mongolia with issued and paid up capital of MNT913,500,000 (913,500 shares of MNT1,000 each). The principal activity of International Technical College is technical education for ensuring the long-term availability of skilled technical workforce.

(iii) On 18 June 2014, the Group invested in Gashuun Sukhait Road LLC (the "Gashuun Sukhait Road") and had 40% interest in Gashuun Sukhait Road, an entity incorporated in Mongolia with issued and paid up capital of MNT100,000,000 (100,000 shares of MNT1,000 each). The principal activities of Gashuun Sukhait Road are supplying safety, readiness, protection, repair and maintenance service for paved road operations from Ukhaa Khudag to Gashuun Sukhait.

All of the above associates (Notes (ii) and (iii)) are accounted for using the equity method in the consolidated financial statements.

20 OTHER NON-CURRENT ASSETS

	THE GROUP	
	2014	2013
	USD'000	USD'000
Non-current portion of trade receivables	**—**	5,562
Prepayments in connection with construction work, equipment purchases and others	**23,951**	1,028
Financial assets available-for-sale (Note 19(i))	**1,872**	—
	25,823	6,590

Notes to Consolidated Financial Statements

21 ASSETS HELD FOR SALE

Assets held for sale for the year ended 31 December 2014 is USD484,000. Assets held for sale for the year ended 31 December 2013 is mainly related to the paved road between UHG and the Gashuun Sukhait border crossing in Mongolia (the "UHG-GS Road").

On 8 December 2013, the Group entered into a road transfer agreement with Erdenes MGL LLC (the "Agreement"), a state owned enterprise, which 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. According to the Agreement, the operating right of paved road was transferred to Erdenes MGL LLC with a consideration of MNT157,847,184,615 (equivalent to approximately USD90,323,000 converted at exchange rate on payment receipt date) on 13 February 2014.

Accordingly, 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 as at 31 December 2013. The operating right of paved road was not depreciated since it was classified as assets held for sale.

22 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	THE GROUP	
	2014	2013
	USD'000	USD'000
Coal	**34,222**	88,011
Materials and supplies	**14,678**	18,450
	48,900	106,461

As at 31 December 2014, certain of the Group's borrowings were secured by the Group's coal inventory of USD21,745,000 (31 December 2013: USD67,861,000) (see Note 25).

Notes to Consolidated Financial Statements

23 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Trade receivables (Note (a))	**36,952**	17,514	**—**	—
Other receivables (Note (c))	**125,390**	196,632	**7**	707
	162,342	214,146	**7**	707
Less: allowance for doubtful debts (Note (b))	**(10,135)**	(5,029)	**—**	—
	152,207	209,117	**7**	707

(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 2014 and 2013, 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 (Note 2(k)(i)).

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

	THE GROUP	
	2014	2013
	USD'000	USD'000
At 1 January	**5,029**	5,929
Provision for impairment losses	**8,806**	7,029
Amounts written off	**(3,700)**	(7,929)
At 31 December	**10,135**	5,029

As at 31 December 2014, an allowance for doubtful debts amounting to USD10,135,000 (2013: USD5,029,000) 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 "general and administrative expenses" in the consolidated statement of comprehensive income.

During the year ended 31 December 2014, management assessed that the recoverability of trade receivables due from certain customers is remote, and USD3,700,000 have been written off against allowance for doubtful debts.

Notes to Consolidated Financial Statements

23 TRADE AND OTHER RECEIVABLES (Continued)

(c) Other receivables

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Amounts due from related parties (Note (i))	**607**	522	**—**	—
Prepayments and deposits (Note (ii))	**31,448**	63,903	**7**	7
VAT and other tax receivables (Note (iii))	**35,786**	68,531	**—**	—
Derivative financial instruments (Note (iv))	**—**	700	**—**	700
Amounts due from the GoM in relation to the termination of the Concession Agreement (Note 15 and (v))	**44,408**	50,623	**—**	—
Others (Note (vi))	**13,141**	12,353	**—**	—
	125,390	196,632	**7**	707

Note:

(i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 34(a)).

(ii) At 31 December 2014 and 2013, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the GoM Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts. Further details are stated in Note 32(b).

(iv) It represented the embedded derivative in the senior notes (see Note 28).

(v) It represented the compensation amount receivable from the GoM upon the termination of Concession Agreement of UHG-GS Railway, after taking into account the 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 2014, this item mainly represented the reimbursement receivables due from Erdenes MGL LLC of USD8.4 million (2013: USD3.2 million). The remaining other receivables mainly represent the receivable of USD4.7 million due from other companies.

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

Notes to Consolidated Financial Statements

24 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Cash in hand	**48**	71	**—**	—
Cash at bank	**252,808**	76,464	**14,506**	519
Cash at bank and in hand	**252,856**	76,535	**14,506**	519
Less: time deposits with original maturity over three months	**(50,000)**	(50,000)	**—**	—
Cash and cash equivalents in the consolidated cash flow statement	**202,856**	26,535	**14,506**	519

As at 31 December 2014, certain of the Group's borrowings were secured by the Group's cash at bank of USD7,297,000 (31 December 2013: USD20,066,894) (see Note 25).

25 BORROWINGS

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

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Bank loan				
– secured	**241,636**	255,455	**138,000**	130,000
– unsecured	**40,000**	—	**—**	—
Less: Current portion of long-term borrowings	**(114,818)**	(101,818)	**(63,000)**	(80,000)
Less: Unamortised transaction costs	**(4,840)**	(3,548)	**(4,195)**	(2,292)
	161,978	150,089	**70,805**	47,708

Notes to Consolidated Financial Statements

25 BORROWINGS (Continued)

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

As at 31 December 2014, 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 USD81,818,000 (2013: USD92,727,000), USD13,091,000 (2013: USD19,637,000) and USD8,727,000 (2013: USD13,091,000), respectively, bearing interest of 6 months LIBOR +3.75%~4.25% per annum, were secured by the Group's property, plant and equipment (see Note 14) and cash at bank (see Note 24).

As at 31 December 2014, the Group's long-term interest-bearing borrowings from BNP Paribas of USD138,000,000 (2013: USD130,000,000) bearing interest of 3 months LIBOR + 6.00% per annum, were secured by the Group's cash at bank (see Note 24) and inventories (see Note 22). The attributable transaction cost amounts to USD4,195,000 as at 31 December 2014. The BNP Paribas facility was initially contracted with Standard Bank Plc. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interest in (and obligations under) the facility to BNP Paribas, Singapore Branch. On 5 March 2014, the facility was refinanced to a facilities agreement with two international banks as arrangers and original lenders, BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (the "BNP and ICBC Facility"). The BNP and ICBC Facility is a coal pre-export loan facility of USD150,000,000 bearing interest of LIBOR + 6.00% per annum, and a greenshoe option of up to USD50,000,000. The greenshoe option will be executed in the condition that the USD150,000,000 facility has been utilised, and the Group could reach respective financial covenants requirements as set out in the BNP and ICBC Facility agreement.

In March 2014, the Group refinanced short-term loans of USD40,000,000 into a revolving credit facility, and extended its maturity date to 20 March 2015 with an interest of 10.00% per annum. On 31 December 2014, the maturity date was extended to 20 March 2016, and interest for the extension period is 11.20% per annum.

Notes to Consolidated Financial Statements

25 BORROWINGS (Continued)

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

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

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Within 1 year or on demand	**114,818**	101,818	**63,000**	80,000
After 1 year but within 2 years	**166,818**	101,818	**75,000**	50,000
After 2 years but within 5 years	**—**	51,819	**—**	—
	281,636	255,455	**138,000**	130,000

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

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Bank loans				
– Unsecured	**—**	40,000	**—**	—
Current portion of long-term borrowings				
– Bank loan	**114,818**	101,818	**63,000**	80,000
	114,818	141,818	**63,000**	80,000

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 2014, the Group negotiated with the banks and was granted with revised covenants requirements from the banks. According to the waivers, the Group did not breach any financial covenants in respect of loans during the year ended 31 December 2014.

Notes to Consolidated Financial Statements

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Trade payables (Note (i))	**125,217**	93,181	**—**	—
Receipts in advance (Note (ii))	**16,866**	20,603	**—**	—
Amounts due to related parties (Note (iii))	**8,102**	20,330	**—**	—
Payables for purchase of equipment	**4,858**	10,316	**—**	—
Security deposit on construction work	**1,340**	2,755	**—**	—
Interest payable	**18,081**	18,365	**14,015**	—
Other taxes payables	**20,782**	2,558	**—**	—
Promissory notes (Note (iv))	**66,601**	105,000	**66,601**	105,000
Others (Note (v))	**36,271**	14,843	**8,271**	17,476
	298,118	287,951	**88,887**	122,476

Note:

(i) All trade payables are due and payable on presentation or within two months.

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

(iii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 34(a)).

(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.

During the year ended 31 December 2014, based on the new amendment agreements, the Group offset USD45,174,000 of promissory notes principal and accrued interest with the trade receivables due from affiliated company of QGX Holdings Ltd. On 31 December 2014, the maturity date of two promissory notes was extended to 31 March 2015, with a rate of 8.0% per annum to the maturity date.

(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.

Notes to Consolidated Financial Statements

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax payable in the consolidated statement of financial position represents:

	The Group	
	2014	2013
	USD'000	USD'000
At 1 January	**3,426**	3,950
Provision for the year (Note 7(a))	**8,492**	8,477
Offsetting with other tax receivables	**(11,369)**	(3,648)
Income tax paid	**(175)**	(4,719)
Exchange adjustments	**(306)**	(634)
At 31 December	**68**	3,426

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Tax losses	Unrealised profits on intra-group transactions	Depreciation and amortisation	Unrealised foreign exchange differences on long-term borrowings	Allowance for doubtful debts	Fair value adjustments in relation to the Acquisition	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Deferred tax arising from:							
At 1 January 2013	14,643	120	788	1,356	1,482	(148,819)	(130,430)
(Charged)/credited to profit or loss (Note 7(a))	(3,106)	(688)	4,524	5,258	(121)	59	5,926
Exchange adjustments	(2,075)	36	(570)	(628)	(105)	–	(3,342)
At 31 December 2013	9,462	(532)	4,742	5,986	1,256	(148,760)	(127,846)
At 1 January 2014	**9,462**	**(532)**	**4,742**	**5,986**	**1,256**	**(148,760)**	**(127,846)**
Credited to profit or loss (Note 7(a))	**13,893**	**332**	**1,372**	**2,520**	**1,277**	**48,076**	**67,470**
Exchange adjustments	**(1,667)**	**53**	**(702)**	**(827)**	**(153)**	**–**	**(3,296)**
At 31 December 2014	**21,688**	**(147)**	**5,412**	**7,679**	**2,380**	**(100,684)**	**(63,672)**

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised (Continued)

	The Group	
	2014	2013
	USD'000	USD'000
Net deferred tax assets recognised in the consolidated balance sheet	**37,968**	21,781
Net deferred tax liabilities recognised in the consolidated balance sheet	**(101,640)**	(149,627)
	(63,672)	(127,846)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD252,460,000 as at 31 December 2014 (2013: USD170,393,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the new amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated.

Expiry of unrecognised tax losses of group entities located in Mongolia:

	The Group	
	2014	2013
	USD'000	USD'000
Year of expiry		
2015	**4,646**	5,296
2016	**8,094**	—
2017	**—**	—
2018	**33**	—
	12,773	5,296

In relation to group entities located in the jurisdictions other than Mongolia, the tax losses amounting to USD239,687,000 as at 31 December 2014 do not expire under current tax legislations (31 December 2013: USD164,602,000).

Notes to Consolidated Financial Statements

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(d) Deferred tax liabilities not recognised

At 31 December 2014, temporary differences relating to the undistributed profits of subsidiaries amounted to USD nil (2013: USD39,897,000). Deferred tax liabilities of nil (2013: USD7,979,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

28 SENIOR NOTES

	The Group and the Company USD'000
At 1 January 2013	592,891
Interest charged during the year (Note 6(a))	54,688
Interest payable	(53,250)
At 31 December 2013	594,329
At 1 January 2014	**594,329**
Interest charged during the year (Note 6(a))	**54,827**
Interest payable	**(53,250)**
At 31 December 2014	**595,906**

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 which were listed on the Singapore Exchange Securities Trading Limited. The senior notes bear interest at 8.875% per annum, payable semi-annually 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.à.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.à.r.l., Energy Resources Corporation LLC, Energy Resources LLC, Energy Resources Mining 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.

