MONGOLIAN MINING CORPORATION

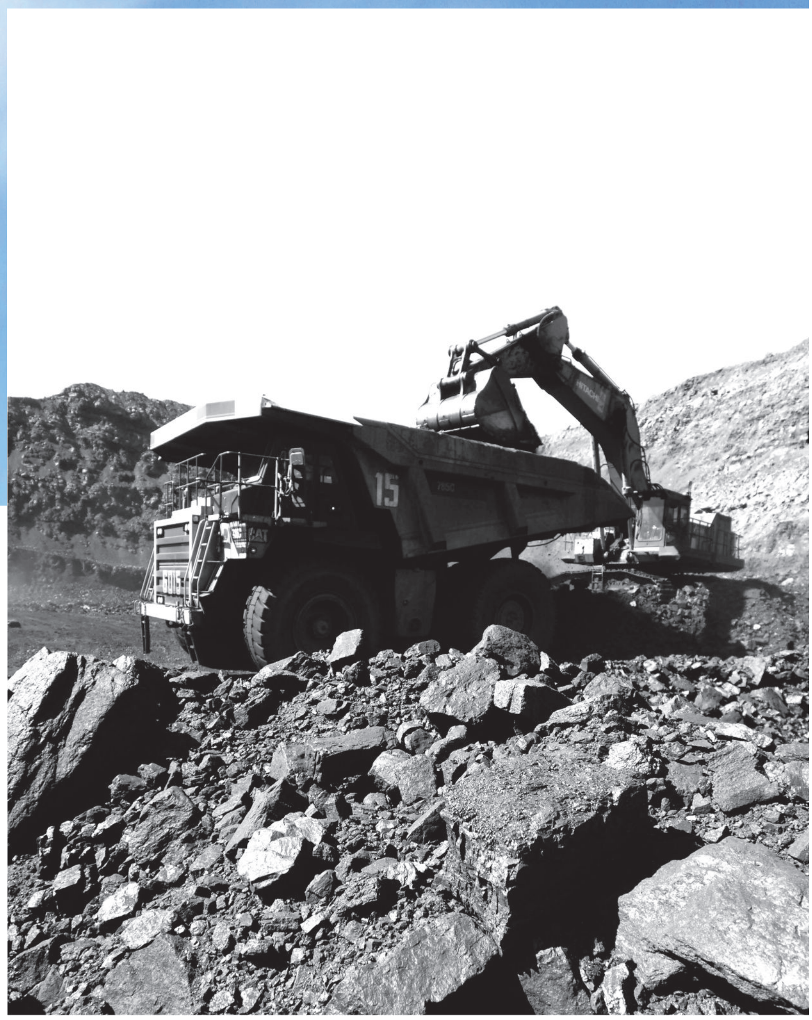
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 975

Annual Report 2015

Contents

Company Profile

Mongolian Mining Corporation ("**MMC**" or the "**Company**" and together with its subsidiaries, the "**Group**") (Stock Code: 975) is the largest producer and exporter of washed hard coking coal ("**HCC**") in Mongolia. MMC owns and operates the Ukhaa Khudag ("**UHG**") and the Baruun Naran ("**BN**") open-pit coking coal mines, both located in the Umnugobi aimag (South Gobi province), Mongolia.



Company Profile

MISSION, VISION AND VALUES

Our mission:

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

Our vision:

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

Our values and objectives:

We recognise that people are our key asset. Therefore:
- MMC 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 on the environment
- MMC complies with all required environmental standards, and takes 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
Od Jambaljamts
Gankhuyag Adilbish

Independent Non-Executive Directors

Khashchuluun Chuluundorj
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

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

Corporate Information

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Directors and Senior Management

BOARD OF DIRECTORS (THE "BOARD")

Odjargal Jambaljamts, aged 50, is an executive Director and Chairman of the Board. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is also the Chairman of the Nomination Committee and member of the Remuneration Committee. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC (a controlling shareholder of the Company, and together with its subsidiaries, the "**MCS Group**"). Mr. Jambaljamts has been a director of Starain Limited since January 2011, director of Novel International Investment Limited and director of Novel Holdings Group Limited, a controlling shareholder of the Company, since March 2012. He was appointed as a director of MCS (Mongolia) Limited, MCS Mining Group Limited and MCS Global Limited since July 2012, all of which are controlling shareholders of the Company. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at the Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

Battsengel Gotov, aged 43, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. He joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. Since 2004, Dr. Gotov has served at various managerial positions in the MCS Group. He was appointed as the Chief Executive Officer of Khangad Exploration LLC on 7 December 2012. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation, and stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov is a board member of the Mongolian National Mining Association. He was appointed as a member of the Mineral Resources Policy Council on 7 October 2014. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

Directors and Senior Management

Oyungerel Janchiv, aged 61, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. Between 1979 and 1982, Dr. Janchiv served as a petroleum economist at the Oil Supply Management Authority. From 1982 to 1990, she served as an engineer and a chief economist at the Oil Supply Management Authority. From 1990 to 1996, she was the chief executive officer of the board of directors of the Neft Import Concern and was responsible for managing the importation and distribution of petroleum products. From 1996 to 2008, she was the chief executive officer of Petrovis LLC. Since 2008, Dr. Janchiv has been the chairperson of Petrovis LLC, the largest petroleum import and distribution company in Mongolia. She is also the largest shareholder of Petrovis Matad Inc. which is the largest shareholder of Petro Matad Limited which is listed on the Alternative Investment Market of the London Stock Exchange. Since September 2012, Dr. Janchiv has been the deputy chair of Petro Matad Limited and she was appointed as the acting chairperson of Petro Matad Limited in November 2014 and non-executive director of the board of Petro Matad Limited in August 2015. Dr. Janchiv was awarded a diploma of engineer-economist for the petroleum and gas industry and a PhD by the Gubkin State University of Oil and Gas in Moscow, Russia.

Od Jambaljamts, aged 51, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Corporate Governance Committee. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within the MCS Group. He was appointed as the president of Ulaanbaatar Chamber of Commerce in March 2015. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in a diversity of fields. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts is also a director of MCS (Mongolia) Limited, MCS Mining Group Limited and MCS Global Limited since July 2012 and director of Trimunkh Limited since July 2011, all of which are controlling shareholders of the Company. Mr. Jambaljamts was awarded a bachelor's degree in International Relations by the Institute for International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

Directors and Senior Management

Gankhuyag Adilbish, aged 38, is a non-executive Director of the Company. Mr. Adilbish was appointed as a non-executive Director of the Company on 13 October 2014. He is also a member of the Audit Committee. Mr. Adilbish joined the MCS Group in 1999 as a financial analyst of MCS International LLC, the former holding company of MCS Holding LLC, a controlling shareholder of the Company and was subsequently appointed as the deputy managing director of MCS Electronics LLC, a then subsidiary of MCS Holding LLC in 2000. Mr. Adilbish became the vice president and chief financial officer of MCS Holding LLC in 2005 and was appointed as the managing director of MCS Holding LLC from 2009 to September 2015. In 2011, Mr. Adilbish was appointed as a director of MCS (Mongolia) Limited and MCS Mining Group Limited, both of which are controlling shareholders of the Company. He also sits on the board of directors of a number of other subsidiaries of MCS Holding LLC and its joint venture companies. In addition, Mr. Adilbish has been the Chief Financial Officer of the Company between 2010 and 2011. Mr. Adilbish is the director of Tugs Investment Limited. He was awarded a bachelor's degree in Finance and Economics by the National University of Mongolia in 1999.

Directors and Senior Management

Khashchuluun Chuluundorj, aged 49, is an independent non-executive Director of the Company. Dr. Khashchuluun was appointed as an independent non-executive Director on 8 January 2016. He is the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Dr. Khashchuluun is a professor at the Department of Economics, a member of the Academic Council and the board of directors of the National University of Mongolia. He serves as an executive director of the Mongolia Oil Shale Association and is engaged in managing a number of non-governmental organizations and research consulting activities. Since 2015, Dr. Khashchuluun has been serving as a member of the working group on Long-term Development Strategy for Mongolia 2016-2030 and a member of the board of directors of Ulaanbaatar City Development Corporation. Dr. Khashchuluun was elected to the board of the National University of Mongolia in 2014 and served as a visiting professor at the Russian University of Economics, Russia in 2015. He joined the National University of Mongolia as a lecturer of Political Economy in 1989. He was a member of the National Committee for Millennium Challenge Account Mongolia from 2005 to 2007, a member of the Committee of Long-term Development Plan of Mongolia in 2006, a selected Eisenhower Fellowships Fellow from Mongolia in 2007, a member of board of Open Society Forum in 2008 and a member of the board of directors of Erdenes MGL LLC, a state owned enterprise for strategic mining deposits from 2011 to 2012. From 2009 to 2012, Dr. Khashchuluun worked as the chairman of National Development and Innovation Committee of Mongolia, a government agency in charge of national development strategy and investment policy. From 2010 to 2011, he was appointed as the inaugural chairman of the board of directors to lead the establishment of Development Bank of Mongolia, and from 2006 to 2012, he was a member of the board of directors of the Central Bank of Mongolia. From 2004 to 2009, Dr. Khashchuluun worked as a Dean of the School of Economic Studies of the National University of Mongolia, the largest national school of economics and business administration in Mongolia. He also served as a member of the President's Economic Advisory Council from 2006 to 2008 and a member of the Policy Council of the Ministry of Trade and Industry from 2005 to 2007. Dr. Khashchuluun managed government efforts on the introduction of private-public partnership concept and adoption of the Law on Concession, Law on Innovation and Law on Economic Development Planning, and revision of Law on Budget to adopt development policies, introduction of Regional Development index for fiscal transfers, private sector support policies. Dr. Khashchuluun was awarded a bachelor's degree in economics by the Moscow State University, Moscow, Russia in 1989, a master's degree in economics from the Graduate School of Economics, Yokohama City University, Yokohama, Japan in 1996 and a PhD in international economics by the Graduate School of Economics, Keio University, Tokyo, Japan in 2003.

Directors and Senior Management

Unenbat Jigjid, aged 53, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Corporate Governance Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. During the period from 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. Mr. Jigjid was a director of Resources Investment Capital from October 2010 to November 2013. Mr. Jigjid has been an executive director of the Corporate Governance Development Center in Mongolia since 2009 and was appointed as the Head of the Center on 30 March 2015. He is also a member of the supervisory board of the Bank of Mongolia and the board of Micro Finance Development Fund. From October 2010, Mr. Jigjid serves as a director of Golomt Bank. He has been the board member of Open Society Forum in Mongolia since March 2011. On 26 April 2013, Mr. Jigjid was appointed as an independent non-executive director of APU Company, a company listed on the Mongolian Stock Exchange. On 30 April 2015, Mr. Jigjid was appointed as a non-executive director of Mongolia Telecom JSC, a company listed on the Mongolian Stock Exchange and on 6 November 2015, he was appointed as the executive director and secretary general of the Mongolian Bankers Association. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

Directors and Senior Management

Chan Tze Ching, Ignatius, aged 59, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and member of the Corporate Governance Committee. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan was appointed as a member of the board of directors of the Community Chest of Hong Kong in September 1999. From 28 November 2012 to 20 June 2014, Mr. Chan was appointed as an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**" or "**Stock Exchange**"). Mr. Chan was appointed as a member of the Sponsorship and Development Fund of The Open University of Hong Kong in March 2011. He was appointed as the deputy chief executive of the Bank of China (Hong Kong) Limited in 2008, senior advisor of The Bank of East Asia Limited in March 2009, member of the Council of Hong Kong Red Cross in April 2010, senior advisor of CVC Capital Partners Limited in November 2010, member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission in October 2012, member of the Hong Kong Tourism Board in April 2013, Deputy Chairman of the Council of the Hong Kong Polytechnic University in April 2014 and was further appointed as Chairman of the council on 1 January 2016. Mr. Chan was appointed as Board Adviser of Hong Kong New Territories General Chamber of Commerce on 28 May 2013. He is also an Honorary Advisory Vice President of The Hong Kong Institute of Bankers from 14 February 2011. Mr. Chan was appointed as a Member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region on 1 January 2014 and a member of the Financial Reporting Council (FRC) on 1 December 2014. Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited from 11 December 2009 and an independent non-executive director of Hong Kong Exchanges and Clearing Limited from 23 April 2009, the shares of which are listed on the Stock Exchange. Mr. Chan was appointed as a non-executive director of Rizal Commercial Banking Corporation (RCBC) on 28 November 2011, the shares of which are listed on the Philippines Stock Exchange. He was also appointed as a non-independent non-executive director of Affin Holdings Berhad on 6 August 2013, the shares of which are listed on Bursa Malaysia. Mr. Chan was awarded bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Oyunbat Lkhagvatsend, aged 39, is the President and Deputy Chief Executive Officer of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013 and the Chief Executive Officer of Energy Resources Rail LLC on 8 February 2011. Mr. Lkhagvatsend has about 14 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the chief executive officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

Ulemj Baskhuu, aged 37, is an Executive Vice President and the Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company's Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

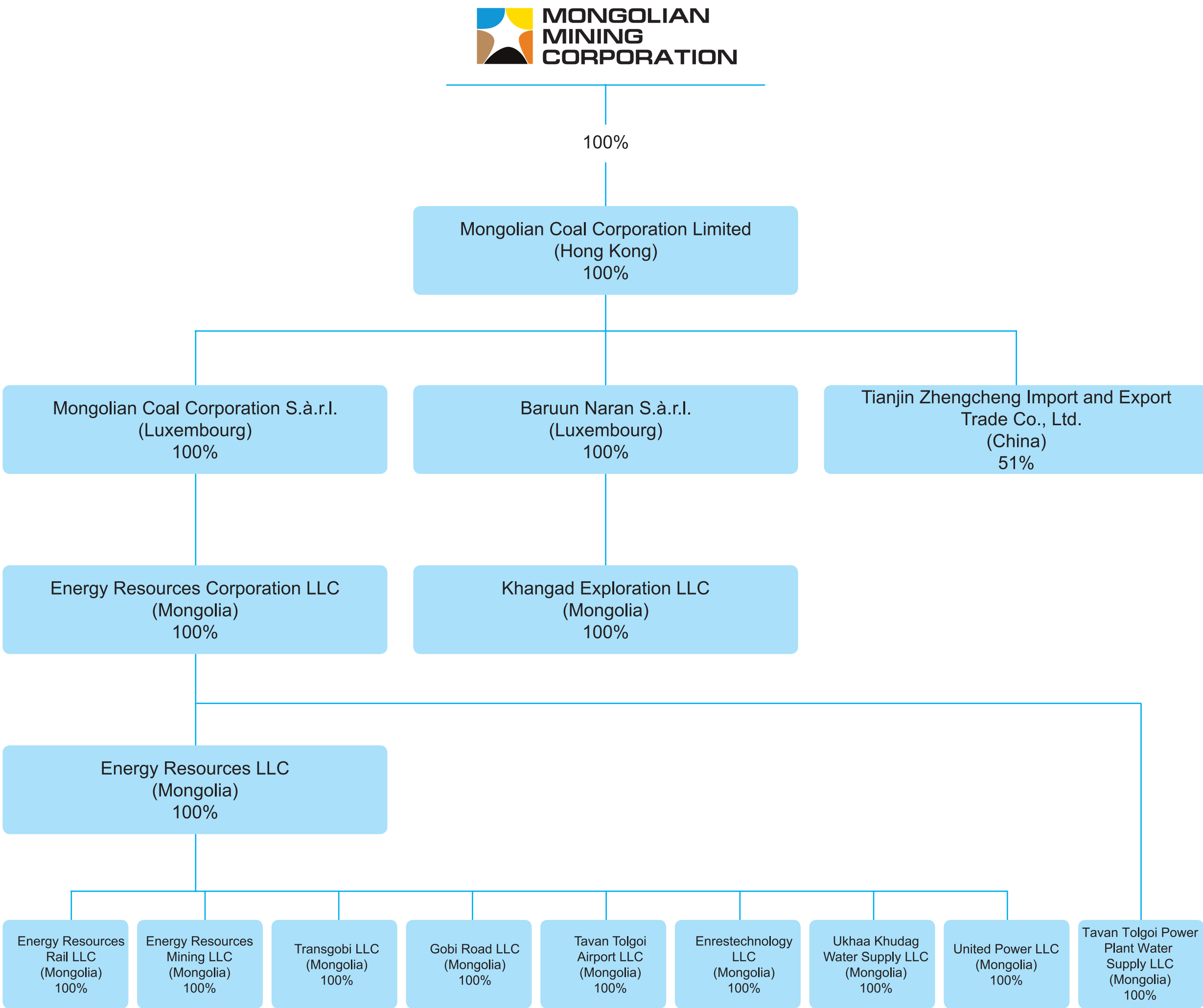
Samuel Bowles, aged 34, is an Executive Vice President and the Chief Operating Officer of the Company. Mr. Bowles was appointed as the Company's Chief Operating Officer on 1 October 2012 and Chief Executive Officer of Enrestechnology LLC on 27 September 2012. Mr. Bowles has over 10 years of experience in the coal mining industry, and has held various technical, operational and management positions previously with Leighton Asia, Rio Tinto Coal Australia and Anglo Coal Australia. He has extensive coking and thermal coal industry knowledge and expertise, including short and long term mine planning, capital and operating cost estimations, surface and underground coal mining operations and management of technical and operational personnel. Mr. Bowles holds a bacherlor's degree in mining engineering from the University of New South Wales, Australia, and is a member of the Australasian Institute of Mining and Metallurgy.

Uurtsaikh Dorjgotov, aged 52, is an Executive Vice President and the Chief Legal Officer of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Program of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

COMPANY SECRETARY

NG Sin Yee, Clare, aged 55, was appointed as the Company Secretary of the Company in July 2010. Ms. Ng is a director of the Corporate Services Department of Tricor Services Limited. She is a Fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the UK. Before joining the Tricor Group, Ms. Ng has worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 28 years of experience in company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong.

Group Structure



Chairman's Statement

Dear Shareholders,

The global coking coal markets continue to face persisting imbalance between supply and demand, which led to coking coal prices dropping to the lowest levels seen in the decade. In the fourth quarter of 2015, benchmark prices of coking coal settled at the lowest since 2005. Industry research reports estimate that it may take at least two years for coking prices to rise above current levels, provided that around 30 million tonnes ("**Mt**") of annual supply is removed from the seaborne market to offset receding Chinese demand and new supply from ongoing mine expansions.

In China, the Group's principal market, the crude steel output fell last year for the first time since 1981, amid a wider slowdown in the country's economy. According to the National Bureau of Statistics ("**NBS**"), Chinese crude steel production declined 2.3% year-on-year to 803.8 Mt in 2015. The steel sector, the main consumer of coking coal, has been plagued by overcapacity in China and the rest of the world for several years, and global steel prices have plummeted in the face of oversupply.

It was reported by the NBS that in 2015 China's coal output dropped 3.5% year-on-year to 3.7 billion tonnes, the second consecutive year-on-year decline, and China's coke output dropped 6.2% year-on-year to 448 Mt. Chinese import of all types of coal fell 30.0% in 2015 to 204.2 Mt, having fallen by 10.8% in 2014. Decreasing Chinese coal consumption is the major factor behind the fall, although softer prices in the domestic market also contributed to weaker imports, along with the acceleration of Chinese currency depreciation from the third quarter of 2015 onward that made imports more costly.

The coal industry within China is subject to fierce competition between producers from various regions. It is expected in near future to result in accelerated mine closures among high-cost producers. Recently, the Chinese government revealed plans to tackle chronic overcapacity in the coal sector by closing 4,300 small and inefficient coal mines, and to cut total industry annual coal production capacity by 700 Mt over the next three years.

In recent years, in order to improve the Company's competitive position, the management has successfully achieved significant cost reductions through improvements to operational efficiency and productivity. Unfortunately, these improvements were not sufficient to offset the continued sharp decline in product prices. Therefore, the management has prioritized resolving financial issues with a focus on preserving liquidity and managing its balance sheet.

In light of the adverse market conditions, and to better protect the interests of all stakeholders, the Company has initiated a dialogue with its lenders, and the financial and legal advisors of the steering committee of its noteholders about a possible restructuring arrangement in relation to its debt facilities. The Company is committed to transparent communication with broader investment community with the ultimate goal to achieve outcomes acceptable, and in long term, beneficial to all its stakeholders.

Chairman's Statement

I believe that with the support of all our stakeholders, the Company will be able to maintain pursuit of its long term development objectives, including the opportunity to engage in coal exploration, mining, processing, and transportation activities at Tavan Tolgoi coalfield in Mongolia. This is evidenced from the Group forming and leading a consortium jointly with China Shenhua Energy Company Limited and Sumitomo Corporation and the on-going negotiation process with the Government of Mongolia (the "**GoM**") in relation to the conclusion of definitive agreements with the GoM and its consortium partners in connection with the Tavan Tolgoi coalfield development. The ultimate benefit to Mongolia as a result of this will be significant improvement of the competitive position of Mongolian coal in international markets by consolidating commercial operations within the Tavan Tolgoi coalfield under a public private partnership ("**PPP**") model. However, any final outcomes of this transaction remain highly uncertain given the complex nature of negotiations involving multiple parties.

On behalf of the Board, I would like to express my sincere gratitude for the continuing long-term support of our shareholders. Also, I would like to convey my appreciation of all efforts made by our staff to pursue our vision to become a leading mining company in the region.

Odjargal Jambaljamts
Chairman

24 March 2016

Management Discussion and Analysis

In 2015, the global coking coal markets continue to face persisting imbalance between supply and demand, which led to the coking coal prices dropping to the lowest levels seen in a decade. In the fourth quarter of 2015, benchmark prices of coking coal settled at the lowest since 2005. The industry report estimates that it may take at least two years for coking prices to rise above current levels, provided that around 30 Mt of annual supply is required to be taken off the seaborne market to offset the receding Chinese demand and new supply from ongoing mine expansions.

In China, the Group's principal market, the crude steel output fell last year for the first time since 1981, amid a wider slowdown in the country's economy. According to the NBS, Chinese crude steel production declined 2.3% year-on-year to 803.8 Mt in 2015. The steel sector, the main consumer of coking coal, has been plagued by overcapacity in China and the rest of the world for years, and global steel prices have plummeted in the face of oversupply. Cooling Chinese coal consumption is the major factor behind the fall, although softer prices in the domestic market also contributed to weaker imports. The acceleration of the RMB depreciation from the third quarter of 2015 also made imports more costly.

The coal mining industry is experiencing severe competition between producers from various regions. It is expected in the near future to result in accelerated mine closures among high-cost producers. Recently, the Chinese government revealed plans to tackle chronic overcapacity in the coal sector by closing 4,300 small and inefficient coal mines and cutting annual coal production capacity by 700 Mt over the next three years.

In the last several years, in order to improve the Company's competitive position, the Company's management was able to achieve significant cost reductions by improvements in operational efficiency and productivity. Unfortunately this was insufficient to offset the continued sharp decline in product prices. Therefore, the management has prioritized resolving financial issues with a focus on preserving liquidity and managing its balance sheet.

In light of the adverse market conditions, and to better protect the interests of all the stakeholders of the Company, the Company started a dialogue with its lenders, and the financial and legal advisors of the steering committee of its noteholders about a possible restructuring arrangement in relation to its debt facilities. The Company is committed to transparent communication with broader investment community with the ultimate goal to achieve outcomes acceptable, and in the long term, beneficial to all its stakeholders.

THERE CAN BE NO ASSURANCE THAT ANY DISCUSSIONS WITH ANY NOTEHOLDER AND LENDER WILL LEAD TO A PROPOSAL ACCEPTABLE TO THE NOTEHOLDERS AND THE LENDERS MORE GENERALLY OR THAT DISCUSSIONS WITH THE NOTEHOLDERS AND THE LENDERS CAN BE PROGRESSED TO ANY POSITIVE CONCLUSION. ACCORDINGLY, THE COMPANY OFFERS NO ASSURANCE THAT THE PROPOSED RESTRUCTURING WILL BE SUCCESSFULLY CONCLUDED. SHAREHOLDERS OF THE COMPANY, THE NOTEHOLDERS, HOLDERS OF OTHER SECURITIES OF THE COMPANY AND POTENTIAL INVESTORS IN THE SECURITIES OF THE COMPANY ARE ADVISED TO EXERCISE EXTREME CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

According to World Steel Association, China remains the largest crude steel producer in the world with 49.5% share in the global production, but in 2015 its steel output posted its first annual contraction in a quarter of a century. China's crude steel output decreased 2.3% to 803.8 Mt in 2015, according to the data from NBS. That compared with a growth of 0.9% in 2014 and 12.5% in 2013, reflects a weak downstream demand amid a slowdown in the Chinese economy.

Demand for steel is weakening as policy makers seek to steer the economy away from an investment to consumption-led growth. The economy expanded 6.9% last year, the slowest pace since 1990. As a result, the domestic steel consumption declined to 689.8 Mt in 2015, representing 5.3% year-on-year drop according to China Coal Resource estimates.

China's steel product exports have increased for six straight years and jumped 20% to 112.4 Mt last year, topping 100 Mt for the first time, according to trade statistics reported by China's General Administration of Customs ("**China Customs**"). The surge in 2015 was caused by steelmakers looking for markets overseas due to surplus production and softer domestic demand accompanying a slowdown in the Chinese economy. However, China's massive exports have caused steel prices to fall throughout the world, and it was reported that the European Union, USA and India considered imposing protectionist measures according to the media reports.

The Chinese government recently announced that it is determined to continue undertaking supply side reform by cutting back industrial overcapacity faced by steel, coal and cement producers. Officials reported that China cut crude steel production by about 90 Mt in recent years and will target to cut a further 100-150 Mt without specifying an exact timeframe.

Following the weak performance of the steel industry, China's coke production declined to 447.8 Mt in 2015 from 476.9 Mt recorded in 2014, representing a 6.1% decrease. Similarly, Chinese coke consumption was 440.7 Mt in 2015, which is 3.0% lower compared to 454.5 Mt reported in 2014. With domestic excess production and lower demand, Chinese coke exports continued to grow in 2015 and reached 9.9 Mt from 8.5 Mt recorded in 2014, representing a 15.8% year-on-year increase.

Chinese coal production fell by 3.5% year-on-year to 3.7 billion tonnes according to NBS, resulting in a decline for two consecutive years. Chinese coking coal production was 483.8 Mt, representing a 3.6% decrease from 502.1 Mt recorded in previous year, and coking coal consumption fell by 5.8% to 528.6 Mt from 561.3 Mt in 2014.

The fixed asset investment in China's coal mining and washing industry continued to drop to RMB400.8 billion in 2015, representing a 14.4% fall compared to the preceding year. Also, China's coal mining and washing industry profit fell to RMB44.1 billion, or down by 65% year-on-year according to NBS. During the same period, the coal mining and washing industry realised a revenue of RMB2.5 trillion, a decline of 14.8% year-on-year.

In order to fight air pollution and overcapacity faced by the coal industry, the Chinese government recently announced that it will halt issuing approvals for new coal mines for the next three years, cut annual coal production capacity by 700 Mt and also allocate RMB30 billion to support the relocation of employees affected by the closure of 4,300 small and inefficient coal mines.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

With declining demand in 2015, Chinese coking coal imports fell to 47.8 Mt, representing 23.3% year-on-year decline compared to 62.4 Mt imported in 2014, according to China Customs. For imported coking coal, Australia increased its market share to 53.4% from 50.1% in 2014. Mongolia preserved its position as the second largest supplier and also increased its market share to 26.6% from 23.7% in 2014.

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

Countries	2015	2014	Change
Australia	**25.5**	31.3	-18.3 %
Mongolia	**12.7**	14.8	-13.8 %
Canada	**5.7**	7.2	-20.7%
Russia	**3.2**	5.8	-44.0 %
USA	**0.1**	2.1	-94.5 %
Others	**0.5**	1.3	-60.9 %
Total	**47.8**	62.4	-23.3%

Source: China Coal Resource

Notes:

(i) Imports from Mongolia include raw unprocessed, dry and wet processed coking coal.

(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 the data from Mongolian National Statistics Office, Mongolian coal exports to China reached 14.5 Mt in 2015, representing a 25.8% decrease compared to 19.5 Mt reported in previous year. The Group remains as the only major producer and exporter of washed coking coal in Mongolia.

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

In 2015, the Parliament of Mongolia ("**Parliament**") adopted the following amendments to the Minerals Law (the "**Amendments**"), which were relevant to the Group's operations in Mongolia. The Group does not expect any material impact on its financials from the Amendments described below.

On 23 January 2015, license fees previously expressed in USD were changed such that they are now expressed in MNT. For coal deposits, an annual mining license fee payable by license holder was previously USD5 per hectare and it has been changed to MNT7,250 per hectare after the Amendment. Our Mongolian operating subsidiaries holding mining licenses are in compliance with the license fee payment obligations as stipulated under relevant provisions in the Minerals Law.

On 18 February 2015, a concept of a special royalty for mineral deposits of strategic importance was introduced. It provides an option for the 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.

Labour Relations, Occupational Health and Safety related legislation

On 17 February 2015, the GoM, Geology and Mining Sector Labour Union and representatives of the mining sector employers entered into a collective bargaining agreement for 2015 and 2016 (the "**Collective Bargaining Agreement**"). Under this agreement, it was stipulated that the industry's minimum wage for 2015 and 2016 shall be doubled to the national minimum wage set by the GoM, which currently equals to MNT192,000 per month.

The Group does not expect any impact on its financials for entering into the Collective Bargaining Agreement. Its existing internal remuneration policies are in line with the Collective Bargaining Agreement.

On 14 May 2015, the Parliament amended the Law on Occupational Safety and Hygiene. In light of this amendment, the GoM adopted Resolution No.269 on investigation and registration of industrial accidents, and acute poisonings on 29 June 2015.

Pursuant to these changes, the criteria for the consideration of accidents was further specified and its scope was widened. In accordance with these changes, the Group has undertaken required changes to its internal regulations related to the investigation and registration of any workplace accidents.

Taxation, Accounting and Financial Reporting related legislation

On 9 July 2015, the Law on value-added tax ("**VAT**") was revised by the Parliament and it has become effective since 1 January 2016. Under this revision, the VAT rate of 10% payable with respect to all goods sold, works performed and services provided within Mongolia continue to be applied and most importantly, the zero-rate regime for the exported "finished mineral products" continue to be applied, and the list of "finished mineral products" will be adopted by the GoM. Based on the revised Law on VAT, Government Resolution No.502 was issued on 21 December 2015, which replaced Resolution No.286 that was adopted in 2010 and the list of exported "finished mineral products" was redefined. The processed coals, those comprise of processed anthracite, semi anthracite, HCC, washed semi-soft coking coal ("**SSCC**") and non-coking coal continue to be classified as "finished mineral products".

