



**MONGOLIAN
MINING
CORPORATION**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 975


2015 Interim Report



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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.

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 places 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 of our operations 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

Level 54, Hopewell Centre
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
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Ng Sin Yee, Clare

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited (Note)
40th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong

LEGAL ADVISERS

Davis Polk & Wardwell
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

Note: The Company's engagement with Anglo Chinese Corporate Finance, Limited expired on 20 April 2015

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
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

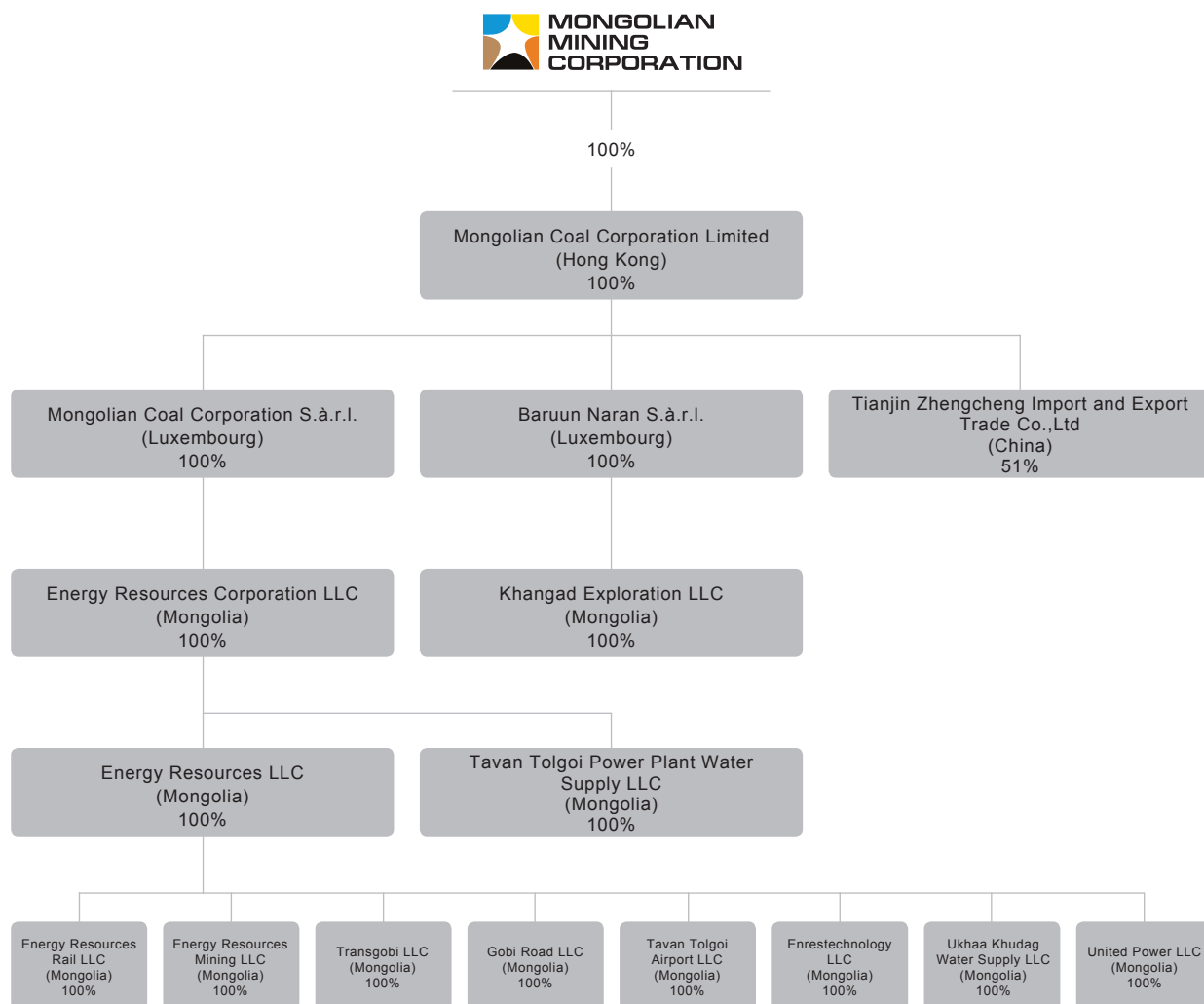
COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Group Structure



Management Discussion and Analysis



Within the Group's principal target market, China, crude steel production decreased by approximately 1.3% during the first half of 2015, compared to the same period in 2014. With steel mills and coke producers reducing their production and rebalancing inventory levels accordingly, the consumption of coking coal decreased by 14.1% compared to the corresponding period of the previous year. Within this decrease, domestic coking coal production declined by 13.5%, and coking coal imports declined by 30.1%.

The price of coking coal remained under pressure amid competitive market conditions, driven by the continued imbalance of global coking coal supply and demand. Recently, it was reported that the quarterly benchmark price for low-volatile HCC for the third quarter of 2015 was settled by Australian producers and Japanese customers at United States Dollar ("**USD**") 93 per tonne under Free-on-Board ("**FOB**") Australia terms, compared to USD110 per tonne in the second quarter of 2015. According to China Coal Resource ("**CCR**"), the coking coal price in China's main steel producing area of Tangshan declined from Renminbi ("**RMB**") 900 per tonne in December 2014 to RMB770 per tonne in August 2015.

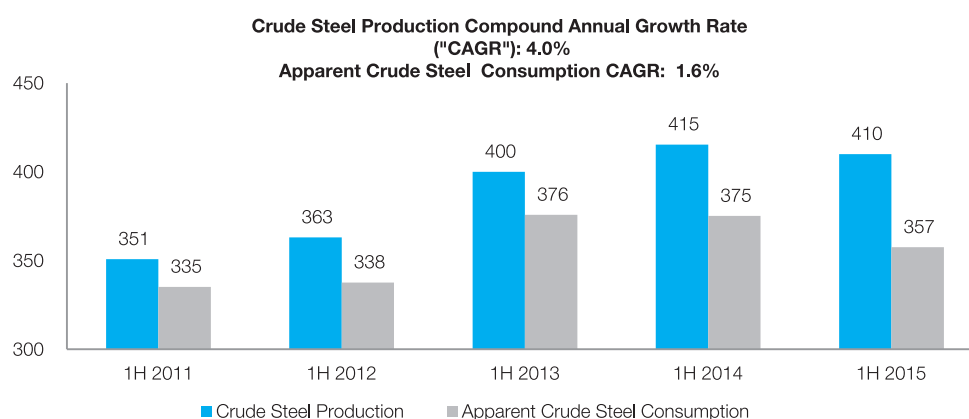
During the period under review, the Group's management continued to focus on strict liquidity management through tight control over operating and capital expenditures, and limiting credit risks. As such, the Group's production output in the first half of 2015 was optimized to support this strategy, and capacity utilized was adjusted downwards based on sales volume projections to ensure continuity of supply to customers under cash prepaid terms.

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

According to the data released by World Steel Association (“**WSA**”), China produced 410.0 million tonnes (“**Mt**”) of crude steel in the first half of 2015, down by 1.3% from the same period in 2014. According to CCR, the apparent crude steel consumption in China also decreased by 4.7% to 357.5 Mt in the first half of this year compared to 375.1 Mt recorded in the corresponding period of the previous year.

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



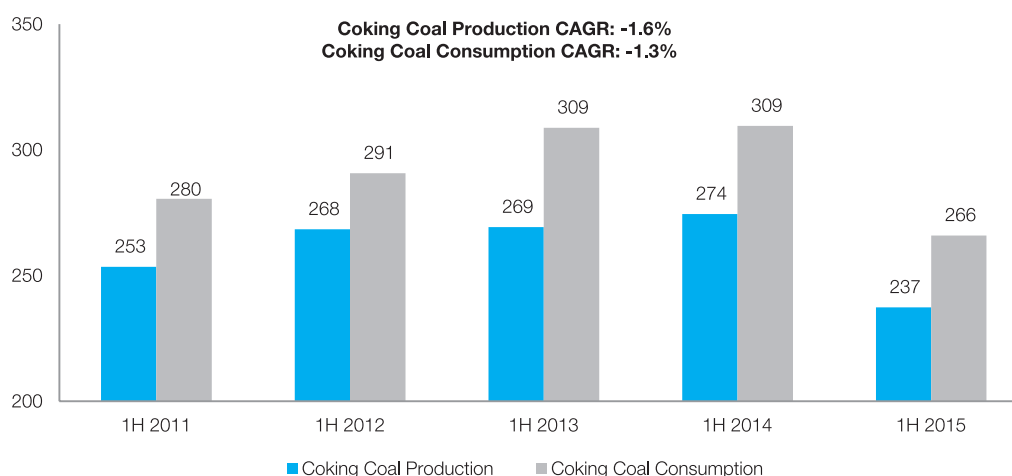
Source: WSA, CCR

With the weakening domestic consumption, Chinese steel products exports reached 52.4 Mt, representing an increase of 27.8% in the first half of 2015 compared to 41.0 Mt recorded in the first half of last year.

Chinese coke production in the first half of 2015 was 226.4 Mt, representing a year-on-year decrease of 3.4%, and Chinese coke consumption in the same period stood at 225.6 Mt which is a 2.6% decrease compared to the consumption in the first half of 2014. However, in response to the cancellation of export tax, Chinese coke exports reached 4.7 Mt in the first half of this year, representing a 21.0% year-on-year increase.

In the first half of 2015, coking coal consumption in China decreased by 14.1% to 265.9 Mt from 309.4 Mt in the same period of last year. Consequently, coking coal production was reduced by 37.1 Mt to 237.3 Mt in the first half of 2015 from 274.4 Mt recorded in the corresponding period in 2014.

Figure 2. Chinese coking coal production and consumption volume (Mt):



Source: CCR

Chinese total coal production dropped by 5.8% to 1.8 billion tonnes in the first half of 2015. Shanxi, the leading coal producing province in China produced 463 Mt, the second largest Inner Mongolia produced 453 Mt, and the third largest Shaanxi produced 210 Mt of raw coal. All three provinces or autonomous regions witnessed declines in their production by 3.2%, 7.3% and 0.6% year-on-year, respectively.

According to National Bureau of Statistics data, fixed-asset investment (“FAI”) in the coal mining and washing industry in China was RMB168.6 billion for the first half of 2015, representing a 12.8% year-on-year decline.

It is expected that the coal industry in China will go through a substantial adjustment in order to rebalance the oversupplied market. As part of this, the Chinese government aims to further tighten overall inspection on coal mines with a focus on safety, and officials will set stricter conditions for coal mines not to exceed approved capacity output.

Chinese Coking Coal Imports and Mongolian Coal Export Dynamics

According to China General Administration of Customs, Chinese coking coal imports have decreased by 30.1% to 21.6 Mt in the first half of 2015, compared to 30.9 Mt in the corresponding period of last year. Nearly 80% of total coking coal volume imported to China came from Australia and Mongolia, with 10.9 Mt and 6.3 Mt respectively.

The volume of coking coal imported from Mongolia to China declined by 16.8% year-on-year, a moderate decline compared to other major coking coal exporters to China. In comparison, in the same period the volumes of coking coal exported to China from Australia, Canada, Russia and the United States of America (“USA”) decreased by 27.7%, 27.6%, 43.1% and 91.9% respectively. The higher-cost producers from USA were heavily impacted whilst under the weak pricing environment, the Australian, Canadian and Russian producers have been afforded some relief from the depreciation of their respective national currencies against the USD.

Management Discussion and Analysis

Table 1. Chinese semi-annual coking coal import volume by country of origin (Mt) (Note):

Countries	1H 2015	1H 2014	Change
Australia	10.9	15.0	-27.7%
Mongolia (Note)	6.3	7.5	-16.8%
Canada	2.2	3.1	-27.6%
Russia	1.8	3.2	-43.1%
USA	0.1	1.4	-91.9%
Others	0.4	0.7	-50.5%
Total	21.6	30.9	-30.1%

Source: CCR

Notes:

- (i) Imports from Mongolia include raw unprocessed, dry and wet processed 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 of individual countries with total volume and year-on-year percentage change.

According to National Statistics Office data, Mongolian coal export to China declined by 26.2% to 6.9 Mt in the first half of 2015 compared to 9.4 Mt export recorded in the same period in 2014.

OPERATING ENVIRONMENT

Legal Framework

In the first half of 2015, the following amendments to the Law on Minerals of Mongolia ("**Minerals Law**") were approved by the Parliament of Mongolia ("**Parliament**"):

- (a) on 23 January 2015, license fees previously expressed in USD was changed to be expressed in Mongolian National Togrog ("**MNT**"). For coal deposits, an annual mining license fee payable by license holder was previously USD5 per hectare and has been changed to MNT7,250 per hectare after this amendment; and
- (b) on 18 February 2015, a concept of a special royalty for mineral deposits of strategic importance was introduced. It provides an option for the Government of Mongolia ("**GoM**") either to exercise its right to take an equity interest in such deposits as stipulated under the Minerals Law or to, in lieu of such interest, impose a special royalty of up to 5% in addition to the base and progressive royalties applicable universally to all mining licenses under the Minerals Law.

The Parliament ratified the Economic Partnership Agreement between the governments of Mongolia and Japan on 17 February 2015, which addressed a number of matters in relation to increasing trade between Japan and Mongolia, and seeks to improve the investment framework. In particular, it is agreed that custom duty for coals originating from Mongolia will be removed entirely upon signing such Agreement, which will be beneficial if volumes of coal exported from Mongolia to Japan increase in the future.

Management Discussion and Analysis

On 18 February 2015, the Parliament amended the Law on Implementation of the Law on Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas, and provided option for the license holders to continue their operations subject to undertaking a number of obligations in respect of protection and restoration of the environment. In particular, if a license holder wishes to continue its operations, it should submit a request to the Mineral Resources Authority of Mongolia (“**MRAM**”) within three months from the effective date of the amendment (16 March 2015) and enter into an agreement with the Ministry of Environment, Green Development and Tourism of Mongolia, MRAM and the governor of the relevant province. If a mining license holder does not submit such request and enter into the necessary agreement, the mining license will be revoked and there will be no compensation payable to the license holder. This amendment only applies to the mining licenses, and not to exploration licenses. If a mining license holder does not restore the mining area (after the project is completed), the costs for restoring the area shall be payable by the license holder taking into account the profits gained during the mining period. In light of this amendment, the Minerals Law has also been amended to state that a breach of the above mentioned Law on Implementation of the Law on Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas and/or the agreement entered into in accordance with such law shall constitute grounds for license revocation.

Parliament adopted a new Law on Debt Management which contains comprehensive framework for a state and local government debt management system on 18 February 2015. The law introduces a number of important definitions concerning government loans and debt-related issues, and imposes certain criteria and procedures on the creation of debts and the issuance of government securities and guarantees, forward-lending of loans, and registering, reporting and monitoring of debts which may be repaid from state or local government budgets. This law allowed the GoM to issue guarantees for both state-owned and privately-owned entities and contains the detailed requirements and procedures for such issuance.

On 14 May 2015, the Parliament amended the Law on Investment and made required change to this law that certain powers vested in other government ministerial level body have been shifted to the Investment Agency. Pursuant to the relevant clauses under the Law on Investment, Energy Resources LLC (“**ER**”), an indirectly wholly-owned subsidiary of the Company, has applied for the Stabilization Certificate according to the procedures prescribed by this Law. On 13 August 2015, the Stabilization Certificate was issued by the Investment Agency to ER. Effectively, ER now has four main taxes stabilized for the period until 17 April 2033: corporate income tax, customs tax, value added tax (“**VAT**”) and royalty.

The Parliament approved a new Law on Secured Transaction on 2 June 2015, and movable properties and rights can be pledged and registered under this new law. However, the pledge of mining licenses granted in accordance with the Minerals Law shall be regulated by the Minerals Law. This law will become effective from 1 September 2016.

On 9 July 2015, the Parliament approved an amended version of the Law on Value Added Taxes, which will become effective from 1 January 2016. One of the changes is that the revenue threshold for VAT payer registration has increased from MNT10 million to MNT50 million. Moreover, under this amended version, VAT shall be imposed on all types of work and services imported to Mongolia, regardless of whether or not those works and services are performed and rendered within the territory of Mongolia.

On 10 July 2015, the Parliament approved a new Law on Industrialization Support. Under this law, the state aims to support processing industries oriented to export products generating domestic value. However, small and medium entities, entities engaged with the extraction or processing of minerals, as well as entities with foreign investment or have entered into investment agreement with the GoM will not qualify for State support provided within the scope of this new law. This law will become effective from 1 January 2016.

Management Discussion and Analysis

On 3 July 2015, the Parliament approved the Law on Ratification of the C176: Safety and Health in Mine Convention, 1995 of the International Labour Organization. The Company will take all necessary measures to comply with this Convention.