Notes to Consolidated Financial Statements

28 SENIOR NOTES (Continued)

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 was charged to profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 31 December 2014 was nil (2013: USD700,000) which was presented as derivative financial instruments (see Note 23(c)(iv)).

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.

29 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme ("Share Option Scheme") which was adopted on 17 September 2010 whereby the board of directors of the Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group.

Under the Share Option Scheme, the Company may grant options to employees and directors, suppliers, customers and professional advisers of the Group to subscribe for shares of the Company. The exercise price of the options is determined by the board of directors of the Company at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and will expire on 16 September 2020.

Notes to Consolidated Financial Statements

29 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) The terms and conditions of the grants are as follows:

Grant Date	Number of options '000	Vesting conditions	Contractual life of options
12 October 2011	8,800	12 October 2011 to 12 October 2012	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2013	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2014	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2015	12 October 2011 to 12 October 2019
28 November 2012	5,688	28 November 2012 to 28 November 2013	28 November 2012 to 28 November 2020
28 November 2012	5,688	28 November 2012 to 28 November 2014	28 November 2012 to 28 November 2020
28 November 2012	11,374	28 November 2012 to 28 November 2015	28 November 2012 to 28 November 2020
Total share options	57,950		

(b) The movement of the number and weighted average exercise prices of share options are as follows:

	2014		2013	
	Weighted average exercise Price HKD	**Number of options '000**	Weighted average exercise Price HKD	Number of options '000
Outstanding at 1 January	**5.42**	**50,113**	5.56	56,650
Forfeited during the year	**5.30**	**(2,013)**	6.66	(6,537)
Outstanding at 31 December	**5.42**	**48,100**	5.42	50,113
Exercisable at 31 December	**5.69**	**32,038**	5.89	20,125

The options outstanding at 31 December 2014 had an exercise price of HKD6.66 or HKD3.92 (2013: HKD6.66 or HKD3.92) per share and a weighted average remaining contractual life of 5.3 years (2013: 6.3 years).

29 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of share options and assumptions

	28 November 2012	12 October 2011
Fair value at measurement date	**HKD1.8155~HKD2.0303**	HKD3.3793~HKD3.7663
Share price	**HKD3.92**	HKD6.66
Exercise price	**HKD3.92**	HKD6.66
Expected life	**4.5-5.5 years**	4.5-6 years
Risk-free interest rate	**0.249%~0.298%**	0.755%~1.054%
Expected volatility	**57.71%~59.43%**	61.87%~63.43%
Expected dividends	**—**	—

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

Notes to Consolidated Financial Statements

30 PROVISIONS

	The Group	
	2014	2013
	USD'000	USD'000
Accrued reclamation obligations	**12,995**	10,118
Others	**1,500**	1,500
	14,495	11,618
Less: Current portion	**(1,500)**	(1,500)
	12,995	10,118

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the end of each reporting period, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2014 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	The Group	
	2014	2013
	USD'000	USD'000
At 1 January	**10,118**	15,538
Increase/(decrease) for reassessment of estimated costs (Note 14(c))	**3,467**	(3,631)
Accretion expense (Note 6(a))	**808**	1,163
Exchange adjustments	**(1,398)**	(2,952)
At 31 December	**12,995**	10,118

Accrued reclamation costs change during the years ended 31 December 2014 and 2013 result from the reassessment of estimated costs.

Notes to Consolidated Financial Statements

31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital USD'000 (Note 31(c))	Share premium USD'000 (Note 31(e)(i))	Other reserve USD'000 (Note 31(e)(ii))	Accumulated losses USD'000	Total equity USD'000
At 1 January 2013		37,050	608,650	8,266	(76,233)	577,733
Changes in equity for 2013:						
Total comprehensive income		–	–	–	(88,356)	(88,356)
Equity-settled share-based transactions	29	–	–	4,215	505	4,720
At 31 December 2013		37,050	608,650	12,481	(164,084)	494,097
At 1 January 2014		**37,050**	**608,650**	**12,481**	**(164,084)**	**494,097**
Changes in equity for 2014:						
Total comprehensive income		**—**	**—**	**—**	**(68,442)**	**(68,442)**
Issuance of shares under rights issue	31(d)	**55,576**	**139,877**	**—**	**—**	**195,453**
Equity-settled share-based transactions	29	**—**	**—**	**3,475**	**—**	**3,475**
At 31 December 2014		**92,626**	**748,527**	**15,956**	**(232,526)**	**624,583**

(b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2014.

(c) Share capital

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 ordinary shares of USD0.01 each. On 18 May 2010, MCS Mining Group Limited acquired its initial share of one share of USD0.01. By an ordinary resolution passed at the annual general meeting held on 23 August 2010, the Company's authorised ordinary share capital was increased to USD60,000,000 by the creation of an additional 5,995,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

Notes to Consolidated Financial Statements

31 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Issuance of shares under rights issue

On 29 December 2014, 5,557,554,750 ordinary shares were issued pursuant to the rights issue on the basis of three rights shares for every two existing shares at HKD0.28 each. Total net consideration amounted to USD195,453,000, of which USD55,576,000 was credited to share capital and the remaining proceeds of USD139,877,000 was credited to the share premium account. The Company's authorised ordinary share capital was increased to USD150,000,000 by the creation of an additional 9,000,000,000 ordinary shares of USD0.01 each, raking pair with the existing ordinary shares of the Company in all respects.

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2014 and 2013 (Note 31(e)(ii)).

The Company

	2014		2013	
	No of shares'000	**USD'000**	No of shares'000	USD'000
Authorised:				
Ordinary shares	**15,000,000**	**150,000**	6,000,000	60,000

Ordinary shares, issued and fully paid:

	At 31 December 2014		At 31 December 2013	
	No of shares'000	**USD'000**	No of shares'000	USD'000
Ordinary shares	**9,262,591**	**92,626**	3,705,037	37,050

Notes to Consolidated Financial Statements

31 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Other reserve

The other reserve comprises the following:

– the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and

– the portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(q)(ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's operations to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(v).

(f) Distributability of reserves

Pursuant to the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and reserved) of the Cayman Islands, share premium of the Company is distributable to the shareholders. Other than the share premium, there is no other amount available for distribution to equity shareholders of the Company as at 31 December 2014.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2014 was 46.6% before considering provision for impairment loss on non-financial assets, and was 51.9% after considering it (2013: 46.7%).

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

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

Trade receivables are presented net of allowance for doubtful debts. In order to minimise the credit risk, the credit management committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit management committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes an allowance for doubtful debts that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the balance sheet date, the Group believes that adequate allowance for doubtful debts has been made in the consolidated financial statements. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as three customers accounted for 56.5% (2013: 89.8%) of the total trade receivables as at 31 December 2014.

The Group closely monitors the amount due from related parties.

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk (Continued)

VAT receivables include amounts that have been accumulated to date in various subsidiaries. According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties payable to the Government against VAT amounts receivable from the Government of Mongolia. In July 2009, the Mongolian Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT and any VAT amounts impacted is prospective from the effective date of the law on 16 August 2009. On 10 November 2010, the Government defined finished mineral products as products which qualify for claiming back VAT. During the year ended 31 December 2014, the Group offset current income tax payable, air pollution fee, royalty tax payable and payables due to suppliers owing of USD3,729,000, USD2,452,000, USD7,195,000 and USD23,759,000, respectively, against its VAT receivable balance. Based on currently available information, the Group anticipates full recoverability of amounts due on account primarily relating to finished mineral products at 31 December 2014. Verification by the Mongolian Government Taxation Authority of the collectability of the funds is conducted on an annual basis and any outstanding VAT receivable amounts at 31 December 2014 will be available to the Group to offset future taxes and royalty tax or will be refunded by the Government of Mongolia Taxation Authority.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 23.

(c) Foreign currency exchange risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. The currencies giving rise to this risk are primarily RMB, USD and HKD.

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency exchange risk (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year end date.

The Group

	Exposure to foreign currencies (expressed in United States Dollars)					
	2014			2013		
	Renminbi USD'000	**United States Dollars USD'000**	**Hong Kong Dollars USD'000**	Renminbi USD'000	United States Dollars USD'000	Hong Kong Dollars USD'000
Trade and other receivables	**8,921**	**45,620**	**—**	115	79,271	–
Cash at bank and in hand	**149**	**236,966**	**8,657**	797	71,870	75
Trade and other payables	**(11,498)**	**(89,863)**	**(3,350)**	(9,025)	(34,340)	(359)
Short-term borrowings and current portion of long-term borrowings	**—**	**(51,818)**	**—**	–	(61,818)	–
Long-term borrowings, less current portion	**—**	**(91,818)**	**—**	–	(103,636)	–
Net exposure arising from recognised assets and liabilities	**(2,428)**	**49,087**	**5,307**	(8,113)	(48,653)	(284)

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(v) as at the respective balance sheet dates would decrease/(increase) loss after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

Loss/profit for the year	**2014 USD'000**	2013 USD'000
5% increase in RMB	**(8)**	(304)
5% decrease in RMB	**8**	304
5% increase in USD	**3,228**	(1,708)
5% decrease in USD	**(3,228)**	1,708
5% increase in HKD	**264**	(10)
5% decrease in HKD	**(264)**	10

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings, long-term borrowings and convertible bond. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the profile of the Group's and the Company's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the balance sheet date. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 25.

	The Group		The Company	
	2014	2013	**2014**	2013
	USD'000	USD'000	**USD'000**	USD'000
Net fixed rate borrowings:				
Borrowings	**40,000**	40,000	**—**	—
Obligations under finance lease	**8**	90	**—**	—
Senior notes	**595,906**	594,329	**595,906**	594,329
Promissory notes	**66,601**	105,000	**66,601**	105,000
Less: Bank deposits	**(50,000)**	(50,000)	**—**	—
	652,515	689,419	**662,507**	699,329
Net floating rate borrowings:				
Borrowings	**236,796**	251,907	**133,805**	127,708
Less: Bank deposits	**(202,808)**	(26,464)	**(14,506)**	(519)
	33,988	225,443	**119,299**	127,189
Total net borrowings:	**686,503**	914,862	**781,806**	826,518

At 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and decreased/increased retained earnings by approximately USD332,000 (31 December 2013: USD2,003,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's loss after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

The Group

	2014 Contractual undiscounted cash outflow					
	Within 1 year USD'000	**After 1 year but within 2 years USD'000**	**After 2 years but within 5 years USD'000**	**After 5 years USD'000**	**Total contractual undiscounted cash flow USD'000**	**Balance sheet carrying amount USD'000**
Borrowings (Note 25)	**129,807**	**175,482**	**—**	**—**	**305,289**	**276,796**
Trade and other payables (Note 26)	**299,432**	**—**	**—**	**—**	**299,432**	**298,118**
Senior notes (Note 28)	**53,250**	**53,250**	**626,625**	**—**	**733,125**	**595,906**
	482,489	**228,732**	**626,625**	**—**	**1,337,846**	**1,170,820**

	2013 Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 25)	152,143	105,382	52,554	–	310,079	291,907
Trade and other payables (Note 26)	289,909	–	–	–	289,909	287,951
Senior notes (Note 28)	53,250	53,250	679,875	–	786,375	594,329
	495,302	158,632	732,429	–	1,386,363	1,174,187

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Liquidity risk (Continued)

The Company

	2014 Contractual undiscounted cash outflow					
	Within 1 year USD'000	**After 1 year but within 2 years USD'000**	**After 2 years but within 5 years USD'000**	**After 5 years USD'000**	**Total contractual undiscounted cash flow USD'000**	**Balance sheet carrying amount USD'000**
Borrowings (Note 25)	**70,331**	**77,943**	**—**	**—**	**148,274**	**133,805**
Trade and other payables (Note 26)	**90,201**	**—**	**—**	**—**	**90,201**	**88,887**
Senior notes (Note 28)	**53,250**	**53,250**	**626,625**	**—**	**733,125**	**595,906**
	213,782	**131,193**	**626,625**	**—**	**971,600**	**818,598**

	2013 Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 25)	85,627	50,517	–	–	136,144	127,708
Trade and other payables (Note 26)	124,433	–	–	–	124,433	122,476
Senior notes (Note 28)	53,250	53,250	679,875	–	786,375	594,329
	263,310	103,767	679,875	–	1,046,952	844,513

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value of the Group's financial instruments, including redemption option embedded in senior notes and conversion option embedded in convertible notes which is categorised into Level 3 of the fair value hierarchy was valued by the directors with the reference to a valuation report issued by an independent business valuer.