Therefore, the Group will continue to be entitled to claim its VAT paid during its operation in Mongolia, whereas a producer of other mineral products that are not included in the list of "finished minerals products" will be excluded from VAT payment refunding. This list is in compliance with other resolutions and standards such as Government Resolution No. 193 of 2011 on Requirements, Types, Main Principles and Methodology of Mineral Ore, Concentrate and Products and Mongolian National Standard 6457:2014 on Coal Products and Classification.

With regard to other changes made by the revised Law on VAT, the revenue threshold for VAT payer registration was revised from MNT10 million to MNT50 million. VAT will be imposed on all types of works and services imported to Mongolia, regardless of whether or not the works and services are performed and rendered within the territory of Mongolia. The list of deductibles from the VAT taxable was shortened.

On 19 June 2015, the Law on Accounting and Law on Auditing were revised by the Parliament and have became effective since 1 January 2016. Under the revised Law on Accounting, a legal entity or any of its representatives who operate in Mongolian territory can record its financial transactions in a currency other than MNT, if agreed by the government authority in charge of finance and accounting. However, financial statements submitted to the relevant government authority shall be denominated only in MNT. Under the revised Law on Accounting, a company with one or more subsidiaries shall be required to submit consolidated financial statements. If its ultimate parent company is registered in a foreign country, the top parent company registered in Mongolia is obliged to issue consolidated financial statements. On the Law on Auditing, the main change was that the term for conducting audit service provided by an audit firm to a legal entity is extended to five consecutive years from three consecutive years.

In accordance with these changes, the Group has undertaken required changes to its internal regulations and procedures related to taxation reporting in Mongolia.

During 2015, the excise and customs duties of imported gasoline and diesel were increased by the GoM which has the authority to set the excise duty on imported gasoline and diesel within the range defined under the Law on Excise Tax and Parliament Resolution No.27, 1999. The changes include:

(a) On 19 January 2015, the GoM issued Resolution No.18 and increased excise duty for imported diesel from MNT30,000 to MNT265,000 per tonne, and increased 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 per tonne, which are imported through Sukhbaatar, Zamiin Uud, Ereentsav and Altanbulag border ports of Mongolia. Such resolution has become effective on 20 January 2015.

(b) On 16 February 2015, the GoM issued Resolution No. 65 and increased the customs duty for imported diesel and gasoline from 1% to 5%. This resolution has become effective from 18 February 2015.

(c) On 9 November 2015, the GoM issued Resolution No.438 and increased the excise duty of imported diesel via Sukhbaatar, Zamiin-Uud, Altanbulag at MNT520,000 per tonne and at MNT390,000 per tonne for diesel imported via Ereentsav. It also increased the excise duty for gasoline at MNT400,000 per tonne which are imported through Sukhbaatar, Zamiin Uud, and Altanbulag and MNT270,000 per tonne for gasoline imported via Ereentsav border ports of Mongolia. This resolution has become effective since 10 November 2015.

Investment related legislation

On 14 May 2015, the Parliament amended the Law on Investment such 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 namely, corporate income tax, customs tax, VAT and royalty, stabilized for the period until 17 April 2033.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

The UHG deposit sits within the 2,960 hectare Mining License MV-11952 ("**UHG mining license**"), granted to the Group effective for 30 years from 29 August 2006, extendable twice by 20-year periods. Since acquiring the UHG mining license, the Group has prepared three JORC compliant Coal Resource estimates, the most recent of which, stated as of 30 November 2015, represents only a minor update from the second estimate stated previously as of 31 December 2014.

This most recent Coal Resource update has been made in accordance with the requirements of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). Compared to the previous JORC Coal Resource estimate stated as at 31 December 2014, this update was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2015 and 30 November 2015. No further exploration data was incorporated.

Exploration activities conducted in the process of preparing the two preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality geological models supporting the latest Coal Resource estimate as at 30 November 2015, included:

- 1,556 individual boreholes drilled for 191,275 metres ("**m**"), including 104,369m of HQ-3 (63.1 millimetres ("**mm**") core, 96.0mm hole diameter) and 86,906m of 122mm diameter open hole drilling;
- 37,548 individual analytical samples collected and analysed;
- 71 kilometres ("**km**") of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International Ltd ("**Polaris**") and analysed by Velseis Processing Pty Ltd ("**Velseis**"); and
- results from large-diameter, bulk-sample drilling samples analysed at the ALS Group laboratories in Ulaanbaatar.

Internal peer audit of these latest structural and coal quality geological models was conducted by Mr. Gary Ballantine, employed by the Group as Executive General Manager of Exploration and Geology. This confirmed that the Group's work to update the UHG geological model, and thus the Coal Resource estimate for the UHG mining license area, was in compliance with requirements of the JORC Code (2012).

Figures reported based upon an in situ density at an as-received moisture basis are summarised in Table 2. By mine survey measurement, it is calculated that production activity between 1 December 2015 and 31 December 2015 has depleted the stated JORC Coal Resource by less than 1 Mt, and it is thus considered that such production activity has imparted no material change.

With updated surface topography being the only new information used in preparation of the updated JORC Coal Resource estimate, and all other information and methodology remaining consistent with the previous JORC Coal Resource estimate, Appendix I of the Company's 2014 Annual Report can be referred to for the detailed information required to be presented under the JORC Code (2012) upon release of a JORC (2012) Coal Resource estimate.

Table 2. UHG mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 November 2015 (Note):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	2	3	5	5	10
BHWE to 100m	73	23	17	97	114
From 100m to 200m	94	48	26	141	168
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	15	92	108
Below 400m	40	44	30	84	114
Sub-Total above 300m	260	138	70	398	468
Sub-Total below 300m	97	79	45	177	222
Total	**357**	**217**	**115**	**575**	**689**
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 of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 8 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). 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 annual report are considered to be a true reflection of the UHG Coal Resource as at 30 November 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).

(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).

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

In 2015, 16 boreholes were drilled within the UHG mining license, comprising 636m of HQ-3 drilling and 368m of 122mm diameter open hole drilling, outside of the northern pit limit. The purpose of this drilling was to improve the geotechnical knowledge related to the boundaries of basement rock on the northern periphery of the UHG deposit. The information obtained allowed the revision to be made to the life-of-mine ("**LOM**") pit slope design, subsequently allowing the revision of ex-pit dump design and the facilitation of shorter overburden haulage distances than previously determined during LOM planning. Data obtained from this drilling was not included in the JORC Coal Resource updated as of 30 November 2015, and is unlikely to have any bearing upon future updates.

Baruun Naran (BN) deposit

The BN deposit is covered by two mining licenses. Mining License 14493A ("**BN mining license**") of 4,482 hectares area was obtained through the acquisition of Baruun Naran Limited, formerly known as QGX Coal Limited on 1 June 2011, and is effective for 30 years from 1 December 2008. Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013, effective for 30 years. Both licenses are extendable twice, by 20-year periods.

During 2015, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 30 June 2015 for the BN and THG mining licenses. The estimation process applied more stringent requirements under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014), as compared to the previous JORC (2012) Coal Resource estimates prepared by McElroy Bryan Geological Services Pty Ltd ("**MBGS**"), stated as of 30 June 2012 and 30 April 2013 for the BN mining license and the THG mining licenses respectively.

No further drilling was conducted at the BN deposit in 2015, however the updated JORC (2012) Coal Resource stated as at 30 June 2015 did incorporate additional exploration data gained from the exploration drilling program conducted in 2014. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated JORC (2012) Coal Resource statement:

- total of 92 exploration boreholes at BN, with a total of 28,540m drilled, of which 14,780m were HQ-3, 9,640m PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122mm open hole;
- total of 32 exploration boreholes at Tsaikhar Khudag ("**THG**"), with a 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 75km of 2D seismic survey captured by Polaris over the BN mining license, and analysed by Velseis.

Internal peer review was conducted by Mr. Gary Ballantine, Executive General Manager of Exploration and Geology. External peer review was provided by Mr. Todd Sercombe of GasCoal Pty Ltd. Mr. Brett Larkin from Geocheck Pty Ltd was also involved in external peer review, specifically with regard to the geostatistical analysis required to be prepared under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014). These peer reviews confirmed compliance of the Group's work to update the Coal Resource estimations in compliance with requirements of the JORC Code (2012).

Summary of the updated JORC (2012) Coal Resources for BN and THG mining license 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.

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

Total Coal Resource		**Resource Category (Mt)**			
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
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 JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (Note):

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

Notes:

(i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 8 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). 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 annual report are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, and has been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

(ii) Mr. 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).

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

Coal Reserves

Ukhaa Khudag (UHG) deposit

During 2015, the Group engaged RungePincockMinarco Limited ("**RPM**") to prepare an updated JORC (2012) Coal Reserve statement as at 30 November 2015 for the UHG deposit. Much of the work conducted represented an update to work previously completed by RPM in 2013 to produce the previous JORC (2012) Coal Reserve statement as at 31 December 2012. This update, however, focused solely on UHG stand-alone operation, given the continued non-operational status of the BN mine.

The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods. 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 algorithms used included for incorporation of:

- geotechnical constraints, including limitation of overall slope angles within the pit by sector, ex-pit dump offset from LOM pit shell crest and maximum pit depth, with updates on basis of research and analyses made since timing of the previous JORC (2012) Coal Reserve estimate, as provided by Mr. John Latilla of AMC Consultants Pty Ltd ("**AMC**");
- washability curves on seam ply basis, as prepared previously by Mr. John Trygstad of Norwest Corporation ("**Norwest**") for inclusion in the previous JORC (2012) Coal Reserve estimate, to individual coal seams based upon propensity for processing into coking and/or thermal products, with update made to reassign portion of Seam 0B from thermal to coking coal production, based upon results observed during production trials in 2015;
- updated assumptions with regard to (i) coal losses and dilution, and (ii) manual re-assignment of proportion of coal mined from coking to thermal product streams, based upon survey reconciliation of actual production performance at UHG as well as allowing for unadjusted presentation of Proved and Probable categorisation of Coal Reserves as per JORC Code (2012) specification;

- updated cost input assumptions, derived from recent historical operating performance at UHG mine on the basis of sustainable cost reductions made in response to difficult market conditions, and as forecasted based upon negotiated reductions in cost for mining and blasting contractor services; and
- updated revenue input assumptions, derived from an updated market study commissioned from Shanxi Fenwei Energy Consulting Co. Ltd ("**Shanxi Fenwei**") in October 2015, which provided for medium to long term forecasting of expected Free-on-Transport ("**FOT**") pricing at UHG mine for hard coking, semi-soft coking and thermal coal products planned for production.

Within the economical pit shell limit determined as a result of this optimisation process, pit designs were then designed to account for practicalities such as ramp accesses and minimum operating pit dimensions. Modifying Factors were then applied enabling determination of the mineable in situ coal within the pit shell and conversion to run-of-mine ("**ROM**") and product coal quantities.

Tonnages based upon an as-received basis with 5% total moisture, resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 30 November 2015 are shown in Table 5. It is considered that no material change to the stated Coal Reserve has resulted from depletion on account of production activity, with less than 1 Mt of coal extracted between 1 December 2015 and 31 December 2015 according to mine survey measurement.

Table 5. UHG mining license JORC (2012) Coal Reserve estimate, as at 30 November 2015 (Note):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	119	52	171
Thermal	52	4	55
Total	**171**	**55**	**226**

Note:

(i) The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report has been compiled by Mr. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RungePincockMinarco Limited and has extensive experience in the mining industry, working for over 30 years with major mining companies, mining contractors and consultants. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined in the JORC Code (2012). 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.

Excluding for depletion of approximately 16 Mt as a result of mining activity since release of the previous JORC (2012) Coal Reserve estimate, the updated JORC (2012) Coal Reserve estimate as of 30 November 2015 has resulted in reduction of Total Coal Reserve by approximately 24.4%. This is largely due in part to 50.7%, 56.7% and up to 64.0% reduction in forecasted mine gate revenue assumptions for HCC, SSCC and thermal coal respectively, compared to assumptions made in the previous Coal Reserve estimate, in line with medium term market conditions forecasted by Shanxi Fenwei.

The application of forecasted sustainable reductions with regard to mining, processing, site administration and other unit costs of 24.7%, 26.2%, 51.3% and 32.4% respectively, largely possible on the basis of actual, sustainable reductions achieved since 2012, as well as on the basis of successful contract negotiations with mining and blasting contractors in 2015, has ensured that the Coal Reserve has not decreased so significantly in lieu of the significantly reduced revenue assumptions. As a result, there has been 6.5% proportional increase to the content of coking coal within the Total Coal Reserve, as well as reduction in the forecasted remaining LOM stripping ratio by 23.7% to 4.5 bank cubic metres ("**bcm**") per ROM for the minable quantities in the LOM schedule.

Baruun Naran (BN) deposit

A JORC (2012) Coal Reserve estimate was most recently prepared for the BN deposit as part of an integrated LOM study prepared by RPM in 2013, with the resulting statement dated 31 December 2012. This study was completed on the previous JORC (2012) Coal Resource estimate within the BN mining license prepared by MBGS with statement dated 30 June 2012. Further update to this has not been prepared as of yet, pending completion of the most recent JORC (2012) Coal Resource estimate across the BN mining license and THG mining license as at 30 June 2015, but there are plans to review it in 2016.

The LOM plan prepared underpinning the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon 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 operating cost and coal revenue variance.

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

- limitation of open pit depth to 350m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla from AMC;
- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest;
- cost input assumptions based upon historical operating performances at both the UHG and BN mines, up until end of 2012; and
- revenue input assumptions derived from a market study of the principal coking and thermal coal markets in China, completed by Shanxi Fenwei in March 2012.

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of above is summarised in Table 6, with tonnage estimation based on an as-received basis with 6% total moisture. Production activity between 1 January 2013 and 31 December 2015 has depleted the stated BN ROM Coal Reserve by less than 1 Mt, according to mine survey measurement, and is considered to impart no material change.

Table 6. BN mining license JORC (2012) Coal Reserve estimate, as at 30 June 2012 (Note):

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

Notes:

(i) The estimate of Coal Reserve presented in Table 6 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report has been compiled by Mr. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RungePincockMinarco Limited and has extensive experience in the mining industry, working for over 30 years with major mining companies, mining contractors and consultants. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Eisenmenger consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.

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

Production and Transportation

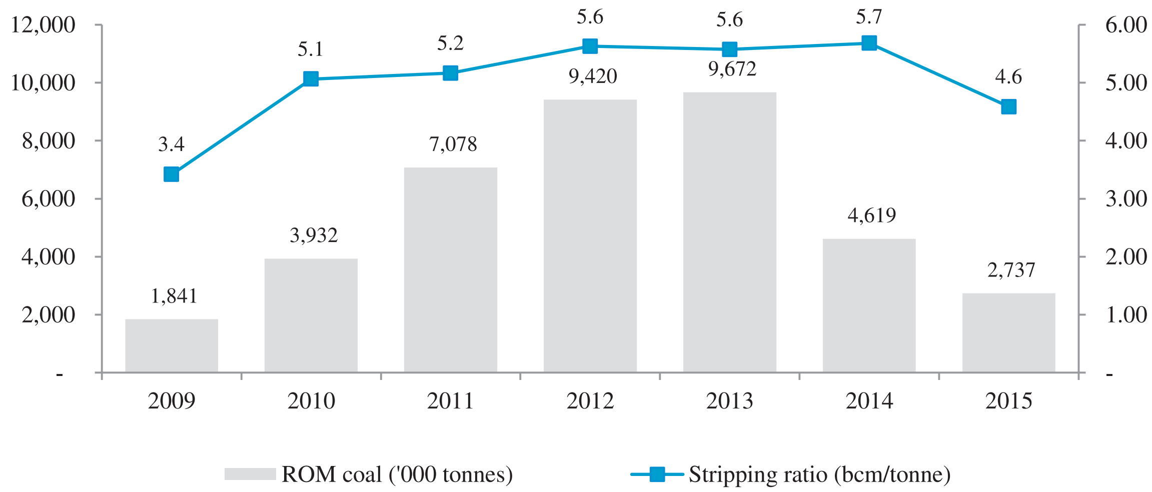
Coal Mining

As part of a deliberate strategy to adjust production output lower in view of reduced market demand, the Group's annual ROM coal mining output decreased to 2.7 Mt, as can be seen in Figure 1. All ROM coal output in 2015 was sourced from the UHG mine, whilst production activities at the BN mine remained suspended. This was achieved at a stripping ratio of 4.6 bcm per ROM tonne, with total of 12.6 million bank cubic metres ("**Mbcm**") of overburden material removed to access the coal mined.

Some of the reduction in stripping ratio is largely attributable to the successful introduction of Seam 0B in feed blend to the coal handling and preparation plant ("**CHPP**") during the production of HCC. Approximately 219 thousand tonnes ("**kt**") of Seam 0B, representing 8.0% of the total ROM tonnes delivered to CHPP, was sourced in 2015 from this incrementally low stripping ratio seam that lies partially uncovered at the bottom of the existing pit, that previously was considered only as a source for thermal coal production.

Following a more thorough investigation by the Group's technical services personnel, including drill hole chip sampling and trench sampling, a significant proportion of Seam 0B has been identified as suitable for HCC production. Subsequently, there is now intention that discrete portions of this seam be included in CHPP feed, in blend ratios of up to 50%, in the production of HCC.

Figure 1. The Group's historical annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bcm of overburden per ROM tonne of coal):



Following a successful, small scale geotechnical drilling exercise completed in the first half of 2015, the subsequent analysis of results has proven the initial predictions intended to be evaluated, and has led to the revision of the geotechnical recommendations regarding overall slope angle and distance required between pit crest and ex-pit overburden dump to the north of the UHG pit. This has allowed for the ex-pit waste dump location to be safely moved closer to the pit, with the resulting decrease to vertical and horizontal haulage distances allowing for reduction in required truck hours, and hence haulage cost.

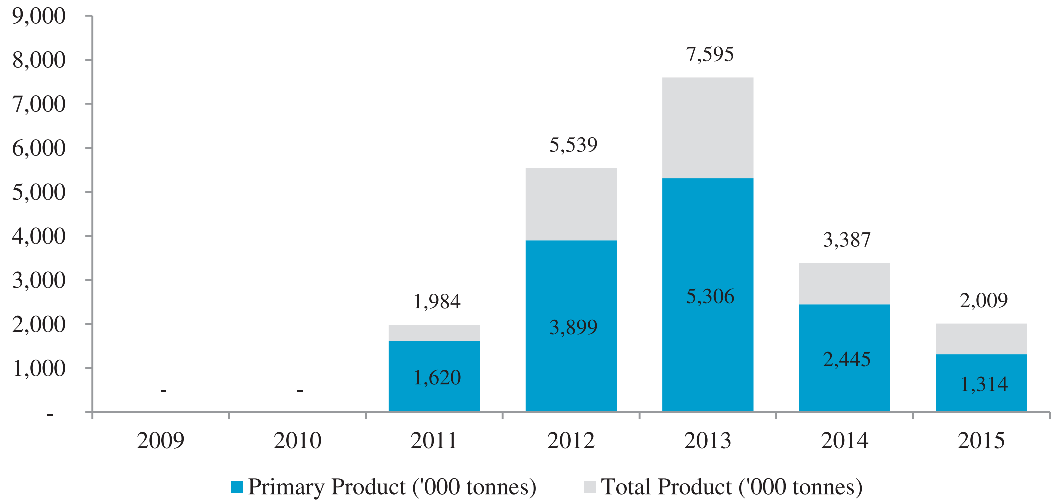
During the second half of 2015, negotiation with mining and blasting contractors has led to significant reductions in the forecasted cost of services going forward in respective contract extension periods. The contract revisions became effective in late 2015, during a period of reduced mining activity, and thus the positive impact resulting from these contract revisions on overall unit cost per bcm of material mined will be more pronounced from 2016 onward.

Coal Processing

In response to the reduced market demand and lower mine production output, the volume of ROM coal processed was also reduced, with total CHPP feed of 2.6 Mt in 2015 achieved, including 49 kt from third parties under fee for service arrangements. From the feed of ROM coal owned by the Group, a total of 1.3 Mt of HCC primary product and 0.7 Mt of secondary by-product washed thermal coal ("**middlings**") were produced at yields of 50.9% and 26.9% respectively. Figure 2 displays the historical annual washed production volumes of the Group.

Production trials that had commenced in the first half of 2015 with regard to inclusion of Seam 0B in the ROM feed blend to CHPP when producing HCC were expanded in the second half of 2015 with continued positive results. During the second half of 2015, on average the ROM feed blend to CHPP comprised 29.0% of Seam 0B, whilst meeting customer product specifications and achieving 51.7% primary and 21.1% secondary yields.

Figure 2. The Group's historical annual total primary processed coal production volumes (in thousand tonnes):



Transportation and Logistics

In 2015, the Group's transportation and logistics operations within Mongolia were reduced in line with decreased CHPP output according to forecasted market demand. Operations were scheduled to meet customer requirements whilst maintaining low primary product inventory. Domestic transportation activity was solely concentrated on haulage of HCC product between the UHG CHPP and the Tsagaan Khad ("**TKH**") coal stockpile and trans-shipping facility adjacent to the Gashuun Sukhait ("**GS**") and Ganqimaodu ("**GM**") Sino-Mongolian border crossing. This was achieved using only the Group's own coal transportation fleet, compromised of double-trailer heavy haulage trucks, without reliance upon any third party haulage contractors. All middlings thermal coal production was rehandled onsite at UHG from the CHPP to a nearby satellite stockpile location, reducing short term cost of operation by way of not hauling to TKH when customer demand did not require it.

Management has remained focused on improving operational efficiencies throughout the year, with the main achievement being increasing the average number of round trips per utilised truck per month. Previously, when operating on the gravel road between UHG and TKH, a maximum fleet average of approximately 13 round trips per truck per month was possible. In the calendar year following construction of the paved road, this fleet average increased to 20 round trips per truck per month. In 2015 the fleet average has been increased to 42 round trips per utilised truck per month, through further systematic improvements being made to remove system bottlenecks.

Occupational Health, Safety and Environment

Within the reporting period of 2015, approximately 3.3 million man-hours were recorded as worked by employees, contractors and sub-contractors of the Group. During this period, 2 occurrences of Lost Time Injury ("**LTI**") were recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.6 LTIs per million man-hours worked equivalent being recorded, the lowest for any annual period that the Group has achieved since the commencement of public reporting.

Whilst the reduced LTIFR has been influenced by lower production activity, the result is also attributable to the focus of the Group's management efforts and commitment to the goal of Zero Harm. This has been maintained through a difficult period operationally, during which there has been proportionally more man-hours of exposure to tasks with typically higher potential for LTI. During 2015, the Group continued to deliver Occupational Health, Safety and Environment ("**OHSE**") specific training to employees, contractors, sub-contractors and visitors, with delivery of 5,149 training sessions to individuals, totalling 12,598 man-hours.

The Group's safety performance continues to compare favourably in terms of LTIFR against publicly reported mining safety statistics, such as those from the Queensland Government Department of Natural Resources and Mines (Surface Coal Mines, 2.3, 2014-2015) and the New South Wales Department of Resources and Energy (Surface Coal Mines, 1.9, 2014-2015).

Sales and Marketing

Challenging market conditions in steel and steelmaking raw materials industry were further exacerbated in 2015. Intense competition remained amongst Chinese domestic and international coal exporters to the China market. HCC prices dropped to the lowest levels 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.

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 management of liquidity in sales arrangements.

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 Baotou Iron and Steel Co., Ltd. ("**Baogang Group**") to supply coking coal products, as such reinforcing the direct relationship with the Baogang Group, which is the largest steel mill in Inner Mongolia, China.

The Tianjin Zhengcheng Import and Export Trade Co., Ltd. ("**TZ JV**"), the Group's subsidiary in China, which operates as a joint venture with Risun Mining Co., Ltd, continued to maintain its relationship with its existing end-users' base mostly comprised of steel mills and coke plants located in Hebei, Shandong and the surrounding coastal area in China. The Group developed and maintained a product mix of coking coal products produced by the Group with supplementary third party coal products from Chinese origins in order to keep a proper balance of efficient cost structure as well as maintaining its market share. The variety of coal such as SSCC, weak caking coal, gas coal and lean coal was sourced from third parties from different regions of Shanxi and resold by TZ JV to customers located in Hebei, namely Jianlong Janeboat Steel Co., Ltd, Qiananshi Jiujiang Wire Co., Ltd and Tangshan Dafeng Coking Co., Ltd.

The Group sold a total of 1.5 Mt of coal products in 2015, out of which 1.2 Mt was exported from the HCC originated from Mongolia, and 0.3 Mt of other types of coal products originated from third parties in China which included SSCC, lean coal, weak caking coal and gas coal. Out of the sales volume of 1.2 Mt HCC that was originated from Mongolia 0.7 Mt, 0.3 Mt, and 0.2 Mt were sold under Delivery-at-Place ("**DAP**") GM, FOT and Cost-and-Freight ("**C&F**") terms, respectively. Exported HCC volume in 2015 represents a 64.6% year-on-year decrease compared to 3.4 Mt HCC sold in China in 2014.

Table 7. Mongolian HCC sales volume by terms (Note):

#	Delivery terms	Sales volume (Mt)	Volume share (%)
1	DAP	0.7	58.9%
2	FOT	0.3	28.5%
3	C&F	0.2	12.6%
	TOTAL	**1.2**	**100%**

Note:

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

OUTLOOK AND BUSINESS STRATEGIES IN 2016

The global coking coal markets continue to face persisting imbalance between supply and demand, which led to the coking coal prices dropping to the lowest levels seen in a decade with benchmark prices in the fourth quarter of 2015 to settled at the lowest since 2005. The industry report estimates that it may take at least two years for coking prices to rise above current levels, provided that around 30 Mt of annual supply is required to be taken off the seaborne market to offset receding Chinese demand and new supply from ongoing mine expansions.

The industry is experiencing severe competition between producers from various regions, which is expected in the near future to result in an accelerated pace of mine closures among high-cost producers. Recently, the Chinese government has revealed plans to tackle prolonged overcapacity in the coal sector by closing 4,300 small and cutting inefficient coal mines and cutting annual production capacity by 700 Mt over the next three years.

The Company intends to pursue the following key strategies in order to maintain and enhance its competitive position as a major washed coking coal producer in Mongolia: (i) adjusting the capital structure and its debt to adequate and sustainable levels; (ii) maximizing assets utilization to lower unit fixed costs; (iii) supporting initiatives to improve logistics infrastructure providing access to Chinese railway network to reach its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures arrangements; and (v) maintaining its strong commitment to safety, environment and socially responsible operations.

During the past several years, in order to improve the Company's competitive position, the Company's management was able to achieve significant cost reductions by improving its operational efficiency and productivity, but unfortunately this was insufficient to offset the continued sharp decline in product prices. Therefore, the management has prioritized resolving financial issues with a focus on preserving liquidity and balance sheet management.

In light of the adverse market conditions, and to better protect the interests of all the stakeholders of the Company, the Company started a dialogue with its lenders, and the financial and legal advisors of the steering committee of its noteholders about a possible restructuring arrangement in relation to its debt facilities. The Company is committed to transparent communication with broader investment community with ultimate goal to achieve outcomes acceptable and in the long term beneficial to all its stakeholders.

THERE CAN BE NO ASSURANCE THAT ANY DISCUSSIONS WITH ANY NOTEHOLDER AND LENDER WILL LEAD TO A PROPOSAL ACCEPTABLE TO THE NOTEHOLDERS AND THE LENDERS MORE GENERALLY OR THAT DISCUSSIONS WITH THE NOTEHOLDERS AND THE LENDERS CAN BE PROGRESSED TO ANY POSITIVE CONCLUSION. ACCORDINGLY, THE COMPANY OFFERS NO ASSURANCE THAT THE PROPOSED RESTRUCTURING WILL BE SUCCESSFULLY CONCLUDED. SHAREHOLDERS OF THE COMPANY, THE NOTEHOLDERS, HOLDERS OF OTHER SECURITIES OF THE COMPANY AND POTENTIAL INVESTORS IN THE SECURITIES OF THE COMPANY ARE ADVISED TO EXERCISE EXTREME CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

The Company will continue to pursue its long term development objectives, including the opportunity to engage in coal mining, processing, and transportation and exploration activities at Tavan Tolgoi coalfield in Mongolia. This is evidenced from the Group forming and leading a consortium jointly with China Shenhua Energy Company Limited and Sumitomo Corporation (the "**Consortium**") and the on-going negotiation process with the GoM in relation to the conclusion of definitive agreements with the GoM and its Consortium partners in connection with the Tavan Tolgoi coalfield development. The ultimate benefit to Mongolia is seen from the significant improvement of the competitive position of Mongolian coal in international markets by consolidating commercial operations within the Tavan Tolgoi coalfield under PPP model. However, any final outcomes of this transaction remain highly uncertain given the complex nature of negotiations, involving multiple stakeholders and including the regulators.

SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD NOTE THAT THE COMPANY MAY OR MAY NOT ENTER INTO ANY DEFINITIVE AGREEMENTS WITH ITS CONSORTIUM PARTNERS, THE GOM AND/OR ITS DESIGNATED ENTITIES. EVEN IF DEFINITIVE AGREEMENTS ARE ENTERED INTO, COMPLETION AND FULFILLMENT OF SUCH AGREEMENTS WILL BE SUBJECT TO SATISFACTION OF THE CONDITIONS PRECEDENT SET OUT THEREIN. ACCORDINGLY, THE COMPANY MAY OR MAY NOT BENEFIT FROM THE TAVAN TOLGOI COALFIELD DEVELOPMENT. SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

FINANCIAL REVIEW

Revenue

Sluggish coking coal demand growth kept the market oversupplied with further downward pressure on prices during 2015. China's slowing economy and poor appetite for steel making components pushed coking coal benchmark prices to the lowest levels in a decade. The Group continued to focus strictly on controlling operational costs and limiting capital outflow in 2015.