On 19 January 2015, the GoM issued a resolution to increase excise duty for imported diesel from MNT30,000 to MNT265,000 per tonne, and increase excise duty for gasoline with octane rate up to 90 from MNT30,000 to MNT252,000 per tonne and gasoline with octane rate above 90 from zero to MNT259,000, which are imported through Sukhbaatar, Zamiin Uud, Ereentsav and Altanbulag border ports of Mongolia. Such resolution became effective on 20 January 2015. Furthermore, Government Resolution No. 65 increased the custom duty for imported diesel and gasoline from 1% to 5%, which became effective from 18 February 2015. As Mongolia is entirely reliant upon importation of oil products, the GoM takes action to stabilize fuel prices through adjustment of levies such as excise duty and customs duty.

On 16 March 2015, the GoM amended Resolution No. 193 of 2011 on Requirements, Types, Main Principles and Methodology of the Mineral Ore, Concentrate and Products in accordance with Mongolian National Standard (“**MNS**”) 6457:2014 Coal Products and Classification. This standard was approved on 29 May 2014 by the National Standardization Council of Mongolia, providing specifications for coals such as processed and non-processed anthracite, semi anthracite, HCC, semisoft coking coal, and other coals (please refer to page 29 of the annual results announcement for the year ended 31 December 2014 made by the Company dated 23 March 2015 for details of the classification standard). With respect to the above mentioned amendment made to Government Resolution No. 193 of 2011, on 22 April 2015, the Head of General Customs Office made changes to the national foreign trade codes used for coal products, which are defined based on the Harmonized Commodity Description and Coding System. The newly defined codes became effective simultaneously from 1 May 2015 as a further amendment to the Government Resolution No. 193 of 2011. Following these changes, on 7 July 2015, the GoM amended its Resolution No. 286 of 2010 and replaced old codes of the processed coal products with the newly defined codes. In this regard, our processed coal products, in particular processed coking, semisoft and non-coking coals will remain to be considered as exported mining final products therefore VAT rate shall remain the same at zero.

On 17 February 2015, the GoM, Geology and Mining Sector Labour Union and representatives of the mining sector employers entered into a collective agreement for 2015 and 2016. Under this agreement, it was stipulated that the industry’s minimum wage for this period shall be double that of the national minimum wage set by the GoM, which is currently equal to MNT192,000 per month. The Company does not expect any impact on its financials due to the entering into of the collective agreement, as its existing internal remuneration policies are in line with this collective agreement.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag deposit

Mining License MV-11952 (“**UHG mining license**”) covering 2,960 hectares across the UHG coal deposit was granted to the Group on 23 January 2007 for a period of 30 years. Subsequent to the grant of the UHG mining license, the Group has prepared two JORC compliant Coal Resource estimates. The most recent estimate was the JORC (2012) Coal Resource estimate in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014), with statement date as of 31 December 2014.

In preparing for release of the JORC (2012) Coal Resource estimate, work completed by the Group’s geological team including that done in preparation for the previous JORC (2004) Coal Resource estimate as at 30 June 2012 included:

- drilling a total of 191,275 metres (“**m**”) across 1,556 individual boreholes, including 104,369m of HQ-3 (63.1mm core, 96.0mm hole diameter) drilling and 86,906m of 122mm diameter open hole drilling;
- collecting and testing 37,548 individual analytical samples;
- collaborating with Velseis Processing Pty Ltd (“**Velseis**”) to interpret data collected from 71 kilometres (“**km**”) of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International Ltd (“**Polaris**”); and
- large-diameter, bulk-sample drilling with analysis of samples collected conducted at the ALS Group (“**ALS**”) laboratories in Ulaanbaatar.

Data derived from these exploration activities was used to prepare the structural and coal quality models, and subsequently the UHG mining license JORC (2012) Coal Resource estimate as at 31 December 2014. Internal peer audit of this model was conducted by Mr. Gary Ballantine, which confirmed compliance of the Group’s work carried out to update the UHG geological model, and thus the JORC (2012) Coal Resource estimate for the UHG mining license area.

Figures reported based upon an in situ density at an as-received moisture basis are summarised in Table 2, and the relevant detailed information required to be presented upon initial release of JORC (2012) Coal Resource estimate was attached as Appendix 1 of the MMC 2014 Annual Report. Based upon mine survey calculation, from 1 January 2015 to 30 June 2015, mine production has depleted the stated Resource by approximately 2 Mt.

During the first half of 2015, only a very small amount of exploration drilling was done within the UHG mining license. For the purpose of supporting revision of the geotechnical recommendations to enable ex-pit overburden dump locations to be moved closer to the pit, a total of 6 boreholes were drilled. In total, 636m of HQ-3 boreholes were drilled in order to better define the boundaries of basement rock on the northern periphery of the UHG deposit. Information gleaned from this exercise supported the hypothesis being investigated, and as a result geotechnical advice has been revised allowing for subsequently shorter haulage of overburden than had been envisaged during Life-of-Mine (“**LOM**”) planning. This revision will have positive impact on operations during the second half of 2015 through 2016.

Management Discussion and Analysis

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

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
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

Notes:

- (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) 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 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, Mineral Resources and Ore Reserves, The JORC Code (2012 Edition).
- (iii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 JORC Code (2012 Edition).

Management Discussion and Analysis

Baruun Naran deposit

The BN deposit comprises Mining License 14493A (“**BN mining license**”) of 4,482 hectares area originally obtained through the acquisition of the entire issued share capital of Baruun Naran Limited, formerly known as QGX Coal Limited, on 1 June 2011, and the Tsaikhar Khudag (“**THG**”) deposit comprises Mining License MV-017336 (“**THG mining license**”) of 8,340 hectares area that was granted to the Group on 24 June 2013 subsequent to such acquisition.

Previously, McElroy Bryan Geological Services Pty Ltd. (“**MBGS**”) provided JORC (2004) Coal Resource statements for the BN and THG mining license areas, as at 30 June 2012 and 30 April 2013 respectively. These estimations concluded that the BN mining license contained 210 Mt of Measured and 70 Mt of Indicated Resources, and that the THG mining license contained 55 Mt of Inferred Coal Resources. Both of these estimations assumed 6% in situ moisture content.

During the first half of 2015, the Group’s geological team has produced updated JORC (2012) Coal Resource estimations for the BN and THG mining license areas. This work has incorporated additional exploration data gained from the exploration drilling program conducted in 2014, and has applied the more stringent requirements of the Australian Guidelines for the Estimation and Classification of Coal Resources (2014).

No further drilling was conducted at the BN deposit in the first half of 2015, with the following activities previously completed providing basis for development of the geological models:

- total of 92 and 32 exploration boreholes at BN and THG;
- total of 28,540m drilling at BN, of which 14,780m were HQ-3, 9,640m PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122mm diameter open hole;
- total of 9,970m drilling at THG, of which 5,900m were HQ-3, 3,610m PQ-3 and 460m were 122mm open hole;
- total of 8,720 (BN) and 3,824 (THG) coal samples collected and analysed; and
- total of 7.5km of 2D seismic survey captured by Polaris over the BN mining license, analysed by Velseis.

Internal peer review was conducted by Mr. Gary Ballantine, Executive General Manager of Exploration and Geology, whilst external peer review was provided by Mr. Todd Sercombe of GasCoal Pty Ltd confirming compliance of the Group’s work to update the structural and coal quality geological model. Mr. Brett Larkin from Geoscheck Pty Ltd was also engaged for peer review purposes with regard to the geostatistical analysis required to be prepared under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014).

Summary of the updated JORC (2012) Coal Resources for BN and THG mining licenses areas are shown in Table 3 and Table 4. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Management Discussion and Analysis

Table 3. BN mining license area JORC (2012) Coal Resource by depth and category as at 30 June 2015 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
Subcrop to BHWE	10	2	1	12	13
BHWE to 100m	42	9	3	51	54
From 100m to 200m	62	11	5	73	78
From 200m to 300m	67	13	7	80	87
From 300m to 400m	70	16	9	86	95
Below 400m	—	—	—	—	—
Sub-Total above 300m	181	35	16	216	232
Sub-Total below 300m	70	16	9	86	95
Total	251	51	25	302	327
Total (Rounded)	250	50	30	300	330

Table 4. THG mining license area JORC (2012) Coal Resource by depth and category as at 30 June 2015 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
Subcrop to BHWE	—	—	2	—	2
BHWE to 100m	—	—	14	—	14
From 100m to 200m	—	—	19	—	19
From 200m to 300m	—	—	19	—	19
From 300m to 400m	—	—	18	—	18
Below 400m	—	—	—	—	—
Sub-Total above 300m	—	—	54	—	54
Sub-Total below 300m	—	—	18	—	18
Total	—	—	72	—	72
Total (Rounded)	—	—	70	—	70

Management Discussion and Analysis

Notes:

- (i) Technical information in the BN deposit 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 3 and Table 4 presented in this report are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, 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) 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 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, Mineral Resources and Ore Reserves, The JORC Code (2012 Edition).
- (iii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 JORC Code (2012 Edition).

In comparing the updated BN mining license JORC (2012) Coal Resource estimate with the previous BN mining license JORC (2004) Coal Resource estimate, it should be noted that the new estimate has been made from the mined surface as at 30 June 2015. Prior to this date, approximately 1 Mt of coal had been depleted through mine production from the previously stated Coal Resource.

Including adjustment for the change in assumed in situ moisture and depletion against the previously stated Coal Resource, the total estimated updated Coal Resource within the BN mining license has increased by 45 Mt (16%). This indicates good agreement between the previous and updated Coal Resource estimates. Within the updated Coal Resource increase reported, the Measured component has increased by 43 Mt (21%) whilst the Indicated component has decreased by 22 Mt (30%).

Much of the decrease in the Indicated category is now reported within the Inferred category with 25 Mt having been reported.

In addition to the material increase reported and in alignment with JORC Code (2012) requirements, the maximum expected error was calculated. For the Measured category this value was 6.5% and for Indicated category was 13%. As required under JORC Code (2012), the information presented in the form of JPRC Table 1 has been prepared for the update Coal Resource estimate. This is set out in Appendix 1 on pages 94 to 126.

In comparing the updated THG mining license JORC (2012) Coal Resource estimate with the previous THG mining licence JORC (2004) Coal Resource estimate, there was a change in the Inferred category of 17 Mt (31%). No maximum expected error was calculated, due to insufficient points of observation for a meaningful geostatistical result.

Management Discussion and Analysis

Coal Reserves

The Group most recently updated its LOM plans in collaboration with global mining consultancy RungePincockMinarco Limited (“**RPM**”) in 2013. This project culminated in statement of JORC (2012) Coal Reserve estimations for both the UHG and BN deposits as at 31 December 2012.

The LOM plans prepared underpinning the updated JORC (2012) Coal Reserve estimates were based on open cut, multi seam, truck and excavator mining methods. 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.

The pit optimization algorithms used included:

- limiting the depth of pit to 300 m from surface at UHG and 350 m from surface at BN respectively, based on geotechnical recommendations provided by Mr. John Latilla of AMC Consultants Pty Ltd;
- categorization of coal seams with regard to propensity for coking or thermal product based upon recommendations provided by Mr. John Trygstad of Norwest Corporation;
- cost input assumptions derived from historical operating performance at both of the UHG and BN mines; and
- revenue input assumptions derived from a market study of principal coking and thermal coal markets in China completed by Shanxi Fenwei Energy Consulting Co., Ltd.

Practical pit designs were created within the selected optimized pit shells, representative of the stated revenue and cost assumptions of the study. Through application of estimated mining and metallurgical factors, mineable in situ coal within the pit shell was converted to run-of-mine (“**ROM**”) and product coal quantities. From this, mine schedules were sequenced to maximize value derived.

From these LOM plans, the open-cut ROM Coal Reserves for the UHG and BN coal deposits were estimated as at 31 December 2012. Stated quantities reported pursuant to the JORC (2012) Coal Reserve estimate for the UHG deposit are shown in Table 5, these are based on an as-received basis with 5% total moisture. With the most recent Coal Resource update provided for UHG mining license area as at 31 December 2014, sufficient time has not yet been available to prepare updated Reserve estimate. From 1 January 2013 to 30 June 2015, as measured by mine survey, the stated UHG ROM Coal Reserve has been depleted by approximately 16 Mt.

Management Discussion and Analysis

Table 5. UHG mining license area JORC (2012) Coal Reserve estimate as at 31 December 2012 (Note):

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

The JORC (2012) Coal Reserve estimate for the BN deposit is summarised in Table 6, with tonnage estimation based on an as-received basis with 6% total moisture. By mine survey measurement, it is calculated that production activity from 1 January 2013 to 30 June 2015 has depleted the stated BN ROM Coal Reserve by less than 1 Mt, and is considered to impart no material change. With the most recent Coal Resource update provided for BN mining license area as at 30 June 2015, sufficient time has not yet been available to prepare an updated Reserve estimate.

Table 6. BN mining license JORC (2012) Coal Reserve estimate as at 31 December 2012 (Note):

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

Notes:

- (i) The estimate of the Coal Reserves as at 31 December 2012 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 RPM and has extensive experience in the mining industry, having worked for over 30 years with major mining companies, mining contractors and consultants. During those years he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined in the 2012 Edition of the JORC Code. Mr. Eisenmenger consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.
- (ii) Due to rounding, discrepancy may exist between sub-totals and totals.
- (iii) The estimate of Coal Reserves as at 31 December 2012 presented above is based upon Coal Resources as estimated at the time and does not take into account the current Coal Resources Estimate as at 31 December 2014 for UHG and 30 June 2015 for BN, nor any changes to any Modifying Factors which may have occurred since the date that Coal Reserves were estimated.

Management Discussion and Analysis

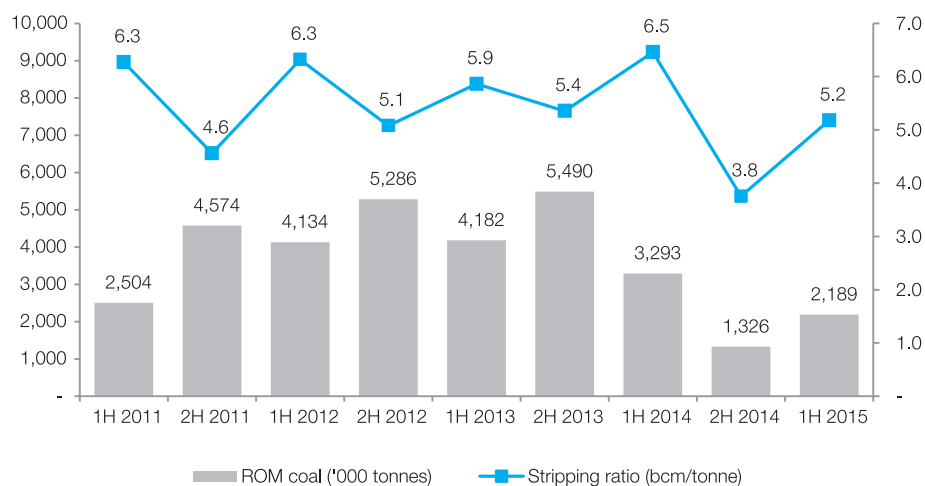
Production and Transportation

Coal Mining

The Group mined a total of 2.2 Mt of ROM coal in the first half of 2015, all from UHG mine. To access this coal a total of 11.3 million bank cubic metres (“Mbcm”) of overburden was removed, resulting in a stripping ratio of 5.2 bank cubic metres (“bcm”) of overburden per ROM tonne within the period. Figure 3 displays the Group’s historical semi-annual ROM output for the period from 1 January 2011 to June 30, 2015.

The management focused during the reporting period to ensure that the most efficient sequence of the waste removal to uncover and extract coal was realised. This included careful utilisation of the most cost effective equipment, minimising overburden to be mined with delivery to the nearest dumping locations, and continuous focus of mining supervision and fleet management system dispatchers on ensuring maximum productivity and minimum idle time. Additional research and analysis of geotechnical data completed during the reporting period has resulted in updated recommendations allowing redesign of the ex-pit waste dumps closer to the pit, which will provide basis for even shorter distance and lower cost overburden haulage in the second half of 2015.

Figure 3. The Group’s historical semi-annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bcm per ROM coal tonne):



Coal Processing

A total of 2.1 Mt of ROM coal was processed by the Group in the first half of 2015, including 38 thousand tonnes (“kt”) for third parties under fee for service contractual arrangements. Resulting from feed of owned ROM coal to the plant, the Group was able to produce 1.1 Mt of HCC primary product (50.6% yield), and 0.6 Mt of thermal coal secondary product (28.2% yield). Figure 4 displays the Group’s historical semi-annual processed coal production volumes for the period from 1 January 2011 to June 30, 2015.

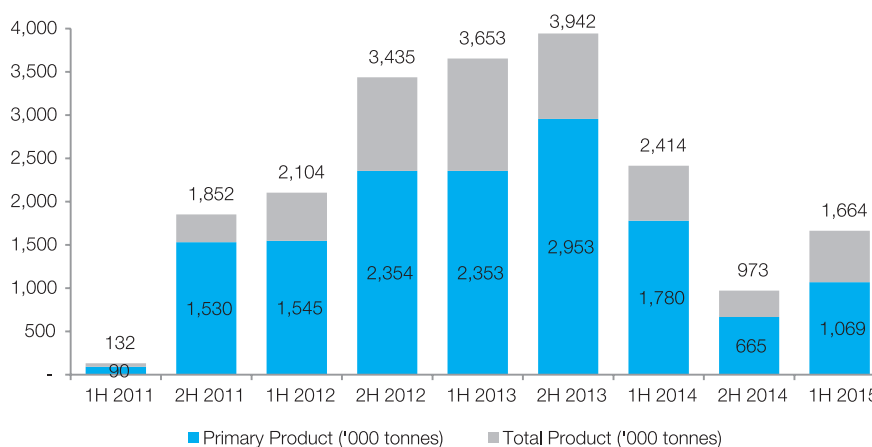
Coal Handling and Preparation Plant (“CHPP”) production scheduling was tailored to the mine output, maximizing the proportion of direct feed possible whilst minimizing the quantity of coal required to be re-handled. Each of the three processing modules was used intermittently as required to provide the required processing capacity as required.