	Fair value at 31 December 2014 USD'000	Fair value measurements as at 31 December 2014 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Assets				
Derivative financial instruments:				
– Redemption option embedded in senior notes	—	—	—	—

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement (Continued)

(i) *Financial assets and liabilities measured at fair value* (Continued)

	Fair value at 31 December 2014 USD'000	Fair value measurements as at 31 December 2014 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Assets				
Derivative financial instruments:				
– Redemption option embedded in senior notes	**700**	—	—	**700**

During the year ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Expected volatility
Redemption option embedded in senior notes	Binomial model	Expected volatility	38%

The fair value of redemption option embedded in senior notes is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's loss by USD100,000.

Notes to Consolidated Financial Statements

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2014 **USD'000**	2013 USD'000
Redemption option embedded in senior notes:		
At 1 January	**700**	12,420
Changes in fair value recognised in profit or loss during the period	**(700)**	(11,720)
At 31 December	**—**	700

The changes in fair value arising from the remeasurement of the redemption option and conversion option embedded in senior notes are presented in "finance costs/income" in the consolidated statement of comprehensive income.

(ii) Fair value of financial assets and liabilities carried at other than fair value

In respect of cash and cash equivalents, trade and other receivables, and trade and other payables, the carrying amounts approximate fair value due to the relatively short-term nature of these financial instruments.

In respect of borrowings, the carrying amounts are not materially different from their fair values as at 31 December 2014. The fair values of borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The aggregate carrying values of other financial liabilities carried on the consolidated balance sheet are not materially different from their fair values as at 31 December 2014.

Notes to Consolidated Financial Statements

33 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the financial statements were as follows:

	2014 **USD'000**	2013 USD'000
Contracted for	**560**	5,554
Authorised but not contracted for	**—**	681
	560	6,235

(b) Operating lease commitments

(i) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2014 **USD'000**	2013 USD'000
Within 1 year	**1,604**	1,601
After 1 year but within 5 years	**121**	519
	1,725	2,120

(ii) The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

(c) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 30 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

Notes to Consolidated Financial Statements

33 COMMITMENTS AND CONTINGENCIES (Continued)

(d) Contingency in respect of tax dispute

The Group received two decisions (the "Decisions"), dated 26 December 2012, made by the state customs inspectors of the General Customs Office of Mongolia regarding the results of the post-clearance audit made in relation to import activities for construction of coal handling and preparation plant module I and II. The Group was claimed for additional customs duties of MNT1,981,163,492 (approximately USD1,050,681), VAT of MNT4,160,443,332 (approximately USD2,206,429) and related penalty of MNT1,842,482,047 (approximately USD977,133). The Group did not agree with the Decisions and commenced a defence action against the Decisions in the Capital Administrative Court of Mongolia.

On 30 April 2014, the Capital Administrative Court held court hearing and ruled to fulfill the Company's claim in its entirety, therefore to dismiss two disputing decisions issued by customs officers.

The court decision dated 30 April 2014 to dismiss two decisions of the custom officers is still valid and no appeal was made by the custom officers against the court decision. The legal timeframe for submission of claim to appeal court against the decision of first instance court has lapsed. Therefore, this case is closed since the court has resolved this dispute finally.

(e) Contingency in respect of a claim filed by the Lawyer's Association for Environment

On 8 August 2013, the first instance district court ruled the Group to pay MNT52,235,485,740 (approximately USD27,702,315) in relation with the claim issued by the Lawyer's Association for Environment ("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, therefore transferring the case for rehearing by the first instance district court.

On 30 June 2014, the rehearing of the first instance court was held and the court ruled to dismiss court proceedings and close the case since the claimant did not appear at the court hearing to support its claim and failed to pay stamp duty. The court decision dated 30 June 2014 to dismiss court proceedings and to close the case is still valid and no appeal or re-submission was made by the LAE. The legal timeframe for submission of claim to appeal court against the decision of first instance court has lapsed. The case is closed, however the claimant is not prohibited to re-submit a new claim because the court declined to resolve this dispute due to inadequate support documents of the claim.

Notes to Consolidated Financial Statements

34 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the year. During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS (Mongolia) Limited ("**MCS Mongolia**")	Shareholder
MCS Holding LLC ("**MCS**")	Subsidiary of MCS Mongolia
Uniservice Solution LLC ("**Uniservice Solution**")	Subsidiary of MCS Mongolia
MCS Property LLC ("**MCS Property**")	Subsidiary of MCS Mongolia
MCS Energy LLC ("**MCS Energy**")	Subsidiary of MCS Mongolia
MCS International LLC ("**MCS International**")	Subsidiary of MCS Mongolia
MCS Armor LLC	Subsidiary of MCS Mongolia

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2014 are as follows:

	2014 **USD'000**	2013 USD'000
Ancillary services (Note (i))	**16,997**	23,555
Purchases of equipment and construction work (Note (ii))	**1,667**	3,760
Sales of property, plant and equipment (Note (iii))	**89**	826
Lease of property, plant and equipment (Note (iv))	**729**	966
Finance lease of equipment (Note (v))	**16**	101

Note:

(i) Ancillary services represent expenditures for support services such as consultancy, cleaning and canteen expense paid to Uniservice Solution, MCS International, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, were applicable.

(ii) Purchases of equipment and construction work represent expenditure relating to equipment and construction service provided by IT Zone LLC, MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.

(iii) Sales of property, plant and equipment represent sale to MCS Energy, MCS and its affiliates. The sales are carried out at comparable or prevailing market rates, where applicable.

(iv) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from IT Zone LLC, Shangri-La Ulaanbaatar LLC, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

(v) Finance leases of equipment represent expenditure relating to the lease of equipment from IT Zone LLC through finance lease. The rental charges are based on comparable or prevailing market rates, where applicable.

The directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Notes to Consolidated Financial Statements

34 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Amounts due from/(to) related parties

	2014 **USD'000**	2013 USD'000
Other receivables (Note 23(c)(i))	**607**	522
Other accruals and payables (Note 26(iii))	**(8,102)**	(20,330)

(b) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2014 **USD'000**	2013 USD'000
Salaries and other emoluments	**2,203**	1,723
Discretionary bonus	**397**	825
Retirement scheme contributions	**163**	130
Equity-settled share-based payment expenses	**2,896**	4,277
	5,659	6,955

(c) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Directors' Report.

35 ULTIMATE CONTROLLING PARTY

As at 31 December 2014, the directors consider the ultimate controlling party of the Group to be MCS (Mongolia) Limited, which was incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

Notes to Consolidated Financial Statements

36 MAJOR NON-CASH TRANSACTIONS

According to the relevant tax regulations in Mongolia, the income tax payable can be offset by the VAT receivables. During the year ended 31 December 2014, the Group offset the VAT receivables of USD3,729,000 (2013: USD664,000), USD2,452,000 (2013: USD1,865,000), USD7,195,000 (2013: USD17,986,000) and USD23,759,000 (2013: nil) with income tax payable, air pollution fee, royalty tax payable and payables due to suppliers, respectively.

During the year ended 31 December 2014, the Group offset promissory notes payable of USD45,174,000 with trade receivables due from QGX Holding Ltd. (see Note 26(iv)).

During the year ended 31 December 2014, according to the agreement with Leighton LLC, the Group offset prepayment of maintenance due from Leighton LLC of USD12,408,000 with trade payables due to Leighton LLC.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9, Financial instruments	1 January 2015
Amendments to IFRS 9, Financial instruments and IFRS 7 Financial instruments: Disclosures – Mandatory effective date and transition disclosures	1 January 2015
Amendments to IFRS 11, Joint arrangements	1 January 2016
Amendments to IAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 27, Equity method in separate financial statements	1 January 2016
IFRS 15, Revenue from contracts with customers	1 January 2017
IFRS 9, Financial instruments	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Summary

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	2014 **USD'000**	2013 USD'000	2012 USD'000	2011 USD'000	2010 USD'000
Revenue	**328,307**	437,339	474,480	542,568	277,502
Cost of revenue	**(335,510)**	(361,485)	(420,400)	(336,368)	(164,368)
Gross (loss)/profit	**(7,203)**	75,854	54,080	206,200	113,134
Other revenue	**3,319**	592	1,121	435	511
Other net income/(expense)	**34,171**	7,073	5,418	76	(187)
Selling and distribution expenses	**(56,445)**	–	–	–	–
Administrative expenses	**(30,916)**	(52,410)	(48,183)	(60,303)	(38,685)
Impairment loss	**(190,000)**	–	–	–	–
(Loss)/profit from operations	**(247,074)**	31,109	12,436	146,408	74,773
Finance income	**3,911**	9,551	39,561	22,236	12,335
Finance costs	**(98,431)**	(95,095)	(50,994)	(13,785)	(4,214)
Share of (losses)/profits of associate	**(19)**	(1,087)	(362)	(119)	2
Share of losses of joint venture	**(70)**	–	–	–	–
(Loss)/profit before taxation	**(341,683)**	(55,522)	641	154,740	82,896
Income tax	**58,978**	(2,551)	(3,183)	(35,650)	(22,757)
(Loss)/profit for the year	**(282,705)**	(58,073)	(2,542)	119,090	60,139
Attributable to:					
Equity shareholders of the Company	**(282,837)**	(58,073)	(2,542)	119,090	60,139
Non-controlling interests	**132**	–	–	–	–
Basic (loss)/earnings per share	**(5.95) cents**	(1.26) cents	(0.07) cents	3.21 cents	1.91 cents
Diluted (loss)/earnings per share	**(5.95) cents**	(1.26) cents	(0.07) cents	3.07 cents	1.91 cents

Financial Summary

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2014	2013	2012	2011	2010
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets and liabilities					
Total assets	**1,682,825**	1,898,870	2,177,277	1,628,015	1,053,270
Total liabilities	**1,285,987**	1,337,903	1,425,264	859,151	325,989
Net assets/(liabilities)	**396,838**	560,967	752,013	768,864	727,281
Total equity	**396,838**	560,967	752,013	768,864	727,281
Equity attributable to equity shareholders of the Company	**396,546**	560,967	752,013	768,864	727,281
Non-controlling interests	**292**	—	—	—	—

Glossary and Technical Terms

"Adoption date"	13 October 2010, the date the Share Option Scheme was adopted and became effective
"AGM"	Annual general meeting
"ASP"	Average selling price
"BAP"	Biodiversity Action Plan
"bcm"	Bank cubic metres
"BHWE"	Base Horizon of Weathering Elevation
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the TT formation
"BN mine"	The area of the BN deposit that can be mined by open pit mining methods
"Board"	The Board of Directors of the Company
"CAGR"	Compounded annual growth rate
"CCTs"	Continuing connected transactions
"C&F"	Cost-and-Freight
"CG Code"	The Corporate Governance Code
"China"	The People's Republic of China
"CHPP"	Coal handling and preparation plant
"CNCA"	China National Coal Association
"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "Group", "our Group", "we", "us", "our" or "Mongolian Mining Corporation"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010 and except where the context indicates otherwise (i) our subsidiaries; and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
"DAP"	Delivery-at-Place
"Director(s)"	Director(s) of the Company
"EBITDA"	Earnings before interest, tax, depreciation and amortisation
"EITI"	Extractive Industry Transparency Initiative

Glossary and Technical Terms

"EPCM"	Engineering, Procurement, Construction and Management, a form of contract where the contractor will design and install the equipment, procure and install the necessary materials, and be responsible of managing the process of the installation
"ETT"	Erdenes Tavantolgoi JSC, Mongolian state-owned company
"Fexos"	Fexos Limited
"FOT"	Free-on-transport
"Ganqimaodu" or "GM"	The China side of the China-Mongolia border crossing
"Gashuun Sukhait" or "GS"	The Mongolia side of the China-Mongolia border crossing
"GoM"	Government of Mongolia
"GS Rail JV"	Gashuunsukhait Railway LLC
"GS Road JV"	Gashuun Sukhait Road LLC
"HCC"	Hard coking coal
"HKD"	Hong Kong Dollar
"HR"	Human resources
"HSE"	Health, Safety and Environment
"IASs"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRSs"	International Financial Reporting Standards
"JORC"	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KAM"	Kerry Asset Management Limited
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited
"km"	Kilometres
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"KPI"	Key performance indicator
"kt"	Kilotonnes
"kV"	Kilo volts
"kVA"	Kilo volt-amperes