The Group's total sales volume for the year ended 31 December 2015 was approximately 1.5 Mt of coal products generating total revenue of USD99.5 million, whilst in 2014 the total sales volume was 5.4 Mt of coal products with total revenue of USD328.3 million. For the year ended 31 December 2015, approximately 0.7 Mt of HCC was sold at DAP GM terms, representing 48.4% of total sales volume which generated revenue of USD37.6 million. Approximately 0.8 Mt of coal products was sold at FOT and C&F terms under inland China sales generating revenue of USD61.9 million. The sales includes approximately 0.3 Mt of coal products procured from Chinese third party sources which generated revenue of USD23.9 million. The lower total revenue compared to the corresponding period in 2014 was essentially attributable to the 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**") of HCC achieved on a combined basis at all selling points was USD63.2 per tonne for the year ended 31 December 2015, supported by higher HCC selling prices of inland China sales. The ASP of HCC under FOT and C&F terms sales were USD66.3 per tonne and USD104.4 per tonne, respectively for the year ended 31 December 2015, compared to USD91.4 per tonne and USD119.4 per tonne in 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 HCC of sales under DAP GM terms was USD53.2 per tonne for the year ended 31 December 2015 which was approximately 23.2% lower compared to USD69.3 per tonne in 2014.

For the year ended 31 December 2015, the Group derived individually more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD26.1 million, USD15.1 million, USD11.6 million and USD11.2 million, respectively, whilst in 2014 the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD117.7 million and USD34.4 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 year ended 31 December 2015, the total cost of revenue was USD165.6 million, compared to USD335.5 million in 2014. The cost of revenue of self-produced coal was reduced by 59.4% from USD326.6 million to USD132.7 million mainly as a result of lower sales volume.

The cost of revenue of procured coal for the year ended 31 December 2015 consisted of USD23.4 million relating to trading of coal procured from Chinese third parties, which generated revenue of USD23.9 million, and USD3.4 million cost relating to HCC procured from Mongolia. For the year ended 31 December 2014, the cost of revenue of procured coal was USD8.9 million relating to trading of HCC procured from Mongolia.

As of 31 December 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 8. Total and individual costs of revenue of self-produced coal:

	Year ended 31 December	
	2015	2014
	(USD'000)	(USD'000)
Cost of self-produced coal	**132,701**	326,577
Idling cost	**52,872**	40,621
Cost of self-produced coal excluding idling cost	**79,829**	285,956
Mining cost	**34,830**	126,841
Variable cost	**15,960**	66,599
Fixed cost	**16,598**	45,883
Depreciation and amortisation	**2,272**	14,359
Processing cost	**13,084**	31,596
Variable cost	**5,216**	12,448
Fixed cost	**2,664**	3,716
Depreciation and amortisation	**5,204**	15,432
Handling cost	**1,185**	5,975
Transportation cost	**15,387**	74,383
Logistic cost	**2,690**	9,763
Variable cost	**1,416**	3,549
Fixed cost	**1,169**	5,215
Depreciation and amortisation	**105**	999
Site administration cost	**6,261**	12,992
Transportation and stockpile loss	**862**	3,542
Royalties and fees	**5,530**	20,864
Royalty	**3,509**	13,656
Air pollution fee	**1,127**	2,719
Customs fee	**894**	4,489

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 such periods when production was held at a limited level, which incurred associated costs of USD52.9 million, including depreciation and amortisation of USD18.5 million.

The mining cost during mine operations consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and costs paid to fuel suppliers. For the year ended 31 December 2015, the Group's total mining costs were approximately USD34.8 million (2014: USD126.8 million). Mining unit cost was USD15.5 per ROM tonne for 2015, compared to USD19.7 per ROM tonne in 2014.

Table 9. Total unit mining cost per ROM tonne:

	Year ended 31 December	
	2015 (USD/ ROM tonne)	2014 (USD/ ROM tonne)
Mining cost	**15.5**	19.7
Blasting	**1.3**	1.4
Plant cost	**3.5**	5.5
Fuel	**2.3**	3.4
National staff cost	**1.4**	1.2
Expatriate staff cost	**0.6**	0.5
Contractor fee	**5.2**	5.1
Ancillary and support cost	**0.2**	0.4
Depreciation and amortisation	**1.0**	2.2

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 stripping ratio applicable to each component of the mine. Average accounting stripping ratio for components mined during the year ended 31 December 2015 was 2.5 bcm per tonne, compared to 2.7 bcm per tonne for the year ended 31 December 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 stripping ratio, which is capitalised in the balance sheet as mining structure.

The processing cost during mine operations primarily includes the costs associated with the operations of CHPP including power and water costs. During the year ended 31 December 2015, the Group's processing cost was approximately USD13.1 million (2014: USD31.6 million), of which approximately USD5.2 million is related to the depreciation and amortisation of the CHPP, USD3.0 million incurred in the UHG Power Plant for the power generation and distribution, and USD0.8 million incurred in the UHG Water Supply Facility for the water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne increased by USD0.9 or 18.4% from USD4.9 per ROM tonne for the year ended 31 December 2014 to USD5.8 per ROM tonne for 2015. The increase was mainly attributable to the lower utilisation of CHPP module capacity.

Table 10. Total processing cost and unit processing cost per ROM tonne:

	Year ended 31 December			
	2015	2014	**2015**	2014
	(USD'000)	(USD'000)	**(USD/ROM tonne)**	(USD/ROM tonne)
Total processing costs	**13,084**	31,596	**5.8**	4.9
Consumables	**671**	1,652	**0.3**	0.3
Maintenance and spares	**812**	3,293	**0.4**	0.5
Power	**2,956**	5,640	**1.3**	0.9
Water	**777**	1,863	**0.3**	0.3
Staff	**1,767**	2,636	**0.8**	0.4
Ancillary and support	**897**	1,080	**0.4**	0.1
Depreciation and amortisation	**5,204**	15,432	**2.3**	2.4

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 reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2015, the Group's handling cost was approximately USD1.2 million (2014: USD6.0 million). Unit handling cost decreased by USD0.1 or 9.1% from USD1.1 per tonne in 2014 to USD1.0 per tonne for the year ended 31 December 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 year ended 31 December 2015, the Group's transportation costs, excluding idling cost, were USD15.4 million (2014: USD74.4 million), of which USD8.4 million was related to long-haul (UHG-TKH) transportation, and USD6.9 million was related to short-haul (TKH-GM) cross-border transportation. On a unit cost basis, the Group's overall transportation cost decreased in the UHG-GM section by USD0.6 per tonne or 4.3% from USD14.1 per tonne in 2014 to USD13.5 per tonne in 2015. The transportation cost in the long haul section (UHG-TKH) was increased from USD6.5 per tonne in 2014 to USD7.4 per tonne in 2015. Long-haul transportation costs increased due to lower transportation volume. For the short-haul (TKH- GM) section, where the Group utilised third-party contractors, the Group's transportation costs were reduced by 19.7% from USD7.6 per tonne in 2014 to USD6.1 per tonne in 2015 as a result of effective negotiations on haulage fees with the contractors.

The logistics costs are mainly related to costs associated with operating product stockpiles at UHG and TKH. For the year ended 31 December 2015, the Group's logistics cost was approximately USD2.7 million (2014: USD9.8 million). The reduction in logistics costs is attributable to lower sales volume of coal products.

The site administration cost during mine operations is primarily related to the site support facilities and consolidated management of the Group's mining, processing, transportation and logistics operations. For the year ended 31 December 2015, the Group's site administration cost was approximately USD6.3 million (2014: USD13.0 million).

For the year ended 31 December 2015, total transportation loss was negligible compared to USD1.3 million loss in 2014. During 2015, the Group recorded unrealized inventory loss of USD0.8 million for ROM coal and washed HCC stockpiles at UHG compared to unrealised loss of USD2.3 million recorded in 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.

Table 11. Transportation and stockpile gains and losses by amounts and volumes:

	Year ended 31 December			
	2015 (USD'000)	2014 (USD'000)	**2015 tonne'000**	2014 tonne'000
Transportation and stockpile losses	**862**	3,542	**0.3**	51.7
Transportation loss	**21**	1,283	**2.0**	23.4
Washed coal	**21**	1,283	**2.0**	23.4
Stockpile loss/(gain)	**841**	2,259	**(1.7)**	28.3
Washed coal	**1,660**	3,867	**44.7**	126.0
Raw coal	**(819)**	(1,608)	**(46.4)**	(97.7)

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 year ended 31 December 2015 was approximately 5.4% for coal exported from Mongolia based on customs clearance documentation (2014: 5.0%).

Gross Loss

The Group's gross loss for the year ended 31 December 2015 was approximately USD66.1 million, representing an increase of approximately USD58.9 million from the gross loss of approximately USD7.2 million recorded for the year ended 31 December 2014. The gross loss was driven by (i) decrease in ASP of coking coal products supplied by the Group under the current state of the market, as coking coal pricing continued to be affected negatively by the global supply and demand imbalances; and (ii) lower HCC sales volume.

Selling and Distribution Costs

The Group's selling and distribution costs of USD8.6 million for the year ended 31 December 2015 (2014: USD56.4 million) are associated with the inland China market penetration strategy and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution cost is notably lower compared to 2014 due to lower sales volume.

General and Administration 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 year ended 31 December 2015, the Group's general and administrative expenses was USD30.5 million which was similar to the level of USD30.9 million incurred for the year ended 31 December 2014.

Net Finance Costs

Net finance costs for the year ended 31 December 2015 was approximately USD99.0 million (2014: USD94.5 million). Net finance costs for the year ended 31 December 2015 comprised of (i) interest expense and other credit facilities related expenses, and (ii) USD21.9 million foreign exchange loss due to the depreciating MNT against the USD.

Income Tax Expenses

The Group did not have income tax expense for the year ended 31 December 2015 due to the loss incurred during the period, but had income tax credit of USD16.9 million due to the recognition of deferred tax asset. The Group's income tax credit for the year ended 31 December 2014 was approximately USD59.0 million.

Loss for the Period

As a result of the costs listed above, losses attributable to equity shareholders of the Company for the year ended 31 December 2015 amounted to approximately USD187.8 million (2014: USD282.8 million). The major contributing factor of the Group's net loss position is the 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 Loss

In accordance with IAS 36 Impairment of Assets, entity shall assess at the end of each reporting period whether its assets are carried at value no more than their recoverable amount. Thus, the Company has undertaken an impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets; and the carrying amount of the cash generating unit ("**CGU**") has not exceeded its recoverable amount as at 31 December 2015, and has not resulted in the identification of an impairment loss for the year ended 31 December 2015. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2015 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard. For the year ended 31 December 2014, impairment loss of USD190 million was recognized, considering the prolonged weakening global coking coal prices due to the supply and demand imbalances.

Liquidity and Capital Resources

For the year ended 31 December 2015, the Company's cash needs were primarily related to working capital requirements and debt repayments.

The Company's cash resources were mainly 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.

Table 12. Combined cash flows:

	Year ended 31 December	
	2015	2014
	USD'000	USD'000
Net cash (used in)/generated from operating activities	**(14,184)**	41,173
Net cash (used in)/generated from investing activities	**(36,236)**	25,782
Net cash (used in)/generated from financing activities	**(151,709)**	109,524
Net (decrease)/increase in cash and cash equivalents	**(202,129)**	176,479
Cash and cash equivalents at beginning of the year	**202,856**	26,535
Effect of foreign exchange rate changes	**(25)**	(158)
Time deposits with original maturity over three months	**50,000**	50,000
Cash and cash equivalents at end of the year	**50,702**	252,856

Note: USD36.2 million used in investing activities comprises of USD42.5 million incurred for payments for deferred stripping activity, USD5.4 million generated from interest income and USD0.9 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 31 December 2015 was 57.0% (31 December 2014: 51.9% after considering provision for impairment loss on non-financial assets). All borrowings are denominated in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro and HKD. The Company's policy is to 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 31 December 2015, the Company had used the proceeds from the rights issue as follows:

— approximately USD108.0 million for repayment of existing indebtedness and related interest payments; and

— approximately USD47.5 million for general working capital needs.

Indebtedness

As of 31 December 2015, the Company had USD799.8 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Senior Notes, (ii) USD150 million from BNP Paribas, Singapore Branch and Industrial and Commercial Bank of China Limited (the "**BNP and ICBC Facility**"), (iii) USD180 million from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), (iv) USD40 million revolving credit line from Trade and Development Bank of Mongolia, (v) USD10 million short-term loan from Golomt Bank of Mongolia, and (vi) USD5 million short-term loan.

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 redeemed earlier. As of 31 December 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 31 December 2015, the outstanding principal amount of such BNP and ICBC Facility was USD93.0 million. Under the BNP and ICBC Facility, the Company shall not issue any shares if such issue results in (i) the creation of a new share class of the issued share capital of the Company, and (ii) a change of control by controlling shareholder of the Company ceases to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

Under the EBRD, FMO and DEG Loan Agreements, interest were initially based on six-month LIBOR plus 3.75%-4.25% margin 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. Pursuant to amendments to the EBRD, FMO and DEG Loan Agreements, starting from September 2015, the interest rate was decreased to one-month LIBOR plus 3.5%-3.75% margin per annum and outstanding principal amount and interest is payable on a monthly basis until the maturity date of 15 May 2016.

As at 31 December 2015, the outstanding principal amount was USD51.8 million. Under the EBRD, FMO and DEG Loan Agreements, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the ER than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the ER, or the ER may not cease to be directly majority owned by entities domiciled in Mongolia, in each case without the prior written consent of EBRD, FMO and DEG.

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 31 December 2015, the outstanding principal amount was USD40 million. Subsequent to the balance sheet date, the Group had entered into extension agreement on 21 March 2016 which deferred the maturity date to 20 June 2016.

On 23 March 2015, the Group obtained a short-term loan of USD10 million maturing in January 2016 from Golomt Bank of Mongolia. Subsequently the term of the loan was extended to May 2016. Such loan bears interest of 8.80% per annum. As of 31 December 2015, the outstanding principal amount was USD10 million.

As of 31 December 2015, the Group has USD5 million outstanding short-term loan, which bears interest of 1.25% per month and subsequent to the balance sheet date the loan has been repaid in February 2016 by converting to coal pre-payment facility.

Credit Risk

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

For the year ended 31 December 2015, the Group had approximately USD2.0 million in trade receivables, USD92.3 million in other receivables and USD0.4 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 Company's overall credit quality and the recoverable amount of each individual trade credit based on quantitative and qualitative analysis. The purpose of the Credit Policy is to set limits for and monitor the unsecured credit provided to customers at an aggregated Group level and to single customer, and the maximum contractual term for unsecured limit. As of 31 December 2015, in accordance with the Credit Policy and based on the Credit Committee's assessment, certain debts in the amount of approximately USD18.2 million aged over one year, recoverability of which was assessed as doubtful, were written off against the existing allowance for doubtful debts and provision of additional USD8.5 million was made for allowance for doubtful debts, in line with the overall ageing analysis of trade receivables balance as at 31 December 2015 to USD2.0 million. 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 USD92.3 million, this amount is mainly related to USD20.8 million VAT and other tax receivables, USD42.0 million from 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 USD28.0 million against its other tax payments and payables to certain suppliers. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

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

Foreign Exchange Risk

During the two years ended 31 December 2015 and 2014, 100% and 100% of the revenue and 61.4% and 87.6% of the purchases in each respective year were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

For the year ended 31 December 2015, 0.4% and 99.6% of the revenues were denominated in USD and RMB respectively. For the year ended 31 December 2014, 19.8% and 80.2% of the revenues were denominated in USD and RMB respectively.

For the year ended 31 December 2015, 98.2% and 63.8% of the finance costs and operating expenditures, respectively, were denominated in USD, while 0.7% and 2.1% of the finance costs and operating expenditures were denominated in RMB; 1.0% of the operating expenditures were denominated in other currencies than the USD, RMB and MNT with the remainder denominated in MNT. For the year ended 31 December 2014, 99.9%, 27.1% and 34.8% of the finance costs, operating expenditures and capital expenditures, respectively, were denominated in USD; while 20.2% and 0.3% of the operating expenditures and capital expenditures, respectively, were denominated in RMB; 0.3% and 5.7% of the operating expenditures and capital expenditures, respectively, were denominated in other currencies than the USD, RMB and MNT; and the remainder was denominated in MNT.

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

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2015 and 2014 amounted to USD50.2 million and USD245.8 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2015 and 2014 amounted to USD101.8 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 31 December 2015, the Company pledged ER's 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 Hong Kong; cooperation contract with Inner Mongolia Qinghua Group of China, coal sales contracts with certain customers; coal mining agreement with Thiess Mongolia LLC (formerly known as 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; water facilities and certain coal stockpiles for bank borrowings.

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

ER pledged its 4,207,500 common shares, being 16.46% common shares held by it in International Medical Centre LLC ("**IMC**") to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

The total amount of indebtedness covered with above pledges is USD744.8 million as at 31 December 2015.

Contingent Liabilities

As at 31 December 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 its parent, Kerry Mining (Mongolia) Limited (collectively the "**Seller**") on 31 May 2011 in relation to the acquisition of the entire share capital of QGX Coal Ltd (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

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

Financial Instruments

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 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 year ended 31 December 2015, USD3.3 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 31 December 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 31 December 2015, the Group had USD0.5 million of contracted for capital commitments (as at 31 December 2014: USD0.6 million):

Table 13. Capital commitments:

	As at 31 December 2015 USD'000	As at 31 December 2014 USD'000
Contracted for	**525**	560
Authorized but not contracted for	**—**	—
Total	**525**	560

Table 14. The Group's historical capital expenditure for the periods indicated:

	Year ended 31 December	
	2015	2014
	USD'000	USD'000
CHPP	**59**	1,441
Water supply facility	**124**	2,391
Fleet management system	**—**	1,023
Others	**277**	1,093
Total	**460**	5,948

Operating Lease Commitments

As at 31 December 2015, the Company had contracted obligations consisting of operating leases which totalled approximately USD1.6 million due within one year. Lease terms range from one to five years, with fixed rentals.

Significant Investments Held

As at 31 December 2015, the Company did not hold any significant investments. Save as disclosed in this annual 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 year ended 31 December 2015, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

(a) On 11 March 2016, the Group entered into the Deed of Termination and Release (the "**DTR**") with EBRD, FMO, and DEG (the "**Parallel Lenders**") regarding the repayment of secured interest bearing borrowings. Pursuant to the DTR, the Group shall endorse to the Parallel Lenders certain promissory notes issued by Ministry of Finance ("**MOF**") with total amount of approximately MNT105.6 billion, and in return the obligations under the borrowings will be discharged in their entirety and the relevant security thereunder will be released after 121 calendar days plus 2 business days from the signing of the DTR. Until the issuance of the consolidated financial statements, the Group had completed the endorsement of promissory notes as required by the DTR.

(b) Pursuant to a temporary waiver letter granted by the Lenders of the BNP and ICBC Facility on 14 March 2016, the Group is due to repay principal installments of approximately USD36.8 million together with applicable interest payment on 22 March 2016. As of the issuance of the consolidated financial statements, the Group had neither made the payment to the Lenders nor been able to secure any waiver or forbearance from the Lenders in this regard. As such, an event of default under the BNP and ICBC Facility has taken place, which also constitutes an event of default under certain of the Group's other indebtedness that contain cross-default provisions, including the Senior Notes issued by the Group with a principal amount of USD600 million due on 29 March 2017.

The Group has proposed to enter forbearance agreements with both the Lenders and the steering committee of the holders of the Senior Notes (the "**Steering Committee**"). The Group is in discussion with and intends to continue dialogue with the Lenders and the Steering Committee and their respective advisers. Also, until the issuance of the consolidated financial statements, the Group had not obtained corresponding waivers from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited in respect of the financial covenants breach of the BNP and ICBC Facility. As such, an event of default under the BNP and ICBC Facility has taken place. The Group has initiated discussions with the Lenders for revised terms of the debt facility. Given the material amount of the BNP and ICBC Facility and also existing Intercreditor Agreement between Lenders and the holders of the Senior Notes in relation to the shared securities and guarantees, the discussions to revise the BNP and ICBC Facility are undertaken in connection with the debt restructuring in respect of the Senior Notes. The Group continues discussion with the Lenders regarding waivers on breach of certain security coverage ratio and financial covenants under the BNP and ICBC Facility.

Until the issuance of the consolidated financial statements, the Group has not received any notice from any of the Lenders demanding immediate repayment of any outstanding amount under the BNP and ICBC Facility or any holder of the Senior Notes or any other creditors.

Employees

As at 31 December 2015, the number of employees of the Group was 1,797 compared with 1,950 employees as at 31 December 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.

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 co-workers. The immediate management shall be responsible for the support and supervision of the process. During the year ended 31 December 2015, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2015, a total of 231 employees attended different professional trainings, out of which 96 employees attended mining heavy equipment operator training, 91 employees attended mine maintenance training and 44 employees attended professional development training.

For the year ended 31 December 2015, the amount of staff costs was USD26.6 million, compared to USD31.7 million in 2014.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Company has entered into the following continuing connected transactions (the "**CCTs**") in the ordinary course of its business with certain of its connected persons. Set out below is a summary of the CCTs entered by the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") recorded for the year ended 31 December 2015 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules.

(1) Power System Operation and Maintenance Agreement

Principal Terms

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

Connected Person

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

Consideration

The total consideration payable under this agreement, which equals to the sum of the annual caps for the three years ending 31 December 2017, is MNT86,332,146,634 (then equivalent to approximately USD45,815,832) payable on a monthly basis within 60 days upon receipt of valid invoice from MCS International LLC. The annual caps were determined on an arm's length basis between the Group and MCS International LLC after taking into account (i) the negotiated fixed and variable charges; (ii) negotiated energy tariff; (iii) anticipated electricity production volume after considering production and business expansion; (iv) scheduled major overhauls of the power plant equipment; (v) VAT and other taxes; and (vi) contingencies that would be applicable and payable for the services of MCS International LLC under the agreement. Annual cap for this agreement is MNT26,877,569,129 (then equivalent to approximately USD14,263,727) for the year ended 31 December 2015.

Transactions (excluding VAT) in the total amount of MNT16,196,949,494 (equivalent to approximately USD8,222,720) was made by the Group for the year ended 31 December 2015 under this agreement.

(2) *Fuel Supply Agreement with NIC LLC*

Principal Terms

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

Connected Person

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

Consideration

The maximum consideration payable under this agreement is USD784,369,936 payable on a monthly basis within 60 days upon receipt of valid invoice from NIC LLC. The consideration was determined by the tender proposal submitted by NIC LLC which is based on market rate of fuel products. Annual cap for this agreement is USD254,580,068 for the year ended 31 December 2015.

Transactions (excluding VAT) in the total amount of USD12,975,749 was made by the Group for the year ended 31 December 2015 under the agreement.

(3) *Fuel Supply Agreement with Shunkhlai LLC*

Principal Terms

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

Connected Person

Shunkhlai LLC is an associate of Mr. Batsaikhan Purev, who has resigned from his position as non-executive Director with effect from 30 November 2015. As at the date of this annual report, Mr. Batsaikhan Purev is considered as a person who was a director of the Company in the last 12 months and therefore, Shunkhlai LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is USD169,373,021 payable on a monthly basis within 60 days upon receipt of valid invoice from Shunkhlai LLC. The consideration was determined by the tender proposal submitted by Shunkhlai LLC which is based on market rate of fuel products. Annual cap for this agreement is USD56,144,383 for the year ended 31 December 2015.

Transactions (excluding VAT) in the total amount of USD1,831,699 was made by Transgobi LLC for the year ended 31 December 2015 under the agreement.

(4) Service Agreement

Principal Terms

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

Connected Person

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

Consideration

The maximum consideration payable under this agreement is MNT72,957,978,408 (then equivalent to approximately USD43,026,555) payable on a monthly basis within 60 days upon receipt of valid invoice from Uniservice Solution LLC. The consideration was determined based on the size of the location where services are to be provided, the number of employees utilising the camp site, the temporary ger camp located at the UHG mine site and BN mine site, and on an arm's length basis between the Company and Uniservice Solution LLC based on the bid submitted by Uniservice Solution LLC. Annual cap for this agreement is MNT24,319,326,136 (then equivalent to approximately USD14,342,185) for the year ended 31 December 2015.

Transactions (excluding VAT) in the total amount of MNT6,859,431,072 (equivalent to approximately USD3,482,333) was made by the Group for the year ended 31 December 2015 under the agreement.

(5) Security Services Agreement

Principal Terms

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

Connected Person

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

Consideration

The maximum consideration payable under this agreement is MNT12,933,103,680 (then equivalent to approximately USD7,627,225) payable on a monthly basis within 60 days upon receipt of valid invoice from M Armor LLC. The consideration was determined on an arm's length basis between the Company and M Armor LLC based on the bid submitted by M Armor LLC. Annual cap for this agreement is MNT4,311,034,560 (then equivalent to approximately USD2,542,408) for the year ended 31 December 2015.

Transactions (excluding VAT) in the total amount of MNT3,415,210,168 (equivalent to approximately USD1,733,803) was made by the Group for the year ended 31 December 2015 under the agreement.

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

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

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

(ii) on normal commercial terms or better; and

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

The Board has received a letter from the auditor of the Company confirming the matters set out in Rule 14A.56 of the Listing Rules that in respect of the disclosed CCTs:

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

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

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

(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (5), nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the annual cap disclosed in the announcements made by the Company in respect of each of the disclosed CCTs.

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

Sustainability Report

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

We integrate sustainability into the core of our business strategy and are committed to ensure that our operations appropriately account for their respective social and environmental consequences. We have Sustainable Development Policy and Corporate Social Responsibility ("**CSR**") Policy, which alongside with our corporate documents and guidelines in the relevant fields, define our approach and responsibility towards diverse stakeholder groups.

Effective and proper utilization of natural resources and continual strengthening of sustainable development practices are crucial for our long-term business success. We work in compliance with all applicable international and local standards at each and every level of our operation, ensure we put the health and safety of our employees and communities first, and seek to minimize our environmental impact. We also strive to be an integral part of the communities in which we operate, and foster sustainable and fruitful relationships with them in order to create lasting value.

Our governance framework clearly defines the role and approaches our board and management should take in overseeing the performance in sustainability. Transparency, accountability, respect for the rule of law and respect for human rights are all deemed crucial in sustaining meaningful and long-term engagement with our stakeholders.

BUSINESS INTEGRITY

Code of conduct

Integrity and accountability are core values at MMC and are central to our reputation as a socially responsible mining company. We have a Code of Conduct (the "**Code**") that restates our commitment to responsible action and establishes good governance and CSR as essential principles for valuing employees, preserving the environment and contributing to development of the communities in which we operate. A set of desirable behaviours are embedded in the Code which promote a positive and responsible professional attitude among employees and leaders. Employees at all levels, including executives and contractors must strictly follow the Code and act with responsibility, honesty, trust, respect, and loyalty, obeying all laws and regulations in effect. Violations of the Code are taken seriously and can result in disciplinary actions. No disciplinary actions were recorded in the reporting period.

Human rights

At every level of our operations, we respect the human rights of our employees, host communities and partners. We uphold the United Nations ("**UN**") Universal Declaration of Human Rights, the International Labour Organisation ("**ILO**") Declaration on Fundamental Principles and Rights at Work and The UN Guiding Principles for Business and Human Rights. We are committed to equal opportunity and freedom from all forms of discrimination for our employees and their rights to freedom of association and collective bargaining.

In line with the above, we promote human rights within our sphere of influence in the following ways:

- At our operational sites and offices, we aim to ensure that equal opportunity is afforded to all our employees irrespective of race, gender, nationality, age, religious belief, social origin, political views, union affiliation, pregnancy, disability or any other basis. Our employees are free to exercise freedom of association and freedom of speech. We have feedback boxes at our mine sites to allow employees to express their opinions and report any breaches of ethical conduct and behaviour. We also endeavour to maintain a working environment free from workplace harassment and discrimination which promotes professional and personal growth;

- In the value chain, we seek to establish relationships with suppliers and contractors which share our principles and values while promoting awareness and application of human rights protection; and
- With local communities, we maintain continuous engagement based on dialogue and mutual respect for their rights to access land, access to water, freedom of movement and freedom of expression.

Our community grievance handling mechanism allows the host community members to freely submit their complaints and grievances to the Company's management and respective departments. We established a Human Rights Task Force in 2010 and subsequently developed the Human Rights Program which addresses our corporate sustainability policy in the area of human rights. Within the framework of the program, we provide customised training on Voluntary Principles on Security and Human Rights to our security service providers. In this way, we ensure that they are aware of our commitment to upholding human rights and any violations or workplace-related risks are duly prevented. In the reporting period, we recorded no such violations.

Forced or compulsory labour

We do not employ or support any type of forced, compulsory or child labour as defined by the ILO as "all work or service which is extracted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily". We strictly adhere to our principles that an employee should have the right to leave the work premises after completing the standard workday and to terminate employment after giving reasonable notice. MMC does not employ a person who is under the national legal age of employment and in line with our recruitment policy, we employ people aged 18 or older. In the year under review, the Company has not employed any people aged under 18.

Transparency

We report our financial statements and the results of our operational and sustainable development performance in accordance with all applicable rules and legislations, to ensure maximum transparency that is commercially viable. We are one of the active supporters of the Extractive Industry Transparency Initiative ("**EITI**") in Mongolia and have been disclosing our payments to the government since the start of our mining operations in 2009.

The National EITI Council in Mongolia operates at national, regional and local levels to expand its outreach to aimags and soums with active mining operations. In 2015, MMC had an active participation in sub-council meetings in both Umnugobi aimag and Tsogttsetsii soum and disclosed its payments to the government, spending on community development projects, tax payments to the local government, sponsorships and environmental issues, among others. The meetings were attended by representatives of the National EITI Council as well as local civil society organizations, local administration and local council members. We believe that direct and two-way communication with all of the above participants is essential in ensuring that our information reaches various stakeholders in a transparent manner.

Our project related information is disclosed to our host communities every year as part of our Public Consultation and Disclosure Plan.

Fair operating practices

We are committed to high-level governance and ethical business conducts, and strongly believe that bribery, corruption, unfair supply chain practices and other similar behaviour that violate the rule of fair play would negatively affect the Company's image and undermine its future performance. The Code and other guidelines clearly prohibit bribery and corruption in all forms of business dealings. We also strive to implement socially responsible supply chain practices and anti-corruption practices by working closely with our suppliers, host communities and relevant government agencies. A system is in place to ensure that our procurement practices are free from unfair business dealings.

We have an independent internal audit function as well as a donation/sponsorship committee which prevent from all kinds of unfair dealings or making of payments in kind (gifts or favours) to influence individuals to award business opportunities to us or to make a business decision in our favour.

We are committed to cooperative, respectful and positive dialogue with policymakers and government agencies of Mongolia. We believe this should be based on genuine consultation and accountability. In doing so, MMC participates in and contributes to all major public policy discussions and initiatives through proactive engagement with policymakers on a wide range of issues including dialogue on the operational and legal environment surrounding the mining industry in Mongolia.

We recorded no cases of bribery, corruption or unethical business conduct in the reporting period.