Management Discussion and Analysis

Late in the reporting period, encouraging results were obtained through processing Seam 0B as part of the ROM feed blend to produce HCC to meet customer specifications. Seam 0B had previously not been considered as a potential feed source to produce HCC on account of as modeled non-ideal inherent properties. However, further testing and analysis indicated that there was potential to utilize defined areas of it as a substitute for Seam 0C within the typical ROM feed blend. Scaling up from washability test lab analyses to full scale production trial washing proved successful, with approximately 100 kt of Seam 0B ROM coal processed in blended feed to CHPP achieving equal results in terms of yield and product quality compared with the otherwise normal blend incorporating Seam 0C instead.

Assuming continued success processing Seam 0B in the second half of 2015, utilisation of significant quantities of Seam 0B available at incrementally low stripping ratio will be possible. This should allow for a reduction in the overall stripping ratio, whilst converting ROM coal resources that had previously been determined as a thermal coal into HCC product.

Figure 4. The Group's historical semi-annual total and primary processed coal production volumes (in thousand tonnes):



Transportation and Logistics

During the first half of 2015, capacity of the Group's long haul transportation operation between the UHG and the Tsagaan Khad ("TKH") coal stockpile and trans-shipping facility adjacent to the Sino-Mongolian border was tailored to match with the production output. The management continued to focus during the reporting period on improving efficiencies within the operation, with positive results achieved in the form of reduction of individual truck cycle time durations by 30.5%, and increase in the average daily trips per individual truck utilised by 35.8%.

Occupational Health, Safety and Environment

Across the operations under management by the Group, approximately 2.6 million man-hours were worked by employees, contractors and sub-contractors during the first half of 2015. During this period, 1 Lost Time Injury ("LTI") was recorded, resulting in an overall Lost Time Injury Frequency Rate ("LTIFR") of 0.4 LTIs per million man-hours worked equivalent.

Management Discussion and Analysis

The reported LTIFR represents the Group's best reported performance in any half or full year of operation thus far, and demonstrates the ongoing commitment within the Group to achieve the overarching goal of Zero Harm. It also compares favourably in comparison to publicly reported mining industry statistics, such as those from the Queensland Government Department of Natural Resources and Mines (3.0, 2013-2014) and the New South Wales Department of Resources and Energy (2.5, 2013-2014).

This performance has been underpinned by the development and implementation of a world class Occupational Health, Safety and Environment (“OHSE”) Management System, which during the reporting period was supported by the delivery of 3,173 training sessions to individuals, totalling 6,229 man-hours of OHSE specific training delivered to employees, contractors and visitors.

Marketing and Sales

According to market sources, prices dropped to the lowest levels as seen in many years, and signs of a slowing economy in China put further downward pressure on an ongoing global coking coal supply and demand imbalance. Amid such challenging market environment, the Group pursued a strategy to maintain relationship with its existing customer base, which includes key end-users with long term strategic value, while maintaining prudent practice of liquidity management in sales arrangements.

Notable achievements made towards execution of the strategy included: setting up direct sales and supply agreements with key strategic customers like Baotou Iron and Steel Co., Ltd. (“**Baogang Group**”) and China Shenhua Group whilst restructuring sales terms to prepaid arrangements with tight credit control for the majority of the sales agreements. On 3 April 2015, the Group signed a sales agreement with Shenhua Bayannoer Energy Co., Ltd., a subsidiary of China Shenhua Group, under which the Group committed to supply 1.2 Mt of HCC to China Shenhua Group. Furthermore, on 8 May 2015, the Group signed a long-term cooperation agreement with Baogang Group for supply and sales of coking coal products of the Group, establishing direct relationship with the Baogang Group, which is the largest steel mill in the Inner Mongolia, China.



MMC and Baogang Group long term cooperation agreement signing ceremony

From left to right: From Baogang Group, Ms. Hu Minzhe, Head of Legal Department; Mr. Liu Yi, Vice Chief Engineer; Mr. Yue Jianqun, Assistant to the General Manager; Mr. Zhao Dianqing, Vice Manager; Mr. Li Jingui, Director of the Board; Mr. Zhou Bingli, Chairman; From MMC, Mr. Odjargal Jambaljamts, Chairman; Mr. Oyunbat Lkhagvatsend, Deputy Chief Executive Officer; Mr. Tuvshin Narmandakh, Executive General Manager of Sales and Distribution Department; Mr. Tuvshinbayar Tagarvaa, Executive General Manager of Sales Administration Department; Mr. Javkhiant Enkhbayar, Sales Manager of Sales and Distribution Department; Ms. Nominasuren Gantulga, Senior Associate of Market Research and Sales Support Section.

Management Discussion and Analysis

Despite the fiercely competitive market situation, through its subsidiary, the Tianjin Zhengcheng Import and Export Trade Co., Ltd. that operates as a joint venture with Risun Mining Co., Ltd in China, the Group continued to pursue its strategy to maintain relationship with its existing end-users that are mostly comprised of steel mills and coke plants located in Hebei, Shandong and the surrounding coastal area in China. As part of this strategy, the Group developed and maintained a product mix of coking coal products produced by the Group with supplementary third party coal products from Chinese domestic origins in order to keep proper balance of efficient cost structure as well as maintain its market share at the end-users product mix for steel and coke production. These third party coals were semi-soft coking coal ("**SSCC**"), weak caking coal, gas coal and lean coal and bought from different regions of Shanxi and sold to Jianlong Janeboat Steel Co., Ltd, Qiananshi Jiujiang Wire Co., Ltd and Tangshan Dafeng Coking Co., Ltd in Hebei.

With the above mentioned developments in the first half of 2015, the Group is focused to overcome ongoing downtrend of the market with prudent practice of maintaining existing market and laying foundations for long term sustainable operations.

The Group sold a total of 1.0 Mt of coal products in the first half of 2015, out of which 0.7 Mt of HCC originated from its own mines operating in Mongolia, and 0.3 Mt of other types of coal products originated from third parties in China which included 12.2 kt SSCC, 43.2 kt lean coal, 78.2 kt weak caking coal and 133.2 kt gas coal.

The sales volume for HCC that originated from the Group's mines in Mongolia was 748.3 kt, of which 569.7 kt, 79.3 kt and 99.3 kt were sold under Delivery-at-Place ("**DAP**") Ganqimaodu ("**GM**"), Free-on-Transport ("**FOT**") and Cost-and-Freight ("**C&F**") terms respectively. This represents a decrease of 60.7% year-on-year compared to 1.9 Mt HCC sold in the same period of 2014.

Transportation Infrastructure

Cross Border Railway

In April 2014, the Group together with Mongolian state-owned company Erdenes Tavantolgoi JSC, Tavantolgoi JSC and Lodestar Investment Pte Ltd formed a joint venture named Gashuunsukhait Railway LLC to develop the cross border railway connecting the ports of Gashuun Sukhait ("**GS**") in Mongolia and GM in China ("**Cross Border Railway**") subsequent to the release of GoM Resolution No. 299 adopted in August 2013. In 2014, the comprehensive feasibility study for the Cross Border Railway was completed and approved by the GoM. Subsequent detailed engineering design for the Cross Border Railway base infrastructure is in process of review and approval by the GoM and related authorities.

Business Outlook

Coking coal prices continued to decline during the first half of 2015 and faced significant downward pressure due to persisting oversupply. This weak market environment is expected to continue during the second half of this year, as recently it was reported that quarterly benchmark price for low-volatile HCC for the third quarter of 2015 was settled by Australian producers and Japanese buyers at USD93 per tonne compared to USD110 per tonne under FOB Australia terms in the second quarter of 2015. According to the indexes published by market research firms, the coking coal price in China's main steel producing area of Tangshan declined from RMB900 per tonne (17% VAT included) reported in December 2014 to RMB770 per tonne in August 2015.

Management Discussion and Analysis

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, environment and socially responsible operations in Mongolia.

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 a consortium (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 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 key to its success in this bidding process. The formal negotiation process started on 5 January 2015. This has involved the GoM submitting a draft Investment Agreement to the Parliament and subsequent communication between the involved authorities regarding relevant terms of the draft Investment Agreement. As at the date of this report, the Consortium is still engaged in negotiations with the working group and no definitive agreements have been entered into.

The Group believes that subject to successful closing of negotiations with the GoM together with stable investment environment to be granted under the investment agreement 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 fulfilment 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.

FINANCIAL REVIEW

Revenue

First half of 2015 continued to be tough for China's coking coal market. Prices dropped to lowest levels seen in as many years and signs of slowing economy in China put further pressure on already lengthy global coking coal supply and demand imbalance. The Group continued to focus strictly on controlling operational costs and limiting capital outflow.

The Group's total sales volume for the six months ended 30 June 2015 reached approximately 1.0 Mt of coal products generating total revenue of USD71.8 million, whilst in the six months ended 30 June 2014 total sales volume was 3.2 Mt of coal products with total revenue of USD192.6 million. For the six months ended 30 June 2015, approximately 0.6 Mt of HCC was sold at DAP GM terms, representing 56.1% of total sales volume which generated USD30.9 million in revenue. Approximately 0.4 Mt of coal products was sold at FOT and C&F terms under inland China sales generating USD40.9 million in revenue. The sales includes approximately 0.3 Mt of coal products procured from Chinese third party sources which generated USD23.8 million revenue. The lower total revenue compared to corresponding period in 2014 was essentially attributable to continuing further downward pressure on coking coal price due to the oversupplied market, which ultimately led to a lower sales volume of HCC.

The Group's pricing reflected the current deteriorating price trend apparent to all coking coal products in the global market. The average selling price ("**ASP**") for HCC was USD64.1 per tonne for the six months ended 30 June 2015, supported by higher HCC selling prices of inland China sales. The ASP of FOT and C&F term sales were USD77.0 per tonne and USD110.4 per tonne, respectively during the first half of 2015, compared to USD99.1 and USD124.1 in the first half of 2014 respectively. It is worth noting that the ASP of sales under C&F terms is an average price of sold quantity across different locations in China, therefore year-on-year comparison may not depict the true trend as selling quantity and locations will differ each year. The ASP of sales under DAP GM terms was USD54.2 per tonne in the first half of 2015 which was approximately 25.4% lower compared to USD72.7 per tonne in the first half of 2014.

For the six months ended 30 June 2015, the Group derived more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD26.1 million, USD15.4 million, USD10.7 million and USD7.5 million, respectively. In the first half of 2014, the Group derived more than 10.0% of its revenue from three customers, with the purchase amounts of approximately USD72.3 million, USD22.9 million, and USD20.9 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.

During the first half of 2015, the total cost of revenue was USD97.1 million, compared to USD172.2 million during the first half of 2014. The cost of revenue of self-produced coal was reduced by 61.5% from USD166.8 million to USD64.3 million as a result of lower sales volume and continuous effort undertaken by the management of the Company to increase efficiency and reduce costs.

Management Discussion and Analysis

The cost of revenue of procured coal in the first half of 2015 consisted of USD23.4 million cost relating to trading of coal procured from Chinese third party sources, which generated revenue of USD23.8 million and USD3.4 million cost relating to HCC procured from Mongolia in 2014.

As at 30 June 2015, USD6.1 million inventory provision was booked due to continuous weakening prices of coal products. The provision was made based on the assessment of the net realizable value of coal inventories.

Table 7. Total and individual costs of revenue and unit costs of revenue of self-produced coal:

	Six months ended 30 June	
	2015 (USD'000)	2014 (USD'000)
Cost of revenue	64,253	166,814
Idling costs	19,057	—
Cost of revenue excluding idling costs	45,196	166,814
Mining cost	20,169	70,342
Variable cost	9,242	38,832
Fixed cost	9,688	26,227
Depreciation and amortization	1,239	5,283
Processing cost	7,783	19,349
Variable cost	3,097	7,798
Fixed cost	1,815	2,554
Depreciation and amortization	2,871	8,997
Handling cost	697	4,607
Transportation cost	8,748	45,256
Logistics cost	1,598	7,175
Variable cost	908	2,640
Fixed cost	640	3,599
Depreciation and amortization	50	936
Site administration cost	3,552	8,054
Transportation and stockpile loss/(gain)	(733)	(1,279)
Royalties and fees	3,382	13,310
Royalty	2,168	8,606
Air pollution fee	675	2,005
Customs fee	539	2,699

In accordance with the Group's policy to conserve cash outflow during the current state of the market when ASP is trending lower, it made tactical sense for the Group to temporarily 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 at a limited level, which incurred associated costs of USD19.1 million, including depreciation and amortization of USD6.1 million.

Management Discussion and Analysis

The mining cost 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 six months ended 30 June 2015, the Group's mining costs were approximately USD20.2 million (first half of 2014: USD70.3 million). Mining unit cost was USD14.7 per ROM tonne for the six months ended 30 June 2015, compared to USD19.8 in the first half of 2014, representing a decrease of 25.8%.

Table 8. Total unit mining cost per ROM tonne:

	Six months ended 30 June	
	2015 (USD/ ROM tonne)	2014 (USD/ ROM tonne)
Mining cost	14.7	19.8
Blasting	1.3	1.4
Plant cost	3.3	6.4
Fuel	2.1	3.1
National staff cost	1.4	1.6
Expatriate staff cost	0.6	0.6
Contractor fee	5.0	5.0
Ancillary and support cost	0.1	0.2
Depreciation and amortization	0.9	1.5

Note: The above mining cost table does not include idling cost

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 six months ended 30 June 2015 was 2.6 bcm per tonne, compared to 2.9 bcm per tonne for the six months ended 30 June 2014. 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 primarily includes costs associated with operations of CHPP including power and water costs. During the six months ended 30 June 2015, the Group's processing cost was approximately USD7.8 million (first half of 2014: USD19.4 million), of which approximately USD2.9 million is related to the depreciation and amortization of the CHPP, USD1.6 million was incurred in the UHG Power Plant for power generation and distribution, and USD0.5 million was incurred in the UHG Water Supply Facility for water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne increased from USD5.4 per ROM tonne in the first half of 2014 to USD5.7 per ROM tonne in the first half of 2015, representing an increase of 5.6%. The increase was mainly attributable to the lower utilisation of CHPP module capacity.

Management Discussion and Analysis

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

	Six months ended 30 June			
	2015 (USD'000)	2014 (USD'000)	2015 (USD/ ROM tonne)	2014 (USD/ ROM tonne)
Total	7,783	19,349	5.7	5.4
Consumables	386	1,266	0.3	0.4
Maintenance and spares	587	1,989	0.4	0.6
Power	1,631	3,396	1.2	1.0
Water	493	1,147	0.4	0.3
Staff	1,190	1,809	0.8	0.4
Ancillary and support	625	745	0.5	0.2
Depreciation and amortisation	2,871	8,997	2.1	2.5

Note: The above total processing cost table does not include idling cost

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 six months ended 30 June 2015, the Group's handling cost was approximately USD0.7 million (first half of 2014: USD4.6 million). Unit handling cost decreased by USD0.5 or 33.3% from USD1.5 per tonne in the first half of 2014 to USD1.0 per tonne in the first half of 2015. The decrease was mainly attributable to cost savings arising from lower fuel prices.

Transportation costs include costs related to the transportation of coal products from UHG to TKH, and the transportation of coal products from TKH to GM, including fees paid to third party transportation contractors. During the six months ended 30 June 2015, the Group's transportation costs, excluding idling cost, were USD8.7 million (first half of 2014: USD45.3 million). On a unit cost basis, the Group managed to decrease its overall transportation costs in the UHG-GM section by USD2.0 per tonne or 13.7% from USD14.6 per tonne in the first half of 2014 to USD12.6 per tonne in the first half of 2015. The transportation cost in the long haul section (UHG-TKH) was maintained at a similar level from USD6.7 per tonne in the first half of 2014 to USD6.6 per tonne in the first half of 2015. Long-haul transportation costs were reduced by savings on reduction of variable costs and lower fuel prices. However, these were offset by higher unit fixed costs due to lower transportation volume. For the short-haul (TKH-GM) section, where the Group utilised fleet from third party contractors, the Group's transportation costs were reduced by 24.1% from USD7.9 per tonne in the first half of 2014 to USD6.0 per tonne in the first half of 2015 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 six months ended 30 June 2015, the Group's logistics cost was approximately USD1.6 million (first half of 2014: USD7.2 million). The reduction in logistics costs is attributable to lower sales volume of coal products.