Glossary and Technical Terms

"LAE"	Lawyer's Association for Environment
"Listing Date"	13 October 2010
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"LOM"	Life-of-Mine
"LTIFR"	Lost Time Injury Frequency Rate
"LTIs"	Lost Time Injuries
"MBGS"	McEiroy Bryan Geological Services Pty Ltd.
"MIBC"	Methyl Isobutyl Carbinol
"middlings"	Washed thermal coal
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"Mt"	Million tonnes
"NGOs"	Non-governmental organisations
"Norwest"	Norwest Corporation
"Offer Date"	12 October 2011 and 28 November 2012, the dates of offer of a total of 37,500,000 and 22,750,000 Share Options, respectively, to its Chief Executive Officer and certain employees under the Share Option Scheme adopted by the Company
"OHS"	Occupational Health and Safety
"OHSE"	Occupational Health, Safety and Environment
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"Parliament"	Parliament of Mongolia

Glossary and Technical Terms

"probable reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
"raw coal"	Generally means coal that has not been washed and processed
"Risun"	Risun Mining Co., Ltd
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance
"share(s)"	Ordinary share(s) of USD0.01 each in the share capital of the Company
"Share Options"	The share options which were granted under the Share Option Scheme to eligible participants to subscribe for Shares of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
"SLSP"	Sustainable Livelihood Support Program
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"SSCC"	Semi-soft coking coal
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG deposit
"the Schemes"	The Group participates in defined contribution retirement benefit schemes

Glossary and Technical Terms

"thermal coal"	Also referred to as "steam coal" or "steaming coal," thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"THG"	Tsaikhar Khudag
"TKH"	Tsagaan Khad
"tonne"	Metric ton
"TRIFR"	Total Recordable Injury Frequency Rate
"Tsogttsetsii"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"TT"	Tavantolgoi JSC
"TZ JV"	Tianjin Zhengcheng Import and Export Trade Co., Ltd
"UHG"	Ukhaa Khudag
"UHG deposit"	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	The aboveground (<300m) portion of our UHG deposit
"USD"	United States Dollar
"VAT"	Value added tax
"washed coal"	Coals that have been washed and processed to reduce its ash content

Appendix I

UHG Coal Resource estimate updated in accordance with the JORC Table 1, as described in the JORC Code (2012) is detailed in Sections 1, 2 and 3.

JORC (2012) TABLE 1

Section 1. Sampling Techniques and Data

Criteria	Commentary
Sampling techniques	*Nature and quality of sampling* • Coal quality samples were collected from HQ and some PQ sized diamond core. Coal samples once collected were stored in refrigerated containers until required for analysis. • Each coal ply was brightness logged and sampled separately in intervals no greater than 2.0 metres ("m"). Stone bands up to 2 centimetres ("cm") were sampled with the coal but stone bands larger than this were sampled separately. Stone bands larger than 50cm were not sampled. • Chip samples from open holes and trench samples were used for continuity purposes and were not used for resource calculations. • Full coal seam samples were taken for the resource calculation and 30cm ply roof or floor samples were taken for inclusion in future work on Reserves, which did not impact the resource calculation methods. • All boreholes were geophysically logged with down-hole wire-line tools with sample spacing's of 1, 2 or 5cm used. Coal/rock boundaries were well identified from the geophysics. Core boreholes were corrected and checked for core recovery for coal and rock thickness using down-hole geophysics with loss inserted within the lithology record. Open-hole coal ply thickness was corrected to down-hole geophysics. *Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used* • For cored boreholes, coal plies were fully cored and sampled. • Two calibration boreholes (G02251 and R00020) were setup to regularly test all logging tools as they came onto the site and at regular periods whilst onsite. • A central logging facility was designed where all borehole cores were stored, logged photographed and sampled. A standard set of rock types and coal lithotypes were collected and displayed for purposes of calibration in logging. The logging geologists were supervised and regularly tested on performance for procedural compliance.

Appendix I

Criteria	Commentary
	Aspects of the determination of mineralisation that are Material to the Public Report • Coal was determined in the core by colour, weight, strength and texture (assisted with using a field knife to scratch the core and hand lens to observe texture). Once the coal/rock boundary was observed, the coal ply was logged for coal maceral and thickness, for changes in coal brightness (maceral – Vitrinite) using a coal brightness chart (C1 = >90% bright, C2= 60-90% bright, C3=40-60% bright, C4=10-40% bright, C5=1-10% bright and C6=<1% bright). Based on the brightness of coal macerals, similar brightness sections within a ply were sampled together. These samples would indicate changes in quality i.e. higher ash/higher density. Rock partings ≤50cm within or between plies were sampled separately. • The core coal interval observations were confirmed with down-hole geophysics.
Drilling techniques	*Drill type and details (e.g. core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method, etc.).* • Diamond core and open-hole drilling was completed. All coring was completed with Boart Longyear triple tube split systems to ensure maximum core recovery. Open-hole drilling was 4.5-6 feet hammer until the water table then water circulated blade drilling. • Core was mostly HQ3 size with some PQ3 size. • Core bits were diamond impregnated and surface set to maximise recovery and minimise shattering of core. • Generally boreholes were drilled vertically with most having a down-hole verticality Log run.
Drill sample recovery	*Method of recording and assessing core and chip sample recoveries and results assessed.* • Linear core recovery was calculated initially by the driller's measurement and then confirmed by the rig geologist who calculated the recovered linear length of core for each drill run and expressing it as a percentage of the full core run. • Downhole geophysics was used to further assess the amount and location of linear core loss. • Core photography in boxes also assisted later evaluation of loss. • Linear core loss was recorded in the drill record and inserted into the lithology log at the point of loss. The point of linear loss was determined with photographs and wire-line geophysics by determining the thickness between stone partings within the geophysical log and solid core. • Samples were measured for weight but this mainly served as a cross check with the laboratory. • Linear core loss was mainly attributed to drilling through structural zones. Where poor drilling was deemed as the cause of poor recovery the borehole was redrilled.

Appendix I

Criteria	Commentary
	Measures taken to maximise sample recovery and ensure representative nature of the samples. • Modern drilling equipment and trained coal drillers were utilised. • High quality drilling pipe, coring and drilling bits used. • Expected high core recovery particularly in coal plies enforced with drilling contractor where ply sections with less than ≥95% were redrilled. • Chip samples collected on a 1m basis and displayed clearly for rig geologist observation. *Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material.* • High linear core recover was maintained ≥95% therefore, minimising sample bias due to sample mass loss. Core photography and good wire-line geophysics confirmed high linear core recovery and assisted with documentation of actual loss depth recorded within the lithology log.
Logging	*Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies.* • All core was logged geologically and geotechnically and recorded in hard copy and electronic format to COALLOG standard. *Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography.* • Geological and geotechnical logging was qualitative with codes used to describe the different geological and geotechnical aspects of the core as per COALLOG standard. • Borehole core was photographed in 4 or 5m boxes (depending PQ or HQ) on a wet and dry basis which included the entire core. *The total length and percentage of the relevant intersections logged.* • All coal plies were fully cored and logged to COALLOG standard. All logged coal cores were fully sampled including rock parting 50cm or less.
Sub-sampling techniques and sample preparation	*If core, whether cut or sawn and whether quarter, half or all core taken.* • The whole core was sampled for coal analysis. *If non-core, whether riffled, tube sampled, rotary split, etc. and whether sampled wet or dry.* • Not applicable for coal.

Appendix I

Criteria	Commentary
	For all sample types, the nature, quality and appropriateness of the sample preparation technique.

- Coal cores at the rig site, were measured in the splits then gently washed to remove drilling grime. The coal was carefully placed into core boxes with no coal remaining. The boxes were wrapped securely in plastic for transport to the central logging facility. The core boxes were delivered (average distance 2km) to central logging facility at the end of each 10-hour shift. The coal core boxes are stored in refrigerated containers until logging. After logging and sampling, the samples were returned to refrigeration until sent to the Energy Resource Mining Laboratory ("ERML"). This laboratory is less than 50m from the central logging facility.
- At the central logging facility core boxes were placed in the dedicated photography area and photos were taken. The core was laid out on specifically designed and built logging tables. The atmospheric environment inside the central logging facility was kept to a constant temperature. The cores were re-measured and confirmed with field measurements. Geophysical logs were used to correct for seam thickness, loss and expansion were noted. Based on the brightness of coal macerals, similar brightness sections within a ply were sampled together. Rock partings ≥0.02cm and ≤50cm within or between plies were sampled separately. Roof and floor material of 30cm in thickness was also sampled. Maximum coal sample thickness was 2m. Identified samples were placed in double plastic bags with sample tags placed inside the coal containing sample bag and then in between the sample bags with finally the sample information written on the outside plastic bag. The sample bag was weighed with weight corrected for the sample bag mass.
- Geotechnical rock samples were collected on each change of major lithotype. The samples were wrapped in aluminium foil, then plastic and then water proof tape. The sample number and depth was scribed on the sample. The sample number was digitally recorded in the logging software 'LogCheck'.

Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.

- All samples were analysed at the ERML, which is located onsite. With respect to sample preparation, the top size of the sample was reduced and split into two quarters and one half portions. The sample preparation took into account the top size of the sample material required for each of the analytical determinations. One of the quarter portions was used for analysis and the remaining portions were retained.
- The ERML was accredited to ISO/IEC 17025:2005(MN ISO/IEC 17025:2007) standard in May 2012 and expires in July 2017.

Appendix I

Criteria	Commentary
	Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling. • ERML prepared and analysed a number of samples, and submitted duplicates of these samples for analysis at the ALS Limited Laboratory ("ALS") (100 samples) and Mongolian Mining Institute ("MMI") and the MMI (615 samples) laboratories in Ulaanbaatar. The ERML analytical results were compared to the other laboratories by means of cross plots and basic statistical parameters. • The ERML generally reported the coal quality parameters lower than the ALS and generally higher than the MMI Laboratory with varying degrees of reproducibility between laboratories. • For work previously completed before 2009, it is unknown if a similar comparison exercise was done. *Whether sample sizes are appropriate to the grain size of the material being sampled.* • Bulk samples were taken for dry and wet tumbler sizing analysis in 2008 and 2012. • The 2008 work was completed for seams (0C, 3A, 4A, 4C, 8 and 9) and the work was analysed at the Standards Technical Services Co., Ltd. ("SGS") – Tianjin, China laboratory. • The 2012 work was completed for seams (0C, 3A, 4A and 4C) and the work was analysed at the ALS – Ulaanbaatar, Mongolia laboratory. • The same procedure was applied to both programs. The average seam sample weight was 800 kilograms ("kg"). Dropshatter, sample dropped five times from height of 2m, three times. The sizes weighed 2, 6, 8, 11.2 and 16 millimetres ("mm"). Wet Tumble with steel cubes for five minutes (18 cubes/50kg/150l pro-rata). Wet size at 16, 11.2, 8, 4, 2, 1, 0.5, 0.25, 0.125. The top size for this work was 19mm. • The results of this work were for the design of the CHPP and Reserves. It did not have an impact on the Resource estimate. • For work previously completed before 2008, it is unknown if a similar exercise was done.

Appendix I

Criteria	Commentary
Quality of assay data and laboratory tests	*The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.* • Coal samples were analysed for, True relative density (GB/T 217:2008), Total moisture (MNS ISO 589:2003), Analytical moisture (MNS ISO 331:2003), Ash (MNS SO 1171:2009), Volatile matter (MNS ISO 562:2001), Calorific value (MNS ISO 1928:2009), Total sulphur (ASTM D4239:05), Crucible swelling number (MNS ISO 501:2003) and Caking index (MNS ISO 335:2005). • In addition, bulk samples were taken in 2008 and 2012 for coke testing. • The coal analyses are sufficient to determine a Resource estimate and determine the potential coal products and support the marketability of the coal products. • The laboratory under its certification did regular reproducibility and repeatability samples. Main protocol was every 10 sample duplicate tests were done (coal and non-coal samples). For every 30 sample, 1 standard and 1 blank sample was tested for equipment calibration. After each full borehole analyses were completed, regression graphs were constructed for internal checks. When samples deviated from the procedure tolerance the samples were re-analysed from new. *For geophysical tools, spectrometers, handheld XRF instruments, etc., the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc.* • Two calibration boreholes (G02251 and R00020) were setup to regularly test all wire-line logging tools as they came onto the site and at regular periods whilst onsite. *Nature of quality control procedures adopted (e.g. standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (i.e. lack of bias) and precision have been established.* • The ERML was accredited to ISO/IEC 17025:2005(MN ISO/IEC 17025:2007) standard in May 2012 and expires in July 2017. Internal testing protocols are mandatory with accreditation with duplicate testing and round robin testing done. • Laboratory certificates were supplied by ERML, ALS and the Russian lab. No certificates were supplied for the SGS lab. • ERML prepared and analysed a number of samples and submitted duplicates of these samples for analysis at the ALS (100 samples) and the MMI Laboratory (615 samples). The ERML analytical results were compared to the other laboratories by means of cross plots and basic statistical parameters. The ERML generally reported the coal quality parameters lower than the ALS and generally higher than the MMI Laboratory with varying degrees of reproducibility between laboratories.