OUR PEOPLE

A skilled and motivated workforce is central to our successful business operation. We engage our people over the long term and in line with our overall business strategy. We believe that it is essential to encourage diversity while providing a safe, challenging and exciting working environment where our employees can realize their full potential. Fair opportunities are provided at every level of our business operation and good performance and leadership are rewarded accordingly. As one of the largest private employers at both local and national level, we seek to:

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

Our human resources ("**HR**") activities are in full compliance with the Mongolian Labour Law and other relevant legislation. We have passed the state labour inspections with outstanding results compared to other mining companies operating in Mongolia since 2012. In 2014, we were officially informed that no formal labour inspections will be carried out in 2015 to 2017 due to our exceptional HR performance. Nonetheless, we continue to have a strong focus on development at all levels within the Company and strengthening our HR system.

Highlights of 2015

- Focused on optimizing the Company's organizational structure and operational productivity through analysis of job position performance, merger of job duties in certain areas and upgrading of job descriptions;
- Updated our relocation policy under which all of our site employees are enabled to buy an apartment with financial assistance from the Company;
- Commenced the process of introducing a payroll administration system via our integrated Oracle Enterprise Resource Planning software in order to improve staff payroll accuracy and efficiency; and
- Transferred more authority to our site based management resulting in faster decision making and increased productivity at all levels of business.

Non-discrimination and equal opportunity

In line with the Company's effort to build productive and diverse workforce, we do not tolerate discrimination based on race, gender, nationality, age, religious belief, social origin, political views, union affiliation, pregnancy, disability or any other nature and abide by Mongolian Labour Law and all applicable legislation with respect to non-discrimination. We strive to engage in good practice efforts that go beyond the legal obligations. Our internal rules and guidelines clearly reflect the policy to conduct all types of HR activities based on principles of non-discrimination.

All of our employees enter into written employment contracts with the Company which detail, among other things, their duties and responsibilities, remuneration, as well as the grounds for termination of employment. We employ people on the basis of job requirements and matching skills, but seek to provide preferential employment to local people where possible in order to make tangible economic contributions to the communities in which we operate.

As of 31 December 2015, we had a total of 1,797 employees of which approximately 45% were hired from the local communities. The percentage of our local employees has steadily increased over the recent years (see Table 15), signifying our strong commitment to the host communities.

Figure 3. HR statistics

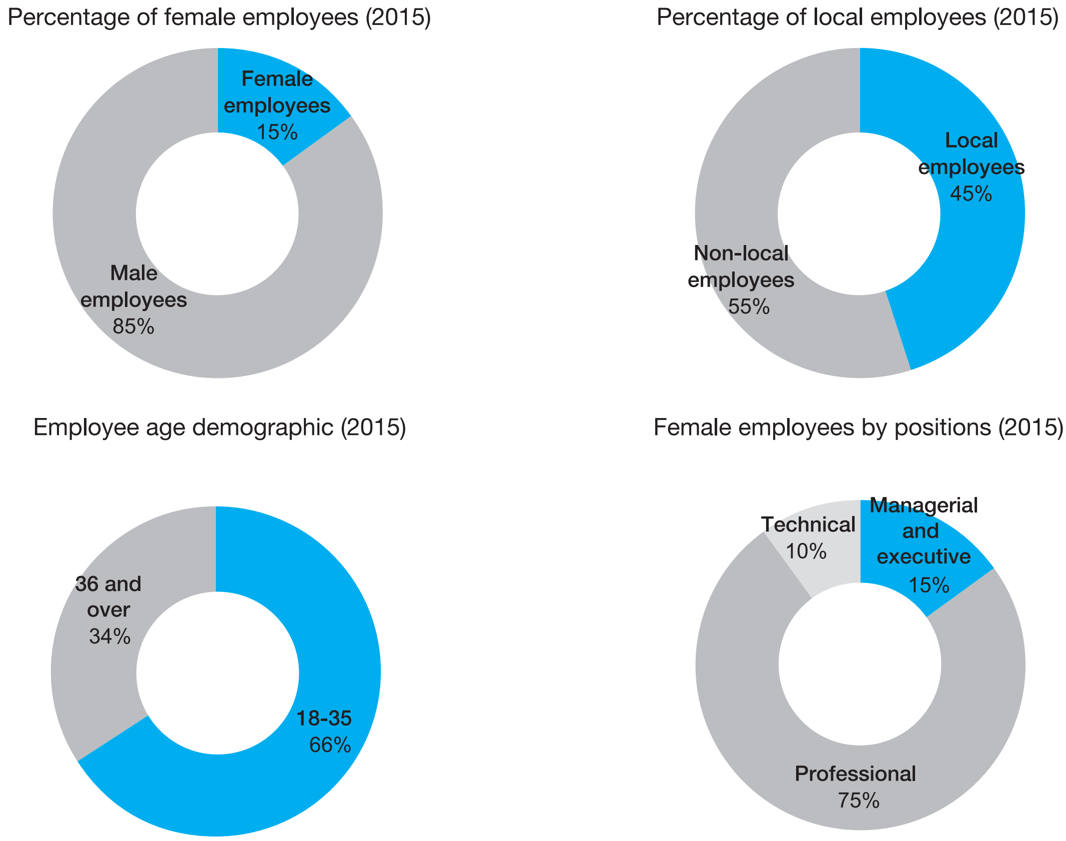


Table 15. HR statistics

MMC	12/31/2013	12/31/2014	**12/31/2015**
Total number of employees	2,272	1,950	**1,797**
Number of female employees	324	296	**259**
Number of female employees in management position	9	15	**40**
Percentage of local employees	43.3%	40.6%	**45%**

As part of providing equal opportunity to all employees, role based remuneration is determined on an “equal work, equal pay” basis. Accordingly, equal base salaries are paid to employees working in the same position under the same conditions. Within this system, wage discrimination on any basis, such as gender or employee domicile, is not possible. Variation in remuneration is, however, applied on basis of a transparent grading system developed to objectively account for variation in employee skill, experience and performance.

In 2015, approximately 15% of our total employees were female. Of those female employees, approximately 10% hold technical positions, 75% hold professional positions (analysts, engineers, geologists, etc.) and 15% are managers and executives.

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

Employee remuneration and benefits

As a responsible employer, we offer competitive compensation packages and welfare benefits to all of our employees consistent with the Mongolian Labour Law and other relevant legislation. Our remuneration and compensation strategy aims to provide employees with competitive remuneration packages that comprise monetary remuneration, various types of benefits and a safe and pleasant work environment. Salary reviews are conducted on an annual basis as part of the performance review cycle and account for the individual's role, performance and local market trends.

Our employee benefits include:

- Bonus and incentives schemes;
- Parental and other types of paid leave;
- Stand-by allowance;
- Resettlement and local allowances;
- Free-of-charge comprehensive medical check-ups;
- Assistance with housing costs;
- Assistance accessing low interest housing loans;
- Monetary allowances for phone use and transportation;
- Subsidies for a range of health and wellness activities;
- Personal accident insurance;
- International health insurance; and
- Others (events, celebrations, gifts, one-off allowances, etc.).

These benefits are offered to all employees irrespective of their position and length of employment. In the reporting period, the Company spent approximately MNT3 billion for employee benefits and allowances.

Employee performance incentive plans designed relative to Company, department and individual performance are maintained by the Company, providing mechanism to reward and retain high performing employees.

Employee turnover

The employee turnover rate within the Group decreased from 18% in 2014 to 10% in 2015. In line with our overall HR policy, special focus has been given to those who leave the Company on a voluntary basis and appropriate measures are taken regarding the reasons for leaving.

The Company's relocation policy plays an important role in keeping the turnover rate at minimum. It enables all of our employees working on site to have access to a housing project and get financial assistance from us where appropriate. Since 2013, approximately 650 employees have been relocated to Tsogttsetsii soum with their families. We pay special attention to the families of resettled employees, providing them with all kinds of direct and indirect assistance and carry out targeted social development programs.

In addition to the above, all of our employees undergo periodic performance reviews which serve as a conduit for professional development and help them achieve career targets.

Training and development

The development of our people is recognized as a vital aspect of our achievements, and we believe that the performance of each employee effectively impacts the Company's performance as a whole. We aim to choose the best people for the right positions and provide them with access to on-going career development opportunities.

We invest consistently in the training of mining professionals due to the lack of suitably skilled personnel both at the local and national level, thus job specific training form a big part of our overall training platform. The Company focuses mainly on conducting in-house trainings rather than outsourcing, with an aim to reduce costs and improve operational efficiency. During the year under review, we conducted 18 types of training programs, of which, 3 were in professional and vocational fields such as heavy equipment operation and maintenance while the remaining 15 involved general corporate skills training. A total of 145 employees participated in corporate and vocational skills training for approximately 7,788 man-hours. The average training hours per employee was 53.7 hours.

In 2015, we adopted a new "On boarding policy" to better assist new employees to settling in MMC and adapt to the business culture. It also enables new employees to understand daily priorities and get familiar with the corporate policies and guidelines in the shortest possible time.

Table 16. Training highlights

2015 Training highlights	
Total number of participants in heavy machinery operator training	96
Total number of participants in mine maintenance training	91

HEALTH, SAFETY & ENVIRONMENT

We pursue excellence in Heath, Safety and Environmental ("**HSE**") practices to ensure an incident-free, safe and healthy workplace where our employees can realise their full potential. As such, we have developed and implemented an integrated Health, Safety and Environmental Management System ("**HSE MS**") to help achieve the objectives and targets set out in our HSE policy. Our systems and processes seek to provide our employees and contractors the necessary directions to practise safe work behaviours and make each individual accountable for the implementation of the HSE MS and its accompanying elements, rules and procedures.

The HSE performance is driven by our commitment of 'Zero harm' to our people and communities and minimal adverse impacts on the environment. Within the framework of the HSE policy, we are committed to the following objectives:

- Identify, assess and manage risks to employees, contractors, communities and the environment;
- Comply with the applicable national legal, and target international best practice requirements;

- Enforce accountability mechanisms that ensure each employee contributes to providing a safe and healthy workplace and prevent all types of environmental pollution;
- Provide relevant HSE training for employees, contractors and local communities;
- Ensure that the Company management at all levels are HSE role models and lead by example;
- Take all necessary measures to prevent industrial accidents and environmental incidents. In the event of any accidents or incidents, investigate the root cause and take swift action to rectify the risk to prevent re-occurrence;
- Ensure that assessment, reporting and management of any potential HSE risks are duties of all employees;
- Review and continually improve the HSE MS implementing learnings from any accidents, incidents or non-conformances;
- Review and assess the HSE performance of individual employees; and
- Support and reward the practice of receiving HSE risk reports from local community members and actively cooperate with them to eliminate potential risks.

The HSE policy aims to strengthen the leadership of managers at all levels and involve all employees in the implementation of the policy. Accordingly, we have a formally approved HSE structure and HR in place to ensure the continual improvement of the HSE MS according to the requirements of ISO 14001:2004 and OHSAS 18001:2007 standards.

HSE MS review and improvement

As part of the HSE MS requirements, a pack of HSE MS documents was approved by the Company's CEO Order A/31 dated June 2013 and has been effective since then. The review and improvement of the integrated documentation continued throughout the reporting period to ensure that it meets Mongolian applicable legislative requirements.

In 2015, the following parts of the document were reviewed and updated in dual languages:

- ER-SS-HSE-EL-01.00 Legal and other relevant requirements;
- ER-SS-HSE-EL-02.00 Objectives and planning;
- ER-SS-HSE-EL-03.00 Roles, responsibilities and accountability;
- ER-SS-HSE-EL-04.00 Risk management;
- ER-SS-HSE-EL-05.00 Training awareness and competence;
- ER-SS-HSE-EL-06.00 Communication, consultation and participation;
- ER-SS-HSE-EL-07.00 Emergency preparedness and response;
- ER-SS-HSE-EL-08.00 Incident investigation and reporting;
- ER-SS-HSE-EL-09.00 Documented information;
- ER-SS-HSE-EL-10.00 Audits, inspections and compliance; and
- ER-SS-HSE-EL-11.00 Management review.

In September 2015, the ISO 14001:2004 standard was upgraded to ISO 14001:2015, thus a review process is underway to reflect amendments of the new standard into the integrated documents.

Occupational health and safety ("OHS")

To achieve and maintain incident free workplaces, it is required to identify and mitigate potential risks. Hence, core management objectives include identifying and evaluating hazards, and introducing appropriate mitigation measures to control risks to appropriate levels. The main occupational health challenges that pose threats to our employee's well-being are fatigue, muscular-skeletal injuries, noise induced hearing loss, dust related respiratory illnesses and infectious diseases. In accordance with our Occupational Health and Disease Policy, we identify job positions in which our people are exposed to occupational health hazards, and actions are in place to prevent and mitigate discovered hazards. Other preventative measures include building awareness and knowledge of disease and other health hazards through internal training and awareness campaigns.

At our workplaces, medical and emergency response teams are maintained on a 24-hour basis to ensure that any accidents and emergencies are responded to immediately. The site-based emergency response team also responds to fire and other emergency calls within the local community. Our employees form a part of the local communities in which we operate, hence any public health issues confronting the community affect our workforce as well. We also work in partnerships with local communities, public health authorities and other stakeholders to improve education on, protection from and prevention of public health risks and widespread diseases.

In 2015, the Company continued with its efforts to prevent workplace related illnesses, injuries and environmental incidents by continuing to monitor and review HSE performance and applying new standards and procedures into the integrated documents, where required.

Highlights of 2015

- No fatality was recorded;
- No occupational illnesses were recorded;
- No complaints on environment related issues were received;
- No fines were imposed for OHS compliance breaches; and
- Achieved a record low LTIFR.

OHS performance

In 2015, we aimed to reduce the OHS incident rate by 20% from the previous year and set the targets as below:

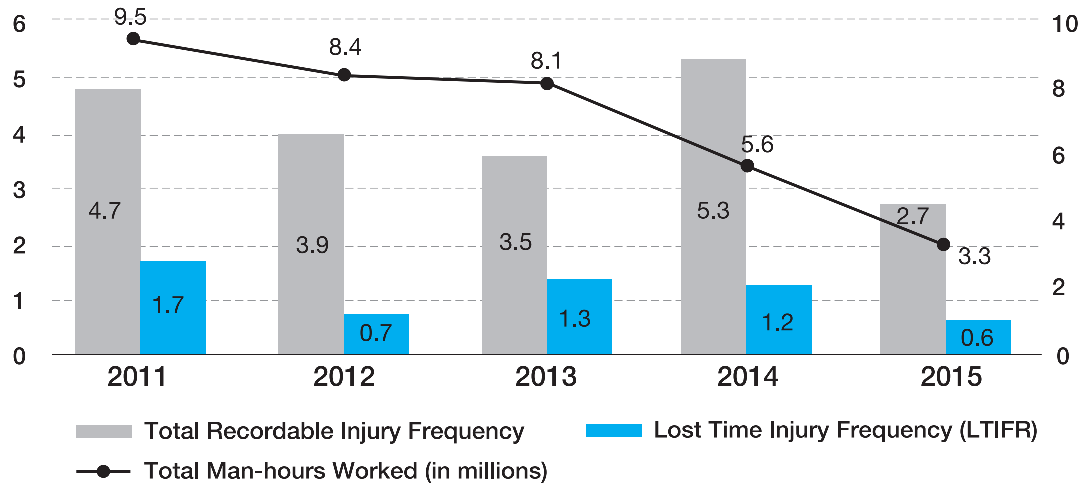
Class 1 incidents (Fatality or permanent disability)	0
LTIFR	1.0
Total recordable injury frequency rate ("**TRIFR**")	4.3

The below table and corresponding graphs show our performance on the set OHS incident targets.

Table 17. 2015 Safety statistics

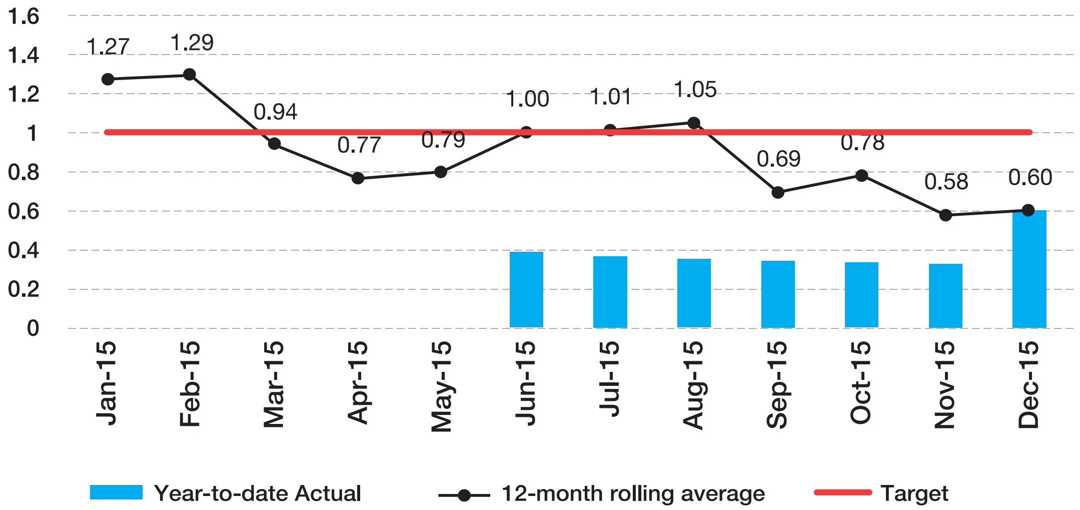
	2014	**2015**
Total man-hours worked	5,643,141	**3,330,938**
Fatalities	2	**0**
TRIFR	5.32	**2.70**
LTIFR	1.24	**0.60**
Legal compliance	87.25%	**87.2%**
Severity (total lost workdays/total hours worked*1000000)	158	**28.2**
Safety inductions (number of employees and contractors covered)	12,681	**5,202**

Figure 4. Injury Frequency Rates, 2011 - 2015



Within all operations under the management of the Group, approximately 3.3 million man-hours were worked by employees, contractors and sub-contractors in 2015. During this period, 2 LTIs were recorded, resulting in an overall LTIFR of 0.6.

Figure 5. LTIFR (year-to-date) and 12-month rolling average



The recorded LTIFR during the 2015 calendar year represents the Group's best reported performance in any half or full year of operation thus far, and demonstrates its on-going commitment to achieve and sustain the goal of "Zero harm". It also compares favourably in comparison to publicly available international mining industry safety statistics, such as those from the Queensland Government Department of Natural Resources and Mines (Surface Coal Mines, 2.3, 2014-2015) and the New South Wales Department of Resources and Energy (Surface Coal Mines, 2.9, 2014-2015). This performance was underpinned by the development, implementation and continual improvement of the Group's HSE MS. During the reporting period, safety training and inductions were delivered to 5,149 employees, contractors and visitors, and OHSE specific training man-hours totalled 12,598.

A total of 54 incidents and near misses were recorded during the reporting period with all required investigations were completed. Out of 212 planned corrective actions, 185 were completed for 87% compliance. Within the framework of incident prevention measures, a total of 131 hazards were identified, of which 120 were corrected, for completion rate of 92% against target of 80%.

Workplace occupational hygiene monitoring was conducted across all operational areas on a regularly scheduled basis. The types of monitoring included thermal environmental factors, noise, lighting, vibration, general and small particulate airborne dust, oxygen and other gases in the air, and all of the results were in compliance with the national standards.

As part of the occupational hygiene, safety and environmental inspections, a total of 115 individual inspections were carried out at various workplaces. All identified hazards and HSE MS non-conformances were investigated to discover and eliminate root causes. Accordingly, 73.8% of the non-conformance were corrected.

Each operational department conducted risk assessments to identify Class 1 Risks (risks that could result in fatality) and developed suitable control measures to manage the risks. Chemical risk assessments were also carried out and control measures were taken accordingly. Through the emergency medical service and rehabilitation function, a total of 15 emergency calls were received and appropriate medical services were provided, in addition to monthly operational check-ups and maintenance of first aid facilities distributed at strategic locations at the workplaces. Overall, the medical service team provided site diagnosis and routine check-up services for a total of 1,234 employees.

Environmental stewardship

Responsibility for environmental stewardship is taken seriously by the Group, and it is central to our sustainability approach. We have robust environmental management systems and practices through which we assess and identify potential environmental risks, conduct routine monitoring, and report the performance results to minimize the adverse impact of our operations on the environment.

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

Individual management plans are devised based on the results of the Environmental and Social Impact Assessment conducted previously during project development. The following six environmental management plans are in place to ensure that we are accountable for our environmental footprint: dust management plan, erosion and sediment control plan, waste management plan, hazardous waste management plan, tailings storage facility ("**TSF**") management plan, mining closure and reclamation plan, and monitoring plan. The implementation of environmental management plans are reviewed annually against various KPIs. Based on the outcomes of the review, corrective actions are taken for continuous improvement.

Highlights of 2015

- No critical environmental incidents were recorded at our operations in the reporting period;
- 1.3 hectares of stockpiled topsoil was re-vegetated as part of our top soil handling management activities, in order to maintain microbe and nutrient content of the soil and prevent potential risks in plant performance;
- 0.5 hectares of dust generating bare ground was landscaped around the Tsetsii apartment complex, with approximately 2,500 trees planed, gardens established and grass seed sown in collaboration with employees in the local community; and
- Performance against the annual environmental management plan was audited by an environmental inspection commission of the Umnugobi aimag government and was assessed as being sufficient at 89.5%.

Environmental incidents

The main types of potential environmental incidents applicable to our operations are noise and dust exceeding allowed limits, hydrocarbon spills, improper use and storage of chemical substances and hazardous materials, wildlife deaths, improper disposal of waste and other incidents that negatively impact the environment. All occurrences of environmental incidents are investigated, remedied, monitored and reported by our environment team to prevent re-occurrence in the future. We have an internal rating scale for incidents based on their severity, which was last updated in April 2015. Accordingly, the risk rating scale uses 5 classifications which are low, minor, moderate, high and extreme. More specific classifications are developed for each environmental risk subjects including spills, waste disposal, land disturbance, air emissions, fauna injury and others.

In 2015, we recorded no environmental incidents with "high" or above classifications. Two incidents occurred with "low" classifications which were spillage of waste water and usage of anticorrosive substance for truck tires. For both incidents, full investigations were carried out to identify the root causes and corrective and preventive actions were taken to prevent re-occurrences.

Biodiversity

Coal mining activities have potential to impact on the surrounding flora and fauna throughout the mine life cycle. Therefore, we find it crucial to understand the biodiversity elements of the region in which we operate and plan our actions. Our aim is to minimize and manage the potential environmental impacts based on our project Biodiversity Action Plan ("**BAP**"). It is a regulatory requirement to have in place active biodiversity management plans which are reviewed annually and inclusive of a set of budgets for planned activities. We have been conducting flora and fauna monitoring since 2011.

As part of the BAP, the Company has organized wild animal conservation activities every year since 2009. In February 2015, the Company's environmental team placed 20m^3 of ice in several locations in "Tsetsii" mountain to prevent dehydration of hoofed mountain animals in the region, including the Siberian ibex and argali (wild sheep) in snowless periods throughout the winter months.

As part of the conservation of endangered and endemic plant species in Gobi region, trial plantings were conducted since 2013. A plant unique to the region *Olgaea leucophylla* was planted in 2014 and has been growing well since then. In the reporting period, we planted one more critically endangered plant *Caryoptheris mongolica* in our nursery area. The purpose of our experimental trials is to cultivate the rare species of plant native to the Gobi region and ensure further use in mine reclamation activities.

Land

We support sustainable development of land resources through effective planning and cooperation with respective stakeholders. Securing access to land and managing it responsibly are essential components of our commitment to sustainable development and our ability to maintain social license to operate. We want to ensure that in the future, disturbed land becomes available for other uses such as grazing and housing. Our land management plan provides a sound framework for undertaking rehabilitation and other land management activities which involve levelling and contouring, reshaping, adding topsoil and re-vegetating land to restore the land for future use.

In the reporting period, 1.3 hectares of stockpiled topsoil was re-vegetated as part of our topsoil management activities, in order to maintain microbe and nutrient content of the soil and prevent potential risks to plant performance. Certain types of rare plant species were used for re-vegetation which include *Medicago falcata and Sand Esparsette*, perennial plant species that support soil nutrition and *Sudan grass*, species that support perennial plant growing. *Ulmus pumila and Elaeagnus moorcrofti*, endemic trees specific to Gobi region, were planted on top soil stockpiles for cultivation of green area.

We introduced a new irrigation system with effective water consumption for our top soil stockpile vegetation to increase and support the moisture content of the top soil. Overall care for and maintenance of the re-vegetated areas were carried out continuously from June to October 2015.

Preparation of topsoil stockpile for vegetation

Re-vegetated topsoil stockpile

At the initiative of our employees, a green park was created in an area near Tsetsii apartment complex in the summer of 2015. Approximately 0.5 hectares of dust generating bare ground was re-vegetated and approximately 2,500 trees were planted. Our employees also made fences and flowerbeds for the planted area using recycled materials.

Green areas being created by the Company employees

The Company organizes voluntary environmental protection activities on a regular basis. On National Tree Planting Day, the Company employees planted over 2,445 trees in and around the UHG project mine site and 1,740 seedlings were donated to local organizations.

In 2015, soil restoration activities continued on the disturbed land near the site power plant and disused earth road located next to the paved road to Tavantolgoi airport. A total of approximately 300 region specific trees including silverberry and elm were planted in the areas. This type of land rehabilitation offers numerous benefits including the absorption of emissions and noise created by vehicles and provision of shelter and habitat for small mammals and invertebrates.

The 2.5 hectare nursery field established by the Company in 2009 continues to serve as a good source of environmental protection and reclamation activities. By continually nurturing the field, we aim to determine the most suitable trees and plants for re-vegetation in the Gobi region and use for reclamation and other landscaping projects around the project site and the soum centre in the future. Currently, we have around 30,000 shrubs, trees and perennial plants of 20 different endemic and non-endemic species growing in the nursery field. The species include elm, tamarisk, aspen tree, pine, spruce, saxaul and sea buckthorn.

In 2015, approximately 7,000 seedlings were harvested from the nursery field for use in various tree planting, landscaping and gardening projects. Plants like elm, silverberry, tamarisk and saxaul were planted by seed and cuttings for later use in seedling preparations.

Water

Water is a scarce and highly valuable resource in the arid Gobi region. Access to water is critical to our ongoing operations and effective water management is considered an essential factor of our project and operational sustainability. A comprehensive Water Management Plan guides the actions of our management, employees and contractors with regard to the use and re-use of water. This especially includes the effective management of groundwater, taking into consideration its use by local herders. The ecological and economic value of water has led to greater scrutiny of responsible water use and increased expectations from our stakeholders for improved water stewardship.

The Company uses a combination of both groundwater and recycled water at the mine sites. As part of our water use and management, we have provided filtered water for the local communities at a subsidized rate since 2011, and welcome their participation in our water monitoring activities.

At our operations, water is sourced from groundwater boreholes and is stored in two water reservoirs with a total storage volume of 56,000 m^3, covered by synthetic membrane to prevent evaporation. In 2015, a total of 465 megalitres ("**ML**") of groundwater was extracted and 190 ML of water was recovered during coal processing by the Belt Filter Press facility for re-use in further coal processing.

We continue to undertake activities that are aimed at preventing and reducing potential impacts on groundwater. These include:

- Monitoring of herder wells around the mine and Tsogttsetsii soum centre is conducted on a monthly basis. There are 10 groundwater boreholes installed in the UHG mine licensed area for groundwater monitoring, which allows us to control the level of groundwater and monitor for potential contamination that may result from our operations. In partnership with the authority of Galba Uush Dolood Gobi water basin, we equipped 2 groundwater monitoring boreholes around our water extracting area with remote data loggers.
- In 2013, the Company established a waste water treatment plant in the soum center which has a capacity to treat 1,200 m^3 of waste water per day. The facility's treatment capacity of contaminated water stands at up to 96%, making the treated water quality fully in compliance with the requirements of the national standards. In 2015, over 80 ML of domestic waste water was treated and re-used for purposes such as road and tree watering.
- In June 2015, a solid waste clean-up campaign was organized in the surrounding area of six natural springs located within a 30 km radius of the UHG mine site.

Waste

Our mine sites operate within the framework of a comprehensive waste management system which involves handling and management of all kinds of day-to-day and industrial waste streams. In 2015, the total amount of solid waste generated from the mine site activities was reduced by 44.7% compared to 2014.

	2014	**2015**
Solid waste, m^3	12,261	**6,768.7**
Proportion recycled, %	68	**60**

The Company continues to operate a small scale waste recycling facility established in 2013 where scrap materials are used in making products such as garbage bins, metal fences, sliding doors, wooden benches, blocks, insect protection nets and horse rugs.

Hazardous non-mineral waste is delivered back to the suppliers for re-use or appropriate disposal. Plastic waste, waste metal and waste paper are sent to designated recycling facilities in other provinces. Printer cartridges are sent back to suppliers for refill and reuse. Collecting and recycling used oil is crucial for preventing oil contamination to soil and groundwater. Used oil is collected in a dedicated tank, prior to be being sent to a recycling facility which produces fuel and other raw materials.

Air quality and noise

Dust and air quality are significant issues for our neighbouring communities, and minimising the effects of these impacts from our operations will remain a key focus for us. For the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the dust management plan of the project environmental and social management plan. These measures include:

- Regular spraying of the haulage roads at the mine site with treated waste water;
- Improved construction methodology of mine haulage roads, in particular using carefully selected materials, to reduce propensity for dust generation;
- Trial usage of two types of dust suppressing substances on the surface of the TSF;
- Usage of various substances for dust suppression on the ROM coal haul roads;
- Building and maintenance of dedicated facilities for dust reduction, such as a 10-metre high special wire fence which surrounds our coal stockpile at TKH. These and other similar facilities reduce wind speed and dust dispersion in the area;
- Better management of vehicle speeds; and
- Covering of truck loads.

There are number of sources of noise that are typically associated with our mining operations. They include dump trucks, large earth-moving equipment such as excavators and coal transportation trucks. Blasting activities, which are an essential component of our mine operations, cause ground vibration as well as overpressure, and may on occasion be felt or heard by our closest neighbouring communities. We understand and acknowledge that noise and vibrations can impact the communities and take constructive measures to mitigate the potential impacts. We have a noise management plan according to which we identify and evaluate sources of noise and vibration on a regular basis. Some of the practical steps we undertake to minimize noise and vibration include:

- Regular maintenance of machinery to ensure it operates with minimal noise;
- Cooperation with suppliers to provide machinery that is designed to work with minimal noise;
- Keep operation and storage of heavy equipment as far as possible from the residential areas;
- Provision of a community hotline service with which residents can report concerns over noise and vibration; and
- Blasting only when weather conditions are deemed favourable.