The site administration cost is primarily related to the site support facilities such as the airstrip operations, and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations. For the six months ended 30 June 2015, the Group's site administration cost was approximately USD3.6 million, compared to USD8.1 million in the first half of 2014, representing a decrease of 55.9%.

Management Discussion and Analysis

For the six months ended 30 June 2015, the Group recorded a total transportation gain of around USD4,000, compared to a loss of USD1.5 million in the first half of 2014. For the six months ended 30 June 2015, the Group recorded unrealized inventory gain of USD0.7 million for ROM coal and washed coal product stockpiles compared to unrealised gain of USD2.8 million recorded in the first half of 2014. 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.

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 based on monthly reference price determined by the Ministry of Mining of Mongolia. The Group's effective royalty rate for the six months ended 30 June 2015 was approximately 5.5% for coal exported from Mongolia based on customs clearance documentation (first half of 2014: 5.1%).

Gross Loss/Profit and Gross Loss/Profit Margin

The Group's gross loss for the six months ended 30 June 2015 was approximately USD25.3 million, compared to the gross profit of approximately USD20.5 million recorded for the six months ended 30 June 2014. The decrease in gross profit was largely driven by further downward pressure on ASP of coking coal products due to the oversupplied state of the market, lower sales volume, idling costs incurred during the periods of limited production and inventory provision.

Selling and Distribution Costs

The Group's selling and distribution costs of USD5.5 million for the six months ended 30 June 2015 (30 June 2014: USD25.0 million) are associated with the inland China market penetration strategy and includes expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution cost is notably lower compared to first half of 2014 due to lower sales volume.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortisation of office equipment and other expenses. For the six months ended 30 June 2015, the Group's general and administrative expenses decreased by approximately USD4.3 million or 26.6% from USD16.3 million for the six months ended 30 June 2014 to approximately USD12.0 million for the six months ended 30 June 2015.

Management Discussion and Analysis

Net Finance Costs

Net finance costs for the six months ended 30 June 2015 was approximately USD42.9 million (30 June 2014: USD45.8 million). Net finance costs for the six months ended 30 June 2015 comprised of (i) interest expense and other credit facilities related expenses, and (ii) USD4.9 million foreign exchange loss due to depreciating MNT against the USD.

Income Tax Expenses

The Group did not have income tax expense for the six months ended 30 June 2015 due to the loss incurred during the period, but had income tax credit of USD6.7 million due to the recognition of deferred tax asset. The Group's income tax credit for the six months ended 30 June 2014 was approximately USD1.6 million.

Loss/Profit for the Period

As a result of the costs listed above, losses attributable to equity shareholders of the Company for the six months ended 30 June 2015 amounted to approximately USD79.1 million (30 June 2014: loss of USD28.0 million). Major contributing factor of the Group's net loss position is decrease of ASP and sales volume of coking coal products due to challenging market conditions in China, as coking coal price continued to be affected by global supply and demand imbalances.

Impairment

In accordance with International Accounting Standard 36, *Impairment of Assets*, entity shall assess at the end of each reporting period whether the assets' carrying value are no more than their recoverable amount. For the year ended 31 December 2014, the Group recognised USD190 million impairment loss on non-financial assets with reference to an independent valuation report. During the first half of 2015, the management of the Group has closely monitored the state of the market and believes there is no indication of significant variance of the key assumptions used in the estimation made as at 31 December 2014. Therefore, no further impairment provision has been recorded in respect of the Group's non-financial assets as of 30 June 2015.

Liquidity and Capital Resources

For the six months ended 30 June 2015, the Company's cash needs had been primarily related to working capital requirements and debt repayments.

The Company's cash resources were funded by proceeds of approximately Hong Kong Dollar ("HKD") 1,556 million from rights shares issued on 29 December 2014 and revenue generated from sales of coal products.

Management Discussion and Analysis

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

Table 10. Combined cash flows:

	For the six months ended 30 June	
	2015 USD'000	2014 USD'000
Net cash used in operating activities	(55,170)	(29,125)
Net cash (used in)/generated from investing activities	(39,230)	49,422
Net cash used in financing activities	(98,500)	(29,113)
Net decrease in cash and cash equivalents	(192,900)	(8,816)
Cash and cash equivalents at beginning of the period	202,856	26,535
Effect of foreign exchange rate changes	(43)	(196)
Time deposits with original maturity over three months	60,000	50,000
Cash and cash equivalents at end of the period	69,913	67,523

Note: USD39.2 million used in investing activities comprises of USD0.4 million incurred for acquisition of property, plant and equipment and construction in progress, USD34.6 million incurred for payments for deferred stripping activity, USD10.0 million for placement of term deposit and USD4.7 million generated from interest income and USD1.0 million generated from disposal of property, plant and equipment.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 30 June 2015 was 54.4% (31 December 2014: 51.9% after considering provision for impairment loss on non-financial assets). All borrowings are in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro and HKD. The Company's policy is to regularly monitor current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Use of Proceeds from the Rights Issue of the Company

On 29 December 2014, the Company issued 5,557,554,750 rights shares to 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 after deducting associated transaction costs was HKD1,516 million or approximately USD195.5 million.

As at 30 June 2015, the Company had used the proceeds from the rights issue as follows:

- approximately USD107.9 million for repayment of existing indebtedness and related interest payments; and
- approximately USD27.6 million for general working capital needs.

Management Discussion and Analysis

Indebtedness

As of 30 June 2015, the Company had USD813.7 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million senior notes ("**Senior Notes**"), (ii) USD150 million facility with BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (the "**BNP and ICBC Facility**"), (iii) USD180 million facility 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**"), (iv) USD40 million revolving credit line from Trade and Development Bank of Mongolia, and (v) USD10 million short term loan from Golomt Bank of Mongolia.

The Senior Notes bear a fixed interest rate of 8.875% per annum payable semi-annually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 30 June 2015, 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. 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 30 June 2015, the outstanding principal amount of the BNP and ICBC Facility was USD108 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 of the Company where the controlling shareholder of the Company ceases to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

The EBRD, FMO and DEG Loan bears 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 30 June 2015, the outstanding principal amount was USD62.7 million. Under the EBRD, FMO and DEG Loan, 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, and the Company may not cease to be directly majority owned by entities domiciled in Mongolia.

The loan granted by Trade and Development Bank of Mongolia is a revolving credit facility maturing on 20 March 2016. The loan initially bore interest of 10% per annum, which was subsequently changed to 11.2% per annum from March 2015. As of 30 June 2015, the outstanding principal amount was USD40 million.

On 23 March 2015, the Group obtained a short term loan of USD10 million maturing in January 2016 from Golomt Bank of Mongolia. Such loan bears interest of 8.80% per annum. As of 30 June 2015, the outstanding principal amount was USD10 million.

Management Discussion and Analysis

Credit Risk

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

For the six months ended 30 June 2015, the Group had approximately USD30.9 million in trade receivables, USD116.6 million in other receivables and USD10.1 million for allowance of doubtful debts. For the year ended 31 December 2014, the Group had USD37.0 million in trade receivables and USD125.4 million in other receivables, as well as USD10.1 million for allowance of doubtful debts.

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. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to the current ability to pay, and takes into account information specific to the customer and pertaining to the economic environment in which the customer operates on an ongoing basis.

With regard to other receivables of USD116.6 million, this amount is mainly related to USD45.4 million VAT and other tax receivables, USD42.9 million from the GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax Authority inspection and approval of the VAT tax refund, the Group offset USD1.0 million against its other tax payments during the first half of 2015. As at 30 June 2015, the Group had USD14.9 million VAT receivables that are approved by the Tax Authority and can be used to offset against taxes payments, payments to suppliers or to be refunded by cash. 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 reputable banks, which management assessed the credit risk to be insignificant.

Foreign Exchange Risk

During the six months ended 30 June 2015 and 2014, 99.7% and 100% of the revenue and 50.4% and 58.8% of the purchases in each respective period were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

For the six months ended 30 June 2015, 98.5% and 1.2% of the revenues were denominated in RMB and USD, respectively, with the remaining revenue denominated in MNT. For the six months ended 30 June 2014, 22.1% of the revenues were denominated in USD, with the remaining revenue denominated in RMB.

For the six months ended 30 June 2015, 99.0% and 56.6% of the finance costs and operating expenditures, respectively, were denominated in USD; while 8.6% of the operating expenditures were denominated in RMB; 0.6% of the operating expenditures were denominated in currencies other than the USD, RMB and MNT; and the remainder was denominated in MNT.

For the six months ended 30 June 2014, approximately 99.2%, 2.1% and 6.5% of the finance costs, operating expenditures and capital expenditures, respectively, were denominated in USD; while 0.1% and 30.7% of the finance costs and operating expenditures, respectively, were denominated in RMB; and the remainder was 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 a currency other than the functional currency of the entity to which they relate as at 30 June 2015 and 31 December 2014 amounted to USD62.8 million and USD245.8 million, respectively. Total borrowings denominated in a currency other than the functional currency of the entity to which they relate as at 30 June 2015 and 31 December 2014 amounted to USD112.7 million and USD143.6 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 30 June 2015, the Group pledged current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia and XacBank of Mongolia, its Debt Reserve Account held with BNP Paribas London; Collection and Cash Collateral accounts held with BNP Paribas; cooperation contract with Inner Mongolia Qinghua Group of China; coal sales contracts with Inner Mongolia Risun Coal Industry Co., Ltd, Shenhua Bayannaocer Energy Co., Ltd and 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 and certain coal stockpiles for bank borrowings.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.a.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 ("**IMC**") to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

The total amount of indebtedness covered by above pledges is USD763.7 million as at 30 June 2015.

Contingent Liabilities

As at 30 June 2015, 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 Limited (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.

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.

Management Discussion and Analysis

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 three batches of Share Options to its director (“**Director**”) and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66 (which was adjusted to HKD4.53 due to rights issue in December 2014). On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a Director and employees respectively, at the exercise price of HKD3.92 (which was adjusted to HKD2.67 due to rights issue in December 2014). On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a Director and employees respectively, at the exercise price of HKD0.445.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the six months ended 30 June 2015, USD1.9 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

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 30 June 2015 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 30 June 2015, the Group had USD0.7 million of contracted for capital commitments (as at 31 December 2014: USD0.6 million) and had no authorised but not contracted for capital commitments (as at 31 December 2014: nil).

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

	Six months ended 30 June 2015 USD’000	Six months ended 30 June 2014 USD’000
CHPP	—	3,264
Water supply facility	6	4,506
Trucks and equipment	—	314
Others	—	1,213
Total	6	9,297

Management Discussion and Analysis

Operating Lease Commitments

As at 30 June 2015, the Company had contracted obligations consisting of operating leases which totalled approximately USD2.3 million due within one year. Lease terms range from one to five years, with fixed rentals.

Significant Investments Held

As at 30 June 2015, the Company did not hold any significant investments. Save as disclosed in this report, the Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the six months ended 30 June 2015, 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 30 June 2015 which require adjustment to or disclosure in this report.

Employees

As at 30 June 2015, the number of employees of the Group was 1,897, compared with 2,128 employees as at 30 June 2014.

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

For the six months ended 30 June 2015, total amount of staff costs was USD17.3 million, compared to USD18.0 million for the six months ended 30 June 2014.

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

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

During the six months ended 30 June 2015, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 30 June 2015, a total of 214 employees attended different professional trainings, out of which 96 employees attended mining heavy equipment operator training, 91 employees attended mine maintenance training and 27 employees attended professional development training.

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

For the six months ended 30 June 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2015 (dividend for the six months ended 30 June 2014: nil).

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company currently comprises one non-executive Director, Mr. Gankhuyag Adilbish, and three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius, Mr. Unenbat Jigjid, and Mr. Ochirbat Punsalmaa. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The Audit Committee has reviewed the interim report of the Company for the six months ended 30 June 2015.

Corporate Social Responsibility



MMC is committed to conducting its business responsibly at all times by ensuring the safety and health of its employees, protecting the environment, respecting the local cultures and contributing to the sustainable development of the communities where it operates.

During the reporting period, the Company undertook the following corporate social responsibility initiatives:

- **Sustainable livelihood support program:**

In order to create new economic opportunities for affected and resettled herders, the Company implements a sustainable livelihood support program that focuses on supporting start-ups and small-and-medium enterprises by local herders. Within the framework of the program, 15 herder households have received interest-free business loans from the Company to expand their businesses in 2014. In the reporting period, the Company organized project monitoring and training to the project beneficiaries through partnering non-governmental organizations in Tsogttsetsii soum, Umnugobi aimag.

- **Health support program:**

To enhance the quality and accessibility of health care services for community members, the Company contributed MNT54.2 million to a new inter-soum hospital in Tsogttsetsii soum of Umnugobi aimag in February 2015. The Company's contribution will go towards building the technical capacity of the hospital including its emergency response capacity, surgical capacity and laboratory equipment among others.

- **Education support program:**

As part of the education support program, the Company has been implementing a Cambridge scholarship program which focuses on supporting students with great academic potential and developing knowledgeable and capable personnel for the future. For the last 5 years, the Company has been providing tuition grants for selected students to attend the Cambridge General Certificate of Secondary Education and A-Level programs at the Orchlon International School. Total of 9 students were admitted to the Orchlon International School with offers of full scholarship until their graduation. In June 2015, the first 6 of our scholarship students successfully graduated from high school and obtained Cambridge International qualifications. More importantly, these students were accepted to the most prestigious universities, with full scholarships covering their tuition fees.

- **Community development program:**

The Company has been assisting the local community members who grow vegetables in the wind belt by preparing land, providing the irrigation system, and organizing training on vegetable growing. During the reporting period, the Company's environmental team extended the wind belt by 4 hectares and over 100 households of Tsogttsetsii soum grew vegetables in the belt. The Company organized field demonstration training for local community members in collaboration with the Food and Agriculture Department, Umnugobi aimag in May 2015. A local chief agronomist taught organic methods of growing vegetables and techniques to improve productivity of vegetable production. By participating in the training, local community members were able to gain new knowledge, share experience with each other and had the opportunity to purchase quality vegetable seeds at affordable price.

- **"Good Neighborhood" initiative:**

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

- o Supplied thermal coal free of charge to the Dalanzadgad city power plant and Tsogttsetsii, Bayan-Ovoo and Khanbogd soums of Umnugobi aimag during harsh winter months;
- o Provided 3,680 bundles of hay and fodder, 1,360 bags of grain to herders to help them overcome winter;
- o Supplied seedlings free of charge to Tsogttsetsii soum administration and the local residents for use in various landscaping projects in the soum; and
- o Presented gifts to 390 elderly citizens of the local community.

HEALTH, SAFETY AND ENVIRONMENT

- The LTIFR, an injury frequency rate, expressed as the number of injuries per million hours worked, was 0.39 for 2,588,351 man hours recorded within the Company's coal mining, processing and transportation operations in the first half of 2015.
- Workplace Occupational Hygiene and Safety inspections were carried out more than 115 times at various workplace locations. All identified hazards and non-conformance of the Occupational Health, Safety and Environment Management System were investigated in order to discover and eliminate root causes.
- A total of 59 workplace safety risk assessments were conducted during the reporting period to minimize or eliminate work-related hazards and to enhance awareness of daily safety routines among the Company's employees.
- Re-vegetation activity was conducted on a topsoil stockpile covering an area of 1.3 hectares. *Ulmus pumila* and *Elaeagnus moorcrofti*, tree species native to South Gobi, along with several perennial plant species were planted in May 2015. Native species are tolerant to local soil and climatic conditions, while perennial plants develop rapid root colonisation which enhances improvement in soil nutrient cycling and soil structure.



Preparation of topsoil stockpile for vegetation



Re-vegetated topsoil stockpile

- In May 2015, a new green park was established by an initiative of the Company's employees in a vacant area in front of the Tsetsii residential township. 2,500 trees were planted in the park area covering 5,200 square meters. The Company's employees also built flowerbeds and fences using recycled materials.
- The Company regularly organised voluntary environmental protection activities. On National Tree Planting Day, the Company's employees planted over 2,445 trees in and around the UHG project site and provided 1,740 seedlings for local organizations for planting.
- Due to very minimal amount of snowfall in the southern Mongolia region last winter, wild animals were at risk of dehydration. As part of the UHG project's Biodiversity Action Plan, the Company's environmental team provided ice to hooved wild animals in the region, including the Siberian ibex and argali (wild sheep) throughout the winter months in several locations in Tsogttsetsii soum. In March 2015, hay and fodder were also placed for wild animals in the mountains to help them live through the harsh months in which food was scarce.

Disclosure of Information

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2015.

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

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting of the Company. Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2015 annual general meeting of the Company held on 29 May 2015 (the “**2015 AGM**”), as Mr. Odjargal Jambaljamts was unable to attend the 2015 AGM due to his engagement in discussions on the Tavan Tolgoi coalfield development with related parties. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code.

Disclosure of Information

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

As at 30 June 2015, 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”)) which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(a) Table 12. Interests in shares

Name of Director	Nature of interest	Ordinary shares of USD0.01 each	
		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	112,833,333 (L)	1.22%
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 holds the entire interest of Novel Holdings Group Limited. Novel Holdings Group Limited directly holds 461,647,547 shares in the Company and is also interested in approximately 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Global Limited which in turn holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 57.76% of MCS Mining Group Limited which in turn holds 3,102,876,464 shares in the Company. MCS (Mongolia) Limited is also directly interested in approximately 42.24% of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 2,815,457,053 shares of the Company.