Appendix I

Criteria	Commentary
Verification of sampling and assaying	*The verification of significant intersections by either independent or alternative company personnel.* • A number of pre-2008 boreholes were twinned by the Norwest and ER drilling programs. • Coal thickness intervals were check with a high level of agreement. • Due to poor core recovery many of the pre-2008 boreholes were not accepted for points of observation but due to the good agreement of coal interval thickness the boreholes were generally used for seam correlation and continuity. • Most of the pre-2008 boreholes were redrilled with only a few boreholes, which were accepted for points of observation used in Inferred areas. In these boreholes where coal quality comparisons were possible, there was up to a 20% error upside on relative density and ash. No adjustments were made to the coal quality data. • A few numbers of boreholes from the 2008 program were twinned. In these cases the coal thickness intervals and coal quality had good agreement. All boreholes in this program where they meet point of observation guidelines were used for the Resource estimate. • Hard copy data from the pre-2008 programs were translated and coded and uploaded into the LogCheck data management software. The hard copy geophysical logs were scanned and then digitised and LAS files created and uploaded into the LogCheck data management software. All hard copy coal quality results were entered into Excel spreadsheet and once validated was loaded into the LogCheck data management software. Unless for obvious typographical errors no adjustments were made to the coal quality data. • The 2008 program coded digital data was translated and re-coded and uploaded into the LogCheck data management software. The LAS geophysical logs were validated and uploaded into the LogCheck data management software. The coal quality results were received as Excel spreadsheets and were built into the existing ER Excel spreadsheets for validation and uploaded into the LogCheck data management software. Unless for obvious typographical errors no adjustments were made to the coal quality data.

Appendix I

Criteria	Commentary
	The use of twinned holes. • A number of pre-2008 boreholes were twinned by the Norwest and ER drilling programs. • Coal thickness intervals were check with a high level of agreement. • Due to poor core recovery many of the pre-2008 boreholes were not accepted for points of observation but due to the good agreement of coal interval thickness the boreholes were generally used for seam correlation and continuity. • Most of the pre-2008 boreholes were redrilled with only a few boreholes, which were accepted for points of observation used in Inferred areas. In these boreholes where coal quality comparisons were possible, there was up to a 20% error upside on relative density and ash. • A few numbers of boreholes from the 2008 program were twinned. In these cases the coal thickness intervals and coal quality had good agreement. All boreholes in this program where they meet point of observation guidelines were used for the Resource estimate. • A few numbers of boreholes from the 2008 program were twinned. In these cases the coal thickness intervals and coal quality had good agreement. All boreholes in this program where they meet point of observation guidelines were used for the Resource estimate.

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Criteria	Commentary
	Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols. • The pre-2008 primary data (excluding coal quality) was in the form of hardcopy volumes of longhand drafted graphic profiles with all survey, drilling, recovery, geological, downhole geophysics, raw information, interpreted information and final information. These volumes are securely stored in the company's long term storage archives. The volumes were scanned, translated, coded and uploaded in the LogCheck data management software. Coal quality records were provided on hard copy laboratory certificates. These hardcopies are securely stored in the company's long term storage archives. This data was entered into Excel spreadsheet and once validated was loaded into the LogCheck data management software. • The 2008 primary data was in the form of scanned hard copy survey, drilling and geological logs, wire-line geophysics as LAS digital files and coal quality as Excel spreadsheets. The hardcopy logs were already in digital form as Excel spreadsheets. These were re-coded as necessary and with LAS files uploaded the LogCheck data management software. The coal quality results were built into the existing ER Excel spreadsheets for validation and uploaded into the LogCheck data management software. • The primary data for 2009 – 2014 was original hard copy records for survey, drilling, geology, wire-line geophysics, geotechnical and coal quality. This data is securely stored in filing cabinets in the central logging facility at the mine site. All data stored is digital and has been entered and validated by the LogCheck data management software. This data is stored on company servers where the company IT department control the security. Furthermore, all data has been uploaded into the company master database stored on the Micromine GeoBANK system. All data systems are aligned with the COALLOG coding and form system. • All data from all exploration either historical or current has been coded and converted into the COALLOG coding and form system and resides as one database.

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Criteria	Commentary
	Discuss any adjustment to assay data. • No adjustments have been made to any coal quality data unless for obvious typographical errors. Regressions using all determined coal quality data on a seam group basis were constructed and missing data calculated and added to the digital database. • Coal interval thicknesses were matched with wire-line geophysics according to normal industry standards. Expanded coal interval intersections and corresponding sample thickness were reduced in thickness to match the geophysics. Where coal interval intersections were less, loss was added in the lithology log at the determined location using comparison thicknesses between observed partings and wire-line rock responses. If the loss occurred within a sample the sample thickness was adjusted to reflect the loss. • All samples once collected at the central logging facility were weighed for mass and this mass was matched with laboratory sample mass. • All compositing for the Resource estimate was done mathematically based on sample thickness and relative density. The only composites made by the laboratory were for coke and caking tests. • All sample data and composite data are recorded in the LogCheck data management software and GeoBANK database.
Location of data points	*Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.* • The topographic and borehole collar survey was carried out by ER's own survey team using Trimble equipment. • Drill hole collars were surveyed using a Trimble R8 GPS which has a static horizontal and vertical accuracy of ±3mm +0.1 parts per million ("ppm") RMS, an RTK horizontal measurement of ±3mm +0.1ppm RMS and an RTK vertical measurement ±3.5mm +0.4ppm RMS • Following a review of the LAS variance for the deviation data, the Competent Person decided to assume that boreholes were vertical for modelling purposes. This was due to the low variance of deviation of the boreholes from the vertical plane. *Specification of the grid system used.* • The grid system coordinates are UTM Zone 48 North. The same system was used for all survey data.

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Criteria	Commentary
	Quality and adequacy of topographic control. • The topographic survey was carried out by ER's own survey team using Trimble R8 GPS which has a static horizontal and vertical accuracy of ±3mm +0.1ppm RMS, an RTK horizontal measurement of ±3mm +0.1ppm RMS and a RTK vertical measurement ±3.5mm +0.4ppm RMS in 2008. • A difference map comparing the grid based on borehole collars and the grid based on topography was compiled with most differences being less than 1.5m, which is acceptable with a few areas greater than this around the boundaries where there is no borehole control.
Data spacing and distribution	*Data spacing for reporting of Exploration Results.* • Pre-2008, distance between explorations lines on the east limb was 125-500m, while it increases up to 625-750m for other areas of the deposit. Distance between boreholes on the exploration lines is 250-300m. Exploration depth was to 300-320m from the surface. • The 2008 program was an infill drilling program that appeared to have an irregular design and spacing. • The drilling program that covered 2009–2011 was a 50x50m square grid on the eastern deposit area covering the mining areas first ten years. This 50x50 grid consisted of 100x100 core boreholes and 100x100 openholes for the first 400m down dip of each seam. The western area was a 120x120 triangular grid of all core boreholes. • The drilling program that covered the period 2012-2014 was an extension of the eastern deposit area in front of the mining face. This program was aligned to the western grid and was drilled on a 120x120 triangular grid of all core boreholes. • The openhole boreholes were mainly for structure and LOX work so only intercepted the first two seams in any location. The average depth was 150m. • The cored boreholes were where possible to intercept all seams. A limit of approximately 700m was placed on the boreholes in the western area. All other areas the coal measures were fully penetrated.

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Criteria	Commentary
	Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied. • The data spacing is sufficient to establish a high degree of geological and grade continuity appropriate for the Mineral Resource and classifications applied. • An exercise in geostatistics to calculate estimated error on the estimate was completed which confirms high degree of geological and grade continuity. *Whether sample compositing has been applied.* • Samples within plies were composited for points of observation for the Resource estimate by mathematical method, based on sample thickness and relative density. The only analytical composites made by the laboratory were for coke and caking tests.
Orientation of data in relation to geological structure	*Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.* • All boreholes included in the Resource estimate were drilled with a vertical orientation. Most boreholes after 2009 had verticality deviation LAS data completed. • Following a review of the LAS variance for the deviation data, the Competent Person decided to assume that boreholes were vertical for modelling purposes. This was due to the low variance of deviation of the boreholes from the vertical plane. • No evidence of bias due to borehole orientation has been observed. *If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.* • No evidence of bias due to borehole orientation has been observed. • As part of the geostatistical review on estimated error a check for anisotropy was made with no evidence that there was one.

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Criteria	Commentary
Sample security	*The measures taken to ensure sample security.* • For pre-2008 bore cores the following is quoted from (Dashkhorol et.al. 1989): *All coal seams and rocks of the different lithological contents were subjected to sampling. To select cored, coal samples the following method was used: Core was installed in the drill core box in such sequence, for which it will be derived from core barrel. Washing of core with clean water was used only for whole cylinders or large size fragments by hand, but fine-grained and crushed coals are not recommended for washing in the field conditions to avoid distorting of samples because of loss of any lithotypes. Interval length included in the sample has been estimated depending on thickness of a split or coal seam of any lithotype. Usually in average it equals to 1.0-1.5m, but sometimes was more when really homogeneous components were sampled separately. If drill core contains some intersections of original lithological component, they were selected together in one sample. Then these intersections were verified through logging. Sometimes, if separation of rock intersections from coal splits was not possible they were selected together with coal, which were recorded in appropriate documents. For the calculation of medium-weighed quality indicators of coal for seam intersections, the results of analyses made for such samples were related to appropriate complicated structure interval of a seam without any amendment. In such cases, a complicated structure interval as a rule was defined and accepted through logging. Core recovery for coal was determined with utilization of volumetric and linear methods into sample divisions, which were organized by crew. Coal core documents were also examined there and completed preparation of samples, labelling and packing into the synthetic bags was made. Selected samples were sent monthly to laboratory.* • For the 2008 bore cores, little was mentioned in the Norwest report on sample security. The following is summarised (Norwest 2008): *only borehole core samples were assayed. Field samples, usually no more than 0.5m of core length. Incremental samples consisting of combined groups of field samples based on consistent lithological units interpreted from core and geophysical logs. Physical composite samples, consisting of combined incremental sample intervals representing logical mining or integral coal seam units. Large diameter (150mm) core samples of key seams for washability analyses, processing plant simulation and metallurgical characterization. Geotechnical rock strength samples taken of waste (non-coal) and coal core.*

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Criteria	Commentary
	• Coal cores at the rig site, were measured in the splits then gently washed to remove drilling grime. The coal was carefully placed into core boxes with no coal remaining. The boxes were wrapped securely in plastic for transport to the central logging facility. The core boxes were delivered (average distance 2km) to central logging facility at the end of each 10 hour shift. The central logging facility is location within the mine site. The mine site has 24 hour high level security. The coal core boxes are stored in secure refrigerated containers attached to the central logging facility until logging. After logging and sampling, the samples were returned to refrigeration until sent to the laboratory. The laboratory is less than 50m from the central logging facility. The core was laid out on specifically designed and built logging tables. The atmospheric environment inside the central logging facility was kept to a constant temperature. The cores were re-measured and confirmed with field measurements. Geophysical logs were used to correct for seam thickness, loss and expansion were noted. The identified samples were placed in double plastic bags with sample tags placed inside the coal containing sample bag and then in between the sample bags with finally the sample information written on the outside plastic bag. The sample bag was weighed with weight corrected for the sample bag mass. A sample dispatch form is completed by the geologist, which contains all information on the sample. The form is sent to the laboratory. The laboratory accesses the secure refrigerated container to retrieve the sample as listed on the dispatch form. Confirmation of the correct sample being analysed is through the triplicate sample tag/bag information and double check with the sample weight.
	• Analytical data was entered into the GeoBANK database by the laboratory. The GeoBANK database was first populated with borehole number and sample number from the logged data in the LogCheck software. This data was seamlessly uploaded into the GeoBANK database for laboratory access. Once the data was entered by the laboratory and validated it could be passed back to Geology for importing into the master Excel spreadsheets for further processing and validation. Final data was seamlessly passed to the LogCheck software for final validation and repository for points of observation.
Audits or reviews	*The results of any audits or reviews of sampling techniques and data.*
	• An initial site visit was completed by Mr Ballantine as a consultant for Micromine Pty Ltd in late January 2009. The visit was commissioned by Mr Andrew Little, Technical Director (at the time) for ER. The purpose of this visit was to audit the topographical and geological data and to assess the quality of the information recorded into the digital geological database and to comment on the implications that this would have on the confidence in the geological model of the UHG coal deposit. The audit used the reference 'Australian Standards for coal evaluation and sampling (AS 2519—1993 & AS 2617—1996)' to compare with the data collected and is referred to as the standard. Numerous issues were identified and Mr Ballantine was asked provided a full time service whereby providing budgeting, planning, procedures and training for required ongoing exploration following the initial visit (January 2009) recommendations overall oversight of exploration at UHG.