Air quality monitoring is an integral part of our dust management plan. Dust concentration, dust deposition, noise level and pollutant gases are main parameters for the monitoring. Portable tools such as Dust trak 8530, Casella Cel 240 and Testo XL 350 are used to monitor the air quality. Air quality monitoring measurements are conducted throughout the project area on a monthly basis.

We monitor PM2.5 dust levels at 22 different sites in and around the UHG mine and TKH area. Other types of air emissions such as sulphur dioxide and nitrogen dioxide are regularly measured by the Central Environmental and Metrological Laboratory against the national air quality standards (MNS 4585:2007), and measurements of other gases such as sulphur dioxide, nitrogen dioxide and carbon monoxide at the UHG power plant are performed against the national air quality standards (MNS 5919:2008).

During the reporting period, PM2.5 measurements were conducted 42 times against the national MNS 4585:2007 standard in Tsogttsetsii soum and TKH area. The average level of PM2.5 stood below the acceptable value of national air quality standard (0.05 mg/m^3) at most of the measuring points. To improve the transparency of operations, our dust monitoring report is published on the UHG monthly bulletin for public viewing.

Noise levels were measured at 10 monitoring points around the UHG mine site and the results were in compliance with the national standard.

Environmental monitoring

Environmental monitoring activities play an important role in our proactive approach towards environmental sustainability. It also serves as a tool for us in creating an effective dialogue with the host communities and communicating our performance in environmental management area. Regular monitoring and measuring of the impact of our activities on the environment are conducted at 94 specific points within the project impact area to ensure that they are within the nationally-accepted levels. Our monitoring activities include biodiversity studies and the monitoring of dust emissions, noise levels, air pollution, soil erosion, groundwater pollution and shallow water pollution. Every year, our environmental monitoring plans are approved by the national environmental authorities and monitoring activities are conducted on a monthly, quarterly and annual basis depending on their types. The sampling and measurements are performed in compliance with national environmental standards using the latest equipment and measurement devices. Samples are tested at accredited national and international laboratories.

Monitoring results are incorporated into our annual environmental reports which are submitted to national and local environmental authorities. We also involve the local community members in our environmental monitoring activities throughout the year. For example, monitoring of herder wells around the UHG mine and Tsogttsetsii soum centre are conducted on a monthly basis.

Environmental protection awareness

We organize voluntary environmental protection activities and awareness campaigns for our employees on a regular basis. On the National Tree Planting Day, employees of MMC planted over 2,400 trees in and around the UHG mine site and the miners' camp.

A dedicated training and development unit provides comprehensive training to all of our employees on the Company's HSE policies, procedures and guidelines, and emergency prevention and response measures. The trainings also cover environmental protection topics such as waste management, spill control, dust control, and water and energy consumption.

Besides general induction, thematic trainings are organized to provide additional information on environmental protection for specific tasks such as topsoil stripping for dozer operators, and storage and handling of cleansing and disinfecting agents for cleaners. During the reporting period, environmental induction was organized for a total of 660 man-hours. In order to improve environmental awareness of our employees, information graphics were posted regularly on special information boards.

External audit

In 2015, a number of external audits were performed by the relevant authorities on the Company's HSE performances at the UHG mine site, and all of the results ensured that our activities in applicable fields were in full compliance with national standards and relevant legislation.

In May 2015, all areas of UHG operations were audited by the Local Specialized Inspection Agency of Umnugobi aimag to ensure effective implementation of the legislation on occupational safety and hygiene. According to the audit results, our performances were assessed as sufficient at 99.47 % for safety and 93.3% for occupational hygiene, respectively.

The same agency also performed an environmental compliance audit on our relevant areas of operation and the assessments came out as below:

- Waste water treatment plant – Low risk; Performance at 76.0%;
- Power plant – Low risk; Performance at 93.3%.

Two non-compliances were identified during the audit of which one was related to the concentration of treated water and the other one being related to sulphur dioxide content of fume exceeding the national standard requirements. Accordingly, corrective actions were taken and completed for both cases.

In December 2015, a team appointed by the Environmental and Tourism Agency of Umnugobi aimag conducted an inspection on the implementation of our Environmental Management Plan ("**EMP**") for 2015. The audit results on EMP were 89.5% and assessed as sufficient.

In February 2015, an external audit on the emergency compliance was performed by the local Emergency Response Agency and covered all areas of UHG operation. As a result of the audit, our operations were assessed as sufficient at 63.0%. Several non-conformances were identified and suitable corrective actions were taken accordingly to prevent re-occurrences.

OUR COMMUNITY

Effective community engagement is essential to our on-going commitment as a socially responsible miner. We strive to build quality relationships with our host communities in all relevant fields of operation and seek to create lasting benefits. Relationships based on transparency, open communication and mutual trust are vital for us in ensuring meaningful contribution to the local economy and well-being. We aim to deliver long-term sustainable outcomes for the communities in which we operate by assisting them in developing independently of mining activities and company support.

Our policy requires us to identify and assess the level of impact the Company has on the host communities and their level of interest in engaging with us. Accordingly, socio-economic baseline studies as well as impact and risk assessments are conducted by us to determine both the positive and negative impacts of our operations on the community. Based on the findings of these assessments, we develop individual plans to mitigate any adverse impacts associated with our activities, and at the same time, initiate projects and programs that support positive impacts to the sustainable development of the region. Below are our management plans in the area of community engagement:

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

We generate economic value for our host communities through employment, taxes and royalties, purchase of local goods and services and community development programs. Over the course of the reporting period, we purchased goods and services worth of over MNT450 million from the local communities, provided wages and benefits to local employees in excess of MNT16 billion, made payments to local taxes and fees in excess of MNT15 billion and spent over MNT400 million for community development programmes.

Highlights of 2015

- “Dream” secondary school, kindergarten and dormitory complex financed and established by the Company had its first graduation in 2015 and showcased exemplary academic performance by having the highest average graduation test scores in Umnugobi aimag;
- Continued our participation in the South Gobi Water and Mining Industry roundtable project implemented by the International Finance Corporation (“**IFC**”), shared from our active community engagement practices and made a joint commitment to promote a responsible use of water, alongside with fellow mining companies who operate in the South Gobi region; and
- The “Wind belt” project of the Company successfully continued for the fourth consecutive year and over 160 local community members were enabled to grow vegetables in the project area.

Community engagement

Maintaining robust relationships and building trust with relevant stakeholders including local community members and local government are pivotal in sustaining a successful business operation. We acknowledge that our mining operations have significant economic, social and environmental impacts on local communities and in turn, the communities' concerns, needs, aspirations and activities impact our business in a multitude of ways. We provide factual and reliable information to the local communities about the Company's operations and future plans/projects, and foster face-to-face interactions with project affected communities to understand their concerns and expectations. Since its inception, MMC has strived to develop effective ways to engage with its local stakeholders. Our consultation and engagement with the host community members take many forms including, but are not limited to the following:

- Regular communications of our dedicated community engagement staff with affected herder households and resettled families;
- Regular meetings with local government administration;
- Monthly meetings with Community Development Advisory Councils established in each impact soum to provide a better platform for dialogues between the Company and the local communities;
- Annual public consultation and disclosure activities (open ger events);
- Community surveys (socio-economic baseline studies, satisfaction surveys);
- Community site tours;
- Community development programs;
- Operation of information centres and hotlines;
- Publication of monthly environmental monitoring data on our monthly bulletin;
- Annual reports/CSR reports; and
- News bulletins.

We pride ourselves in pioneering the first public consultation and discussion event in South Gobi prior to the start of our mining operations and maintain our active engagement with the local communities on a regular basis. These practices, especially two-way communication on responsible water management practices in particular, are considered as exemplary by local and international experts.

In 2015, we continued our active involvement in the IFC financed South Gobi Water and Mining Industry roundtable discussions and shared our experience with fellow mining companies which operate in the region. A voluntary code of practice was developed based on the outcome of the discussions and MMC, alongside with the participating companies, made a voluntary commitment to responsible, legally compliant and sustainable use of water.

Grievance management

We have a formal process to accept, assess and resolve community concerns, complaints and grievances about the performance or behaviour of the Company and the employees. Accordingly, we established the Grievance Management Plan, in order to assess whether the Company is responsive to community and worker complaints and to assess whether these complaints are handled in a comprehensive and consistent manner.

We receive grievances via the internet, telephone, face-to-face interviews and in writing. Upon receiving complaints and grievances, appropriate actions must be taken and the complainants should be advised of the outcome. In line with the Grievance Handling Mechanism, we aim to respond to all complaints within 30 days of submission, and more quickly in urgent cases. All complaints are treated in a confidential manner, and in all cases, grievances are addressed without prejudice. The resolutions of community complaints and grievances are reported to the public through our annual/CSR reports.

In 2015, we received and handled a total of 3 complaints and 30 requests. All of the received 3 complaints were of random nature. The first complaint was related to a fire incident at a local family house. As Tsogttsetsii soum does not have fire/emergency services, the complainant had called our mine emergency rescue service for assistance, and his complaint was that he could not get timely assistance. Upon analysis of the complaint, it was explained to the complainant that although we are committed to respond to local fire/emergency calls whenever possible, the Company is not formally obliged to receive all emergency calls and that it is possible to have cases of delay where our rescue team might be handling multiple calls. The second complaint was related to a cattle belonging to a local herdsman being attacked by a dog. This complaint was dismissed since the Company does not keep any animals.

The third complaint was in connection to some of the third-party suppliers/contractors using multiple dirt roads when transporting goods from other provinces to Tsogtsetsii, Umnugobi on a few occasions due to no existing paved road in such directions. Although this was not our direct responsibility, we made careful analysis of the situation following the receipt of the complaint and formally notified the responsible suppliers to discuss and agree on the routes with the local administration.

Of all 30 requests we received via our grievance mechanism, about 40% were requests for financial and material assistance, approximately 10% were requests to supply goods and services to the Company, 9% were related to UHG mine-site visits while the remaining were on various subjects including internship opportunities at the mine-site, a possibility to build a new water well and a possibility to source spare parts and scrap materials from the mine operations.

Community investment

As part of our policy to help bringing long-term sustainability to our host communities, we make investments through community development programs, infrastructure developments, local donations, sponsorships and partnerships. Job creation, local procurement, implementation of targeted programs for impacted herders, the "Good Neighbourhood" initiative and community health support also bring sustained positive impact on our local communities, including herdsmen. In 2015, the Company spent approximately MNT2.4 billion on community investment activities.

Table 18. Community investment in 2015

Areas of community investment	MNT
Local infrastructure development (water, power supply, etc.)	1,372,742,750
Community development programs	403,455,576
— Support in education	100,000,000
— Health support programs	54,292,500
— Environmental protection	10,374,000
— Sustainability livelihood	10,415,051
— Cultural heritage preservation	176,400,000
— "Good neighbourhood" initiative	51,974,025
Grants and sponsorships	166,000,000
Local procurement (Umnugobi aimag)	449,194,800
TOTAL	**2,391,393,126**

Community development programs

Our community development programs focus on improving the quality of life for the people and create lasting benefits. We support a wide range of community projects in the areas of education, health and well-being, cultural heritage and local business development in order to build stronger and more sustainable communities. Based on the needs of the community as identified through regional plans, consultation and our socio-economic baseline studies, we design and prioritize our community development programs.

"Dream" secondary school, kindergarten and dormitory complex

The secondary educational complex co-financed and established by the Company 3 years ago had the highest average graduation test scores in 2015 among all secondary schools in Umnugobi aimag, showing visible improvement in the quality of rural education. In addition to meeting both the national and international standards in terms of the learning environment and quality of facilities, the school has been receiving management support by the Company on the provision of trained teachers and introduction of advanced teaching methodologies. 2015 marked the first official graduation of the "Dream" school. With an obvious improvement in all areas of academic performance, the vast majority of the graduates became eligible for acceptance to reputable national or international tertiary institutions.

"Green belt" project

The Company continued its "Green belt" project for the fourth consecutive year, which aims to support the vegetable gardening initiatives of the local community members and assist them in generating an additional source of income. In 2015, the project area was expanded by 4 hectares and a new irrigation system was introduced, enabling over 100 community members to start vegetable gardening in the area. Over the past 3 years, more than 180 local people grew 18 types of fruits and vegetables for home use or market.

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

- We provided free-of-charge supply of thermal coal to a power plant in the provincial capital Dalanzadgad as well as power plants in nearby soums of Tsogttsetsii, Bayan-Ovoo and Khanbogd. In total, 25 kt of thermal coal was supplied.
- To assist local hurders overcome the challenges of harsh winter conditions, 3,680 bundles of hay and 1,360 packages of wheat bran were provided;
- Free-of-charge seedlings were provided to Tsogttsetsii soum administration and the local residents for their use in various landscaping projects in and around the soum;
- The Company hosted a welcoming event on the occasion of the Lunar new year each year to pay respect to senior citizens in the local communities. In 2015, we welcomed over 390 senior citizens from the impacted soums of Tsogtsetsii, Bayan-Ovoo, Khanbogd and Khankhongor; and
- During an annual herders' forum hosted by Umnugobi aimag local government, the Company rewarded the best 15 young herders from all 15 soums of the aimag with commemorative notes and gifts.

Sustainable Livelihood Development Program

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

The Company is collaborating with XacBank to issue interest-free loans to these households to support their business initiatives. Trainings were organized for the participants on topics including business management, marketing, development of cooperatives and intensive livestock farming, based on which they were able to define their business objectives and develop plans. As of the end of 2015, a total of 14 herder households received interest-free business loans from XacBank and loan repayments were made on time. In the reporting period, we continued to provide professional support to the participants through our partnering local Non-Governmental Organisations ("**NGOs**") and monitored their business performance. In April 2015, we organized a tripartite project performance assessment meeting in Tsogttsetsii soum, involving the local NGOs, local representatives of XacBank and the project participants. The event served as a platform for us to hear the participants' opinions and concerns with regard to the project outcome and make further improvements or modifications, if required.

Case Study

Successful graduation of the Company scholarship recipients

As part of its educational support program, the Company has funded a scholarship program for the Cambridge international academic program, jointly with "Orchlon" secondary school since 2010. The aim of the scholarship program was to provide quality educational opportunities to the best performing students of the country who lacked adequate financial resources. In the spring of 2015, the first 6 recipients of the scholarship successfully completed their Cambridge program at "Orchlon" school and received their diploma of secondary education. The Company representatives attended the graduation ceremony and shared their impression on the program results and outcome. All of the 6 graduates showed exceptional academic performance throughout the program period and topped national and international Olympiads in various subjects. Moreover, all of them were accepted into high-ranking colleges and universities in the United States and Western Europe, an indication that the program succeeded in achieving its goal.

SOCIO-ECONOMIC CONTRIBUTION

We believe that as a good corporate citizen, we must continuously contribute to the country's socio-economic development, community well-being and sustainability. While keeping our position as one of the major employers and tax contributors of Mongolia, we remain committed to continue our cooperation with local governments, communities and other stakeholders and play a part in improving local development and living standards.

Job creation

Despite the challenging market and economic conditions, we continued our efforts to retain our employees and hired and trained local people whenever possible during the reporting period. As of the year ended 2015, MMC employed 1,797 employees, approximately 45% of whom were locally hired. In the reporting period, the Company spent approximately MNT37 billion for employee wages and remuneration and MNT3 billion for employee benefits and allowances, respectively.

Tax contribution

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

Community support

In addition to our wider economic contribution, we aim to provide a strong base for the local economic growth and cooperate with our host community members in multiple ways. In 2015, we invested about MNT2.4 billion in support of community development through various projects, targeted programs and grants and sponsorships.

Procurement

We follow ethical business practices in our purchasing and supply management and give priority to local businesses. In the reporting period, MMC cooperated with about 320 suppliers and contractors of which over 85% were local businesses in Mongolia. We support host community businesses through our sustainability livelihood development program and aim to create market opportunities by making them aware of our standards, procedures and performance expectations. In 2015, we sourced products and services from 13 local businesses in Umnugobi aimag and our operation expenditures on goods and services such as transport, utilities, construction, food, etc. from the local suppliers totalled approximately MNT450 million.

Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2015.

CORPORATE GOVERNANCE PRACTICES

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2015.

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

BOARD OF DIRECTORS

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

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

Dr. Oyungerel Janchiv
Mr. Od Jambaljamts *(member of the Corporate Governance Committee)*
Mr. Gankhuyag Adilbish *(member of the Audit Committee)*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Khashchuluun Chuluundorj *(Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee)*

Mr. Unenbat Jigjid *(Chairman of the Corporate Governance Committee and member of the Audit Committee, the Nomination Committee and the Remuneration Committee)*

Mr. Chan Tze Ching, Ignatius *(Chairman of the Audit Committee and member of the Corporate Governance Committee)*

During the year, Mr. Batsaikhan Purev resigned from the position as non-executive Director of the Company with effect from 30 November 2015. Subsequently, Mr. Orchirbat Punsalmaa resigned from the position as independent non-executive Director and ceased to be a member of the Audit Committee and Nomination Committee and the Chairman of the Remuneration Committee with effect from 8 January 2016. Dr. Khashchuluun Chuluundorj was appointed as independent non-executive Director and also a member of the Audit Committee and Nomination Committee and the Chairman of the Remuneration Committee on 8 January 2016.

The relationship between the members of the Board and the biographical information of the Directors are set out in the section headed “Directors and Senior Management” on pages 6 to 13 of the annual report for the year ended 31 December 2015.

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

For the year ended 31 December 2015, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors which represented at least one-third of the Board with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Non-Executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the non-executive Directors and independent non-executive Directors is appointed for a specific term of two years.

Pursuant to the Articles of Association of the Company (the "**Articles**"), all Directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting or next AGM after appointment as the case may be.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

During the year ended 31 December 2015, the Company provided to all Directors training materials prepared by qualified professionals for the Directors and links to video released by the Stock Exchange on topics such as Updates on the New CG Code on Internal Controls and the New ESG Reporting Guide; Review of Listing Rules on Disclosure of Financial Information; Integrity Management and Corruption Prevention, Listing Enforcement Strategies: Current Themes and Case Studies; Listing Compliance Update. Directors (including outgoing directors) namely Mr. Odjargal Jambaljamts, Dr. Battsengel Gotov, Dr. Oyungerel Janchiv, Mr. Batsaikhan Purev, Mr. Od Jambaljamts, Mr. Gankhuyag Adilbish, Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius have read the relevant training materials. The Company also organised an internal induction session for and provided training materials provided by qualified professionals to Dr. Khashchuluun Chuluundorj on topics such as Continuing Obligations of the Company and its Directors, Connection Transactions and Company's Operations and Business.

Mr. Unenbat Jigjid attended a training session on Economic Policy in Mongolia as Resource Rich Country conducted by the Japan International Cooperation Agency, and Mr. Ochirbat Punsalmaa attended training sessions including Coal Mongolia, International Coal Investors Conference; and Mongolia Mining 2015, International Mining and Oil Expo conducted by various authorities and qualified professionals last year. Mr. Chan Tze Ching, Ignatius also attended various training sessions including Economic & Market Outlook 2015, Asian Financial Forum; HKEX Board Offsite 2015: HKEX – Where to Next?; Global Risk Report 2015: A Perspective; Shadow Banking in China Event; The political and economic climate in the Mainland China and Hong Kong after the 2015 National People's Congress (NPC) & the Chinese People's Political Consultative Conference (CPPCC) by Mr. Lau Yui-siu 2015; China's Financial Future; Occupying the Excess "Danger", "Opportunities" about the Future Discussion Forum; RMB Fixed Income and Currency (FIC) Conference; Non-Executive Director Programme: Corporate Governance Code update – Is your board ready to respond?; HKEX Board Offsite 2015: Group Strategic Plan 2016-18: "Extending the Mutual Market"; Hong Kong Directors Forum – the Peer-to-Peer Network: The Board's Role in Strategy and Facilities; International Seminar on University Social Responsibility cum Inauguration Ceremony of the University Social Responsibility Network; Multilaw Annual Conference; Tricor Seminar 2015 – Corporate Governance and Regulatory Updates: Panel Discussion; The 32nd ABA General Meeting and Conference in Taipei; and Hong Kong Economic Summit 2016 conducted by various authorities and qualified professionals last year.

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

BOARD COMMITTEES

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

Audit Committee

The Audit Committee comprises four members which includes one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise. There are three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius (chairman), Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid, and one non-executive Director, namely Mr. Gankhuyag Adilbish in the Committee. Dr. Khashchuluun Chuluundorj has been appointed as a member of the Audit Committee when Mr. Ochirbat Punsalmaa resigned as a member of the Audit Committee of the Company on 8 January 2016.

The principal duties of the Audit Committee include the following:

- To review the financial statements and reports and to consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, the internal auditor or the external auditor before submission to the Board;
- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and to make recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- To review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures; and
- To review arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held three meetings during the year ended 31 December 2015 to review the annual financial results and report in respect of the year ended 31 December 2014 and the interim financial results and report for the six months ended 30 June 2015, the significant issues on financial reporting and compliance procedures, the major internal audit issues, internal control and risk management systems, scope of work, remuneration and appointment of external auditors, CCTs, arrangements for employees to raise concerns about possible improprieties and the appointment of the Head of Internal Audit.

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

Remuneration Committee

The Remuneration Committee comprises three members, with a majority of independent non-executive Directors. The members are Mr. Ochirbat Punsalmaa (chairman) and Mr. Unenbat Jigjid, being independent non-executive Directors, and Mr. Odjargal Jambaljamts, executive Director. Dr. Khashchuluun Chuluundorj has been appointed as the chairman of the Remuneration Committee when Mr. Ochirbat Punsalmaa resigned as the chairman of the Remuneration Committee of the Company on 8 January 2016.

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

The Remuneration Committee held one meeting during the year ended 31 December 2015 to make recommendations to the Board on the overall remuneration policy and structure of the Company. The Remuneration Committee had reviewed and determined the remuneration packages of the executive Directors and senior management and made recommendations on the grant of share options. Where appropriate, decisions were also taken by way of circulated resolutions.

The Company has established a formal and transparent procedure for formulating policies on the remuneration of the Directors and senior management of the Group. Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2015 is set out below:

Table 19. Remuneration band of the senior management

	2015
HKD2,000,001 to HKD2,500,000	**1**
HKD5,000,001 to HKD5,500,000	**1**
HKD5,500,001 to HKD6,000,000	**2**

Details of the remuneration of each of the Directors for the year ended 31 December 2015 are set out in note 9 to the consolidated financial statements.

Nomination Committee

The Nomination Committee comprises three members, with a majority of independent non-executive Directors. The members are Mr. Odjargal Jambaljamts (chairman), executive Director, and Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid, being independent non-executive Directors. Dr. Khashchuluun Chuluundorj has been appointed as a member of the Nomination Committee when Mr. Ochirbat Punsalmaa resigned as a member of the Nomination Committee of the Company on 8 January 2016.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and to make recommendations regarding any proposed changes;

- To develop and formulate relevant procedures for nomination and appointment of directors;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and the succession planning of Directors; and
- To assess the independence of independent non-executive Directors.

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

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

The Nomination Committee held one meeting during the year ended 31 December 2015 to review the structure, size, composition and diversity of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring directors standing for re-election at the AGM. The Nomination Committee also reviewed the succession plan of the Company last year. Where appropriate, decisions were also taken by way of circulated resolutions. The Nomination Committee reviewed and discussed the measurable objectives for implementing diversity on the Board and considered that an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Committee

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

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

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Corporate Governance Committee held one meeting during the year ended 31 December 2015. The Company's corporate governance policies and practices on compliance with legal and regulatory requirements, continuous professional development of directors and senior management, directors' time commitments, compliance of the Model Code, the Employees' Written Guidelines and the CG Code, the effectiveness of the shareholders' communication policy, functions reserved to the board of directors and those delegated to management and disclosure in the Corporate Governance Report were reviewed.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2015 is set out in Table 20 below:

Table 20. Attendance records

	Attendance/Number of meetings					
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Corporate Governance Committee	Annual General Meeting
Odjargal Jambaljamts	4/4	1/1	1/1	N/A	N/A	0/1
Battsengel Gotov	4/4	N/A	N/A	N/A	N/A	0/1
Oyungerel Janchiv	2/4	N/A	N/A	N/A	N/A	0/1
Batsaikhan Purev (resigned on 30 November 2015)	3/4	N/A	N/A	N/A	N/A	0/1
Od Jambaljamts	4/4	N/A	N/A	N/A	1/1	0/1
Gankhuyag Adilbish	3/4	N/A	N/A	2/3	N/A	0/1
Ochirbat Punsalmaa	3/4	1/1	1/1	2/3	N/A	0/1
Unenbat Jigjid	4/4	1/1	1/1	3/3	1/1	0/1
Chan Tze Ching, Ignatius	4/4	N/A	N/A	3/3	1/1	1/1

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2015.

The Directors have reviewed trading and cash flow forecasts which take into consideration the uncertainties in the current operating environment. The material uncertainties considered by the Directors are set out on note 2(b) to the consolidated financial statements. The Directors are in the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 107 to 108.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2015 amounted to USD536,000 and USD9,161.52 respectively.

An analysis of the remuneration paid to the external auditor of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2015 is set out below:

Table 21. Remuneration paid to the external auditor of the Company

Service Category	**Fees Paid/ Payable**
Audit Services	USD536,000
Non-audit Services[1]	USD9,161
	USD545,161

1 including the fees for tax services

INTERNAL CONTROLS

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

COMPANY SECRETARY

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

During the year ended 31 December 2015, Ms. Ng has complied with the professional training requirement of taking no less than 15 hours of relevant professional training as set out in Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

Email: contact@mmc.mn

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

According to CG Code Provision E.1.2, the chairman of the board should attend the AGM. Mr. Odjargal Jambaljamts, Chairman of the Board was unable to attend the 2015 AGM held on 29 May 2015 due to a business engagement. He will use his best endeavours to attend all future shareholders' meetings of the Company.

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

Directors' Report

The Directors submit herewith their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining, production, transportation and sale of coking coal products. The principal activities and other particulars of the subsidiaries and associates are set out in note 17 and note 18 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 12 to the consolidated financial statements.

BUSINESS REVIEW

Overview and performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial KPIs is provided in the Management Discussion and Analysis section on pages 34 to 47 and Financial Summary section on pages 197 and 198 of this annual report.

The Group's total sales volume for the year ended 31 December 2015 was approximately 1.5 Mt of coal products generating total revenue of USD99.5 million, whilst in 2014 the total sales volume was 5.4 Mt of coal products with total revenue of USD328.3 million. The lower total revenue compared to the corresponding period in 2014 was essentially attributable to the 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 ASP of HCC achieved on a combined basis at all selling points was USD63.2 per tonne for the year ended 31 December 2015, supported by higher HCC selling prices of inland China sales. The ASP of HCC under FOT and C&F terms sales were USD66.3 per tonne and USD104.4 per tonne, respectively for the year ended 31 December 2015, compared to USD91.4 per tonne and USD119.4 per tonne in 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 HCC sales under DAP GM term was USD53.2 per tonne for the year ended 31 December 2015 which was approximately 23.2% lower compared to USD69.3 per tonne in 2014.

During the year ended 31 December 2015, the total cost of revenue was USD165.6 million, compared to USD335.5 million in 2014. The cost of revenue of self-produced coal was reduced by 59.4% from USD326.6 million to USD132.7 million mainly as a result of lower sales volume. In effort to decrease operational costs, negotiation with mining and blasting contractors during the second half of 2015 has led to significant reductions in the forecasted cost of services going forward in respective contract extension periods. The contract revisions became effective in late 2015, during a period of reduced mining activity, and thus the positive impact resulting from these contract revisions on overall unit cost per bcm of material mined will be more pronounced from 2016 onward.

For the year ended 31 December 2015, the basic loss per share and diluted loss per share was 2.03 cents, decreased by 65.9% compared to the basic loss per share and diluted loss per share of 5.95 cents for the year ended 31 December 2014.

Environmental Policies and Performance

We are committed to comply with Mongolian environmental laws, regulations and applicable international standards as part of our effort to minimize the adverse impact of our operations on the environment. Our integrated HSE MS helps achieve the targets set out in our HSE policy. These systems and processes provide our employees and contractors the necessary directions to practice safe work behaviours and make them accountable for the implementation of the HSE MS. Our environmental team continually upgrades the HSE MS and its accompanying elements and procedures and ensures that our activities in relevant fields comply with national legislations and international standards. The HSE MS has been developed to align with requirements under the international management system standards ISO 14001:2004 (Environmental management system standard) and OHSAS 18001:2007 (Occupational health and safety management system standard).

We are required to comply with applicable national legislations including the Law on Environmental Protection (1995), Law on Environmental Impact Assessment (2012), Law on Natural Resources Use Fee (2012), Law on Water and Water Pollution Fee (2012), Law on Air (2012) and Law on Air Pollution Fee (2010), Law on Land (2002), Law on Soil Protection and Desertification Prevention (2012) and Law on Toxic and Hazardous Chemicals (2006). In line with these legislations, we submit an environmental management plan followed by an implementation report to the GoM on an annual basis. We get comprehensive inspections on environmental and occupational health activities by local, provincial and state inspection agencies on a regular basis and our compliance rate has been assessed to be satisfactory since the start of our mining operations. The details on our environmental management activities, compliance with relevant legislations and environmental impact mitigation measures can be found in the subsection headed "Health, Safety & Environment" set out in the Sustainability Report section on pages 58 to 69 of this annual report.

Compliance with relevant Laws and Regulations

Discussions on compliance with relevant laws and regulations which have a significant impact on the Group are set out in the subsection headed "OPERATING ENVIRONMENT - Legal Framework" under the Management Discussion and Analysis section on pages 19 to 21 of this annual report.

Key Relationships with Stakeholders

In relation to the Company's key relationships with its employees, customers and suppliers, discussions on the Company's policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibility are provided in Management Discussion and Analysis section on page 47 and the Sustainability Report section on pages 54 to 76 of this annual report.

Risk Management, Key Risks and Uncertainties

A description of possible risks and uncertainties that the Group may be facing is provided in the Management Discussion and Analysis section on pages 43 to 44 of this annual report.

The Group's management is responsible for establishing and maintaining an effective risk management system. The management team aims at efficient and effective operations, reliable financial reporting and compliance with regulations. The Group's operations, financial condition and prospects may be affected by a number of risks and uncertainties. Key risks and uncertainties relating to our business and industry are categorized into (i) routine operational and technical risks; (ii) corporate risks; and (iii) external risks.