Disclosure of Information

- (2) Mr. Od Jambaljamts holds the entire interest of Trimunkh Limited. Trimunkh Limited directly holds 265,762,267 shares in the Company and is also interested in approximately 28.69% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Global Limited which in turn holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 57.76% of MCS Mining Group Limited which in turn holds 3,102,876,464 shares in the Company. MCS (Mongolia) Limited is also directly interested in approximately 42.24% of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 2,815,457,053 shares and Trimunkh Limited had a short position in 106,304,907 shares of the Company.
- (3) Dr. Oyungerel Janchiv, through Lotus Amsa Limited which is 100% owned by her, held 112,833,333 shares in the Company.
- (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 the Company.

(b) Table 13. Interest in underlying shares

		Ordinary shares of USD0.01 each	
Name of Director	Nature of interest	Total number of underlying shares held pursuant to Share Options under the Share Option Scheme	Approximate percentage of total issued share capital
Dr. Battsetgel Gotov	Beneficial owner	71,764,707 (L)	0.77%
	(L) – long position		

Save as disclosed above, as at 30 June 2015, 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).

Disclosure of Information

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

As at 30 June 2015, so far as was known to the Directors and chief executive of the Company and based on the information publicly available, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 14. Interests 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%
MCS Global Limited (Note 1)	Interest of controlled corporation	3,102,876,464 (L)	33.50%
		2,815,457,053 (S)	30.40%
MCS Holding LLC (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 corporation/ Beneficial owner	3,564,524,011 (L)	38.48%
		2,815,457,053 (S)	30.40%
Trimunkh Limited (Note 1)	Interest of controlled corporation/ Beneficial owner	3,368,638,731 (L)	36.37%
		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 Surenkhoo (Note 1)	Interest of spouse	3,368,638,731 (L)	36.37%
		2,921,761,960 (S)	31.54%

Disclosure of Information

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
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

Notes:

- (1) MCS Mining Group Limited is owned as to approximately 57.76% by MCS Holding LLC and approximately 42.24% by MCS (Mongolia) Limited. MCS Holding LLC is wholly-owned by MCS Global Limited which in turn is wholly-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 holds 3,102,876,464 shares and had a short position in 2,815,457,053 shares in the Company. Novel Holdings Group Limited and Trimunkh Limited each also directly held 461,647,547 shares and 265,762,267 shares in the Company, and Trimunkh Limited had a short position in 106,304,907 shares in the Company. 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 30 June 2015, 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.

Change of Information of Directors

Change of information of Directors since the date of the 2014 Annual Report is set out below:

Mr. Unenbat Jigjid was appointed as a non-executive director of Telecom Mongolia JSC, a company listed on the Mongolian Stock Exchange (Stock code: MCH), with effect from 30 April 2015. Also, Mr. Jigjid was redesignated as Head of the Corporate Governance Development Center in Mongolia on 30 March 2015.

Share Option Scheme

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date on 13 October 2010 (the “**Adoption Date**”). Share Options could be granted within a period of 10 years from the Adoption Date. Therefore, as at 30 June 2015, the remaining life of the Share Option Scheme was approximately 5 years and 3 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.

Under the Share Option Scheme, the Company granted three batches of Share Options to its Director and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66 and 3,000,000 and 32,200,000 Share Options were accepted by a Director and employees respectively. On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a Director and employees respectively at the exercise price of HKD3.92.

As a result of the rights issue completed on 29 December 2014, adjustments were 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.

A total of 48,100,000 Options were outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise prices and the number of the shares falling to be issued under the outstanding Share Options were adjusted pursuant to Clause 11 of the Share Option Scheme (the “**Option Adjustments**”) 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. Details of the adjustments are set out in Tables 15 and 16 below.

On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a Director and employees respectively at the exercise price of HKD0.445. The closing price of the shares immediately before the grant of Share Options on 10 June 2015 was HKD0.52 per Share. Further details of the grant are set out in note 21 to the unaudited interim financial report.

Share Option Scheme

Details of the movements in the number of Share Options of the Company during the six months ended 30 June 2015 were as follows:

Table 15. Director

Name of Director	Date of grant	Exercise period	Exercise price per share	Adjusted exercise price per share (Note 4)	Balance as at 1 January 2015	Number of Share Options					Balance as at 30 June 2015
						Adjusted balance on 1 January 2015	Granted during the six months ended 30 June 2015	Lapsed during the six months ended 30 June 2015	Cancelled during the six months ended 30 June 2015	Exercised during the six months ended 30 June 2015	
Dr. Battengel Gotov	12 October 2011	(Note 1)	HKD6.66	HKD4.53	3,000,000	4,411,765	–	–	–	–	4,411,765
	28 November 2012	(Note 2)	HKD3.92	HKD2.67	5,000,000	7,352,941	–	–	–	–	7,352,941
	10 June 2015	(Note 3)	HKD0.445	–	–	–	60,000,000	–	–	–	60,000,000

Table 16. Employees of the Group other than Directors

Date of grant	Exercise period	Exercise price per share	Adjusted exercise price per share (Note 4)	Balance as at 1 January 2015	Number of Share Options					Balance as at 30 June 2015
					Adjusted balance on 1 January 2015	Granted during the six months ended 30 June 2015	Lapsed during the six months ended 30 June 2015	Cancelled during the six months ended 30 June 2015	Exercised during the six months ended 30 June 2015	
12 October 2011	(Note 1)	HKD6.66	HKD4.53	23,350,000	34,338,235	–	55,147	–	–	34,283,088
28 November 2012	(Note 2)	HKD3.92	HKD2.67	16,750,000	24,632,353	–	–	–	–	24,632,353
10 June 2015	(Note 3)	HKD0.445	–	–	–	94,750,000	–	–	–	94,750,000

Notes:

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

3. 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 – 10 June 2015 to 10 June 2020
 - (2) second 25% of the Share Options granted – 10 June 2016 to 10 June 2020
 - (3) third 25% of the Share Options granted – 10 June 2017 to 10 June 2020
 - (4) fourth 25% of the Share Options granted – 10 June 2018 to 10 June 2020
4. As a result of the rights issue completed on 29 December 2014, the exercise prices and the number of the shares falling to be issued upon full exercise of the outstanding Share Options were adjusted in accordance with the Option Adjustments with effect from 1 January 2015. Please refer to the 2014 Annual Report of the Company for details.

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.

Independent Review Report



Independent Review Report **to the Board of Directors of Mongolian Mining Corporation** *(Incorporated in Cayman Islands with limited liability)*

INTRODUCTION

We have reviewed the interim financial report set out on pages 52 to 87 which comprises the consolidated statement of financial position of Mongolian Mining Corporation (the “**Company**”) and its subsidiaries (together “**the Group**”) as at 30 June 2015 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

EMPHASIS OF MATTER

Without qualifying our conclusion, we draw your attention to note 2 to the unaudited interim financial report which describes that the Company together with its subsidiaries (the “Group”) had net current liabilities of approximately USD175,622,000 as at 30 June 2015 and made a loss of USD79,187,000 for the period then ended, and that consequently for the foreseeable future the Group is dependent upon the financial support from its bankers and shareholders. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern.

The interim financial report has been prepared on a going concern basis, the validity of which is dependent on the availability of the ongoing financial support from the Group’s bankers and shareholders to enable the Group to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The interim financial report does not include any adjustments that would result should the Group be unable to continue to operate as a going concern.

KPMG

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

28 August 2015

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2015 - unaudited

	Note	Six months ended 30 June	
		2015 USD'000	2014 USD'000
Revenue	5	71,804	192,638
Cost of revenue	6	(97,145)	(172,177)
Gross (loss)/profit		(25,341)	20,461
Other revenue		330	2,677
Other net (loss)/income		(470)	34,446
Selling and distribution costs		(5,500)	(25,031)
General and administrative expenses		(11,993)	(16,343)
(Loss)/profit from operations		(42,974)	16,210
Finance income	7(a)	3,021	1,944
Finance costs	7(a)	(45,939)	(47,725)
Net finance costs	7(a)	(42,918)	(45,781)
Share of losses of associates		(8)	(9)
Share of (losses)/profits of joint venture		(14)	1
Loss before taxation	7	(85,914)	(29,579)
Income tax	8	6,727	1,574
Loss for the period		(79,187)	(28,005)
Attributable to:			
Equity shareholders of the Company		(79,050)	(28,005)
Non-controlling interests		(137)	—
Loss for the period		(79,187)	(28,005)
Basic and diluted loss per share	9	(0.85) cents	(0.61) cents

The notes on pages 58 to 87 form part of this interim financial report.

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2015 - unaudited

		Six months ended 30 June	
	Note	2015 USD'000	2014 USD'000
Loss for the period		(79,187)	(28,005)
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation	10	(22,949)	(69,743)
Total comprehensive income for the period		(102,136)	(97,748)
Attributable to:			
Equity shareholders of the Company		(101,999)	(97,748)
Non-controlling interests		(137)	—
Total comprehensive income for the period		(102,136)	(97,748)

The notes on pages 58 to 87 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 23(a).

Consolidated Statement of Financial Position

at 30 June 2015 - unaudited

	Note	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Non-current assets			
Property, plant and equipment, net	11	573,793	594,926
Construction in progress	12	56,175	58,421
Lease prepayments		70	73
Intangible assets	13	510,631	511,089
Interest in associates		53	63
Interest in joint venture		—	15
Other non-current assets	14	34,905	25,823
Deferred tax assets		45,075	37,968
Total non-current assets		1,220,702	1,228,378
Current assets			
Assets held for sale		366	484
Inventories	15	66,992	48,900
Trade and other receivables	16	137,372	152,207
Cash at bank and in hand	17	69,913	252,856
Total current assets		274,643	454,447
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	18	182,824	114,818
Trade and other payables	19	267,400	298,118
Current taxation		41	68
Obligations under finance leases		—	8
Total current liabilities		450,265	413,012
Net current (liabilities)/assets		(175,622)	41,435
Total assets less current liabilities		1,045,080	1,269,813

The notes on pages 58 to 87 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2015 - unaudited

	Note	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Non-current liabilities			
Long-term borrowings, less current portion	18	34,390	161,978
Senior notes	20	596,523	595,906
Provisions	22	14,305	12,995
Deferred tax liabilities		102,888	101,640
Other non-current liabilities		353	456
Total non-current liabilities		748,459	872,975
NET ASSETS			
		296,621	396,838
CAPITAL AND RESERVES			
Share capital	23	92,626	92,626
Reserves	23	203,840	303,920
Total equity attributable to equity shareholders of the Company		296,466	396,546
Non-controlling interests		155	292
TOTAL EQUITY		296,621	396,838

The notes on pages 58 to 87 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2015 - unaudited

		Share capital	Share premium	Other reserve	Exchange reserve	Retained earnings	Total	Non- controlling interests	Total equity
	Note	USD'000 (Note 23(b))	USD'000 (Note 23(c))	USD'000 (Note 23(c))	USD'000 (Note 23(c))	USD'000	USD'000	USD'000	USD'000
At 1 January 2014		37,050	608,650	27,050	(231,650)	119,867	560,967	–	560,967
Changes in equity for the six months ended 30 June 2014:									
Loss for the period		–	–	–	–	(28,005)	(28,005)	–	(28,005)
Other comprehensive income		–	–	–	(69,743)	–	(69,743)	–	(69,743)
Total comprehensive income		–	–	–	(69,743)	(28,005)	(97,748)	–	(97,748)
Equity-settled share-based transactions	21	–	–	1,666	–	–	1,666	–	1,666
At 30 June 2014		37,050	608,650	28,716	(301,393)	91,862	464,885	–	464,885
Changes in equity for the six months ended 31 December 2014:									
Loss for the period		–	–	–	–	(254,832)	(254,832)	132	(254,700)
Other comprehensive income		–	–	–	(10,769)	–	(10,769)	–	(10,769)
Total comprehensive income		–	–	–	(10,769)	(254,832)	(265,601)	132	(265,469)
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	21	–	–	1,809	–	–	1,809	–	1,809
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
At 1 January 2015		92,626	748,527	30,539	(312,162)	(162,984)	396,546	292	396,838
Changes in equity for the six months ended 30 June 2015:									
Loss for the period		–	–	–	–	(79,050)	(79,050)	–	(79,050)
Other comprehensive income		–	–	–	(22,949)	–	(22,949)	–	(22,949)
Total comprehensive income		–	–	–	(22,949)	(79,050)	(101,999)	–	(101,999)
Contribution from non-controlling interests		–	–	–	–	–	–	(137)	(137)
Equity-settled share-based transactions	21	–	–	1,919	–	–	1,919	–	1,919
At 30 June 2015		92,626	748,527	32,458	(335,111)	(242,034)	296,466	155	296,621

The notes on pages 58 to 87 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2015 - unaudited

	Note	Six months ended 30 June	
		2015 USD'000	2014 USD'000
Operating activities			
Cash used in operations		(54,944)	(29,110)
Income tax paid		(226)	(15)
Net cash used in operating activities		(55,170)	(29,125)
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		(34,974)	(42,465)
Proceeds from disposal of assets held for sale		1,041	90,323
Other cash flows (used in)/arising from investing activities		(5,297)	1,564
Net cash (used in)/generated from investing activities		(39,230)	49,422
Financing activities			
Proceeds from borrowings		10,000	146,200
Repayment of borrowings		(70,909)	(140,909)
Other cash flows used in financing activities		(37,591)	(34,404)
Net cash used in financing activities		(98,500)	(29,113)
Net decrease in cash and cash equivalents		(192,900)	(8,816)
Cash and cash equivalents at the beginning of the period		202,856	26,535
Effect of foreign exchange rates changes		(43)	(196)
Cash and cash equivalents at the end of the period	17	9,913	17,523

The notes on pages 58 to 87 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

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 (the “**Group**”) are principally engaged in the mining, processing, transportation and sale of coal products.

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

2 BASIS OF PREPARATION

The Group had net current liabilities of USD175,622,000 as at 30 June 2015 (as at 31 December 2014: net current assets of USD41,435,000) and made a loss of USD79,187,000 for the six months period then ended. These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the going concern assumption.

It is anticipated that coal prices in the People’s Republic of China (the “**PRC**”) will remain under pressure in the short term, which will continue to impact the Group’s margins and liquidity. Therefore, the Directors are pursuing additional sources of financing, seeking prepayments in negotiating new coal offtake agreements, negotiating payment terms with suppliers and creditors to ease cash flow demands, and discussing settlement methods with debtors to accelerate cash collection; in the meanwhile, the Directors are remaining focused on managing uncommitted capital expenditures to preserve the Group’s growth options.

Based on the Group’s business plan and cash flow forecast, and with the ongoing support from its bankers and its shareholders, the Directors believe it could have sufficient 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 30 June 2015. Accordingly, the Directors are of the opinion that it is appropriate to prepare this interim financial report on the going concern basis. This interim financial report does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), including compliance with International Accounting Standard 34, *Interim financial reporting*, (“**IAS 34**”) issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 28 August 2015.

Notes to the Unaudited Interim Financial Report

2 BASIS OF PREPARATION (Continued)

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap. 32)).

Notes to the Unaudited Interim Financial Report

3 CHANGES IN ACCOUNTING POLICIES

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

- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

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

4 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal. The majority of its customers are located in PRC. 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 sale of coal. Accordingly, no additional business and geographical segment information are presented.

5 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal products. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised for the six months ended 30 June 2015 is as follows:

	Six months ended 30 June	
	2015	2014
	USD'000	USD'000
Self-produced coal		
Washed hard-coking coal ("HCC")	47,963	164,305
Washed thermal coal ("middlings")	1	28,333
Trading of coal procured from Chinese third party sources	23,840	—
	71,804	192,638

Revenue during the six months ended 30 June 2015 include approximately USD17,063,000 (six months ended 30 June 2014: USD73,582,000) which arose from sales of washed hard coking coal to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

For the six months ended 30 June 2015, the Group had four customers that individually exceeded 10% of the Group's turnover, with the purchase amounts of approximately USD26,119,000, USD15,441,000, USD10,657,000, and USD7,503,000, respectively. In the first half of 2014, the Group had three customers that individually exceeded 10% of the Group's turnover, with the purchase amounts of approximately USD72,315,000, USD22,937,000, and USD20,858,000, respectively.

Notes to the Unaudited Interim Financial Report

6 COST OF REVENUE

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Mining costs	20,169	70,342
Processing costs	7,783	19,349
Transportation costs	8,748	45,256
Provision for coal inventories (Note 15)	6,122	—
Others (Note (i))	35,266	37,230
Cost of revenue during mine operations	78,088	172,177
Cost of revenue during idled mine period (Note (ii))	19,057	—
Cost of revenue	97,145	172,177

Notes:

- (i) Others include cost of coal procured from Chinese third party sources and royalty tax for the coal exported from Mongolia.
- (ii) For the six months ended 30 June 2015, cost of revenue during idled mine period includes mining contractor costs and depreciation expense related to idled plant and equipment.