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Criteria	Commentary
	• Mr Ballantine (Competent Person, Resource estimate- June 2012), thought it prudent to have an independent experienced Competent Person qualified geologist provide a site visit and peer review. This was done by Mr Todd Sercombe, senior consultant for GasCoal Pty Ltd, a coal geologist with 18 years coal experience. Mr Sercombe's findings from the site visit were: *The UHG exploration procedures and practices are of extremely high calibre, exceeding both the Australian Standards for coal evaluation and sampling (AS 2519—1993 & AS 2617—1996) and the benchmark coal industry best practices (as observed by Mr Sercombe in the Bowen Basin, Australia). The accurate and unbiased assignment of coal core loss to coal samples, achieved in the UHG practices, is commendable. The coding, for modelling, of all significant stone band partings in the seams and of inter-burden units between the seams is also praiseworthy. The Exploration and Geology Department is a group of young enthusiastic geologists who have been well trained and led by Gary Ballantine. I would have high confidence in the reportable results obtained from the UHG exploration procedures.* • The exploration group has changed little from the previous JORC (2004) Resources report- June 2012 so the independent peer review by Mr Sercombe is still relevant. • Mr Ballantine currently holds the position of Executive General Manager, Exploration and Geology and has responsibility for budgeting, planning, training and overall oversight of exploration at UHG. As part of the ongoing evolution of the ER geology group and knowledge transfer, supervised and structured succession of capable individuals, is planned. Mr Ballantine understands that complacency can creep into a well established team. To prevent this he does frequent site visits with Mr Said (Competent Person) every few months and they review different member's capabilities against the exploration procedures. As part of Mr Ballantine's role as mentor and internal auditor, all final data, (i.e. seam thickness, seam correlation, sampling intervals, coal quality analysis, collar survey and LAS quality) are reviewed once the team (supervised by the Competent Person) has done the work. With the above process it is Mr Ballantine's professional opinion that there is a very high compliance with the teams results and JORC standards.

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Section 2. Reporting Exploration Results

Criteria	Commentary
Mineral tenement and land tenure status	*Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings.* • The license is wholly owned by ER and was granted by the Mineral Resources and Oil Authority on 23rd January 2007 for a period of 30 years. In accordance with this consensus the License Transfer Agreement was signed on 21st March 2008 and the coordinates of license No.MV-011952 was increased from 1011 hectares ("Ha") up to 2962Ha. On the 1st April 2010, a further minor change to the license was made, which reduced the area to its now present 2960Ha. *The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area.* • The license is 100% secure and owned by ER.
Exploration done by other parties	*Acknowledgment and appraisal of exploration by other parties.* • The TT deposits of fossilized coal was discovered and exploited by the local people since early 19th century. • The first official information on the deposit appears in reports by geologist K.D.Pomazkov, who studied the coal in a small open-cut pit in 1940. The coal of the deposit was surveyed and tested by the geologist N.A.Marinov in 1943-1953. • In 1975, from shafts sunk in the deposit, five semi-industrial (pilot-plant rank) samples were taken from seams 4A, 4B, 8A, 8B, 8C, 9A, 9B, 9C by Bulgarian geologists. • In 1977 at the request of the Government, MPR (Mongolian People's Republic), 'LENGIPROSHAHT' conducted technical and economic assessment for detailed exploration, upon the condition that the coal of all seams is coking, relying on the results of incomplete exploration works. • In 1985-1987 exploration and evaluation works were conducted in areas directly connected to the Eastern, Bor Tolgoi and Ukhaa Khudag. More perspective and potential among these was the area of UHG, which underwent a preliminary survey in 1987. As results of exploration-evaluation work it was established that the most valuable coal seams by quality and thickness are located within the UHG deposit. • In 1984-1989 continual testing of coal by the USSR's VUHIN Institute of Minchermet; the Institute completed studies of the chemical characteristics of the coking coal for Tsankhi & preliminary reports of the coal from Ukhaa Khudag and Tavan Tolgoi South.

Appendix I

Criteria	Commentary
	• ER conducted an infill drilling and bulk sampling program at UHG in 2008, which was planned and managed by Norwest. The purpose of this program was to address the issues identified above and bring the bulk of the UHG resource to a level of geologic assurance sufficient for mine planning and feasibility level study. • A total of 111 Russian drilled holes were used in the Norwest model, the majority being cored holes. The Norwest program included a total of 121 holes, comprised of 17 slim gauge core holes (PQ/HQ), 99 slim rotary holes (± 100mm) and 5 large diameter core/bulk sample locations. A grand total of 232 holes were used in the creation of the current (2008) geologic model with an average drilled depth of approximately 200m. • The 2008 program sufficiently increased the prior borehole density and validated the historic Russian data to an extent sufficient for categorizing the UHG mine area as a measured plus indicated resource according to the JORC Code and thereby permitting advanced mine planning and economic evaluations to be conducted at current international standards. The drilling plan will also penetrate to a depth of 600m, thus bringing potentially underground mineable resources into a higher level of confidence.
Geology	*Deposit type, geological setting and style of mineralisation.* • The late Paleozoic was marked by the continental collision of a number of small micro-continents that came together as convergent margins. As the Siberian Craton and the North China block converged, ancient continental crust was thrust onto the continental margin and small island arcs, subduction wedges, and ophiolitic belts were accreted as pre-existing basement rock was deformed and faulted, and uplift initiated. • Island arc geometry, similar to how the Bowen Basin was formed, coincides with the formation of the late Permian systems that formed the belt of Late Permian coal measures that are found in the south and south-west of Mongolia of which the Tavan Tolgoi deposit forms one of. These types of deposits form large basins that have vast lateral continuity. Unfortunately, due to the collision of India in the Tertiary, these basins in the southern regions of Mongolia have undergone later stage deformation, which appears to be more severe in the west and moderates eastward. This also explains the close proximity of large younger rift type basins that contain thick lignite deposits close to these Permian basins.

Appendix I

Criteria	Commentary
Drill hole Information	*A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes:* – *easting and northing of the drill hole collar* – *elevation or RL (Reduced Level – elevation above sea level in metres) of the drill hole collar* – *dip and azimuth of the hole* – *down hole length and interception depth* – *hole length.* • No exploration results are reported. • A total of 1,744 valid boreholes are loaded in the LogCheck data management software and GeoBANK database. Each borehole contains easting, northing, reduced level, dip, azimuth, lithology, coal intersections, sample number, geotechnical, wire-line geophysics and coal quality. • Points of observation derived from this data are in Appendix 4A and 4B of the report. *If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case.* • No information was excluded from above criteria.
Data aggregation methods	*In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (e.g. cutting of high grades) and cut-off grades are usually Material and should be stated.* • No exploration results are reported. *Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail.* • No exploration results are reported. *The assumptions used for any reporting of metal equivalent values should be clearly stated.* • No exploration results are reported.
Relationship between mineralisation widths and intercept lengths	*These relationships are particularly important in the reporting of Exploration Results.* • No exploration results are reported.

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Criteria	Commentary
	If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported. • No exploration results are reported. *If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (e.g. 'down hole length, true width not known').* • No exploration results are reported.
Diagrams	*Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported. These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views.* • No exploration results are reported.
Balanced reporting	*Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results.* • No exploration results are reported.
Other substantive exploration data	*Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances.* • No exploration results are reported. • A ground Magnetic and Gravity program was undertaken by Monkarotaj LLC in November 2010. The results were high level and provided some guidance with understanding the magnetic hydrothermal fluids and broad coal basin limits. • Polaris Seismic International was awarded the contract to conduct 2D Land High Resolution Seismic Survey at UHG in 2010 and 2011. The 2D UHG 2010 Seismic program recorded 22 lines totalling 46,000m and the 2011 Seismic program recorded 15 lines totalling 25,270m using Roll On and Roll Off methodology with 240 maximum active channels and using dynamite as the source
Further work	*The nature and scale of planned further work (e.g. tests for lateral extensions or depth extensions or large-scale step-out drilling).* • No exploration results are reported. *Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive.* • No exploration results are reported.

Appendix I

Section 3. Estimation and Reporting of Mineral Resources

Criteria	Commentary
Database integrity	*Measures taken to ensure that data has not been corrupted by, for example, transcription or keying errors, between its initial collection and its use for Mineral Resource estimation purposes.* • For programs pre-2009, hard copy and scanned data was part of the data set supplied to ER. All care has been taken in the translation, recoding and digitising of this data into the COALLOG format. This data has been loaded into the LogCheck data management software and validated for codes, depth errors and consistency. Where photographs exited then these were checked against the coded data. Final checks were data making with wire-line geophysics and through sections with neighbouring boreholes for consistency. • For 2009-2014 programs the raw data was captured in forms using codes in the COALLOG format in hard copy format. This data was then entered into the LogCheck data management software which has very strict validation rules. These rules assist in data being correctly entered. The logging is done in a controlled environment in a central logging facility located on the mine site. Analytical data was entered into the GeoBANK database by the laboratory. The GeoBANK database was first populated with borehole number and sample number from the logged data in the LogCheck software. This data was seamlessly uploaded into the GeoBANK database for laboratory access. Once the data was entered by the laboratory and validated it could be passed back to Geology for importing into the master Excel spreadsheets for further processing and validation. Final data was seamlessly passed to the LogCheck software for final validation and repository for points of observation. All systems are designed to only enter data once. Once all validation, correlation and points of observation checks are completed, points of observation are produced by the LogCheck data management software by way of csv files and these files are uploaded to the Micromine modelling software. • Within the modelling software once final validation and correlation checks are completed. Anomalous seam thickness is validated and if due to faulting is taken out of the database. This data is recorded in Appendix 17 in the report.

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Criteria	Commentary
	Data validation procedures used. • The COALLOG codes and forms were used for logging which controlled the format and codes to be used. This data was entered once into the LogCheck data management software which has very strict validation rules on entered data. • Once the coded and depth entered data was validated, borehole profiles were produced with wire-line geophysics. Coal intersections were validated with wire-line geophysics coal intersections and core loss or expansion was noted. Where coal loss occurred it was entered into the lithology log as a loss. These final boreholes are recorded in Appendix 8 in the report. Borehole sections in easting and northing directions were produced for seam correction. These records are stored in Appendix 9 of the report. Final validation was completed on the block model through boreholes sections and anomalies investigated. • Data was entered once into the LogCheck data management software for geology/header/drilling/LAS/Geotech data and once into the GeoBANK database for analytical data. Data transfer for analytical data into LogCheck data management software and LogCheck into the Micromine modelling software was done by passing csv files seamlessly.
Site visits	*Comment on any site visits undertaken by the Competent Person and the outcome of those visits.* • An initial site visit was completed by Mr Ballantine as a consultant for Micromine Pty Ltd in late January 2009. The visit was commissioned by Mr Andrew Little, Technical Director (at the time) for ER. The purpose of this visit was to audit the topographical and geological data and to assess the quality of the information recorded into the digital geological database and to comment on the implications that this would have on the confidence in the geological model of the UHG coal deposit. The audit used the reference 'Australian Standards for coal evaluation and sampling (AS 2519—1993 & AS 2617—1996)' to compare with the data collected and is referred to as the standard. Numerous issues were identified and Mr Ballantine was asked provided a full time service whereby providing budgeting, planning, procedures and training for required ongoing exploration following the initial visit (January 2009) recommendations overall oversight of exploration at UHG.