Operational risks are risks arising within the organization, that are controllable and ought to be minimized with its consequences mitigated. Operational risks include, but not limited to, risks related to mining, processing, transportation activities; technical compliance risks; health, safety and environmental risks; project related risks; and procurement and contract management risks. The objective of our risk management is to avoid or minimize occurrence through a compliance based approach and active prevention by monitoring operational processes and guiding people's behaviors and decisions toward desired norms. This is implemented via the establishment of standard operating procedures and internal controls, and extensive training of personnel.

Corporate risks that arise within the organization mainly include legal compliance risks; financial compliance risks; financial risks such as liquidity, credit risks, financial planning and reporting risks; sales and trading related risks, such as customer, brand, reputation and supply chain risk; and public relations and communications risks. Our risk management's objective is to reduce the likelihood and impact of such risks, through implementation of appropriate procedures and internal control processes that protect the Company from fraud, negligence, legal and other potential regulatory liabilities. Moreover, the management shall identify the major plausible risks inherent in the decision making process, and will endeavor to mitigate and manage those risks, with the subsequent continuous monitoring of the accepted risk exposures.

External risks arising from events outside the Company and are beyond our influence and control, include, but not limited to, industry related risks; and macroeconomic risks, such as foreign currency exposure risks, inflation, economical shifts; political risks; natural disaster risks and others. These types of risks can be the most devastating should they occur and ought to be projected through risk assessment, stress testing and scenario planning tools.

Corporate and external risks require distinct risk management processes that encourage the management to identify, openly discuss and find cost effective ways to reduce the likelihood of occurrence of such risk events and to mitigate the consequences should they occur.

A notable achievement in 2015 is the stabilization of part of our taxation exposure. On 13 August 2015, the Stabilization Certificate was issued by the Investment Agency to ER. Consequently, ER now has four main taxes namely, corporate income tax, customs tax, VAT and royalty, stabilized for the period until 17 April 2033 in accordance with the Law on Investment.

Furthermore, with the purpose of liquidity and balance sheet management in light of the current adverse market conditions, and to better protect the interests of all the stakeholders of the Company, the Company started a dialogue with its lenders, and the financial and legal advisors of the steering committee of its noteholders about a possible restructuring arrangement in relation to its debt facilities. The Company is committed to transparent communication with broader investment community with ultimate goal to achieve outcomes acceptable and in the long term beneficial to all its stakeholders.

Prospects

A description of the likely future development in the Company's business is provided in the subsection headed "OUTLOOK AND BUSINESS STRATEGIES IN 2016" under the Management Discussion and Analysis section on pages 33 to 34 of this annual report.

Subsequent Events

A description of particulars of important events affecting the Company that have occurred since the end of the financial period can be found in the paragraph headed "Other and Subsequent Events" under the Management Discussion and Analysis section on pages 46 and 47 of this annual report.

Save as disclosed above, there have been no events subsequent to 31 December 2015 which require adjustment to or disclosure in the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 22.

Table 22. Sales and purchases attributable to the major customers and suppliers

	Percentage of the Group's total	
	Revenue from sales of goods and rendering of services	**Purchases**
The largest customer	26.3%	
Five largest customers in aggregate	73.7%	
The largest supplier		57.9%
Five largest suppliers in aggregate		81.9%

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

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

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2015 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 109 to 196.

TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividend, of USD187,763,000 (2014: loss of USD282,837,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 113.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2015. The Board does not recommend the payment of a dividend for the year ended 31 December 2015 (dividend for the year ended 31 December 2014: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2015 amounted to USD84,000 (2014: USD21,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment for approximately USD21,509,000. Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 23 to the consolidated financial statements. The borrowing amount totals USD197.6 million (2014: USD276.8 million) and all of it is in USD. The borrowing of USD55 million is at fixed rate and the remaining borrowings are at variable rate (with a fixed margin over LIBOR).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 197 and 198.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Dr. Oyungerel Janchiv
Mr. Batsaikhan Purev (resigned on 30 November 2015)
Mr. Od Jambaljamts
Mr. Gankhuyag Adilbish

Independent non-executive Directors

Mr. Ochirbat Punsalmaa (resigned on 8 January 2016)
Dr. Khashchuluun Chuluundorj (appointed on 8 January 2016)
Mr. Unenbat Jigjid
Mr. Chan Tze Ching, Ignatius

In accordance with the Articles, Dr. Battsengel Gotov, being an executive Director, Mr. Od Jambaljamts, being a non-executive Director, and Mr. Unenbat Jigjid, being an independent non-executive Director, will retire from directorship by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election and Dr. Khashchuluun Chuluundorj, whose appointment took effect from 8 January 2016, should hold office until the forthcoming AGM and will retire and then be eligible for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 13.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in this annual report, as at 31 December 2015 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the Company's Articles, every Director or other officer of the Company acting in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to the Director or other officer. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKING

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

Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2015, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition.

Each of the Undertakers has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2015.

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

As at 31 December 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**") as recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Table 23. Interests in Shares

		Ordinary shares of USD0.01 each	
Name of Director	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	3,693,241,531 (L)	39.87%
		2,815,457,053 (S)	30.40%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	3,497,356,251 (L)	37.76%
		2,921,761,960 (S)	31.54%
Dr. Oyungerel Janchiv (Note 3)	Interest of controlled corporation	112,833,333 (L)	1.22%
Mr. Gankhuyag Adilbish (Note 4)	Interest of controlled corporation	11,819,579 (L)	0.13%
		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 3,231,593,984 shares in the Company. MCS (Mongolia) Limited also directly holds approximately 42.24% interest of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 2,815,457,053 shares of the Company.

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 3,231,593,984 shares in the Company. MCS (Mongolia) Limited also directly holds approximately 42.24% interest 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. Mr. Gankhuyag Adilbish, through Tugs Investments Limited which is 100% owned by him, held 11,819,579 shares and had a short position in 11,819,579 shares in the Company.

Table 24. 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. Battsengel Gotov	Beneficial owner	71,764,707 (L)	0.77%

(L) - Long position

Save as disclosed above, as at 31 December 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).

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 31 December 2015, the remaining life of the Share Option Scheme was approximately 4 years and 9 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

Eligibility

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

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

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

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

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

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

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

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

Grant of options

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

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

Subscription price

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

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

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

c) the nominal value of the Shares.

Exercise of options

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

Maximum number of shares available for subscription

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

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

Maximum entitlement of each participant

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

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 prices 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 25 and 26 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 27 to the consolidated financial statements.

Details of the movements in Share Options of the Company during the year ended 31 December 2015 are as follows:

Table 25. 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	Adjusted balance on 1 January 2015 due to Rights Issue (Note 4)	Granted during the year ended 31 December 2015	Lapsed during the year ended 31 December 2015	Cancelled during the year ended 31 December 2015	Exercised during the year ended 31 December 2015	Balance as at 31 December 2015
					Number of Share Options						
Dr. Battsengel 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 26. Employees of the Group other than the Directors

Date of grant	Exercise period	Exercise price per share	Adjusted exercise price per share (Note 4)	Balance as at 1 January 2015	Adjusted balance on 1 January 2015 due to Rights Issue (Note 4)	Granted during the year ended 31 December 2015	Lapsed during the year ended 31 December 2015	Cancelled during the year ended 31 December 2015	Exercised during the year ended 31 December 2015	Balance as at 31 December 2015
				Number of Share Options						
12 October 2011	(Note 1)	HKD6.66	HKD4.53	23,350,000	34,338,235	–	275,735	–	–	34,062,500
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:

1. The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:

    (1) first 25% of the Share Options granted – 12 October 2012 to 12 October 2019

    (2) second 25% of the Share Options granted – 12 October 2013 to 12 October 2019

    (3) third 25% of the Share Options granted – 12 October 2014 to 12 October 2019

    (4) fourth 25% of the Share Options granted – 12 October 2015 to 12 October 2019

2. The Share Options are subject to vesting scale in three tranches. The exercise periods are as follows:

    (1) first 25% of the Share Options granted – 28 November 2013 to 28 November 2020

    (2) second 25% of the Share Options granted – 28 November 2014 to 28 November 2020

    (3) third 50% of the Share Options granted – 28 November 2015 to 28 November 2020

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.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, for the year ended 31 December 2015, the Company has not entered into any equity-linked agreement.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2015 had the Company or any of its subsidiaries or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

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

As at 31 December 2015, so far as was known to any Director or chief executive of the Company and based on the information publicly available, shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Table 27. Interest in the Shares and underlying Shares

		Ordinary shares of USD0.01 each	
Name of substantial shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
MCS Mining Group Limited (Note 1)	Beneficial owner	3,231,593,984 (L)	34.89%
		2,815,457,053 (S)	30.40%
MCS (Mongolia) Limited (Note 1)	Interest of controlled corporation	3,231,593,984 (L)	34.89%
		2,815,457,053 (S)	30.40%
MCS Global Limited (Note 1)	Interest of controlled corporation	3,231,593,984 (L)	34.89%
		2,815,457,053 (S)	30.40%
MCS Holding LLC (Note 1)	Interest of controlled corporation	3,231,593,984 (L)	34.89%
		2,815,457,053 (S)	30.40%
Novel Holdings Group Limited (Note 1)	Interest of controlled corporation/	3,693,241,531 (L)	39.87%
	Beneficial owner	2,815,457,053 (S)	30.40%
Trimunkh Limited (Note 1)	Interest of controlled corporation/	3,497,356,251 (L)	37.76%
	Beneficial owner	2,921,761,960 (S)	31.54%
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	3,693,241,531 (L)	39.87%
		2,815,457,053 (S)	30.40%
Ms. Munkhsuren Surenkhuu (Note 1)	Interest of spouse	3,497,356,251 (L)	37.76%
		2,921,761,960 (S)	31.54%
Kerry Mining (UHG) Limited ("**KMUHG**") (Note 2)	Beneficial owner	750,000,000 (L)	8.10%
KMM (Note 2)	Interest of controlled corporation	750,000,000 (L)	8.10%
Fexos Limited ("**Fexos**") (Note 2)	Interest of controlled corporations	756,890,120 (L)	8.17%
Kerry Holdings Limited ("**KHL**") (Note 2)	Interest of controlled corporations	756,890,120 (L)	8.17%
Kerry Group Limited ("**KGL**") (Notes 2 and 3)	Interest of controlled corporations	1,197,461,111 (L)	12.93%
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 3,231,593,984 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 1,197,461,111 shares of the Company, KGL's wholly-owned subsidiaries (other than KHL) were interested in 440,570,991 shares of the Company, KHL (through companies that it controls more than one-third of the voting power) was interested in 756,890,120 shares of the Company.

Save as disclosed above, as at 31 December 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.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2015, the non-exempt CCTs of the Group were USD28,246,304.

The details of non-exempt CCTs for the year ended 31 December 2015 are set out on pages 48 to 51 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2015, the Company pledged ER's 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 Hong Kong; cooperation contract with Inner Mongolia Qinghua Group of China, coal sales contracts with certain customers; coal mining agreement with Thiess Mongolia LLC (formerly known as 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; water facilities and certain coal stockpiles for bank borrowings.

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

ER pledged its 4,207,500 common shares, being 16.46% of the common shares held by it in IMC pursuant to the Share Pledge between Energy Resources LLC and EBRD dated 24 June 2013 to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

The total amount of indebtedness covered with the above pledges is USD744.8 million as at 31 December 2015.

EMOLUMENT POLICY

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

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

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

The Company has a Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company. 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 required competencies, skills and performance of the individual concerned and the specific role and responsibilities of the relevant position are considered in determining the emolument of an individual director or member of senior management.

RETIREMENT SCHEME

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

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

PRE-EMPTIVE RIGHTS

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

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

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

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

ISSUE OF EQUITY SECURITIES

No additional shares were issued during the year ended 31 December 2015.

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

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 32 to the consolidated financial statements. In respect of those related party transactions that constitute CCTs under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

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

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

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

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

CHANGES IN DIRECTORS' INFORMATION

Change of information of Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2015 Interim Report of the Company is set out below:

The director's fee for all Directors, under the respective director's service agreements and letters of appointments attributable for the fourth quarter of the year 2015 was decreased by 50%.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2015. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 29 May 2015.

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

On behalf of the Board

Odjargal Jambaljamts
Chairman

Hong Kong, 24 March 2016

Independent Auditor's Report

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

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries (together "**the Group**") set out on pages 109 to 196, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group’s financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw your attention to note 2(b) to the consolidated financial statements which describes that the Group had net current liabilities of approximately USD220,761,000 as at 31 December 2015 and made a loss of USD187,713,000 for the year then ended. These conditions, along with other matters set forth in note 2(b), indicate the existence of material uncertainties which may cast significant doubt about the Group’s ability to continue as a going concern.

The consolidated financial statements have 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, lenders, creditors 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 consolidated financial statements do 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

24 March 2016

Consolidated Statement of Profit or Loss

For the year ended 31 December 2015
(Expressed in United States dollars)

	Note	**2015** **USD'000**	2014 USD'000
Revenue	4	**99,485**	328,307
Cost of revenue	5	**(165,604)**	(335,510)
Gross loss		**(66,119)**	(7,203)
Other revenue		**848**	3,319
Other net (loss)/income		**(1,082)**	34,171
Selling and distribution costs	6(c)	**(8,589)**	(56,445)
General and administrative expenses		**(30,520)**	(30,916)
Impairment loss	6(c)	**—**	(190,000)
Loss from operations		**(105,462)**	(247,074)
Finance income	6(a)	**5,084**	3,911
Finance costs	6(a)	**(104,106)**	(98,431)
Net finance costs	6(a)	**(99,022)**	(94,520)
Share of losses of associates		**(15)**	(19)
Share of losses of joint venture		**(87)**	(70)
Loss before taxation	6	**(204,586)**	(341,683)
Income tax	7	**16,873**	58,978
Loss for the year		**(187,713)**	(282,705)
Attributable to:			
Equity shareholders of the Company		**(187,763)**	(282,837)
Non-controlling interests		**50**	132
Loss for the year		**(187,713)**	(282,705)
Basic loss per share	8	**(2.03) cents**	(5.95) cents
Diluted loss per share	8	**(2.03) cents**	(5.95) cents

The notes on pages 116 to 196 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in Note 29(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015
(Expressed in United States dollars)

	Note	2015 USD'000	2014 USD'000
Loss for the year		**(187,713)**	(282,705)
Other comprehensive income for the year (after reclassification adjustments)	11		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(22,632)**	(80,512)
Total comprehensive income for the year		**(210,345)**	(363,217)
Attributable to:			
Equity shareholders of the Company		**(210,395)**	(363,349)
Non-controlling interests		**50**	132
Total comprehensive income for the year		**(210,345)**	(363,217)

The notes on pages 116 to 196 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in United States dollars)

	Note	2015 USD'000	2014 USD'000
Non-current assets			
Property, plant and equipment, net	13	**540,714**	594,926
Construction in progress	14	**55,164**	58,421
Lease prepayments	15	**68**	73
Intangible assets	16	**510,380**	511,089
Interest in associates	18	**45**	63
Interest in joint venture		**95**	15
Other non-current assets	19	**50,582**	25,823
Deferred tax assets	25(b)	**46,629**	37,968
Total non-current assets		**1,203,677**	1,228,378
Current assets			
Assets held for sale		**55**	484
Inventories	20	**45,829**	48,900
Trade and other receivables	21	**93,857**	152,207
Cash and cash equivalents	22	**50,702**	252,856
Total current assets		**190,443**	454,447
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	23(b)	**197,631**	114,818
Trade and other payables	24	**213,429**	298,118
Current taxation	25(a)	**144**	68
Obligations under finance leases		**—**	8
Total current liabilities		**411,204**	413,012
Net current (liabilities)/assets		**(220,761)**	41,435
Total assets less current liabilities		**982,916**	1,269,813

Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in United States dollars)

	Note	2015 USD'000	2014 USD'000
Non-current liabilities			
Long-term borrowings, less current portion	23(a)	**—**	161,978
Senior notes	26	**597,634**	595,906
Provisions	28	**13,567**	12,995
Deferred tax liabilities	25(b)	**102,483**	101,640
Other non-current liabilities		**79,441**	456
Total non-current liabilities		**793,125**	872,975
NET ASSETS		**189,791**	396,838
CAPITAL AND RESERVES			
Share capital	29(d)	**92,626**	92,626
Reserves		**96,823**	303,920
Total equity attributable to equity shareholders of the Company		**189,449**	396,546
Non-controlling interests		**342**	292
TOTAL EQUITY		**189,791**	396,838

Approved and authorised for issue by the board of directors on 24 March 2016.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 116 to 196 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015
(Expressed in United States dollars)

	Note	Share capital USD'000 (Note 29 (c))	Share premium USD'000 (Note 29(e) (i))	Other reserve USD'000 (Note 29(e) (ii))	Exchange reserve USD'000 (Note 29(e) (iii))	Retained earnings/ (accumulated losses) USD'000	Total USD'000	Non-controlling interest USD'000	Total equity USD'000
		Attributable to equity shareholders of the Company							
At 1 January 2014		37,050	608,650	27,050	(231,650)	119,867	560,967	–	560,967
Changes in equity for 2014:									
Loss for the year		–	–	–	–	(282,837)	(282,837)	132	(282,705)
Other comprehensive income		–	–	–	(80,512)	–	(80,512)	–	(80,512)
Total comprehensive income		–	–	–	(80,512)	(282,837)	(363,349)	132	(363,217)
Issuance of shares under rights issue		55,576	139,877	–	–	–	195,453	–	195,453
Contribution from non-controlling interests		–	–	–	–	–	–	160	160
Equity-settled share-based transactions	27	–	–	3,475	–	–	3,475	–	3,475
Appropriation to statutory surplus reserve		–	–	14	–	(14)	–	–	–
At 31 December 2014		92,626	748,527	30,539	(312,162)	(162,984)	396,546	292	396,838
At 1 January 2015		**92,626**	**748,527**	**30,539**	**(312,162)**	**(162,984)**	**396,546**	**292**	**396,838**
Changes in equity for 2015:									
Loss for the year		**–**	**–**	**–**	**–**	**(187,763)**	**(187,763)**	**–**	**(187,763)**
Other comprehensive income		**–**	**–**	**–**	**(22,632)**	**–**	**(22,632)**	**–**	**(22,632)**
Total comprehensive income		**–**	**–**	**–**	**(22,632)**	**(187,763)**	**(210,395)**	**–**	**(210,395)**
Issuance of shares under rights issue		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**50**	**50**
Equity-settled share-based transactions	27	**–**	**–**	**3,298**	**–**	**–**	**3,298**	**–**	**3,298**
Appropriation to statutory surplus reserve		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2015		**92,626**	**748,527**	**33,837**	**(334,794)**	**(350,747)**	**189,449**	**342**	**189,791**

The notes on pages 116 to 196 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2015
(Expressed in United States dollars)

	Note	2015 USD'000	2014 USD'000
Cash flows from operating activities			
Loss before taxation		**(204,586)**	(341,683)
Adjustments for:			
Depreciation and amortisation	6(c)	**39,179**	46,145
Impairment loss on trade and other receivables	6(c)	**8,512**	8,806
Impairment loss on non-financial assets	6(c)	**—**	190,000
Provision losses on coal inventories		**6,122**	—
Share of losses of associates and joint venture		**102**	89
Gain on disposal of property, plant and equipment and assets held for sale	6(c)	**(62)**	(36,881)
Net finance costs	6(a)	**99,022**	94,520
Equity-settled share-based payment expenses	6(b)	**3,298**	3,475
Employee benefit accrued		**520**	59
Changes in working capital:			
(Increase)/decrease in inventories		**(7,562)**	42,061
Decrease in trade and other receivables		**42,298**	10,427
(Decrease)/increase in trade and other payables		**(50,893)**	48,195
Decrease/(increase) in other non-current assets and other non-current liabilities		**50,270**	(23,865)
Cash (used in)/generated from operations		**(13,780)**	41,348
Income tax paid	25(a)	**(404)**	(175)
Net cash (used in)/generated from operating activities		**(14,184)**	41,173
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(42,459)**	(67,465)
Proceeds from disposal of property, plant and equipment and assets held for sale		**884**	92,664
Payment for acquisition of an associate, net of cash acquired		**(84)**	(107)
Interest received		**5,423**	690
Net cash (used in)/generated from investing activities		**(36,236)**	25,782

Consolidated Cash Flow Statement

For the year ended 31 December 2015
(Expressed in United States dollars)

	Note	**2015 USD'000**	2014 USD'000
Financing activities			
Proceeds from issue of shares		**—**	195,453
Proceeds from borrowings		**15,000**	146,200
Repayment of borrowings		**(96,818)**	(163,818)
Interest paid		**(69,891)**	(68,471)
Contributions from non-controlling interest		**—**	160
Net cash (used in)/generated from financing activities		**(151,709)**	109,524
Net (decrease)/increase in cash and cash equivalents		**(202,129)**	176,479
Cash and cash equivalents at beginning of the year		**202,856**	26,535
Effect of foreign exchange rate changes		**(25)**	(158)
Cash and cash equivalents at end of the year	22	**702**	202,856

The notes on pages 116 to 196 form part of these financial statements.

Notes to Consolidated Financial Statements

1 CORPORATE INFORMATION

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), promulgated by the International Accounting Standards Board ("**IASB**"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and related interpretations. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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

(b) Basis of preparation of the financial statements

As at 31 December 2015, the Group had net current liabilities of approximately USD220,761,000 and made a loss of USD187,713,000 for the year then ended. The Group is in the process of requesting waivers, consents and extensions of its borrowings as part of its potential restructuring of the Notes (see below for definition and more details). These conditions indicate the existing of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available resources of financing in evaluating whether the going concern basis in preparing the consolidated financial statements is appropriate. The Directors have reviewed trading and cash flow forecasts which take into consideration the uncertainties in the current operating environment. The Directors have concluded that there are material uncertainties surrounding going concern as below:

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

- Future trading may not be in line with the assumption in the Group's latest forecasts, the achievability of which is dependent upon the current economic environment and the price of coking coal market;

- The Group is due to redeem the senior notes (the "**Notes**") issued by the Company with a principal amount of USD600,000,000 on 29 March 2017 (see Note 26). As announced by the Company on 26 January 2016, 14 March 2016 and 23 March 2016, the Group has been actively seeking for the potential restructuring of the Notes (the "**Notes Restructuring**") with the holders of the Notes (the "**Holders**"). Management maintains regular discussions with the appointed restructuring advisers, the legal advisers, the financial advisers and the Holders. These discussions remain constructive, and considering the commercial basis of this restructuring, the Directors have no reason to believe that the restructuring will not be achieved after formulating and agreeing a detailed plan protecting the interests of all stakeholders of the Group in this regard;

- The Group is due to repay the secured interest-bearing borrowings from BNP Paribas, Singapore Branch and Industrial and Commercial Bank of China Limited (collectively, the "**Lenders**") (the "**Facility**") with a principal amount of USD93,000,000 within the year ending 31 December 2016 (see Note 23). Management has initiated discussions with the Lenders for revised terms of the debt facility. Given the material amount of the Facility and also existing Intercreditors Agreement between Lenders and Holders in relation to the shared securities and guarantees, the discussions to revise the Facility are undertaken in connection with the Notes Restructuring. The Directors continue to maintain regular discussion with the Lenders and to seek for constructive resolutions;

- The Group is due to repay the secured interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**Parallel Lenders**") with a principal amount of USD51,818,000 within the year ending 31 December 2016 (see Note 23). On 11 March 2016, the Group had entered into Deed of Termination and Release (the "**DTR**") with the Parallel Lenders. Pursuant to the DTR, the Group shall endorse to the Parallel Lenders certain promissory notes issued by GoM (see Note 36(a)) with an amount totalling approximately MNT105.6 billion, the obligations under the borrowings will be discharged in their entirety and the relevant security thereunder will be released after 121 calendar days plus 2 business days from the signing of the DTR. The Group had completed the endorsement of promissory notes as required by the DTR as of the date of these consolidated financial statements;

- The Group is due to repay promissory notes of USD72,000,000 to QGX Holding Ltd. ("**QGX**") on 31 March 2016 (see Note 24(iv)). Throughout year ended 31 December 2015, extension of the outstanding promissory note payables had been granted by QGX on a quarterly basis. The Directors are seeking to extend such support from QGX into upcoming future in a contractual form. With full awareness of the Notes Restructuring, the reaching of such contract is on the condition of the achievability of the restructuring of the Notes, and meanwhile, the Directors continue to maintain regular and constructive discussions with QGX.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The Directors consider that, among all the above-mentioned matters and conditions, the key determining factor lies with the Notes Restructuring and it is the material uncertainty in the going concern assumption.

Based on the Group's business plan and cash flow forecast, and assuming having the ongoing support from its bankers, lenders, creditors and shareholders, the Director expect to have sufficient financial resources to cover its operating costs and to meet its financing commitments. The Directors have identified a number of management initiatives that the business could pursue and which they are confident these can be achieved to mitigate the liquidity and solvency pressure including:

– The Group had updated the service agreement with the mining contractor by taking decreased charge rates; such cost saving effect is expected to be revealed during year ending 31 December 2016 and thereafter;

– The Group manages capital expenditure to minimum levels;

– Even the progress is not as rapid as originally envisaged, The Group remains focused on pursuing the opportunity to engage in coal mining, processing, transportation and exploration activities at Tavan Tolgoi coal deposit in Mongolia. The ultimate benefit is expected from the significant improvement of the competitive position of Mongolian coal in international markets by consolidating commercial operations within the Tavan Tolgoi coalfield under public private partnership ("**PPP**") model;

– The Group is seeking prepayments at reaching new coal off-take agreements, and negotiating business terms with suppliers to ease cash flow demands.

Given expectation of having ongoing financial support from its bankers, lenders, creditors and shareholders, the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 December 2015. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as "**the Group**") and the Group's interest in associates and a joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

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

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

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

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

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

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

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

(c) Changes in accounting policies

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

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

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

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

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

(e) Associates and joint ventures

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures (Continued)

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

(f) Other investments in debt and equity securities

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

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

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

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

(g) Derivative financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

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

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

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

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

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

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

(i) Intangible assets

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

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

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

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

(iv) Lease prepayments

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

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

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– intangible assets;

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

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

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

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

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

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

(m) Trade and other receivables

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

(n) Interest-bearing borrowings

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

(o) Trade and other payables

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax (Continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Obligations for reclamation

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

(u) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Translation of foreign currencies

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

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

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

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

(w) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Non-current assets held for sale

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

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

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

(y) Related parties

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

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

  (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in Note 27 about equity-settled share-based payment transactions and in Note 31(c) about the environmental contingencies, other significant accounting estimates and judgements were summarised as follows:

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

(i) Reserves

The Group estimates and reports Mineral Resources and Ore Reserves, commonly referred to as Coal Resources and Coal Reserves in the coal mining industry, meeting requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("**the JORC Code**"), and subsequently the Australian Guidelines for the Estimation and Classification of Coal Resources (2014) to which are referred.

The JORC Code is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves. The JORC Code provides a mandatory system for the classification of minerals Exploration Results, Mineral Resources and Ore Reserves according to the levels of confidence in geological knowledge and technical and economic considerations in Public Reports.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(i) ***Reserves*** (Continued)

Responsibility for demonstrating the required transparency and materiality in the estimation of Coal Resources and/or Coal Reserves required by the JORC Code lies with the "Competent Person". A Competent Person is a minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy ("**the AusIMM**"), or of the Australian Institute of Geoscientists ("**the AIG**"), or of a Recognised Professional Organisation, as included in a list available on the JORC website. These organisations have enforceable codes of ethics, including disciplinary processes with powers to suspend or expel a member. A Competent Person must have a minimum of five years relevant experience in the style of mineralisation or type of deposit under consideration and in the activity which that person is undertaking.

A "Coal Reserve" is the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

A "Probable Coal Reserve" is the economically mineable part of an Indicated, and in some circumstances, a Measured Coal Resource. The confidence in the Modifying Factors applying to a Probable Coal Reserve is lower than that applying to a Proved Coal Reserve. A "Proved Coal Reserve" is the economically mineable part of a Measured Mineral Resource. A Proved Coal Reserve implies a high degree of confidence in the Modifying Factors.

"Modifying Factors" are considerations used to convert Coal Resources to Coal Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors. Modifying Factors may change from one estimation to the next, where the materiality of such changes are demonstrable. Such changes may be as result of variation to any of the mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social, governmental or other factors.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(i) Reserves (Continued)

Because the Modifying Factors used to estimate Coal Reserves may change from one estimate to the next, estimates of Coal Reserves may change from one period to another. Changes in reported Coal Reserves thus may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset recoverable amounts may be affected due to changes in estimated future cash flows.
- Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change.
- Overburden removal costs recorded on the balance sheet or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation.
- Reclamation and mine closure provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(ii) Useful lives of property, plants and equipment

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

(iii) Impairment of assets

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(iii) Impairment of assets (Continued)

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

(iv) Obligation for reclamation

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

(v) Recognition of deferred tax assets

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

(vi) Derivative financial instruments

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(vii) Exploration and evaluation expenditure

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

(viii) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan.

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced; and
- Production stripping is the interburden removal during the normal course of production activity.

Development stripping costs are capitalised as a stripping activity asset, in construction in progress and forming part of the cost of constructing the mine, when:

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The costs can be measured reliably.

Capitalisation of development stripping costs ceases and these costs are transferred to mine properties in property, plant and equipment when the ore body or component of ore body is ready for its intended use.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

(viii) Capitalised stripping costs (Continued)

Production stripping can give rise to two benefits being the extraction of ore in the current period and improved access to the ore body or component of ore body in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to the ore body or component of ore body in future periods, the stripping costs are capitalised as mine properties in property, plant and equipment, if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the Group;
- The ore body or component of the ore body for which access has been improved can be identified; and
- The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventory produced and the mine properties capitalised using a life-of-component waste to ore strip ratio. When the current strip ratio is greater than the life-of-component ratio, a portion of the stripping costs is capitalised to the existing mine properties.

The development and production stripping assets are depreciated using the units of production method based on the proven and probable mineral reserves of the relevant ore body or component of ore body.