Notes to the Unaudited Interim Financial Report

7 LOSS BEFORE TAXATION

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

(a) Net finance costs:

	Six months ended 30 June	
	2015	2014
	USD'000	USD'000
Interest income	(3,021)	(1,944)
Finance income	(3,021)	(1,944)
Interest on bank and other borrowings	11,129	11,118
Net change in fair value of derivative component of senior notes	—	600
Interest on liability component of senior notes (Note 20)	27,242	27,168
Transaction costs	2,223	1,587
Unwinding interest on		
– Other long-term payables	—	6
– Accrued reclamation obligations (Note 22)	431	413
Less: Interest expense capitalised*	—	(4,783)
Net interest expense	41,025	36,109
Foreign exchange loss, net	4,914	11,616
Finance costs	45,939	47,725
Net finance costs	42,918	45,781

* No borrowing costs have been capitalised during the six months ended 30 June 2015 and borrowing costs have been capitalised at a rate of 8.1% per annum for the six months ended 30 June 2014.

Notes to the Unaudited Interim Financial Report

7 LOSS BEFORE TAXATION (Continued)

(b) Staff costs:

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Salaries, wages, bonuses and benefits	13,815	14,606
Retirement scheme contributions	1,565	1,762
Equity-settled share-based payment expenses (Note 21)	1,919	1,666
	17,299	18,034

Pursuant to the relevant labour rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (“**the Schemes**”) organised by the Government of Mongolia (the “**GoM**”) 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:

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Depreciation and amortisation	23,599	25,011
Operating lease charges: minimum lease payments	1,108	2,269
Costs of inventories	97,145	172,177
Gain on disposal of property, plant and equipment and assets held for sale (Note (i))	(60)	(36,546)
Selling and distribution costs (Note (ii))	5,500	25,031

Notes:

- (i) Gain on disposal of property, plant and equipment and assets held for sale for the six months ended 30 June 2014 is related to gain on disposal of the paved road between Ukhaa Khudag (“**UHG**”) and the Gashuun Sukhait (“**GS**”) 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 Mongolian National Togrog (“**MNT**”) 157,847,184,615 (equivalent to approximately USD90,323,000 converted at exchange rate on payment receipt date) on 13 February 2014.

- (ii) Selling and distribution costs represent fees and charges incurred for exporting coal into PRC, logistics and transportation costs, governmental fees and charges and fixed agent fees associated with the market penetration strategy to diversify and expand sales channels in inland PRC.

Notes to the Unaudited Interim Financial Report

8 INCOME TAX

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

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Current tax	214	4,206
Deferred taxation	(6,941)	(5,780)
	(6,727)	(1,574)

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

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Loss before income tax	(85,914)	(29,579)
Tax on loss before taxation, calculated at the rates applicable in profits/(loss) in the countries concerned	(7,489)	2,278
Tax effect of non-deductible expense (Note (iii))	585	442
Tax effect of non-taxable income (Note (iii))	(821)	(4,992)
Tax losses not recognised	998	698
Actual tax expenses	(6,727)	(1,574)

Notes:

- (i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2015 and 2014. According to the Corporate Income Tax Law of the PRC, the Company's subsidiary in the PRC 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 six months ended 30 June 2015 and 2014.
- (iii) Non-deductible and non-taxable items represent mainly the unrealised exchange gain which is non-taxable and other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the six months ended 30 June 2015 and 2014.

Notes to the Unaudited Interim Financial Report

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for six months ended 30 June 2015 is based on the loss attributable to ordinary equity shareholders of the Company for the period of USD79,050,000 (six months ended 30 June 2014: loss attributable to ordinary equity shareholders of the Company of USD28,005,000) and the 9,262,591,250 ordinary shares (six months ended 30 June 2014: 4,624,692,827 ordinary shares after adjusting for the rights issue made in December 2014) in issue during the six months ended 30 June 2015. As described in Note 23 (b), the Company completed the rights issue in December 2014. In calculating the loss per share, the weighted average number of shares outstanding during the six months ended 30 June 2015 and 2014 were calculated as if the bonus elements without consideration included in the rights issue had existed from the beginning of the comparative period.

(b) Diluted loss per share

For the six months ended 30 June 2015 and 30 June 2014, 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 Notes 21) are anti-dilutive and therefore not included in calculating diluted loss per share for the six months ended 30 June 2015 and 30 June 2014.

10 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	606	6,623
– net investment	24,418	65,882
Reclassification adjustments for amounts transferred to profit or loss:		
– disposal of net investment	(2,075)	(2,762)
	22,949	69,743

11 PROPERTY, PLANT AND EQUIPMENT

Mining properties of the Group at 30 June 2015 include stripping activity assets carrying book value of USD230,258,000 (31 December 2014: USD223,451,000).

During the six months ended 30 June 2015, the additions of property, plant and equipment of the Group, representing mainly various mining structures, amounted to USD22,226,000 (six months ended 30 June 2014: USD142,195,000). Items of property, plant and equipment with net book value of USD276,000 were disposed of during the six months ended 30 June 2015 (six months ended 30 June 2014: USD3,232,000). As at 30 June 2015, 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 a net book value of USD96,220,000, USD25,364,000 and USD2,747,000, respectively (31 December 2014: USD105,290,000, USD27,629,000 and USD3,008,000, respectively) (see Note 18).

12 CONSTRUCTION IN PROGRESS

The construction in progress is mainly related to water supply extension facilities and other mining related machinery and equipment.

13 INTANGIBLE ASSETS

Intangible assets represent the acquired mining right.

The Group recognised USD190,000,000 impairment loss on non-financial assets as of 31 December 2014 with reference to an independent valuation report. The Directors have closely monitored the market situation since then, and believe it has no indication of significant variance with those key assumptions used in the estimation made as at 31 December 2014. The Directors are of the opinion that the impairment provision is adequate as at 30 June 2015 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard.

Notes to the Unaudited Interim Financial Report

14 OTHER NON-CURRENT ASSETS

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Prepayments in connection with construction work, equipment purchases and others	33,098	23,951
Financial assets available-for-sale	1,807	1,872
	34,905	25,823

15 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Coal	59,877	34,222
Materials and supplies	13,237	14,678
	73,114	48,900
Less: provision for coal inventories	(6,122)	—
	66,992	48,900

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Carrying amount of inventories sold	71,966	172,177
Write down of inventories	6,122	—
	78,088	172,177

As at 30 June 2015, certain of the Group's borrowings were secured by the Group's coal inventory of USD49,062,000 (31 December 2014: USD21,745,000) (see Note 18).

During the six months ended 30 June 2015, USD6,122,000 (six months ended 30 June 2014: nil) has been recognised as provision for coal inventories and expensed in profit or loss as cost of revenue. This provision was due to the decrease in the estimated net realisable value of coal products as a result of decreasing selling price.

Notes to the Unaudited Interim Financial Report

16 TRADE AND OTHER RECEIVABLES

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Trade receivables (Note (a))	30,884	36,952
Less: allowance for doubtful debts (Note (b))	(10,135)	(10,135)
	20,749	26,817
Other receivables (Note (c))	116,623	125,390
	137,372	152,207

Notes:

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. Respective ageing analysis is as follows:

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Neither past due nor impaired	10,370	18,623
Less than 12 months past due	7,739	8,194
More than 12 months past due	2,640	—
	20,749	26,817

(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.

As at 30 June 2015, an allowance for doubtful debts amounts to USD10,135,000 (31 December 2014: USD10,135,000) which was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date. Receivables that were past due but not impaired relate to a number of independent customers that have good track record with the Group, or had reached payment schedules with the Group before the authorised issue of this interim financial report. Therefore, management anticipates full recovery of its remaining outstanding trade receivables; therefore, no further loss provisions have been recorded in respect of the Group's trade receivables.

Notes to the Unaudited Interim Financial Report

16 TRADE AND OTHER RECEIVABLES (Continued)

(c) Other receivables

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Amounts due from related parties (Note (i))	469	607
Prepayments and deposits (Note (ii))	25,017	31,448
VAT and other tax receivables (Note (iii))	45,430	35,786
Amounts due from the GoM in relation to the termination of the Concession Agreement (Note (iv))	42,871	44,408
Others	2,836	13,141
	116,623	125,390

Notes:

- (i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 25(a)).
- (ii) At 30 June 2015, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.
- (iii) Value added tax ("VAT") and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Tax Authority of Mongolia. Based on current available information the Group anticipates full recoverability of such amounts.
- (iv) It represented the compensation amount receivable from the GoM upon the termination of a Build-Operate-Transfer Concession Agreement (the "**Concession Agreement**") relating to the railway base infrastructure between UHG coking coal mine and GS border check point of Mongolia (the "**UHG-GS Railway**"), after taking into account of liabilities assumed by the GoM. The Group is negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.

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

Notes to the Unaudited Interim Financial Report

17 CASH AT BANK AND IN HAND

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Cash in hand	32	48
Cash at bank	69,881	252,808
Cash at bank and in hand	69,913	252,856
Less: time deposits with original maturity over three months	(60,000)	(50,000)
Cash and cash equivalents in the condensed consolidated cash flow statement	9,913	202,856

As at 30 June 2015, certain of the Group's borrowings were secured by the Group's cash at bank of USD6,768,000 (31 December 2014: USD7,297,000) (see Note 18).

18 BORROWINGS

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

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Bank loan		
– secured	170,727	241,636
– unsecured	40,000	40,000
Less: Current portion of long-term borrowings		
less amortised transaction costs	(172,824)	(114,818)
Less: Unamortised transaction costs	(3,513)	(4,840)
	34,390	161,978

As at 30 June 2015, 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 USD46,364,000 (31 December 2014: USD81,818,000), USD9,818,000 (31 December 2014: USD13,091,000) and USD6,545,000 (31 December 2014: USD8,727,000), respectively, bearing interest of 6 months LIBOR + 3.75%~4.25%, were secured by the Group's property, plant and equipment (see Note 11) and cash at bank (see Note 17).

Notes to the Unaudited Interim Financial Report

18 BORROWINGS (Continued)

(a) (Continued)

As at 30 June 2015, the Group's long-term interest-bearing borrowings from BNP Paribas, Singapore Branch and Industrial and Commercial Bank of China Limited ("BNP and ICBC Facility") of USD108,000,000 (31 December 2014: USD138,000,000), bearing interest of LIBOR + 6.00%, were secured by the Group's cash at bank (see Note 17) and inventory (see Note 15). The attributable transaction cost amounts to USD3,110,000. 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, the BNP and ICBC Facility, with the international banks as arrangers and original lenders. The BNP and ICBC Facility relates to the provision of a coal pre-export loan facility of USD150,000,000 bearing interest of LIBOR + 6.00%.

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

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Within 1 year or on demand	173,227	114,818
After 1 year but within 2 years	37,500	166,818
	210,727	281,636

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

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Bank loans		
– Unsecured	10,000	–
Current portion of long-term borrowings (bank loans)	173,227	114,818
Less: Amortised transaction costs	(403)	–
	182,824	114,818

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 10.0% 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.

Certain bank loans of the Group are subject to the fulfillment 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 six months ended 30 June 2015, the Group negotiated with the banks and was granted with waivers from the banks. According to the waivers, the Group did not breach any financial covenants in respect of loans during the six months ended 30 June 2015.

Notes to the Unaudited Interim Financial Report

19 TRADE AND OTHER PAYABLES

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Trade payables (Note (i))	103,330	125,217
Receipts in advance (Note (ii))	24,180	16,866
Amounts due to related parties (Note (iii))	10,621	8,102
Payables for purchase of equipment	5,185	4,858
Security deposit on construction work	2,899	1,340
Interest payable	16,002	18,081
Other taxes payables	13,235	20,782
Promissory notes (Note (iv))	69,403	66,601
Others (Note (v))	22,545	36,271
	267,400	298,118

Notes:

- (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 payables for equipment, construction work and services provided, which are unsecured, interest-free and have no fixed terms of repayments (see Note 25(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. 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. On 30 June 2015, the maturity date of two promissory notes was further extended to 30 September 2015, with a rate of 8.0% per annum to the maturity date.
- (v) Others represent accrued expenses, payables for staff related costs and other deposits.

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

Notes to the Unaudited Interim Financial Report

20 SENIOR NOTES

	USD'000
At 1 January 2014	594,329
Interest charged during the year	54,827
Interest payable	(53,250)
At 31 December 2014	595,906
At 1 January 2015	595,906
Interest charged during the period (Note 7(a))	27,242
Interest payable	(26,625)
At 30 June 2015	596,523

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.a.r.l. owned by Mongolian Coal Corporation Limited. The senior notes are guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.a.r.l., Energy Resources Corporation LLC, Energy Resources LLC, 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.

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 were charged to the profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 30 June 2015 was nil (31 December 2014: nil) which was presented as derivative financial instruments.

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account of 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.

21 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, to invite 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.

21 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(Continued)

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 12 October 2020.

(i) 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
10 June 2015	38,688	10 June 2015	10 June 2015 to 10 June 2020
10 June 2015	38,688	10 June 2015 to 10 June 2016	10 June 2015 to 10 June 2020
10 June 2015	38,687	10 June 2015 to 10 June 2017	10 June 2015 to 10 June 2020
10 June 2015	38,687	10 June 2015 to 10 June 2018	10 June 2015 to 10 June 2020
Total share options	212,700		

Notes to the Unaudited Interim Financial Report

21 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(Continued)

(ii) The movement of the number and weighted average exercise prices of share options are as follows:

	2015		2014	
	Weighted average exercise Price HKD	Number of options '000	Weighted average exercise Price HKD	Number of options '000
Outstanding at 1 January (Note(ii))	3.69	70,735	5.42	50,113
Granted during the period/year	0.45	154,750	—	—
Forfeited during the period/year	4.53	(55)	5.30	(2,013)
Outstanding at 30 June/31 December	1.46	225,430	5.42	48,100
Exercisable at 30 June/31 December	2.33	85,803	5.69	32,038

Note:

- (i) As a result of the rights issue completed on 29 December 2014, adjustments were 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.

21 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(Continued)

(ii) The movement of the number and weighted average exercise prices of share options are as follows:
(Continued)

(i) (Continued)

A total of 48,100,000 Options were 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 were adjusted pursuant to Clause 11 of the Share Option Scheme (the “**Option Adjustments**”), 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, as follows:

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 12 October 2020 28 November 2014 to 12 October 2020 28 November 2015 to 12 October 2020	3.92	21,750,000	2.67	31,985,294	8 additional Shares for every 17 Shares subject to Options

The options outstanding at 30 June 2015 had an exercise price of HKD4.53 or HKD2.67 or HKD0.445 (2014: HKD6.66 or HKD3.92) per share and a weighted average remaining contractual life of 4.9 years (2014: 5.8 years).

21 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(Continued)

(iii) 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

	10 June 2015	28 November 2012	12 October 2011
Fair value at measurement date	HKD0.160 ~HKD0.220	HKD1.8155 ~ HKD2.0303	HKD3.3793 ~ HKD3.7663
Share price	HKD0.445	HKD3.92	HKD6.66
Exercise price	HKD0.445	HKD3.92	HKD6.66
Expected life	5 years	4.5-5.5 years	4.5-6 years
Risk-free interest rate	1.19%	0.249%~0.298%	0.755%~1.054%
Expected volatility	60%	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 the Unaudited Interim Financial Report

22 PROVISIONS

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Accrued reclamation obligations	14,305	12,995
Others	1,500	1,500
	15,805	14,495
Less: Current portion	(1,500)	(1,500)
	14,305	12,995

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 balance sheet date, 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 30 June 2015 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:

	2015 USD'000	2014 USD'000
At 1 January	12,995	10,118
Adjustment of estimations	1,333	3,467
Accretion expense (Note 7(a))	431	808
Exchange adjustments	(454)	(1,398)
At 30 June/31 December	14,305	12,995

Notes to the Unaudited Interim Financial Report

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board of Directors of the Company does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

(b) Share capital

Authorised:

	At 30 June 2015		At 31 December 2014	
	No. of shares '000	USD'000	No. of shares '000	USD'000
Ordinary shares	15,000,000	150,000	15,000,000	150,000

Ordinary shares, issued and fully paid:

	At 30 June 2015		At 31 December 2014	
	No. of shares '000	USD'000	No. of shares '000	USD'000
Ordinary shares	9,262,591	92,626	9,262,591	92,626

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.

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, ranking pari passu 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 period/year ended 30 June 2015 and 31 December 2014.

23 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) 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.

(iii) *Exchange reserve*

The exchange reserve comprises foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's operations to the Group's presentation currency.

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) *Fair value hierarchy*

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: valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
- Level 2: valuation is based on inputs (other than quoted prices included within Level 1) that are observable for the financial asset or liability, either directly or indirectly.
- Level 3: valuations is based on unobservable inputs.

Notes to the Unaudited Interim Financial Report

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

At the end of the reporting period, financial assets or liabilities measured at fair value (on a recurring or non-recurring basis) in the consolidated statement of financial position are as follows.