Appendix I

Criteria	Commentary
	• Mr Ballantine (Competent Person, Resource estimate- June 2012), thought it prudent to have an independent experienced Competent Person qualified geologist provide a site visit and peer review. This was done by Mr Todd Sercombe, senior consultant for GasCoal Pty Ltd, a coal geologist with 18 years coal experience. Mr Sercombe's findings from the site visit were: *The UHG exploration procedures and practices are of extremely high calibre, exceeding both the Australian Standards for coal evaluation and sampling (AS 2519—1993 & AS 2617—1996) and the benchmark coal industry best practices (as observed by Mr Sercombe in the Bowen Basin, Australia). The accurate and unbiased assignment of coal core loss to coal samples, achieved in the UHG practices, is commendable. The coding, for modelling, of all significant stone band partings in the seams and of inter-burden units between the seams is also praiseworthy. The Exploration and Geology Department are a group of young enthusiastic geologists who have been well trained and led by Gary Ballantine. I would have high confidence in the reportable results obtained from the UHG exploration procedures.*
	• The exploration group has changed little from the previous JORC (2004) Resources report-June 2012 so the independent peer review by Mr Sercombe is still relevant.
	• Mr Ballantine currently holds the position of Executive General Manager, Exploration and Geology and has responsibility for budgeting, planning, training and overall oversight of exploration at UHG. As part of the ongoing evolution of the ER geology group and knowledge transfer, supervised and structured succession of capable individuals, is planned. Mr Ballantine understands that complacency can creep into a well establish team. To prevent this he does frequent site visits with Mr Said (Competent Person) every few months and they review different member's capabilities against the exploration procedures. As part of Mr Ballantine's role as mentor and internal auditor, all final data, (i.e. seam thickness, seam correlation, sampling intervals, coal quality analysis, collar survey and LAS quality) are reviewed once the team (supervised by the Competent Person) has done the work. With the above process it is Mr Ballantine's professional opinion that there is a very high compliance with the team's results and JORC standards. Collar survey is one task that requires a manual audit. Mr Ballantine on his most recent visit to UHG in mid-November 2014 audited the collar survey for boreholes drilled in the period 2012-2014 with a hand held GPS device.
	• All GPS coordinates of boreholes and boundary pegs checked were within the tolerance of the GPS device.
	If no site visits have been undertaken indicate why this is the case.
	• Not applicable, see above section.

Appendix I

Criteria	Commentary
Geological interpretation	*Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit.* • Detailed mapping from the various campaigns from the 1940's. • A ground Magnetic and Gravity program was undertaken by Monkarotaj LLC in November 2010. The results were high level and provided guidance with understanding the magnetic anomaly and confirmation of broad coal basin limits. • The 2D High Resolution Seismic Survey recorded 37 lines totalling 71,270m using Roll On and Roll Off methodology with 240 maximum active channels and using dynamite as the source proved invaluable in locating and understanding fault systems but, just as importantly, showed areas of little to no structure and this is one of the great positives with using Seismic. In addition, the seismic results gave detailed knowledge of the coal basin shallow surface limits. • Seismic results on structure have been confirmed and updated by mine geology team detailed in-pit and face-wall mapping. • The northern and southern fault boundaries coal/basement contact has been confirmed by face-wall mapping by the geology mine team and angled geotechnical drilling along strike to confirm continuity. • The 'limit of oxidation' was determined by close spaced drilling and confirmed by mapping and sampling from mine geology team. • Seam correlation, continuity and coal quality was confidently predicted by use of close spaced drilling in the eastern and western areas and these results confirmed and supported by detailed 2D seismic. The confirmation of the seismic by drilling results gives confidence where drill spacing is less that correlation and continuity in the seismic provides solid evidence that continuity exists. • Where seismic displayed major structural zones and within these zones boreholes intercepting coal had low confidence of continuity, the seismic was used to map polygons about these areas and deem them as Inferred which was not dependent on points of observation distance. • The continuity of the final computer model provides a high level of confidence. By interrogating the model with all data visible by sections and carefully inspecting allows the Competent Person the confidence to procedure to the final estimate. • As a high level overarching check on the estimate and the confidence of the estimate, expected error on the estimate was used as an aid in understanding the spatial measurements used for the classification categories. As an extension of this the 'loss' function was also estimated determining overall error which, can be used to determine maximum error for Measure and Indicated categories which was 6% and 12% respectfully.

Appendix I

Criteria	Commentary
	Nature of the data used and of any assumptions made. • The essence of the data used is borehole observations with support from detailed mapping and 2D High Resolution Seismic Survey. • No assumption with a material effect to the estimate was made. Notwithstanding, missing or non-analysed coal quality data due to limited sample mass was calculated by regressions and this has been assumed to be adequate for inclusion of the estimate. *The effect, if any, of alternative interpretations on Mineral Resource estimation.* • There are no alternative interpretations known to the Competent Person at this time. *The use of geology in guiding and controlling Mineral Resource estimation.* • The geology was used in understanding deposit limits and structure. The geology was also used to determine deposit type. *The factors affecting continuity both of grade and geology.* • The coal measure was limited by surface outcrop of the seams in the eastern boundary. • The northern and southern limits were fault bounded with generally a steep sharp overthrusting contact. Coal seams close to this contact were highly deformed and coal quality was highly variable. • The western boundary was limited by the license boundary but the seams are continuous beyond this point. • Within the deposit, major structural zones effected coal seam continuity and coal quality. Rank increases due to the major structures effected coal quality.
Dimensions	*The extent and variability of the Mineral Resource expressed as length (along strike or otherwise), plan width, and depth below surface to the upper and lower limits of the Mineral Resource.* • The coal resource area is oriented generally in an east-west direction and is some 7.5m long and 3km wide. • The area of the license is 2960.23Ha. • The seams mostly outcrop in the eastern area of the deposit with an average of 10m of unconsolidated Quaternary sediments overlaying the Permian coal measures. The base of weathering is on average between 15 to 25m. • Drilling in the western area went to 700m depth and it is estimated the coal measures still extend another 300m past the drilling. • The model extension is less than 100m deeper than the deepest borehole. Categories were extended half the distance past the last borehole but this had little effect on the estimate due to the dimensions of the deposit. • No resource has been estimates outside of the Lease boundaries.

Appendix I

Criteria	Commentary
Estimation and modelling techniques	*The nature and appropriateness of the estimation technique(s) applied and key assumptions, including treatment of extreme grade values, domaining, interpolation parameters and maximum distance of extrapolation from data points. If a computer assisted estimation method was chosen include a description of computer software and parameters used.* • The UHG resource estimate was carried out using Micromine's COALMEASURE Version 15.0.2 and LogCheck Version 6.147 using the COALLOG geology data format as the database. • The method used for estimating Resources at UHG involved modelling an elevation grid for the major ply, 0AL, and modelling thickness grids for the other plies and partings. These thickness grids for the plies and partings were then stacked on top or below of the elevation grid to form a 3D block model. • To create an accurate and reliable 3D model of the coal seams a kriging algorithm with semivariogram modelling for the seam elevation was used. Kriging is a very flexible gridding method that can be custom-fitted to any data set by specifying the appropriate semivariogram model. Kriging incorporates anisotropy and underlying trends. The purpose of geostatistical analysis was to generate a series of semivariograms that could be used as the input weighting mechanism for the Kriging algorithm. To be able to conduct reliable geostatistical analysis there is a requirement to have sufficient number of points. As such, ply 0AL was used for geostatistical analysis as it was intersected by the largest number of boreholes and is the most consistent ply across the area. • To create the block model an elevation grid was created for the major lower ply 0AL and then the thickness grids for the other plies and partings were stacked above or below this as required. In order to use this method each borehole needed to contain an interval for each ply and parting even if the ply or parting was 'pinched out' and was not intersected by that borehole. Some plies were not intersected by the boreholes and so 'virtual' plies with a thickness of zero were inserted in order to model the seam morphology. The location of these virtual plies was determined by using the COALMEASURE extrapolation tool, which uses Inverse Distance Weighting with a power of 2. Where boreholes intercepted plies, but these plies were not present due to deterioration as a result of changing sedimentary environments then these plies were inserted as zero thickness plies at the roof or floor of a logged ply. Stone parting intervals were logged in the raw database, but where they were missing they were added to all ply groups for each borehole even in cases where the parting thickness was zero. • In order to create a reliable model of the seam morphology a cell size of 25m by 25m was selected for gridding. Gridding with exact interpolation using ordinary kriging was used to generate grids for the elevation of the mid-point of the plies and Inverse Distance Weighting with a power of two was used to generate grids for the thicknesses of the plies. To allow the grids to cover the necessary areas, a circular search radius of 2,000m with maximum of 20 points was used to create the elevation grids. The thickness grids were created using a circular search radius of 2,000m with maximum of 20 points per sector.

Appendix I

Criteria	Commentary
	• The base of weathering grid was produced using kriging with search radius of 5,000m with maximum of 20 points per sector. The base of weathering grid was used in conjunction with mapped LOX lines as the upper most cut-off for coal. The base of Quaternary grid was produced using IDW with a power of two. Weathered coal can be calculated between the base of weathering and base of Quaternary. This coal has been successfully mined and has been commercial sold as Thermal coal. For the purpose of this resource estimate it has been included in the estimate. A Topography surface grid was produced using IDW with a power of two. This was then converted into a DTM. • The 3D gridded seam block model was generated by stacking thickness grids on top or below of the major ply (0AL) elevation grid. The centroid of the block East and North was the X and Y values from the grid file which was 25x25m (grid cell size), the centroid of the block RL was the Z value from the elevation grid and block size by RL was the Z value from thickness grids. • The Competent Person for this estimate used the expected error in the estimate to support distances for Measured and Indicated categories. For Inferred category the narrow dimensions of the deposit may cause a misleading result using the expected error technique so the experience of the Competent Person and detailed knowledge of the deposit were sufficient for determining this category spacing. In determining extrapolation beyond last data points, half the category distance was applied. Due to the data spacing and deposit dimensions this did not have a major affect. The shapes for the categories was mostly automated with the Micromine software, however where this case was not true the edge of the data was manually edited by the Competent Person. In addition, due to major structure some areas were hard-wired for specific categories like Inferred and data spacing had no influence. • Measured resources were estimated with points of observation at 350m, Indicated resources were estimated with points of observation at 700m, and Inferred resources were estimated with points of observation at 1500m. • Seam coding was applied to composite plies into seams based upon a specified minimum coal thickness and a maximum parting thickness. The seams were also coded on the basis of resource classification so that only plies of the same resource classification were combined together with their partings. The following modifying factors were used for seam coding; No maximum seam thickness. Minimum seam thickness to be included in the Resource of 0.5m to 400m depth and then 1.5m below 400m. Maximum parting thickness to be included in the Resource of 0.5m. Coal Quality limit with Ash content greater than 50% (DRY basis) being excluded from the Resource Estimate. • Partings within the model limits but without coal quality were given default coal quality parameters based on rock quality analyses.

Appendix I

Criteria	Commentary
	The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data. • Norwest completed a JORC (2004) estimate in 2010. There was a 23 per cent increase in total air-dried Resource with the JORC (2004) estimate completed by ER in 2012 (excluding mine depletion). The JORC (2012) estimate (excluding mine depletion) based on this report compares well with an increase in 3 per cent in total as-received Resource. • The mine has produced 35.3Mt since April 2009 and the mine geology team completes regular (monthly) reconciliation of model/mined ROM tonnage. Where the model has good borehole control the mine recovery is well aligned, however, once borehole control is less there is a notable variance. The drilling campaigns that this estimate is based on plus the review of category limits under JORC (2012) means this notable variance will be minimised and demonstrates the estimate is valid. *The assumptions made regarding recovery of by-products.* • The report in section 4.7.2.6 shows typical production figures from the CHPP. Depending on which seam is being washed and what blends are being appointed three main products are produced. A mid-vol hard coking product, high-vol semi soft coking product and high-ash middling by-product for the thermal coal market. *Estimation of deleterious elements or other non-grade variables of economic significance (e.g. sulphur for acid mine drainage characterisation).* • Norwest in their JORC (2004) estimate in 2010 mentions that samples were collected for Acid Generating Potential in 2008. • Further rock and in seam parting samples were collected by the ER geology team for further work by EGI on Acid Generating Potential. • A total of 631 samples were tested from these holes, including coal and parting samples. All holes were sampled continuously except where there were missing intervals. Sample intervals were selected by site geologists in conjunction with EGI to match geological boundaries, with intervals ranging from less than 0.5m to over 5m. Standard ARD testing was carried out on these samples by the Stewart Mongolia LLC Ulaanbaatar laboratory, with EGI providing advice on testing methods and carrying out quality control and specialised testing on a sub set of 42 samples.