(ix) Taxation

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(b) Sources of estimation uncertainty

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

4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal 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 in revenue during the year is as follows:

	2015	2014
	USD'000	USD'000
Self-produced coal		
Washed hard-coking coal ("**HCC**")	**75,594**	280,081
Washed semi-soft coking coal ("**SSCC**")	**—**	4,277
Washed thermal coal ("**middlings**")	**1**	43,925
Raw coal ("**ROM coal**")	**—**	24
Trading of coal procured from Chinese third party sources	**23,890**	—
	99,485	328,307

Revenue during the year ended 31 December 2015 include approximately USD37,997,000 (year ended 31 December 2014: USD130,602,000) which arose from sales of washed hard coking coal to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

During the year ended 31 December 2015, the Group had four customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD26,119,000, USD15,097,000, USD11,564,000 and USD11,243,000, respectively. During the year ended 31 December 2014, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD117,673,000 and USD34,427,000, respectively.

Details of concentrations of credit risk arising from these customers are set out in Note 30(b).

5 COST OF REVENUE

	2015 **USD'000**	2014 USD'000
Mining costs	**34,830**	126,841
Processing costs	**13,084**	31,596
Transportation costs	**15,387**	74,383
Provision losses on coal inventories *(Note 20)*	**6,122**	—
Others *(Note (i))*	**43,309**	62,069
Cost of revenue during mine operations	**112,732**	294,889
Cost of revenue during idled mine period *(Note (ii))*	**52,872**	40,621
Cost of revenue	**165,604**	335,510

Note:

(i) Others include cost of coal procured from Chinese third party sources and royalty tax for the coal exported from Mongolia.

(ii) Cost of revenue during idled mine period for the year ended 31 December 2015 includes USD34,390,000. (2014: USD27,954,000) of mining contractor costs and depreciation expense related to idled plant and equipment.

6 LOSS BEFORE TAXATION

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

(a) Net finance costs:

	2015 USD'000	2014 USD'000
Interest income	**(5,084)**	(3,911)
Finance income	**(5,084)**	(3,911)
Net change in fair value of derivative component of senior notes (Note 26)	**—**	700
Interest on bank and other borrowings	**22,276**	22,575
Interest on liability component of senior notes (Note 26)	**54,978**	54,827
Transaction costs	**4,136**	3,440
Unwinding interest on		
– Obligations under finance lease	**—**	8
– Accrued reclamation obligations (Note 28)	**854**	808
Less: Interest expense capitalised into construction in progress*	**—**	(8,617)
Net interest expense	**82,244**	73,741
Foreign exchange loss, net	**21,862**	24,690
Finance costs	**104,106**	98,431
Net finance costs	**99,022**	94,520

* No borrowing costs have been capitalised for the year ended 31 December 2015; borrowing costs have been capitalised at a rate of 8.1% per annum for the year ended 31 December 2014.

(b) Staff costs:

	2015 USD'000	2014 USD'000
Salaries, wages, bonuses and benefits	**20,961**	25,167
Retirement scheme contributions	**2,322**	3,015
Equity-settled share-based payment expenses (Note 27)	**3,298**	3,475
	26,581	31,657

6 LOSS BEFORE TAXATION (Continued)

(b) Staff costs: (Continued)

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the 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:

	2015 USD'000	2014 USD'000
Selling and distribution costs (Note(i))	**8,589**	56,445
Depreciation and amortisation	**39,179**	46,145
Provision for impairment losses on trade and other receivables (Note 21(b))	**8,512**	8,806
Provision for impairment loss on non-financial assets (Note (ii))	**—**	190,000
	8,512	198,806
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	**705**	2,224
– hire of other assets (including property rentals)	**962**	2,006
	1,667	4,230
Net gain on disposal of property, plant and equipment and assets held for sale	**(62)**	(36,881)
Auditors' remuneration		
– audit services	**536**	536
– tax and other services (Note(iii))	**9**	272
	545	808
Cost of inventories (Note(iv))	**165,604**	335,510

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

Note:

(i) Selling and distribution costs

Selling and distribution costs represent fees and charges incurred for importing coal into the People's Republic of China ("**PRC**"), logistics and transportation costs, governmental fees and charges and fixed agent fees associated with the new market penetration strategy to diversify and expand sales channels in inland PRC.

(ii) Impairment of non-financial assets

Given the fact that coking coal market experienced continuing price decline and the operating losses sustained by the Group during the year ended 31 December 2015, according to IAS 36, Impairment of assets, management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress, intangible assets and long-term prepayments related to the UHG Mine and BN Mine operations (collectively referred to as "**UHG and BN Assets**"). For the purpose of this, the UHG and BN Assets are treated as a cash generating unit ("**CGU**").

The recoverable amount of the CGU was based on value in use, determined by discounting the future cash flows to be generated from the continuing use of the UHG and BN Assets. The key assumptions used in the estimation of value in use were as follows:

– Recoverable reserves and resources

Economically recoverable reserves and resources represent management's expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified persons.

Compared with the one used at the year end of 2014, economically recoverable reserves and resources applied in the estimation made for the year end of 2015 had incorporated the latest JORC (2012) Coal Reserve estimate for UHG issued at a post balance sheet date.

– Growth rate

Instead of using a steady growth rate over the estimation period longer than five years, the cash flow projection made at the year end of 2015 and the year end of 2014 followed the same mechanism as coal product price multiplied by sales quantity, which was consistent throughout the whole life-of-mine ("**LOM**") time.

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

Note: (Continued)

(ii) Impairment of non-financial assets (Continued)

– Coal prices

The coal price assumptions are management's best estimate of the future price of coal in China. Coal price assumptions for the next five years are built on past experience of the industry and consistent with external sources. These prices are adjusted to arrive at appropriately consistent price assumptions for the difference qualities and type of coal.

Coal price for the next five years estimated at the year end of 2015 declined by approximately 9% than that at the year end of 2014, which was updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate. The treatment was consistent among estimations made at the year end of 2014 and the year end of 2015.

– Sales quantity/production profile

Sales quantity is in line with production profile. Estimated production volumes are based on detailed LOM plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as the recoverable quantities, the production profile, the cost of the development of the infrastructure necessary to extract the reserves, the production costs, the contractual duration of mining rights and the selling price of the coal extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves.

Compared with the estimated production volumes as at the year end of 2014, changes were made in 2015 assumption to reflect updated production plan standing on the latest economically recoverable reserve and resource statements and exploration and evaluation work undertaken by appropriately qualified persons.

– Operating costs

Operating cost assumptions are based on management's best estimation of the costs to be incurred at the date of impairment testing. Costs are determined after considering current operating costs, future cost expectations, as well as the nature and location of the operation. The estimation also takes future mining contractor arrangements into consideration; and the Directors are of the opinion that such mining contractor arrangements are in line with the Group's business plan.

– Capital expenditure

Future capital expenditure is based on management's best estimate of required future capital requirements. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

Note: (Continued)

(ii) Impairment of non-financial assets (Continued)

– Discount rate

This discount rate is derived from the Group's weighted average cost of capital ("**WACC**"), with appropriate adjustments made to reflect the risks specific to the CGU. The WACC takes into account both debt and equity, weighted based on the Group and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

Post-tax discount rate of 20% was applied to the future cash flows projection at the year end of 2015 (2014: 20%). The directors believe that the post-tax discount rate was match with the latest cash flow projection modeling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2015, and has not resulted in the identification of an impairment loss for the year ended 31 December 2015.The Directors are of the opinion that the impairment provision is adequate as at 31 December 2015 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard. The Directors believe that the estimates and assumptions incorporated in the impairment assessment are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgements. It is estimated that adverse changes in the key assumptions would lead to the recognition of an impairment provision against the CGU as follows:

	USD'000
7% decrease in long-term coal price	12,000
7% decrease in the estimated production volume	3,000
One percentage point increase in pre-tax discount rate	13,000
2% increase in the estimated operating costs	2,000
45% increase in the estimated capital expenditure	5,000

This assumes that the adverse change in the key assumption occurs in isolation of changes to other key assumptions and that no mitigating action is taken by management.

6 LOSS BEFORE TAXATION (Continued)

(c) Other items: (Continued)

Note: (Continued)

(ii) Impairment of non-financial assets (Continued)

– Discount rate (Continued)

In light of a regular portfolio review, inflation pressures on operating costs, different product quality different mine has, and also following the latest coal price environment at the year end of 2014, the impairment loss of USD190,000,000 had been recognised as at 31 December 2014 in relation to the mining rights of BN Mine to reflect significant downward pressure on coal prices due to persisting oversupply situation in the coal industry (see Note 16). The BN Mine was acquired by the Company on 31 May 2011 when the Group entered into a share purchase agreement ("**Share Purchase Agreement**") with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited (collectively the "**Seller**") in relation to the acquisition of the entire issued share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "**Acquisition**"). Baruun Naran Limited ultimately owns the BN Mine. The Acquisition was completed on 1 June 2011. In order to rationalise the Seller's structure which was not cost-effective for the Group, Mongolian Coal Corporation Limited, a wholly-owned subsidiary of the Company which acted as the buyer of the Acquisition, decided to wind up Baruun Naran Limited voluntarily on 21 June 2012. Accordingly, Baruun Naran Limited (a Gibraltar registered company) was liquidated and all of its assets were transferred to Mongolian Coal Corporation Limited on 16 July 2012.

(iii) Tax and other services

Tax and other services fees for the year ended 31 December 2014 include the fees for tax services and professional fees in relation to the rights issue.

(iv) Cost of inventories

Cost of inventories includes USD50,475,000 (2014: USD79,333,000) relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also included in cost of inventories was transportation and stockpile losses amounted to USD862,000 (2014: USD3,542,000).

7 INCOME TAX

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

	2015	2014
	USD'000	USD'000
Current tax		
Provision for the year (Note 25(a))	**647**	8,492
Exemption of withholding tax obligation in prior years (Note (v))	**(7,647)**	—
Deferred tax		
Origination and reversal of temporary difference (Note 25(b))	**(9,873)**	(67,470)
	(16,873)	(58,978)

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

	2015	2014
	USD'000	USD'000
Loss before income tax	**(204,586)**	(341,683)
Notional tax on loss before taxation	**(21,504)**	(62,580)
Tax effect of non-deductible items (Note (iii))	**(5,880)**	3,436
Tax effect of non-taxable items (Note (iv))	**15,819**	(677)
Tax losses not recognised	**2,339**	843
Exemption of withholding tax obligation in prior years (Note (v))	**(7,647)**	—
Actual tax expenses	**(16,873)**	(58,978)

7 INCOME TAX (Continued)

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

Note:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2015 and 2014. According to the Corporate Income Tax Law of China, the Company's subsidiary in China is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2015 and 2014.

(iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2015 and 2014.

(iv) Non-taxable items mainly represent the unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2015 and 2014.

(v) The waiving is pursuant to the adoption of the new law on Economic Transparency on 7 August 2015 as approved by Mongolian Parliament for amnesty from tax obligations and administrative penalties.

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of USD187,763,000 (2014: USD282,837,000) and the 9,262,591,250 ordinary shares (2014: 4,751,758,537 ordinary shares after adjusting for the rights issue in 2014) in issue during the year. In calculating basic loss per share, the weighted average number of shares outstanding during the years ended 31 December 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 year.

(b) Diluted loss per share

For the years ended 31 December 2015 and 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 Note 27) are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2015 and 2014.

9 DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed are as follows:

	Year ended 31 December 2015					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	**16**	**251**	**328**	**40**	**—**	**635**
Battsengel Gotov	**16**	**205**	**328**	**37**	**833**	**1,419**
Non-executive directors						
Oyungerel Janchiv	**16**	**—**	**—**	**—**	**—**	**16**
Batsaikhan Purev	**15**	**—**	**—**	**—**	**—**	**15**
Od Jambaljamts	**16**	**—**	**—**	**—**	**—**	**16**
Gankhuyag Adilbish	**16**	**—**	**—**	**—**	**—**	**16**
Independent non-executive directors						
Ochirbat Punsalmaa	**21**	**—**	**—**	**—**	**—**	**21**
Unenbat Jigjid	**24**	**—**	**—**	**—**	**—**	**24**
Chan Tze Ching, Ignatius	**51**	**—**	**—**	**—**	**—**	**51**
Total	**191**	**456**	**656**	**77**	**833**	**2,213**

9 DIRECTORS' REMUNERATION (Continued)

	Year ended 31 December 2014					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	18	229	–	17	–	264
Battsengel Gotov	18	175	18	14	639	864
Non-executive directors						
Enkhtuvshin Gombo (resigned on 13 October 2014)	14	–	–	–	–	14
Oyungerel Janchiv	18	–	–	–	–	18
Batsaikhan Purev	18	–	–	–	–	18
Od Jambaljamts	18	–	–	–	–	18
Gankhuyag Adilbish (appointed on 13 October 2014)	4	–	–	–	–	4
Independent non-executive directors						
Ochirbat Punsalmaa	24	–	–	–	–	24
Unenbat Jigjid	27	–	–	–	–	27
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	217	404	18	31	639	1,309

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2015 and 2014.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2015	2014
Directors	**2**	1
Non-directors	**3**	4
	5	5

The emoluments of the directors are disclosed in Note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2015	2014
Basic salaries, allowances and benefits in kind	**645**	735
Discretionary bonuses	**714**	167
Retirement scheme contributions	**92**	61
Equity-settled share-based payment expenses (Note 27)	**689**	1,789
	2,140	2,752

The emoluments of the remaining individuals with the highest emoluments are within the following band:

	2015	2014
HKD2,100,001 to HKD2,500,000	**—**	—
HKD4,500,001 to HKD5,000,000	**—**	1
HKD5,000,001 to HKD5,500,000	**1**	2
HKD5,500,001 to HKD6,000,000	**2**	1

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2015 and 2014.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

Note:

These represent the estimated value of share options granted to the key management under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(q) (ii) and, in accordance with that policy, included adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Scheme" in the Directors' Report and Note 27.

11 OTHER COMPREHENSIVE INCOME

	2015	2014
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**(3,822)**	8,523
– net investment	**41,646**	75,788
Reclassification adjustments for amounts transferred to profit or loss:		
– disposal of net investment	**(15,192)**	(3,799)
	22,632	80,512

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2015 and 2014.

12 SEGMENT REPORTING

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

13 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Cost:						
At 1 January 2014	233,961	122,999	49,035	6,626	257,997	670,618
Additions	128	3,287	823	84	56,700	61,022
Transfer from construction in progress (Note 14)	40,252	46,603	—	—	—	86,855
Transfer to assets held for sale	(2,910)	—	—	—	—	(2,910)
Disposals	(470)	(363)	(5,456)	(373)	—	(6,662)
Exchange adjustments	(33,927)	(16,462)	(5,456)	(1,745)	(33,746)	(91,336)
At 31 December 2014	237,034	156,064	38,946	4,592	280,951	717,587
At 1 January 2015	237,034	156,064	38,946	4,592	280,951	717,587
Additions	—	1,521	621	23	19,344	21,509
Transfer to assets held for sale	(55)	—	—	—	—	(55)
Disposals	(4,033)	(2,695)	(1,404)	(322)	—	(8,454)
Exchange adjustments	(12,509)	(7,933)	(2,143)	(277)	(15,773)	(38,635)
At 31 December 2015	220,437	146,957	36,020	4,016	284,522	691,952
Accumulated amortisation and depreciation:						
At 1 January 2014	16,415	29,818	24,781	3,341	21,796	96,151
Charge for the year	10,408	16,286	7,764	997	10,686	46,141
Transfer to assets held for sale	(87)	—	—	—	—	(87)
Written back on disposals	(31)	(99)	(5,078)	(181)	—	(5,389)
Exchange adjustments	(3,700)	(4,222)	(2,734)	(462)	(3,037)	(14,155)
At 31 December 2014	23,005	41,783	24,733	3,695	29,445	122,661
At 1 January 2015	23,005	41,783	24,733	3,695	29,445	122,661
Charge for the year	9,658	16,807	7,262	290	4,708	38,725
Transfer to assets held for sale	(1)	—	—	—	—	(1)
Written back on disposals	(243)	(1,352)	(1,110)	(283)	—	(2,988)
Exchange adjustments	(842)	(2,514)	(1,445)	(674)	(1,684)	(7,159)
At 31 December 2015	31,577	54,724	29,440	3,028	32,469	151,238
Carrying amount:						
At 31 December 2015	188,860	92,233	6,580	988	252,053	540,714
At 31 December 2014	214,029	114,281	14,213	897	251,506	594,926

13 PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

Note:

(a) Majority part of the Group's property, plant and equipment are located in Mongolia.

(b) Mining properties as at 31 December 2015 include stripping activity assets carrying book value of USD225,233,000 (2014: USD223,451,000) and application fee for the mining rights of USD770,000 (2014: USD627,000) in relation to the Group's mine deposits.

(c) The addition of mining properties for the year ended 31 December 2015 include the increase in reclamation provision of USD454,000 (2014: increase in reclamation provision of USD3,467,000) (see Note 28).

(d) As at 31 December 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 net book values of USD91,100,000, USD23,519,000 and USD2,532,000, respectively (31 December 2014: USD105,290,000, USD27,629,000 and USD3,008,000, respectively) (see Note 23).

(e) As at 31 December 2015, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2015 is approximately USD6,467,000. The Directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.

14 CONSTRUCTION IN PROGRESS

	2015 **USD'000**	2014 USD'000
At 1 January	**58,421**	148,371
Additions	**184**	6,314
Transfer to property, plant and equipment (Note 13)	**—**	(86,855)
Transfer to intangible assets (Note 16)	**—**	(4,909)
Disposal	**(443)**	—
Exchange adjustments	**(2,998)**	(4,500)
At 31 December	**55,164**	58,421

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

15 LEASE PREPAYMENTS

	2015 USD'000	2014 USD'000
Cost:		
At 1 January	**83**	93
Exchange adjustments	**(5)**	(10)
At 31 December	**78**	83
Accumulated amortisation:		
At 1 January	**10**	8
Charge for the year	**2**	1
Exchange adjustments	**(2)**	1
At 31 December	**10**	10
Net book value:	**68**	73

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in Mongolia, with original lease period from 15 years to 60 years.

16 INTANGIBLE ASSETS

	Acquired mining right USD'000	Softwares USD'000	Total USD'000
Cost:			
At 1 January 2014	701,557	—	701,557
Addition for the year	—	7	7
Transfer from Construction in progress (Note 14)	—	4,909	4,909
Exchange adjustments	—	(178)	(178)
At 31 December 2014	701,557	4,738	706,295
At 1 January 2015	701,557	4,738	706,295
Exchange adjustments	—	(263)	(263)
At 31 December 2015	701,557	4,475	706,032
Accumulated amortisation and impairment loss:			
At 1 January 2014	5,203	—	5,203
Amortisation charge for the year	—	3	3
Impairment loss (Note 6(c))	190,000	—	190,000
Exchange adjustments	—	—	—
At 31 December 2014	195,203	3	195,206
At 1 January 2015	195,203	3	195,206
Amortisation charge for the year	—	452	452
Impairment loss (Note 6(c))	—	—	—
Exchange adjustments	—	(6)	(6)
At 31 December 2015	195,203	449	195,652
Carrying amount:			
At 31 December 2015	506,354	4,026	510,380
At 31 December 2014	506,354	4,735	511,089

Acquired mining right represents the mining right acquired during the acquisition of BN mine.

17 INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company Direct	Equity attributable to the Company Indirect	Principal activities
Mongolian Coal Corporation Limited	Hong Kong	1 share of HKD1 each	100%	–	Investment holding
Mongolian Coal Corporation S.à.r.l.	Luxembourg	6,712,669 shares of USD10 each	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	103,800,000 shares of USD1 each	–	100%	Investment holding
Energy Resources LLC	Mongolia	75,000,185 shares of USD2 each	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia	15,300,000 shares of MNT1,000 each	–	100%	Railway project management
Transgobi LLC	Mongolia	9,122,642 shares of MNT1,000 each	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia	5,795,521 shares of MNT1,000 each	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia	374,049,073 shares of MNT1,000 each	–	100%	Coal plant management
Ukhaa Khudag Water Supply LLC	Mongolia	96,016,551 shares of MNT1,000 each	–	100%	Water exploration and supply management
United Power LLC	Mongolia	100,807,646 shares of MNT1,000 each	–	100%	Power supply project management
Gobi Road LLC	Mongolia	50,000 shares of MNT1,000 each	–	100%	Construction of road
Khangad Exploration LLC	Mongolia	34,532,399 shares of USD1 each	–	100%	Exploration and development of coal mine
Baruun Naran S.à.r.l.	Luxembourg	24,918,394 shares of EUR1 each	–	100%	Investment holding

17 INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company Direct	Indirect	Principal activities
Energy Resources Mining LLC	Mongolia	72,001,000 shares of USD1 each	–	100%	Mining and technical management
*Tianjin Zhengcheng Import and Export Trade Co., Ltd.	China	2,035,998 shares of RMB1 each	–	51%	Trading of coals and machinery equipment
Tavan Tolgoi Power Plant Water Supply LLC	Mongolia	1,000 shares of MNT1,000 each	–	100%	Overseas Trading

* Company not audited by KPMG. The financial statements of the subsidiary not audited by KPMG reflect total net assets and total revenue constituting approximately 0.2% (2014: 0.1%) and 27.5% (2014: 7.0%) respectively of the corresponding consolidated totals.

The following table lists out the information relating to Tianjin Zhengcheng Import and Export Trade Co.,Ltd, the only subsidiary of the Group which has material non-controlling interest (NCI). Tianjin Zhengcheng Import and Export Trade Co.,Ltd is a sino-foreign equity joint venture established under the PRC law. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2015 USD'000	2014 USD'000
NCI percentage	**49%**	49%
Current assets	**1,619**	13,475
Non-current assets	**6**	8
Current liabilities	**(1,233)**	(12,888)
Non-current liabilities	**—**	—
Net assets	**392**	595
Carrying amount of NCI	**342**	292
Revenue	**27,322**	23,131
Profit for the year	**101**	270
Total comprehensive income	**(203)**	263
Profit allocated to NCI	**50**	132
Dividend paid to NCI	**—**	—
Cash flows from operating activities	**323**	3,249
Cash flows from investing activities	**—**	(6)
Cash flows from financing activities	**—**	331

18 INTEREST IN ASSOCIATES

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company Group's effective interest	Equity attributable to the Company Held by a subsidiary	Principal activity
International Technical College LLC	Incorporated	Mongolia	913,500 shares of MNT1,000 each	33.33%	33.33%	Technical education service (Note 1)
Gashuun Sukhait Road LLC	Incorporated	Mongolia	100,000 shares of MNT1,000 each	40.00%	40.00%	Paved road maintenance service (Note 2)

Note 1: The investment in International Technical College LLC enables the Group to be equipped with the long-term availability of skilled technical workforce.

Note 2: The principal activities of Gashuun Sukhait Road LLC are supplying safety, readiness, protection, repair and maintenance service for paved road operations from Ukhaa Khudag to Gashuun Sukhait. The investment in Gashuun Sukhait Road LLC enables the Group to monitor the usage situation of the aforementioned paved road.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

18 INTEREST IN ASSOCIATES (Continued)

Summarised financial information of the associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	International Technical College LLC		Gashuun Sukhait Road LLC	
	2015	2014	**2015**	2014
	USD'000	USD'000	**USD'000**	USD'000
Gross amounts of the associates:				
Current assets	**4**	9	**937**	1,429
Non-current assets	**83**	275	**12**	12
Current liabilities	**13**	160	**899**	1,388
Non-current liabilities	**—**	—	**—**	—
Equity	**74**	124	**50**	53
Revenue	**22**	199	**2,669**	2,189
(Loss)/profit from continuing operations	**(44)**	(57)	**4**	1
Post-tax profit or loss from discontinued	**—**	—	**—**	—
Other comprehensive income	**—**	—	**—**	—
Total comprehensive income	**(44)**	(57)	**4**	1
Dividend received from the associate	**—**	—	**—**	—
Reconciled to the group's interests in the Associates:				
Gross amounts of net assets of the associate	**75**	124	**50**	53
Group's effective interest	**33%**	33%	**40%**	40%
Group's share of net assets of the associate	**25**	42	**20**	21
Carrying amount in the consolidated financial statements	**25**	42	**20**	21

19 OTHER NON-CURRENT ASSETS

	2015 USD'000	2014 USD'000
Prepayments in connection with construction work, equipment purchases and others	**48,813**	23,951
Financial assets available-for-sale (Note (i))	**1,769**	1,872
	50,582	25,823

Note:

(i) On 14 January 2011, the Group invested in International Medical Centre LLC (the "**International Medical Centre**") and had 25.5% interest in International Medical Centre, an entity incorporated in Mongolia with issued and paid up capital of MNT22,522,500,000 (16,500,000 shares of MNT1,365 each). The principal activities of International Medical Centre are the provision of health care, diagnostic and treatment services. As the capital injection by other investors in January 2014, interest had by the Group in International Medical Centre changed to 16.46%. With no significant influence thereafter, the Group accounted for its interest in International Medical Centre as financial assets available-for-sale at using the cost method in the consolidated financial statements.

20 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	2015 USD'000	2014 USD'000
Coal	**39,434**	34,222
Materials and supplies	**12,517**	14,678
	51,951	48,900
Less: Provision on coal inventories	**(6,122)**	—
	45,829	48,900

20 INVENTORIES (Continued)

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

	2015 USD'000	2014 USD'000
Carrying amount of inventories sold	**106,610**	294,889
Write down of inventories	**6,122**	—
	112,732	294,889

As at 31 December 2015, certain of the Group's borrowings were secured by the Group's coal inventory of USD33,276,000 (31 December 2014: USD21,745,000) (see Note 23).

During the year ended 31 December 2015, USD6,122,000 (year ended 31 December 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.

21 TRADE AND OTHER RECEIVABLES

	2015 USD'000	2014 USD'000
Trade receivables (Note (a))	**1,976**	36,952
Other receivables (Note (c))	**92,317**	125,390
	94,293	162,342
Less: allowance for doubtful debts (Note (b))	**(436)**	(10,135)
	93,857	152,207

(a) Ageing analysis

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

	2015 USD'000	2014 USD'000
Within 90 days	**631**	12,093
90 to 180 days	**734**	9,998
180 to 365 days	**175**	4,726
	1,540	26,817

21 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Note 2(k) (i)).

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

	2015 **USD'000**	2014 USD'000
At 1 January	**10,135**	5,029
Provision for impairment losses	**8,512**	8,806
Amounts written off	**(18,211)**	(3,700)
At 31 December	**436**	10,135

As at 31 December 2015, an allowance for doubtful debts amounting to USD436,000 (2014: USD10,135,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date, which have been included in "general and administrative expenses" in the consolidated statement of comprehensive income.

During the year ended 31 December 2015, management assessed that the recoverability of trade receivables due from certain customers is remote, and USD18,211,000 have been written off against allowance for doubtful debts.

(c) Other receivables

	2015 **USD'000**	2014 USD'000
Amounts due from related parties (Note (i))	**456**	607
Prepayments and deposits (Note (ii))	**25,462**	31,448
VAT and other tax receivables (Note (iii))	**20,752**	35,786
Amounts due from the GoM in relation to the termination of the Concession Agreement (Note (iv))	**41,952**	44,408
Others (Note (v))	**3,695**	13,141
	92,317	125,390

21 TRADE AND OTHER RECEIVABLES (Continued)

(c) Other receivables (Continued)

Note:

(i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 32(a)).

(ii) At 31 December 2015 and 2014, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the GoM Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts. Further details are stated in Note 30(b).

(iv) It represented the compensation amount receivable from the GoM upon the termination of a Build-Operate-Transfer Concession Agreement (the "**Concession Agreement**") signed on 6 May 2013, relating to the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia (the "**UHG-GS Railway**"), after taking into account of liabilities assumed by the GoM. The Group has been 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.

Subsequent to the balance sheet date, and based on the contracted exchange rate, the Ministry of Finance ("**MOF**"), representative designated by GoM, issued MNT denominated promissory notes with total face value of approximately MNT120.6 billion (equivalent to USD60,336,000) to the Group with regards to the settlement of this receivables in relation to the termination of the Concession Agreement. Until the issue of the consolidated financial statements, the Group has received all the above mentioned MNT denominated promissory notes, and as such its rights for equity conversion into the railway project shall deemed as terminated.

(v) At 31 December 2015, this item mainly represented the interest receivables on deposit. At 31 December 2014 this item mainly represented the reimbursement receivables due from Erdenes MGL LLC of USD8.4 million.

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

22 CASH AND CASH EQUIVALENTS

	2015 **USD'000**	2014 USD'000
Cash in hand	**13**	48
Cash at bank	**50,689**	252,808
Cash at bank and in hand	**50,702**	252,856
Less: time deposits with original maturity over three months	**(50,000)**	(50,000)
Cash and cash equivalents in the consolidated cash flow statement	**702**	202,856

As at 31 December 2015, certain of the Group's borrowings were secured by the Group's cash at bank of USD39,000 (31 December 2014: USD7,297,000) (see Note 23).

23 BORROWINGS

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

	2015 **USD'000**	2014 USD'000
Bank loan		
– secured	**144,818**	241,636
– unsecured	**40,000**	40,000
Less: Current portion of long-term borrowings less amortised transaction costs	**(182,631)**	(114,818)
Less: Unamortised transaction costs	**(2,187)**	(4,840)
	—	161,978

As at 31 December 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 were due within one year, which were with principal amount of USD40,909,000 (2014: USD81,818,000), USD6,545,000 (2014: USD13,091,000) and USD4,364,000 (2014: USD8,727,000), respectively, bearing interest of one month LIBOR + 3.5%~3.75% per annum, and were secured by the Group's property, plant and equipment (see Note 13) and cash at bank (see Note 22).

As at 31 December 2015, the Group's long-term interest-bearing borrowings from BNP Paribas, Singapore Branch and Industrial and Commercial Bank of China Limited (the "**BNP and ICBC Facility**") of USD93,000,000 (2014: USD138,000,000) were due within one year, which were with principal amount, bearing interest of 3 months LIBOR + 6.00% per annum, and were secured by the Group's cash at bank (see Note 22) and inventories (see Note 20). The attributable transaction cost amounts to USD2,008,000 as at 31 December 2015. The BNP Paribas facility was initially contracted with Standard Bank Plc. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interest in (and obligations under) the facility to BNP Paribas, Singapore Branch. On 5 March 2014, the facility was refinanced to a facilities agreement with two international banks as arrangers and original lenders, BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited. The BNP and ICBC Facility is a coal pre-export loan facility of USD150,000,000 bearing interest of LIBOR + 6.00% per annum.

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. On 21 March 2016, the maturity date was further extended to 20 June 2016, and interest for the extension period is 11.20% per annum.