	Fair value measurements as at 30 June 2015 using			
	Fair value at 30 June 2015 USD'000	Quoted prices in active market for identical assets (Level 1) USD'000	Significant other observable inputs (Level 2) USD'000	Significant unobservable inputs (Level 3) USD'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instruments:				
– Redemption option embedded in senior notes	–	–	–	–
Fair value measurements as at 31 December 2014 using				
	Fair value at 31 December 2014 USD'000	Quoted prices in active market for identical assets (Level 1) USD'000	Significant other observable inputs (Level 2) USD'000	Significant unobservable inputs (Level 3) USD'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instruments:				
– Redemption option embedded in senior notes	–	–	–	–

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

There have been none transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the six months ended 30 June 2015 (six months ended 30 June 2014: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Expected volatility
Redemption option embedded in senior notes	Binomial model	Expected volatility	57%

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 30 June 2015, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have no impact on the Group's loss.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Redemption option embedded in senior notes:		
At 1 January	—	700
Changes in fair value recognised in profit or loss during the period	—	(700)
At 30 June/31 December	—	—

The changes in fair value arising from the remeasurement of the redemption option embedded in senior notes are presented in "finance cost/income" in the consolidated statement of comprehensive income.

Notes to the Unaudited Interim Financial Report

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(b) Fair value of financial assets and liabilities carried at other than fair value

Other than derivative financial instruments mentioned above, all other financial assets and liabilities of the Group are initially recognised at the fair value of consideration paid or received and subsequently carried at amortised costs or fair value. Such financial assets and liabilities are presented by class in the tables below at their carrying amounts, which generally approximate to the fair values.

	30 June 2015			31 December 2014		
	Loans, receivables and payables USD'000	Other financial assets and liabilities at amortised costs USD'000	Total USD'000	Loans, receivables and payables USD'000	Other financial assets and liabilities at amortised costs USD'000	Total USD'000
Cash and cash equivalents (note (i))	69,913	—	69,913	252,856	—	252,856
Trade and other receivables (note (ii))	137,372	—	137,372	152,207	—	152,207
Trade and other payables (note (ii))	(267,400)	—	(267,400)	(298,118)	—	(298,118)
Borrowings (note (i))	(217,214)	(596,523)	(813,737)	(276,796)	(595,906)	(872,702)
Total	(277,329)	(596,523)	(873,852)	(169,851)	(595,906)	(765,757)

Note:

(i) In respect of cash and cash equivalents, 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 30 June 2015. 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.

(ii) The carrying amounts of trade and other receivables and trade and other payables are a reasonable approximation of their fair values.

25 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 six months ended 30 June 2015. During the six months ended 30 June 2015, 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 International LLC (“ MCS International ”)	Subsidiary of MCS Mongolia
M Armor LLC (previously MCS Armor LLC)	Subsidiary of MCS Mongolia

Particulars of significant transactions between the Group and the above related parties during the six months ended 30 June 2015 are as follows:

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Ancillary services (Note (i))	9,795	9,583
Lease of property, plant and equipment (Note (ii))	—	35
Purchase of equipment and construction work (Note (iii))	—	1,503
Finance leases of equipment (Note (iv))	—	14

Note:

- (i) Ancillary services represent expenditures for support services such as power and heat generation, management fee paid to MCS International, cleaning and canteen expense paid to Uniservice Solution. The service charges are based on comparable or prevailing market rates, where applicable.
- (ii) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from Shangri-La Ulaanbaatar LLC, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.
- (iii) Purchase of equipment and construction work represents expenditure relating to equipment and construction service provided by MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.
- (iv) Finance leases of equipment represent expenditure relating to the lease of equipment from MCS and its affiliates through finance lease. The rental charges are based on comparable or prevailing market rates, where applicable.

Notes to the Unaudited Interim Financial Report

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

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.

Amounts due from/(to) related parties

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Other receivables (Note 16)	469	607
Other accruals and payables (Note 19)	(10,621)	(8,102)

(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.

	Six months ended 30 June	
	2015 USD'000	2014 USD'000
Salaries and other emoluments	812	1,076
Discretionary bonus	1,064	236
Retirement scheme contributions	120	82
Equity-settled share-based payment expenses	964	1,472
	2,960	2,866

Total remuneration is included in "staff cost" (see Note 7(b)).

26 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the interim financial report were as follows:

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Contracted for		
– property, plant and equipment	650	560

(b) Operating lease commitments

(i) At 30 June 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2015 USD'000	At 31 December 2014 USD'000
Within 1 year	2,284	1,604
After 1 year but within 5 years	–	121
	2,284	1,725

(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 22 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.

27 MAJOR NON-CASH TRANSACTIONS

According to the relevant tax regulations in Mongolia, the income tax payable and payables to suppliers can be offset by the VAT receivables. During the six months ended 30 June 2015, the Group offset the VAT receivables of USD1,024,000 (six months ended 30 June 2014: USD6,200,000), nil (six months ended 30 June 2014: USD3,813,000), nil (six months ended 30 June 2014: USD1,653,000) and nil (six months ended 30 June 2014: USD18,539,000) with royalty tax payable, income tax payable, air pollution fee and payables to suppliers, respectively.

During the six months ended 30 June 2015, according to the agreement with Leighton LLC, the Group offset prepayment of maintenance due from Leighton LLC of USD10,000,000 (six months ended 30 June 2014: nil) with trade payables due to Leighton LLC.

Glossary and Technical Terms

“Adoption date”	13 October 2010, the date the Share Option Scheme became unconditional and effective
“AGM”	Annual general meeting
“ALS”	ALS Group
“ASP”	Average selling price
“Baogang Group”	Baotou Iron and Steel Co., Ltd.
“bcm”	Bank cubic metres
“BHWE”	Base Horizon of Weathering Elevation
“BN”	Baruun Naran
“BN deposit”	BN coal deposit located in the Tavan Tolgoi 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
“C&F”	Cost-and-Freight
“CCR”	China Coal Resource
“CG Code”	The Corporate Governance Code
“CHPP”	Coal handling and preparation plant
“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”, “we”, “us”, “our”, or “Mongolian Mining Corporation”	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010
“DAP”	Delivery-at-Place

Glossary and Technical Terms

“Director(s)”	Director(s) of the Company
“ER”	Energy Resources LLC
“Euro”	Euro, the currency unit of the European Monetary Union
“Fexos”	Fexos Limited
“FOB”	Free-on-Board
“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
“Group”, “our Group”	The Company together with its subsidiaries
“HCC”	Hard coking coal
“HKD”	Hong Kong Dollar
“IASs”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRSs”	International Financial Reporting Standards
“IMC”	International Medical Centre LLC
“JORC”	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia

Glossary and Technical Terms

“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
“kt”	Kilotonnes
“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
“LTI”	Lost Time Injury
“m”	Metres
“Mbcm”	Million bank cubic metres
“MBGS”	McElroy Bryan Geological Services Pty Ltd.
“middlings”	Washed thermal coal
“Minerals Law”	Law on Minerals of Mongolia
“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

Glossary and Technical Terms

“MNS”	Mongolian National Standard
“MNT”	Togrog or tugrik, the lawful currency of Mongolia
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers
“MRAM”	Mineral Resources Authority of Mongolia
“Mt”	Million tonnes
“Offer Date”	12 October 2011, 28 November 2012 and 10 June 2015, the dates of offer of a total of 37,500,000, 22,750,000 and 154,750,000 Share Options, respectively, to its Director and certain employees under the Share Option Scheme adopted by the Company
“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
“Polaris”	Polaris Seismic International Ltd
“PRC”	the People’s Republic of China
“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
“RMB”	Renminbi

Glossary and Technical Terms

“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)
“RPM”	RungePincockMinarco Limited
“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” or “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
“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
“Tsogttsetsii”	Tsogttsetsii soum is the location where Tavan Tolgoi sits
“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
“USA”	United States of America
“USD”	United States Dollar
“VAT”	Value added tax
“Velseis”	Velseis Processing Pty Ltd
“washed coal”	Coals that have been washed and processed to reduce its ash content
“WSA”	World Steel Association

Appendix I

Technical details of the BN Coal Resource estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' are detailed in Sections 1, 2 and 3.

JORC (2012) TABLE 1

Section 1: Sampling Techniques and Data

Criteria	Commentary
Sampling techniques	<p>Nature and quality of sampling.</p> <ul style="list-style-type: none">• Coal quality samples were collected from HQ-3 and some PQ-3 sized diamond core. Coal samples once collected were stored in refrigerated containers until required for analysis.• Each coal ply was logged for brightness and sampled separately in intervals of ≤ 2 metres ("m"). Stone bands ≤ 2 centimetres ("cm") were sampled with the coal, but stone bands larger than this were sampled separately. Stone bands > 50 cm 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 30 cm 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 cm, 2 cm or 5 cm 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. <p>Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used.</p> <ul style="list-style-type: none">• For cored boreholes, coal plies were fully cored and sampled.• Two calibration boreholes (G02251 and R00020) were setup at UHG coal mine to regularly test all logging tools as they came onto the site and at regular periods whilst onsite.• A central logging facility was designed at BN coal mine 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 by Mr. Ballantine, Executive General Manager for Exploration and Geology, as internal auditor.

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 for streak 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 ≤50 cm within or between plies were sampled separately.
- The core coal interval observations were confirmed with down-hole geophysics.

Drilling techniques Drill sample recovery

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 114-152 mm hammer until the water table then water circulated blade drilling.
- Core was mostly HQ-3 size (hole diameter 96.0 mm, core diameter 61.1 mm) with some PQ-3 size (hole diameter 122.6 mm, core diameter 83.0 mm).
- Core bits were diamond impregnated and surface set to maximise recovery and minimise shattering of core.
- Generally boreholes were drilled at an angle to optimally intercept the highly dipping coal seams and all had down-hole verticality Logs run.

Criteria

Commentary

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 re-drilled.

Measures taken to maximise sample recovery and ensure representative nature of the samples.

- Modern drilling equipment and trained coal drillers was 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 $\geq 95\%$ were re-drilled.
- Chip samples collected on a 1 m 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 $\geq 95\%$ 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.

Criteria	Commentary
Logging	<p>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.</p> <ul style="list-style-type: none"> All core was logged geologically and geotechnically and recorded in hard copy and electronic format to the Borehole Data Standard for the Australian Coal Industry (“CoalLog”) standard. <p>Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc.) photography.</p> <ul style="list-style-type: none"> Geological and geotechnical logging was qualitative with codes used to describe the different geological and geotechnical aspects of the core as per CoalLog standard. The depths chosen for geological intervals and geotechnical dislocations were quantitative. Borehole core was photographed in 4-5 m boxes (depending PQ-3 or HQ-3 core size) on a wet and dry basis which included the entire core. <p>The total length and percentage of the relevant intersections logged.</p> <ul style="list-style-type: none"> All coal plies were fully cored and logged to CoalLog standard. All logged coal cores were fully sampled including rock parting ≤ 50 cm.
Sub-sampling techniques and sample preparation	<p>If core, whether cut or sawn and whether quarter, half or all core taken.</p> <ul style="list-style-type: none"> The whole core was sampled for coal analysis. <p>If non-core, whether riffled, tube sampled, rotary split, etc. and whether sampled wet or dry.</p> <ul style="list-style-type: none"> Not applicable for coal. <p>For all sample types, the nature, quality and appropriateness of the sample preparation technique.</p> <ul style="list-style-type: none"> 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 in the splits. The boxes were wrapped securely in plastic for transport to the BN central logging facility. The core boxes were delivered (average distance 2 km) to the BN 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 Resources Mining Laboratory (“ERML”). This laboratory is located at the UHG mine site approximately 30 km from the BN central logging facility.

Criteria

Commentary

- At the BN central logging facility core boxes were placed in the dedicated photography area and photos taken. The core was laid out on specifically designed and built logging tables. The atmospheric environment inside the BN 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 ≥ 2 cm and ≤ 50 cm within or between plies were sampled separately. Roof and floor material of 30 cm 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 scribe 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. 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 (MNS ISO/IEC 17025:2007) standard in May 2012 and expires in July 2017.

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 (100 samples) and UUH (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 laboratory and generally higher than the UUH laboratory with varying degrees of reproducibility between laboratories.
- For work previously completed before 2009, it is unknown if a similar comparison exercise was done.

Criteria

Commentary

Quality of assay data and laboratory tests

Whether sample sizes are appropriate to the grain size of the material being sampled.

- Grain size is not applicable to coal sampling.

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 (“**TRD**”) (GB/T 217:2008), Total Moisture (“**TM**”) (MNS ISO 589:2003), Analytical Moisture (“**AM**”) (MNS ISO 331:2003), Ash (MNS ISO 1171:2009), Volatile Matter (“**VM**”) (MNS ISO 562:2001), Calorific Value (“**CV**”) (MNS ISO 1928:2009), Total Sulphur (“**TS**”) (ASTM D4239:05), Crucible Swelling Number (“**CSN**”) (MNS ISO 501:2003) and Caking Index (“**G Index**”) (MNS ISO 335:2005).
- The coal analyses are sufficient to determine a Resource.
- The laboratory under its certification did regular reproducibility and repeatability samples. Main protocol was that after every 10 samples duplicate tests were done (coal and non-coal samples). For every 30 samples, 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 at the UHG site to regularly test all downhole wire-line logging tools as they came onto the BN and THG sites and at regular periods whilst onsite.
- Gradient-array resistivity survey was undertaken by Geomaster LLC (“**Geomaster**”) in July 2005 with more than 13 km² along Baruun Naran valley. Monmap LLC (“**Monmap**”), surveyed grid lines. The program was extended in 2006 to extend the gradient-array survey over shallow Permian subcrop to the west of the Baruun Naran valley. This survey covered another 16 km². The results were high level and provided some guidance with understanding the deposit.

Criteria

Commentary

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 (MNS 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. No certificates were supplied by QGX Coal Ltd (“**QGX**”) for testing completed at the SGS or ACIRL laboratories.
- ERML prepared and analysed a number of samples from UHG exploration and submitted duplicates of these samples for analysis at the ALS Coal – Mongolia (“**ALS**”) laboratory (100 samples) and the Mining Institute (“**UUH**”) laboratory (615 samples). As the same lab and processes were used for BN and THG as for UHG the following comparison is valid. 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 laboratory and generally higher than the UUH laboratory with varying degrees of reproducibility between laboratories.

Verification of sampling and assaying

The verification of significant intersections by either independent or alternative company personnel.

- No verification could be made on the pre-QGX boreholes. However Norwest Corporation (“**Norwest**”) twinned a number of these boreholes with no major variation of information stated.
- The QGX boreholes 2005-2009 McElroy Bryan Geological Services (“**MBGS**”) and Norwest consultants were involved in the procedures and collection of this data. The data is verified through quality downhole geophysics, core photographs and paper logs.
- The MMC drilled boreholes are verified by highly trained geologists following international standards that are regularly reviewed by internal audit. By high quality downhole geophysics, seismic, core photographs, paper and digital logs.

The use of twinned holes.

- A number of pre QGX boreholes were twinned by the Norwest.
- MMC did not twin any QGX boreholes.

Criteria

Commentary

Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols.

- The pre-QGX (pre 2005) 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 QGX (2005-2009) primary data was in the form of scanned hard copy survey, drilling and geological logs, wireline geophysics as Log ASCII Standard ("**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 to the LogCheck data management software. The coal quality results were built into MMC's existing Excel spreadsheets for validation and uploaded into the LogCheck data management software.
- The primary data for MMC (2011-2015) 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 ("**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.

Criteria

Commentary

Discuss any adjustment to assay data.

- A number of corrections were made to borehole and sample numbers to the BN coal quality database. No corrections were made to the THG coal quality database.
- It was identified that as-received and air-dried moisture from QGX exploration analytical results was significantly higher than MMC's. Expected error was calculated which indicated the QGX data was highly variable and had a distinct population from the MMC data. Using the transformation 'xtran = mnew + sdnew * ((xold - mold)/sdold)', the QGX moisture data was adjusted and remaining QGX coal quality data adjusted to the transformed moisture. This transformation was adjusted for all QGX coal quality data across the BN and THG license areas.
- 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 cored 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 BN 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 TRD. 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 with internal resources using Trimble equipment.
- Drill hole collars were surveyed using a Trimble R8 GPS which has a static horizontal and vertical accuracy of ± 3 mm +0.1 ppm RMS, an RTK horizontal measurement of ± 3 mm +0.1 ppm RMS and an RTK vertical measurement ± 3.5 mm +0.4 ppm RMS.
- Downhole survey was used to control the borehole azimuth and angle. Any variance more than 5 degrees in azimuth and the borehole was re-drilled. Downhole surveys, done every 20 m or 50 m down the drill hole, were also used to locate the boreholes holes with depth.

Criteria

Commentary

Specification of the grid system used.

- The grid system coordinates are UTM Zone 48 North. The same system was used for all survey data.

Quality and adequacy of topographic control.

- For the BN and THG licenses the topographic survey was carried out with internal resources using Trimble R8 GPS which has a static horizontal and vertical accuracy of ± 3 mm +0.1 ppm RMS, an RTK horizontal measurement of ± 3 mm +0.1 ppm RMS and a RTK vertical measurement ± 3.5 mm +0.4 ppm RMS.
- A difference map comparing the grid based on borehole collars and the grid based on topography was compiled with most differences being less than 1.5 m, 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.