Appendix I

Criteria	Commentary

- Results indicate that the vast majority of overburden/interburden and pit floor materials represented by the samples tested are unlikely to be acid producing or release significant salinity. The NAF overburden and interburden has excess ANC, providing a high factor of safety and offering a potential source of materials to mitigate ARD from PAF washery waste materials. PAF-LC samples made up only 2 per cent of samples tested, and PAF samples accounted for 0.3 per cent. PAF/PAF-LC materials occur in the immediate 0.5m of a number of coal seams, and could potentially produce localised ARD if not mixed effectively with the NAF overburden and interburden. Near surface (within 5 to 10m of surface) materials have higher salinity due to salt accumulation.
- This work lead to the design and disposal of high sulphur reject material from the CHPP in the waste dumps.

In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed.

- In order to create a reliable model of the seam morphology a cell size of 25x25m was selected for gridding. Gridding with exact interpolation using ordinary kriging was used to generate grids for the elevation of the mid-point of the plies and IDW with a power of two was used to generate grids for the thicknesses of the plies. To allow the grids to cover the necessary areas, a circular search radius of 2,000m with maximum of 20 points was used to create the elevation grids. The thickness grids were created using a circular search radius of 2,000m with maximum of 20 points per sector. The 3D gridded seam block model was generated by stacking thickness grids on top or below of the major ply (0AL) elevation grid. The centroid of the block East and North was the X and Y values from the grid file which was 25x25m (grid cell size), the centroid of the block RL was the Z value from the elevation grid and block size by RL was the Z value from thickness grids.

Any assumptions behind modelling of selective mining units.

- All seams were modelled, therefore there were no 'specific' horizons that were separately modelled. However, there is a change in minimum seam thickness for below 400m Resources from 0.5m to 1.5m to reflect the possibility of only underground Resources past this depth.

Any assumptions about correlation between variables.

- Missing or non-analysed coal quality data due to limited sample mass was calculated by regressions of determined coal quality data on a seam group basis and this has been assumed to be adequate for inclusion of the estimate.

Description of how the geological interpretation was used to control the resource estimates.

- Geological interpretation using the seismic results was critical in identifying major structure and confirming seam correlation and continuity. Much of these results have been confirmed and updated by mine geology team detailed in-pit and face-wall mapping.

Appendix I

Criteria	Commentary
	• The northern and southern fault boundaries coal/basement contact has been confirmed by face-wall mapping by the geology mine team and angled geotechnical drilling along strike to confirm continuity. • The 'limit of oxidation' was determined by close spaced drilling and confirmed by mapping and sampling from mine geology team. • Where seismic displayed major structural zones and within these zones boreholes intercepting coal had low confidence of continuity, the seismic was used to map polygons about these areas and deem them as Inferred which was not dependent on points of observation distance. *Discussion of basis for using or not using grade cutting or capping.* • A greater than 50% ash (DRY basis) cut-off was used to determine what coal was and what rock was. *The process of validation, the checking process used, the comparison of model data to drill hole data, and use of reconciliation data if available.* • The block model was firstly checked to ensure that all blocks were populated and that block values were within the same range as the input values. Following this a visual validation was conducted by loading the block model into the Micromine 3D viewer together with borehole traces, plies from the original points of observation file, base of weathering, base of Quaternary and topographic surfaces. Each cross-section was then reviewed to check that the plies from the original points of observation file agreed with the plies in the block model. • A further manual check was completed by the Competent Person where an area including boreholes G02057, G202193, G2212 and G02056 for the ply 3AU was compared with the block model. The manual result was within 3 per cent in tonnage of the block model result. This comparison is within acceptable limits.
Moisture	*Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content.* • Moisture was analysed as TM (MNS ISO 589:2003) and Analytical moisture (MNS ISO 331:2003). TM was assumed to equal in-situ moisture and the Preston Sanders formula was used to convert air-dry relative density to as-received (in-situ) relative density. • The estimated Resource is reported on 'as received' basis and 'air dried' basis

Appendix I

Criteria	Commentary
Cut-off parameters	*The basis of the adopted cut-off grade(s) or quality parameters applied.* • No maximum seam thickness. • Minimum seam thickness to be included in the Resource of 0.5m to 400m depth and then 1.5m below 400m. • Maximum parting thickness to be included in the Resource of 0.5m. • Coal Quality limit with Ash content greater than 50% (DRY basis) being excluded from the Resource Estimate.
Mining factors or assumptions	*Assumptions made regarding possible mining methods, minimum mining dimensions and internal (or, if applicable, external) mining dilution. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential mining methods, but the assumptions made regarding mining methods and parameters when estimating Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the mining assumptions made.* • The UHG mine has produced 35.3Mt since April 2009 as a large scale 'truck and shovel' operation and has an 18Mt/year capacity CHPP. No mining assumptions have been applied to the Resource estimate other than minimum coal thickness and maximum in-seam parting thickness which has been taken from engineering operational advice. In the exploration process sufficient roof and floor sampling and analysis has been completed for Reserve estimates of dilution.
Metallurgical factors or assumptions	*The basis for assumptions or predictions regarding metallurgical amenability. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential metallurgical methods, but the assumptions regarding metallurgical treatment processes and parameters made when reporting Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the metallurgical assumptions made.* • The report in section 4.7.2.6 shows typical production figures from the CHPP. Depending on which seam is being washed and what blends are being appointed three main products are produced. A mid-vol hard, low ash, coking product, high-vol, low ash, semi soft coking product and high-ash middling by-product for the thermal coal market. • The Resource estimate for this report has had no assumptions made on the estimate for beneficiation.

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Criteria	Commentary
Environmental factors or assumptions	*Assumptions made regarding possible waste and process residue disposal options. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider the potential environmental impacts of the mining and processing operation. While at this stage the determination of potential environmental impacts, particularly for a greenfields project, may not always be well advanced, the status of early consideration of these potential environmental impacts should be reported. Where these aspects have not been considered this should be reported with an explanation of the environmental assumptions made.* • All environmental issues are managed by the company's environmental department which has operated since the start of mining. • In addition, under the Mining Licence there are strict environmental conditions. While these were not reviewed in detail they are relevant to the operation to ensure that waste material is well managed and that what soil profiles are available in the area are used for the rehabilitation process. • During all site visits there have been no obvious environmental issues of leachates emanating from spoil piles or from coal stockpiles.
Bulk density	*Whether assumed or determined. If assumed, the basis for the assumptions. If determined, the method used, whether wet or dry, the frequency of the measurements, the nature, size and representativeness of the samples.* • True Relative Density was analysed for 33,923 samples, or 90.3 per cent of all samples (GB/T 217:2008). The missing Relative density data was calculated using the regression on a seam group basis of RD v ASH for air dried and as-received samples. • An industry standard method for estimating in situ RD was applied using the Preston Sanders formula was used to convert air-dry relative density to as-received (in-situ) relative density. *The bulk density for bulk material must have been measured by methods that adequately account for void spaces (vugs, porosity, etc), moisture and differences between rock and alteration zones within the deposit.* • An industry standard method for estimating in situ RD was applied using the Preston Sanders formula was used to convert air-dry relative density to as-received (in-situ) relative density. *Discuss assumptions for bulk density estimates used in the evaluation process of the different materials.* • Partings within the model limits but without coal quality were given default coal quality parameters based on rock quality analyses. These are defined in the report in Table 9-5.

Appendix I

Criteria	Commentary
Classification	*The basis for the classification of the Mineral Resources into varying confidence categories.* • The basis for the classification for the Resource estimate is taken from guidance from the Australian Coal Guidelines (2014). • The basis of the classification confidence categories is from the results of an investigation of expected error for the 95th percentile through the use of Conditional Simulation Geostatistics. *Whether appropriate account has been taken of all relevant factors (i.e. relative confidence in tonnage/grade estimations, reliability of input data, confidence in continuity of geology and metal values, quality, quantity and distribution of the data).* • Exploration prior to 2009 had been done to good geological standards however, not always to JORC standards. The geological teams of this era were well trained in the collection of geological information and this information has been used affectively for the current Resource estimates and have assisted greatly in the preliminary understands of seam correlation, continuity, coal quality and boundary limits. • Since 2009 having a highly trained team to international and Australian standards, modern drilling methods and equipment, good downhole geophysics, high quality 2D seismic, good survey control for borehole locations and topography, a modern onsite accredited coal laboratory and having an active modern mine, there is great confidence that the resulting Resource estimate for this report is highly reliable. • As a further measure to understand the confidence in the estimate the high level overarching check on the estimate, expected error on the estimate was used as an aid in understanding the spatial measurements used for the classification categories. As an extension of this the 'loss' function was also estimated determining overall error which, can be used to determine a range that the estimate applies too. *Whether the result appropriately reflects the Competent Person's view of the deposit.* • The Competent Person has confidence in the resource figures reflecting well the contained coal resource.

Appendix I

Criteria	Commentary
Audits or reviews	*The results of any audits or reviews of Mineral Resource estimates.* • Mr Ballantine (Competent Person, Resource estimate-June 2012), thought it prudent to have an independent experienced Competent Person qualified geologist provide a site visit and peer review. This was done by Mr Todd Sercombe, senior consultant for GasCoal Pty Ltd, a coal geologist with 18 years coal experience. Mr Sercombe's findings from the site visit were: The UHG exploration procedures and practices are of extremely high calibre, exceeding both the Australian Standards for coal evaluation and sampling (AS 2519—1993 & AS 2617—1996) and the benchmark coal industry best practices (as observed by Mr Sercombe in the Bowen Basin, Australia). The accurate and unbiased assignment of coal core loss to coal samples, achieved in the UHG practices, is commendable. The coding, for modelling, of all significant stone band partings in the seams and of inter-burden units between the seams is also praiseworthy. The Exploration and Geology Department are a group of young enthusiastic geologists who have been well trained and led by Gary Ballantine. I would have high confidence in the reportable results obtained from the UHG exploration procedures. • The exploration group has changed little from the previous JORC (2004) Resources report-June 2012 so the independent peer review by Mr Sercombe is still relevant. • Mr Ballantine currently holds the position of Executive General Manager, Exploration and Geology and has responsibility for budgeting, planning, training and overall oversight of exploration at UHG. As part of the ongoing evolution of the ER geology group and knowledge transfer, supervised and structured succession of capable individuals, is planned. Mr Ballantine understands that complacency can creep into a well establish team. To prevent this he does frequent site visits with Mr Said (Competent Person) every few months and they review different member's capabilities against the exploration procedures. As part of Mr Ballantine's role as mentor and internal auditor, all final data, (i.e. seam thickness, seam correlation, sampling intervals, coal quality analysis, collar survey and LAS quality) are reviewed once the team (supervised by the Competent Person) has done the work. With the above process it is Mr Ballantine's professional opinion that there is a very high compliance with the team's results and JORC standards. In addition, Mr Ballantine has completed an oral review and internal audit with the Competent Person for every step of the data preparation of the points of observation and the modelling stages to the final estimate.

Appendix I

Criteria	Commentary
Discussion of relative accuracy/confidence	*Where appropriate a statement of the relative accuracy and confidence level in the Mineral Resource estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the resource within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors that could affect the relative accuracy and confidence of the estimate.* • As a measure relative accuracy and to understand the confidence in the estimate the high level overarching check on the estimate, expected error on the estimate was used as an aid in understanding the spatial measurements used for the classification categories. As an extension of this the 'loss' function was also estimated determining overall error which, can be used to determine a range that the estimate applies too. • In addition, the 3D model for the estimate was accurate and reliable due to a kriging algorithm with semivariogram modelling for the seam elevation was used. Kriging is a very flexible gridding method that can be custom-fitted to any data set by specifying the appropriate semivariogram model. Kriging incorporates anisotropy and underlying trends. The purpose of geostatistical analysis was to generate a series of semivariograms that could be used as the input weighting mechanism for the Kriging algorithm. To be able to conduct reliable geostatistical analysis there is a requirement to have sufficient number of points. • The use of high level 2D seismic, downhole geophysical data, modern drilling with high core recovery, a modern onsite accredited coal laboratory and highly trained geologists gives high confidence and confirms the existence of location of the coal seams in 3D space. A detailed understanding of the coal seam geometry from trenches and existing operating mine pits, also gives a high level of confidence in the estimate. *The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.* • The Resource estimate for this report is a global estimate to international standards and meets all JORC 2012 requirements. • All assumptions and procedures for the Resource estimate are documented within the report sections or as Appendices. *These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.* • The mine has produced 35.3Mt since April 2009 and the mine geology team completes regular (monthly) reconciliation of modelled versus mined ROM tonnage. Where the model has good borehole control the mine recovery is well aligned, however, once borehole control is less there is a notable variance. The drilling campaigns that this estimate is based on plus the review of category limits under JORC (2012) means this notable variance will be minimised and demonstrates the estimate is valid.

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