- Boreholes within the THG license are roughly spaced on a grid orthogonal to the strike on each limb, with drill lines approximately 500 m apart with boreholes 100 m to 150 m separation.
- Boreholes within the northern half of the BN license are roughly spaced on a grid orthogonal to the strike on each limb, with drill lines approximately 150 m apart with boreholes 50 m to 150 m separation. In the southern half of the license, boreholes are roughly spaced on a grid orthogonal to the strike on each limb, with drill lines approximately 300 m apart with boreholes 50 m to 150 m separation.

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 TRD. The only analytical composites made by the laboratory were for coke and caking tests.

Criteria

Orientation of data in relation to geological structure

Commentary

Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.

- The BN coal deposit is highly folded with variable ranging dips from flat to vertical so every borehole was planned as practical as possible to intercept the coal seams at angles normal to the coal dip. All boreholes were surveyed down the borehole and where deviation (mainly in the older boreholes) was large were not considered as points of observation. The MMC drilling had strict rules about borehole deviation which were implemented where borehole deviation of more than 5 degrees triggered requirement to re-drill.
- 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.

Sample security

The measures taken to ensure sample security.

- For pre-2005 bore cores for the BN deposit, 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 1.0-1.5 m, 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-weighted 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.'

Criteria

Commentary

- The bore cores for the BN coal deposit during 2005 were collected by Norwest and the coal sampling methods were documented in the Norwest core logging manual titled 'Baruun Naran Core Logging Manual, v.5, dated August 9, 2005' and in the October 2005 CAM Report. Designated rig geologists, trained by external consultants, were responsible for collecting these coal samples. Each core sample was bagged and sealed immediately after the coal had been geologically logged and photographed, to minimize coal moisture loss. The coal sampling approach used sometimes introduced substantial non-coal dilution by assuming that non-coal units <0.25 m thick, or any carbonaceous mudstone, could not be discerned or separated from coal during mining. Individual samples were labelled with the drill-hole number, sample number, and depth interval and were placed into cardboard core boxes. All boxes were labelled according to drill-hole number, box number, total sample interval, and sequence of sample numbers and then stored in a secure sample storage facility until ready for shipment.
- From 2006 to 2009 MBGS was commissioned to revise and update the sampling methodology. This sampling methodology is dependent upon:
 - (i) the reconciliation of geological core logs to geophysical logs prior to sampling (ensuring better allocation of core losses); and
 - (ii) the identification of plies from the geophysical logs. Once this has been done, all sampling is done conforming to these ply boundaries. Stone partings between plies are sampled separately, down to a thickness of a few centimetres. Decisions as to the compositing of plies and parting are made later once basic quality data are acquired on all samples across the seam with the goal of creating meaningful working-section composites for detailed analysis.

Criteria

Commentary

- From 2011 until present the MMC's Exploration and Geology team has followed procedures based upon the CoalLog system and the Australian Guidelines for the Estimation and Classification of Coal Resources. More specifically, 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 BN central logging facility at the end of each 10 hour shift. The BN central logging facility is location within the BN mine site. The mine site has 24 hour high level security. The coal core boxes are stored in secure refrigerated containers attached to the BN central logging facility until logging. After logging and sampling, the samples were returned to refrigeration until sent to the laboratory. The laboratory is located at the UHG mine approximately 30km from the BN central logging facility. The core was laid out on specifically designed and built logging tables. The atmospheric environment inside the BN 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.

Criteria

Audits or reviews

Commentary

The results of any audits or reviews of sampling techniques and data.

- Mr. Ballantine (Competent Person), for inclusion of the UHG JORC (2004) Resource report dated 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, and a coal geologist with at the time 18 years coal industry 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 and 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 and procedures that was present for the UHG JORC (2004) Resource report as at June 2012 has changed little so the independent peer review by Mr. Sercombe is still relevant.
- In addition, Mr. Ballantine still holds responsibility for budgeting, planning, training and overall oversight of exploration at UHG and Baruun Naran deposit (BN coal deposit). As part of the ongoing evolution of the MMC Exploration and 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.

Section 2: Reporting Exploration Results

Criteria	Commentary
Mineral tenement and land tenure status	<p>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.</p> <ul style="list-style-type: none"> • The BN coal deposit now consists of two mining licenses: <ul style="list-style-type: none"> – Baruun Naran Mining License 14493A covering 4486 hectares (“ha”), converted from an Exploration License on 01 December 2008; and – Tsaikhar Khudag Mining License MV-017336 covering 8340 ha, partially converted from Exploration License 4326X on 24 August 2013. • These licenses were granted under the Law on Minerals (1997), are valid for 30 years and can be extended twice more for 20 years each. <p>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.</p> <ul style="list-style-type: none"> • The licenses are 100% secure and owned by Khangad Exploration LLC.
Exploration done by other parties	<p>Acknowledgment and appraisal of exploration by other parties.</p> <ul style="list-style-type: none"> • The Tavan Tolgoi coal deposits, of which BN coal deposit is one, were discovered and exploited by the local people since the early 19th century. • During the Mongolian-Russian exploration work at the BN coal deposit in 1983, three shallow vertical boreholes (approximately 70 m each) were drilled. Six coal seams with apparent thicknesses of up to 4m were identified in this campaign. The resulting ‘prognostic resource’ calculations included values of 86 Mt and 10.9 Mt underlying an area of 19.2 km² (Khosbayar et al., 1983). • From 1983 to 1993, 21 vertical boreholes (depths range from 33-362m) with total 3,500 m depth were drilled across the BN coal deposit. Borehole spacing generally ranged from 250-500 m on five north-westerly trending exploration lines spaced approximately 3km. Downhole resistivity, caliper, gamma and density surveys were completed on 19 boreholes. 9 boreholes intersected significant coal thickness. Total 12 coal seams with apparent thickness of 1-30 m were identified with 4 of these seams reported metallurgical quality (Gankhuyag, 1990). • From April 2005 to end of 2009 QGX conducted detailed exploration where 524 cored and openhole boreholes were drilled over the BN and THG licenses. A total of 101,916 m of HQ-3 cored and 23,013 m of openhole was completed. • Exploration was sufficient for JORC (2004) Resource and Reserve estimations to be made by MBGS and SRK respectively in 2010.

Criteria

Geology

Commentary

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.

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 535 and 59 for BN and THG licenses respectively, 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, some 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.

Appendix I

Criteria

Commentary

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.

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.

Criteria

Other substantive exploration data

Commentary

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.
- Gradient-array resistivity survey was undertaken by Geomaster in July 2005 with more than 13 km along Baruun Naran valley. Monmap surveyed the grid lines. This program was extended in 2006 over shallow Permian subcrop to the west of the Baruun Naran valley. This survey covered another 16km². The results were high level and provided some guidance with understanding the deposit.
- Polaris Seismic International Ltd (“**Polaris**”) was awarded the contract to conduct 2D Land High Resolution Seismic Survey at BN in 2011. The 2D BN 2011 Seismic program recorded 39 dynamite lines totalling 74km using ‘Roll On and Roll Off’ methodology and 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.

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-2010, hard copy and scanned data was part of the data set supplied to MMC. 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 existed then these were checked against the coded data. Final checks were made using sections with wire-line geophysics to show seam consistency.
- For 2011-present 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 Comma Spaced Variable (“**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.

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 and Mr. Andrew Little (Executive General Manager of Technical Services) on 07 April 2011 as part of the due diligence process that MMC underwent for the purchase of the BN mine. The newly open T seam pit, offices, workshops, mine equipment and camp were inspected. All areas inspected were in alignment with the due diligence information supplied by QGX at the time.
- A technical visit was made by Nigel Godfrey of Roctec Pty Ltd on behalf of AMC Consultants during the period of 28 May 2012 to 10 June 2012. The purpose was to provide geotechnical overview.

Criteria

Commentary

- Mr. Ballantine, for inclusion in the UHG JORC (2004) Resource report dated 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 at the time 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 and 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 and procedures that was present for the UHG JORC (2004) Resource report as at June 2012 has changed little so the independent peer review by Mr. Sercombe is still relevant.
- In addition, Mr. Ballantine still holds responsibility for budgeting, planning, training and overall oversight of exploration at UHG and BN coal deposits. As part of the ongoing evolution of the MMC Exploration and 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 team's results and JORC standards.
- Collar survey is one task that requires a manual audit. Mr. Ballantine on his most recent visit to BN in mid-November 2014 audited the collar survey for boreholes drilled in the period 2011-2014 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.

Criteria

Geological interpretation

Commentary

Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit.

- Detailed mapping from the various campaigns from the 1940's.
- Gradient-array resistivity survey was undertaken by Geomaster in July 2005 with more than 13 km along Baruun Naran valley. Monmap surveyed the grid lines. This program was extended in 2006 over shallow Permian subcrop to the west of the Baruun Naran valley. This survey covered another 16 km². The results were high level and provided some guidance with understanding the deposit.
- The 2D High Resolution Seismic Survey recorded 39 lines totalling 73,510 m 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, which has now been backed up by drilling.
- The Limit of Oxidation ("**LOX**") 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 infill drilling of the recent MMC exploration program which confirmed and supported the 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.
- 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 proceed 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 6.5% and 13% respectfully.

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, resistivity 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. An exception to this was the moisture results for the QGX drilling data which demonstrated a distinct variance from the expected. Using the transformation ' $x_{tran} = m_{new} + s_{dnew} * ((x_{old} - m_{old})/s_{dold})$ ', the QGX moisture data was adjusted and remaining QGX coal quality data adjusted to the transformed moisture.

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 BN coal deposit coal measure was limited by surface outcrop of the seams which was the ultimate upper cut-off and limit.
- The seams for BN and THG are tightly folded about an asymmetrical syncline where the northern limb is very steep and borehole data indicates it progressively overturns toward the west, before the coal seams are no longer present. The southern limb has a gentler dip of about 40 degrees near the syncline nose (east) but progressively steepens to 75 degrees dip towards the west. The coal sequence is terminated on the north limb by a sharp fault and by a low angle thrust/shearing event on the southern limb.

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 for BN is oriented generally around a synclinal fold plunging to the southwest approximately 15 degrees and is some 7.5 km long and 1 km wide.
- The coal resource area for THG is oriented generally around a synclinal fold plunging to the northeast approximately 20 degrees and is some 2.5 m long and 1 km wide.
- BN Mining License (14493A) has a total area of 4486 ha.
- THG Mining License (MV-017336) has a total area of 8340 ha.
- Generally there is an average of 10 m of unconsolidated Quaternary sediments overlaying the Permian coal measures. The base of weathering is on average between 15 to 30 m.
- No Resource has been estimates outside of the Lease boundaries.

Criteria

Estimation and modelling techniques

Commentary

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 BN and THG Resource estimates were carried out using MICROMINE's COALMEASURE Version 15.0.4 and LogCheck Version 6.16 using the CoalLog geology data format as the database.
- The method used for Resource estimation at for BN and THG involved modelling an elevation grid for a commonly distributed ply 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 a commonly distributed ply 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 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 used Inverse Distance Weighting ("IDW") with the weighting inversely proportional to the squared distance. 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.

Criteria

Commentary

- In order to create a reliable model of the seam morphology a cell size of 10x10 m 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 the weighting inversely proportional to the squared distance 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 2,000 m with maximum of 20 points was used to create the elevation grids. The thickness grids were created using a circular search radius of 2,000 m with maximum of 20 points per sector.
- The base of weathering grid was produced using kriging with search radius of 5,000 m 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 the weighting inversely proportional to the squared distance. 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 Digital Terrain Model (“DTM”).
- The 3D gridded seam block model was generated by stacking thickness grids on top or below of the major ply elevation grid. The centroid of the block East and North was the X and Y values from the grid file which was 10x10 m (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.
- Measured resources were estimated with points of observation at 500 m, Indicated resources were estimated with points of observation at 1,000 m, and Inferred resources were estimated with points of observation at 2,000 m.

Criteria

Commentary

- 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 0.5 m to 400 m.
 - Maximum parting thickness to be included in the Resource of 0.5 m.
 - Coal Quality limit with Ash content greater than 50% (DRY basis) being excluded from the Resource estimate.
- Following seam coding, coal quality interpolation was carried out. Only intervals that were marked as a point of observation were used for coal quality interpolation. IDW with the weighting inversely proportional to the squared distance was used to interpolate the coal quality into the empty block model. Coal quality interpolation was conducted for each ply separately. One search run at 7,000 m radius was used to interpolate all the blocks in each model. Filters were applied to make sure that only points of observation for the selected ply were used for the interpolation of the blocks for that ply.
- Partings within the model limits but without coal quality were given default coal quality parameters based on rock quality analyses.

The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data.

- MBGS completed a JORC (2004) Coal Resource estimate for BN in June 2012 and THG in May 2013. This updated JORC (2012) Coal Resource estimation indicates a 17% and 31% increase in the total as-received quantities, excluding mine depletion.
- The BN mine has produced 2 Mt since October 2010 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.

Criteria

Commentary

The assumptions made regarding recovery of by-products.

- Coal mined from the BN deposit is typically used in blend with coal mined from the UHG deposit. Depending on which seam is being washed, and what blends are being scheduled, three main products are produced. A medium volatile hard coking product, a high volatile semi-soft coking product and a high-ash thermal coal (middling) by-product.

Estimation of deleterious elements or other non-grade variables of economic significance (e.g. sulphur for acid mine drainage characterisation).

- No work to the knowledge of the Competent Person has been completed for BN or THG licenses.

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 10x10 m 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 the weighting inversely proportional to the squared distance 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 2,000 m with maximum of 20 points was used to create the elevation grids. The thickness grids were created using a circular search radius of 2,000 m 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 elevation grid. The centroid of the block East and North was the X and Y values from the grid file which was 10x10 m (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.

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.

Criteria

Commentary

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.
- Gradient-array resistivity survey was undertaken by Geomaster in July 2005 with more than 13 km along Baruun Naran valley. Monmap surveyed the grid lines. This program was extended in 2006 over shallow Permian subcrop to the west of the Baruun Naran valley. This survey covered another 16 km². The results were high level and provided some guidance with understanding the deposit.
- The 'limit of oxidation' was determined by close spaced drilling and confirmed by mapping and sampling from mine geology team.

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.
- The model was reconciled against the mined area and is closely aligned.

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 AM (MNS ISO 331:2003). TM was assumed to equal in-situ moisture and the Preston Sanders formula was used to convert air-dry TRD to as-received (in-situ) TRD.
- 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 0.5 m to 400 m depth. No resources were estimated below 400 m as this is considered to be underground and at this stage due to the complexity of the deposit no underground resources are being considered.
- Maximum parting thickness to be included in the Resource of 0.5 m.
- 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 BN mine has produced 2 Mt since October 2010 through 'truck and excavator' style mining operation. 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 coal mined from the BN deposit typically is used for blending with coal mined from the UHG deposit. Depending on which seam is being washed, and what blends are being scheduled, three main products are produced: a medium volatile hard coking product, high volatile semi-soft coking product and high ash thermal coal (middling) by-product.
- The Resource estimate for this report has had no assumptions made on the estimate for beneficiation.

Criteria	Commentary
Environmental factors or assumptions	<p>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.</p> <ul style="list-style-type: none"> • All environmental issues are managed by the Company’s environmental department which has operated since the start of mining. • In addition, under the BN and THG mining licences and THG exploration license, 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	<p>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.</p> <ul style="list-style-type: none"> • TRD was analysed for 9,996 samples, or 88% of all samples (GB/T 217:2008). The missing TRD data was calculated using the regression on a seam group basis of TRD v Ash for air dried and as-received samples. • An industry standard method for estimating in situ TRD was applied using the Preston Sanders formula was used to convert air-dry TRD to as-received (in-situ) TRD. <p>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.</p> <ul style="list-style-type: none"> • An industry standard method for estimating in situ TRD was applied using the Preston Sanders formula was used to convert air-dry TRD to as-received (in-situ) TRD. <p>Discuss assumptions for bulk density estimates used in the evaluation process of the different materials.</p> <ul style="list-style-type: none"> • Partings within the model limits but without coal quality were given default coal quality parameters based on rock quality analyses.

Criteria

Classification

Commentary

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 Guidelines for the Estimation and Classification of Coal Resources (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 2005 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.
- The QGX era 2005-2009 was completed by Norwest and MBGS.
- Since 2011, the MMC Exploration and Geology team, highly trained to international and Australian standards, has controlled all ongoing exploration. This with the addition of 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.

Criteria

Audits or reviews

Commentary

The results of any audits or reviews of Mineral Resource estimates.

- Mr. Ballantine, for inclusion in the UHG JORC (2004) Resource report dated 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 at the time 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 and 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 and procedures that was present for the UHG JORC (2004) Resource report as at June 2012 has changed little so the independent peer review by Mr. Sercombe is still relevant.
- In addition, Mr. Ballantine still holds the position of Executive General Manager, Exploration and Geology and has responsibility for budgeting, planning, training and overall oversight of exploration at UHG and BN coal deposit. As part of the ongoing evolution of the MMC Exploration and 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.

Criteria

Discussion of relative accuracy/confidence

Commentary

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 of 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 estimates 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 BN mine has produced 2 Mt since October 2010, 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 than ideal 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.