23 BORROWINGS (Continued)

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

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

	2015 USD'000	2014 USD'000
Within 1 year or on demand	**184,818**	114,818
After 1 year but within 2 years	**—**	166,818
	184,818	281,636

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

	2015 USD'000	2014 USD'000
Bank loans		
– Unsecured	**15,000**	—
Current portion of long-term borrowings		
– Bank loan	**184,818**	114,818
Less: Unamortised transaction costs	**(2,187)**	—
	197,631	114,818

On 24 February 2016, the Group had repaid the USD5,000,000 short-term loan by converting it into coal pre-payment facility.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. The Group was in breach of certain security coverage ratio and financial covenants under the BNP and ICBC Facility as at 31 December 2015.

24 TRADE AND OTHER PAYABLES

	2015 **USD'000**	2014 USD'000
Trade payables (Note (i))	**39,287**	125,217
Receipts in advance (Note (ii))	**40,016**	16,866
Amounts due to related parties (Note (iii))	**11,565**	8,102
Payables for purchase of equipment	**2,691**	4,858
Security deposit on construction work	**978**	1,340
Interest payable	**18,961**	18,081
Other taxes payables	**3,310**	20,782
Promissory notes (Note (iv))	**72,230**	66,601
Others (Note (v))	**24,391**	36,271
	213,429	298,118

Note:

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

	2015 **USD'000**	2014 USD'000
Within 90 days	**14,122**	40,958
90 to 180 days	**2,153**	22,410
180 to 365 days	**14,019**	58,380
Over 365 days	**8,993**	3,469
	39,287	125,217

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

(iii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 32(a)).

24 TRADE AND OTHER PAYABLES (Continued)

Note: (Continued)

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

During the year ended 31 December 2014, based on the new amendment agreements, the Group offset USD45,174,000 of promissory notes principal and accrued interest with the trade receivables due from affiliated company of QGX Holdings Ltd. On 31 December 2014, the maturity date of two promissory notes was extended to 31 March 2015, with a rate of 8.0% per annum to the maturity date.

On 31 March 2015, the maturity date of two promissory notes was further extended to 30 June 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. On 30 September 2015, the maturity date of two promissory notes was further extended to 31 December 2015, with a rate of 8.0% per annum to the maturity date. On 31 December 2015, the maturity date of two promissory notes was extended to 31 March 2016, with a rate of 8.0% per annum to the maturity date.

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

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

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax payable in the consolidated statement of financial position represents:

	2015	2014
	USD'000	USD'000
At 1 January	**68**	3,426
Provision for the year (Note 7(a))	**647**	8,492
Offsetting with other tax receivables	**(321)**	(11,369)
Income tax paid	**(404)**	(175)
Exchange adjustments	**154**	(306)
At 31 December	**144**	68

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Tax losses	Unrealised profits on intra-group transactions	Depreciation and amortisation	Unrealised foreign exchange differences on long-term borrowings	Allowance for doubtful debts	Fair value adjustments in relation to the Acquisition	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Deferred tax arising from:							
At 1 January 2014	9,462	(532)	4,742	5,986	1,256	(148,760)	(127,846)
Credited to profit or loss (Note 7(a))	13,893	332	1,372	2,520	1,277	48,076	67,470
Exchange adjustments	(1,667)	53	(702)	(827)	(153)	–	(3,296)
At 31 December 2014	21,688	(147)	5,412	7,679	2,380	(100,684)	(63,672)
At 1 January 2015	**21,688**	**(147)**	**5,412**	**7,679**	**2,380**	**(100,684)**	**(63,672)**
Credited/(charged) to profit or loss (Note 7(a))	**14,440**	**(657)**	**888**	**(3,107)**	**(1,691)**	**—**	**9,873**
Exchange adjustments	**(1,389)**	**94**	**(336)**	**(386)**	**(38)**	**—**	**(2,055)**
At 31 December 2015	**34,739**	**(710)**	**5,964**	**4,186**	**651**	**(100,684)**	**(55,854)**

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised (Continued)

	2015 **USD'000**	2014 USD'000
Net deferred tax assets recognised in the consolidated balance sheet	**46,629**	37,968
Net deferred tax liabilities recognised in the consolidated balance sheet	**(102,483)**	(101,640)
	(55,854)	(63,672)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD341,188,000 as at 31 December 2015 (2014: USD252,460,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the new amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated.

Expiry of unrecognised tax losses of group entities located in Mongolia:

	2015 **USD'000**	2014 USD'000
Year of expiry		
2016	**7,646**	8,094
2017	**13,303**	—
2018	**31**	33
2019	**125**	—
	21,105	8,127

In relation to group entities located in the jurisdictions other than Mongolia, the tax losses amounting to USD320,083,000 as at 31 December 2015 do not expire under current tax legislations (31 December 2014: USD239,687,000).

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(d) Deferred tax liabilities not recognised

At 31 December 2015, temporary differences relating to the undistributed profits of subsidiaries amounted to nil (2014: nil). Deferred tax liabilities of nil (2014: nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

26 SENIOR NOTES

	USD'000
At 1 January 2014	594,329
Interest charged during the year (Note 6(a))	54,827
Interest payable	(53,250)
At 31 December 2014	595,906
At 1 January 2015	**595,906**
Interest charged during the year (Note 6(a))	**54,978**
Interest payable	**(53,250)**
At 31 December 2015	**597,634**

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

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

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

26 SENIOR NOTES (Continued)

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 was charged to profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 31 December 2015 was nil (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 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.

The Group is seeking a potential restructuring of the US$600,000,000 8.875% senior notes. The Group has appointed restructuring advisers to assist with negotiations with the holders of the senior notes and to achieve the debt restructuring in respect of the senior notes. Further details are set out in Note 2(b).

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme ("**Share Option Scheme**") which was adopted on 17 September 2010 whereby the board of directors of the Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group.

Under the Share Option Scheme, the Company may grant options to employees and directors, suppliers, customers and professional advisers of the Group to subscribe for shares of the Company. The exercise price of the options is determined by the board of directors of the Company at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and will expire on 12 October 2020.

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(Continued)

(a) The terms and conditions of the grants are as follows:

Grant Date	Number of options '000	Vesting conditions	Contractual life of options
12 October 2011	8,800	12 October 2011 to 12 October 2012	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2013	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2014	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2015	12 October 2011 to 12 October 2019
28 November 2012	5,688	28 November 2012 to 28 November 2013	28 November 2012 to 28 November 2020
28 November 2012	5,688	28 November 2012 to 28 November 2014	28 November 2012 to 28 November 2020
28 November 2012	11,374	28 November 2012 to 28 November 2015	28 November 2012 to 28 November 2020
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		

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

	2015 Weighted average exercise Price HKD	2015 Number of options '000	2014 Weighted average exercise Price HKD	2014 Number of options '000
Outstanding at 1 January (Note (i))	**3.09**	**70,735**	5.42	50,113
Granted during the year	**0.45**	**154,750**	—	—
Forfeited during the year	**4.53**	**(275)**	5.30	(2,013)
Outstanding at 31 December	**1.21**	**225,210**	5.42	48,100
Exercisable at 31 December	**2.09**	**102,530**	5.69	32,038

Note:

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

A total of 48,100,000 Options are outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise price and the number of the Shares falling to be issued under the outstanding Share Options have been adjusted pursuant to Clause 11 of the Share Option Scheme (the "**Option Adjustments**"), 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

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

The options outstanding at 31 December 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 4.4 years (2014: 5.3 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of share options and assumptions

	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.

28 PROVISIONS

	2015 USD'000	2014 USD'000
Accrued reclamation obligations	**13,567**	12,995
Others	**1,500**	1,500
	15,067	14,495
Less: Current portion	**(1,500)**	(1,500)
	13,567	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 end of each reporting period, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 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
Increase for reassessment of estimated costs (Note 13(c))	**454**	3,467
Accretion expense (Note 6(a))	**854**	808
Exchange adjustments	**(736)**	(1,398)
At 31 December	**13,567**	12,995

Accrued reclamation costs change during the years ended 31 December 2015 and 2014 result from the reassessment of estimated costs.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital USD'000 (Note 29(c))	Share premium USD'000 (Note 29(e) (i))	Other reserve USD'000 (Note 29(e) (ii))	Accumulated losses USD'000	Total equity USD'000
At 1 January 2014		37,050	608,650	12,481	(164,084)	494,097
Changes in equity for 2014:						
Total comprehensive income		–	–	–	(68,442)	(68,442)
Issuance of shares under rights issue	29(d)	55,576	139,877	–	–	195,453
Equity-settled share-based transactions	27	–	–	3,475	–	3,475
At 31 December 2014		92,626	748,527	15,956	(232,526)	624,583
At 1 January 2015		**92,626**	**748,527**	**15,956**	**(232,526)**	**624,583**
Changes in equity for 2015::						
Total comprehensive income		**—**	**—**	**—**	**(74,562)**	**(74,562)**
Equity-settled share-based transactions	27	**—**	**—**	**3,298**	**—**	**3,298**
At 31 December 2015		**92,626**	**748,527**	**19,254**	**(307,088)**	**553,319**

(b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2015.

(c) Share capital

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 ordinary shares of USD0.01 each. On 18 May 2010, MCS Mining Group Limited acquired its initial share of one share of USD0.01. By an ordinary resolution passed at the annual general meeting held on 23 August 2010, the Company's authorised ordinary share capital was increased to USD60,000,000 by the creation of an additional 5,995,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Issuance of shares under rights issue

On 29 December 2014, 5,557,554,750 ordinary shares were issued pursuant to the rights issue on the basis of three rights shares for every two existing shares at HKD0.28 each. Total net consideration amounted to USD195,453,000, of which USD55,576,000 was credited to share capital and the remaining proceeds of USD139,877,000 was credited to the share premium account. The Company's authorised ordinary share capital was increased to USD150,000,000 by the creation of an additional 9,000,000,000 ordinary shares of USD0.01 each, raking pair with the existing ordinary shares of the Company in all respects.

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2015 and 2014 (Note 29(e) (ii)).

The Company

	2015		2014	
	No of shares'000	**USD'000**	No of shares'000	USD'000
Authorised:				
Ordinary shares	**15,000,000**	**15,000,000**	15,000,000	150,000

Ordinary shares, issued and fully paid:

	At 31 December 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

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Other reserve

The other reserve comprises the following:

– the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and

– the portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(q) (ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's operations to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(v).

(f) Distributability of reserves

Pursuant to the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and reserved) of the Cayman Islands, share premium of the Company is distributable to the shareholders. Other than the share premium, there is no other amount available for distribution to equity shareholders of the Company as at 31 December 2015.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2015 was 57.0% (2014: 46.6% before considering provision for impairment loss on non-financial assets, and 51.9% after considering it).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

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

Trade receivables are presented net of allowance for doubtful debts. In order to minimise the credit risk, the credit management committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit management committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes an allowance for doubtful debts that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the balance sheet date, the Group believes that adequate allowance for doubtful debts has been made in the consolidated financial statements. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as three customers accounted for 90.5% (2014: 56.5%) of the total trade receivables as at 31 December 2015.

The Group closely monitors the amount due from related parties.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk (Continued)

VAT receivables include amounts that have been accumulated to date in various subsidiaries. According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties payable to the Government against VAT amounts receivable from the Government of Mongolia. In July 2009, the Mongolian Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT and any VAT amounts impacted is prospective from the effective date of the law on 16 August 2009. On 10 November 2010, the Government defined finished mineral products as products which qualify for claiming back VAT. During the year ended 31 December 2015, the Group offset current income tax payable, air pollution fee, royalty tax payable and payables due to suppliers owing of USD244,000, USD1,271,000, USD4,162,000 and USD22,349,000, respectively, against its VAT receivable balance. Based on currently available information, the Group anticipates full recoverability of amounts due on account primarily relating to finished mineral products at 31 December 2015. Verification by the Mongolian Government Taxation Authority of the collectability of the funds is conducted on a regular basis and any outstanding VAT receivable amounts at 31 December 2015 will be available to the Group to offset future taxes and royalty tax or will be refunded by the Government of Mongolia Taxation Authority.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 21.

(c) Foreign currency exchange risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. The currencies giving rise to this risk are primarily RMB, USD and HKD.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency exchange risk (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in United States Dollars)					
		2015			2014	
	Renminbi	**United States Dollars**	**Hong Kong Dollars**	Renminbi	United States Dollars	Hong Kong Dollars
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Trade and other receivables	**2,103**	**—**	**—**	8,921	45,620	–
Cash at bank and in hand	**9**	**50,141**	**—**	149	236,966	8,657
Trade and other payables	**(9,519)**	**(110,470)**	**(588)**	(11,498)	(89,863)	(3,350)
Short-term borrowings and current portion of long-term borrowings	**—**	**(101,818)**	**—**	–	(51,818)	–
Long-term borrowings, less current portion	**—**	**—**	**—**	–	(91,818)	–
Net exposure arising from Recognised assets and liabilities	**(7,407)**	**(162,147)**	**(588)**	(2,428)	49,087	5,307

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(v) as at the respective balance sheet dates would decrease/(increase) loss after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

Loss/profit for the year	**2015 USD'000**	2014 USD'000
5% increase in RMB	**(284)**	(8)
5% decrease in RMB	**284**	8
5% increase in USD	**(6,095)**	3,228
5% decrease in USD	**6,095**	(3,228)
5% increase in HKD	**(29)**	264
5% decrease in HKD	**29**	(264)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings, long-term borrowings and convertible bond. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the profile of the Group's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the balance sheet date. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 23.

	2015	2014
	USD'000	USD'000
Net fixed rate borrowings:		
Borrowings	**55,000**	40,000
Obligations under finance lease	**—**	8
Senior notes	**597,634**	595,906
Promissory notes	**72,230**	66,601
Less: Bank deposits	**(50,000)**	(50,000)
	674,864	652,515
Net floating rate borrowings:		
Borrowings	**142,631**	236,796
Less: Bank deposits	**(689)**	(202,808)
	141,942	33,988
Total net borrowings:	**816,806**	686,503

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and decreased/increased retained earnings by approximately USD1,737,000 (31 December 2014: USD332,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's loss after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2015					
	Contractual undiscounted cash outflow					
	within 1 year USD'000	**After 1 year but within 2 years USD'000**	**After 2 years but within 5 years USD'000**	**After 5 years USD'000**	**Total contractual undiscounted cash flow USD'000**	**Balance sheet carrying amount USD'000**
Borrowings (Note 23)	**199,818**	**—**	**—**	**—**	**199,818**	**197,631**
Trade and other payables (Note 24)	**218,930**	**—**	**—**	**—**	**218,930**	**213,429**
Senior notes (Note 26)	**53,250**	**626,625**	**—**	**—**	**679,875**	**597,634**
	471,998	**626,625**	**—**	**—**	**1,098,623**	**1,008,694**

	2014					
	Contractual undiscounted cash outflow					
	within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 23)	129,807	175,482	–	–	305,289	276,796
Trade and other payables (Note 24)	299,432	–	–	–	299,432	298,118
Senior notes (Note 26)	53,250	53,250	626,625	–	733,125	595,906
	482,489	228,732	626,625	–	1,337,846	1,170,820

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value of the Group's financial instruments, including redemption option embedded in senior notes and conversion option embedded in convertible notes which is categorised into Level 3 of the fair value hierarchy was valued by the directors with the reference to a valuation report issued by an independent business valuer.

	Fair value at 31 December	Fair value measurements as at 31 December 2015 categorised into		
	2015	Level 1	Level 2	Level 3
	USD'000	USD'000	USD'000	USD'000
Recurring fair value measurement				
Assets				
– Redemption option embedded in senior notes	—	—	—	—

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement (Continued)

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

	Fair value at 31 December 2014 USD'000	Fair value measurements as at 31 December 2014 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Assets				
– Redemption option embedded in senior notes	—	—	—	—

During the year ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	**Significant unobservable inputs**	**Expected volatility**
Redemption option embedded in senior notes	Binomial model	Expected volatility	38%

The fair value of redemption option embedded in senior notes is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2015, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's loss by USD100,000.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement (Continued)

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

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

	2015	2014
	USD'000	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 31 December	**—**	—

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

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

In respect of cash and cash equivalents, trade and other receivables, and trade and other payables, the carrying amounts approximate fair value due to the relatively short-term nature of these financial instruments.

In respect of borrowings, the carrying amounts are not materially different from their fair values as at 31 December 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.

The aggregate carrying values of other financial liabilities carried on the consolidated balance sheet are not materially different from their fair values as at 31 December 2015.

31 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

	2015 **USD'000**	2014 USD'000
Contracted for	**525**	560
Authorised but not contracted for	**—**	—
	525	560

(b) Operating lease commitments

(i) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 **USD'000**	2014 USD'000
Within 1 year	**1,570**	1,604
After 1 year but within 5 years	**123**	121
	1,693	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 28 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.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the year. During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS (Mongolia) Limited ("**MCS Mongolia**")	Shareholder
MCS Holding LLC ("**MCS**")	Subsidiary of MCS Mongolia
Uniservice Solution LLC ("**Uniservice Solution**")	Subsidiary of MCS Mongolia
MCS Property LLC ("**MCS Property**")	Subsidiary of MCS Mongolia
MCS Energy LLC ("**MCS Energy**")	Subsidiary of MCS Mongolia
MCS International LLC ("**MCS International**")	Subsidiary of MCS Mongolia
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 year ended 31 December 2015 are as follows:

	2015	2014
	USD'000	USD'000
Ancillary services (Note (i))	**13,650**	16,997
Purchases of equipment and construction work (Note (ii))	**25**	1,667
Sales of property, plant and equipment (Note (iii))	**46**	89
Lease of property, plant and equipment (Note (iv))	**703**	729
Finance lease of equipment (Note (v))	**—**	16

Note:

(i) Ancillary services represent expenditures for support services such as cleaning and canteen expense paid to Uniservice Solution, MCS International, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, were applicable.

(ii) Purchases of equipment and construction work represent expenditure relating to equipment and construction service provided by MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.

(iii) Sales of property, plant and equipment represent sale to GS Road LLC, MCS and its affiliates. The sales are carried out at comparable or prevailing market rates, where applicable.

(iv) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from Shangri-La Ulaanbaatar LLC, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

(v) Finance leases of equipment represent expenditure relating to the lease of equipment from MCS and its affiliates through finance lease. The rental charges are based on comparable or prevailing market rates, where applicable.

32 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

	2015 USD'000	2014 USD'000
Other receivables (Note 21(c) (i))	**456**	607
Other accruals and payables (Note 24(iii))	**(11,565)**	(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.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2015 USD'000	2014 USD'000
Salaries and other emoluments	**1,537**	2,203
Discretionary bonus	**1,369**	397
Retirement scheme contributions	**185**	163
Equity-settled share-based payment expenses	**1,568**	2,896
	4,659	5,659

(c) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing Connected Transactions" of the Directors' Report.

33 ULTIMATE CONTROLLING PARTY

As at 31 December 2015, the directors consider the ultimate controlling party of the Group to be MCS (Mongolia) Limited, which was incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015 USD'000	2014 USD'000
Non-current assets			
Interests in subsidiaries		**1,329,033**	1,428,668
Total non-current assets		**1,329,033**	1,428,668
Current assets			
Trade and other receivables		**300**	7
Cash at bank and in hand		**19**	14,506
Total current assets		**319**	14,513
Current liabilities			
Short-term borrowings and current portion of long-term borrowings		**90,992**	63,000
Trade and other payables		**87,407**	88,887
Total current liabilities		**178,399**	151,887
Net current liabilities		**(178,080)**	(137,374)
Total assets less current liabilities		**1,150,953**	1,291,294
Non-current liabilities			
Long-term borrowings, less current portion		**—**	70,805
Senior notes		**597,634**	595,906
Total non-current liabilities		**597,634**	666,711
NET ASSETS		**553,319**	624,583
CAPITAL AND RESERVES	29(a)		
Share capital		**92,626**	92,626
Reserves		**460,693**	531,957
TOTAL EQUITY		**553,319**	624,583

Approved and authorised for issue by the board of directors on 24 March 2016.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

35 MAJOR NON-CASH TRANSACTIONS

According to the relevant tax regulations in Mongolia, the income tax payable can be offset by the VAT receivables. During the year ended 31 December 2015, the Group offset the VAT receivables of USD244,000 (2014: USD3,729,000), USD1,271,000 (2014: USD2,452,000), USD4,162,000 (2014: USD7,195,000) and USD22,349,000 (2014: USD23,759,000) with income tax payable, air pollution fee, royalty tax payable and payables due to suppliers, respectively.

During the year ended 31 December 2015, the Group offset no promissory notes payable (2014: USD45,174,000) with trade receivables due from QGX Holding Ltd. (see Note 24(iv)).

During the year ended 31 December 2015, according to the agreement with Thiess Mongolia LLC (previous Leighton LLC), the Group offset prepayment of maintenance due from Thiess Mongolia LLC of USD10,000,000 (2014: USD12,408,000) with trade payables due to Thiess Mongolia LLC.

36 SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

(a) On 11 March 2016, the Group entered into the Deed of Termination and Release (the "**DTR**") with EBRD, FMO, and DEG (the "**Parallel Lenders**") regarding the repayment of secured interest-bearing borrowings (see Note 23). Pursuant to the DTR, the Group shall endorse to the Parallel Lenders certain promissory notes issued by MOF (see Note 21(c) (iv)) with total amount of approximately MNT105.6 billion and in return the obligations under the borrowings will be discharged in their entirety and the relevant security thereunder will be released after 121 calendar days plus 2 business days from the signing of the DTR (the "**Timing Condition**"). Until the issuance of the consolidated financial statements, the Group had completed the endorsement of promissory notes as required by the DTR.

(b) Pursuant to a temporary waiver letter granted by the Lenders of the BNP and ICBC Facility on 14 March 2016, the Group is due to repay principal installments of approximately USD36.8 million together with applicable interest payment on 22 March 2016. As of the issuance of the consolidated financial statements, the Group had neither made the payment to the Lenders nor been able to secure any waiver or forbearance from the Lenders in this regard. As such, an event of default under the BNP and ICBC Facility has taken place, which also constitutes an event of default under certain of the Group's other indebtedness that contain cross-default provisions, including the Senior Notes issued by the Group with a principal amount of USD600 million due on 29 March 2017.

The Group has proposed to enter forbearance agreements with both the Lenders and the steering committee of the holders of the Senior Notes (the "**Steering Committee**"). The Group is in discussion with and intends to continue dialogue with the Lenders and the Steering Committee and their respective advisers. Also, until the issuance of the consolidated financial statements, the Group had not obtained corresponding waivers from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited in respect of the financial covenants breach of the BNP and ICBC Facility. As such, an event of default under the BNP and ICBC Facility has taken place. The Group has initiated discussions with the Lenders for revised terms of the debt facility. Given the material amount of the BNP and ICBC Facility and also existing Intercreditor Agreement between Lenders and the holders of the Senior Notes in relation to the shared securities and guarantees, the discussions to revise the BNP and ICBC Facility are undertaken in connection with the debt restructuring in respect of the Senior Notes. The Group continues discussion with the Lenders regarding waivers on breach of certain security coverage ratio and financial covenants under the BNP and ICBC Facility.

36 SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE (Continued)

Until the issuance of the consolidated financial statements, the Group has not received any notice from any of the Lenders demanding immediate repayment of any outstanding amount under the BNP and ICBC Facility or any holder of the Senior Notes or any other creditors.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to IAS 1, *Disclosure initiative*	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
IFRS 15, *Revenue from contracts with customers*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.`

Financial Summary

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	2015	2014	2013	2012	2011
	USD'000	USD'000	USD'000	USD'000	USD'000
Revenue	**99,485**	328,307	437,339	474,480	542,568
Cost of revenue	**(165,604)**	(335,510)	(361,485)	(420,400)	(336,368)
Gross (loss)/profit	**(66,119)**	(7,203)	75,854	54,080	206,200
Other revenue	**848**	3,319	592	1,121	435
Other net (expense)/income	**(1,082)**	34,171	7,073	5,418	76
Selling and distribution expenses	**(8,589)**	(56,445)	–	–	–
Administrative expenses	**(30,520)**	(30,916)	(52,410)	(48,183)	(60,303)
Impairment loss	**—**	(190,000)	–	–	–
(Loss)/profit from operations	**(105,462)**	(247,074)	31,109	12,436	146,408
Finance income	**5,084**	3,911	9,551	39,561	22,236
Finance costs	**(104,106)**	(98,431)	(95,095)	(50,994)	(13,785)
Share of losses of associates	**(15)**	(19)	(1,087)	(362)	(119)
Share of losses of joint venture	**(87)**	(70)	–	–	–
(Loss)/profit before taxation	**(204,586)**	(341,683)	(55,522)	641	154,740
Income tax	**16,873**	58,978	(2,551)	(3,183)	(35,650)
(Loss)/profit for the year	**(187,713)**	(282,705)	(58,073)	(2,542)	119,090
Attributable to:					
Equity shareholders of the Company	**(187,763)**	(282,837)	(58,073)	(2,542)	119,090
Non-controlling interests	**50**	132	–	–	–
Basic (loss)/earnings per share	**(2.03) cents**	(5.95) cents	(1.26) cents	(0.07) cents	3.21 cents
Diluted (loss)/earnings per share	**(2.03) cents**	(5.95) cents	(1.26) cents	(0.07) cents	3.07 cents

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2015	2014	2013	2012	2011
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets and liabilities					
Total assets	**1,394,120**	1,682,825	1,898,870	2,177,277	1,628,015
Total liabilities	**1,204,329**	1,285,987	1,337,903	1,425,264	859,151
Net assets	**189,791**	396,838	560,967	752,013	768,864
Total equity	**189,791**	396,838	560,967	752,013	768,864
Equity attributable to equity shareholders of the Company	**189,449**	396,546	560,967	752,013	768,864
Non-controlling interests	**342**	292	—	—	—

Glossary and Technical Terms

"Adoption date"	13 October 2010, the date the Share Option Scheme became unconditional and effective
"AGM"	Annual general meeting
"AMC"	AMC Consultants Pty Ltd
"ASP"	Average selling price
"Baogang Group"	Baotou Iron and Steel Co., Ltd.
"BAP"	Biodiversity Action Plan
"bcm"	Bank cubic metres
"BHWE"	Base Horizon of Weathering Elevation
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the 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
"C&F"	Cost-and-Freight
"CG Code"	The Corporate Governance Code
"China Customs"	China's General Administration of Customs
"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
"CSR"	Corporate Social Responsibility
"DAP"	Delivery-at-place
"Director(s)"	Director(s) of the Company
"EITI"	Extractive Industry Transparency Initiative
"EMP"	Environmental Management Plan
"EUR"	Euro, the currency unit of the European Monetary Union
"Fexos"	Fexos Limited

Glossary and Technical Terms

"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
"HR"	Human Resources
"HSE"	Health, Safety and Environmental
"HSE MS"	Health, Safety and Environmental Management System
"IASs"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFC"	International Finance Corporation
"IFRSs"	International Financial Reporting Standards
"ILO"	International Labour Organisation
"JORC"	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"JORC Code"	A professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves
"KAM"	Kerry Asset Management Limited
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited
"km"	Kilometres
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"KPI"	Key performance indicator
"kt"	Thousand tonnes
"Listing Date"	13 October 2010
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

Glossary and Technical Terms

"LTIFR"	Lost Time Injury Frequency Rate
"LTI"	Lost Time Injury
"Mbcm"	Million bank cubic metres
"MBGS"	McElroy Bryan Geological Services Pty Ltd
"middlings"	Thermal coal by-product of washed coking coal production
"Mineral Resource"	As defined by the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"ML"	Megalitres
"mm"	Millimetres
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"Modifying Factors"	As defined by the JORC Code, are considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors
"Mt"	Million tonnes
"NBS"	National Bureau of Statistics of China
"NGOs"	Non-Governmental Organisations
"Norwest"	Norwest Corporation
"OHS"	Occupational health and safety
"OHSE"	Occupational Health, Safety and Environment
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably

Glossary and Technical Terms

"Ore Reserve"	As defined by the JORC Code, the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. An Ore Reserve includes diluting materials and allowances for losses that may occur when the material is mined
"Parliament"	Parliament of Mongolia
"Polaris"	Polaris Seismic International Ltd
"PPP"	Public private partnership
"Probable Reserve"	As defined by the JORC Code, 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
"Proved Reserve"	As defined by the JORC Code, is the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors
"raw coal"	Generally means coal that has not been washed and processed
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"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

Glossary and Technical Terms

"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 and BN deposits
"the Schemes"	The Group participates in defined contribution retirement benefit schemes
"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 tonne, being equal to 1,000 kilograms
"TRIFR"	Total recordable injury frequency rate
"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
"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 UHG Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4. Similar technical details relevant to the underlying UHG Coal Resource estimate were previously published in the form of 'JORC Table 1' Sections 1, 2 and 3 in the MMC Annual Report 2014.

JORC (2012) TABLE 1

Section 4: Estimation and Reporting of Ore Reserves

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• ***Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.*** • ***Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.*** • The Mineral Resource estimate used as the basis for this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation Ukhaa Khudag Coal Mine (Licence 11952A)", prepared by Mongolian Mining Corporation, Energy Resources LLC, Geology Department, November 2015. • The Competent Person for the Mineral Resource estimate was Mr. Lkhagva-Ochir Said, a full time employee of Mongolian Mining Corporation in the position of General Manager of Technical Services. Mr. Said graduated in 2005 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australian Institute of Mining and Metallurgy (#316005). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.
Site visits	• ***Comment on any site visits undertaken by the Competent Person and the outcome of those visits.*** • ***If no site visits have been undertaken indicate why this is the case.*** • A site visit to the UHG Mine was undertaken by the Competent Person in February 2012 and in January 2013. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the UHG Life of Mine (LOM) plan update study, equivalent to a Feasibility Study update, completed in May 2013. • The competent person did not believe a further site visit was warranted in 2015, as site conditions had not materially changed with mining progress that had occurred since the site visit of January 2013.

Criteria	Commentary
Study status	• ***The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.*** • ***The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically.*** • A LOM study update, equivalent to a Feasibility Study update was completed in May 2013. • A further update to the LOM plan was completed in February 2016, comprising pit optimization, strategic options scheduling, mine planning, scheduling and economic analysis of the preferred strategic option.
Cut-off parameters	• ***The basis of the cut-off grade(s) or quality parameters applied.*** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit Optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.
Mining factors or assumptions	• ***The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design).*** • ***The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc.*** • ***The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.*** • ***The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).*** • ***The mining dilution factors used.*** • ***The mining recovery factors used.*** • ***Any minimum mining widths used.***

Criteria	Commentary
	• ***The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.*** • ***The infrastructure requirements of the selected mining methods.*** • Pit Optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste. • Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants ("AMC"). • The mining factors used were: – Minimum coal mining thickness of 0.5 m. – Minimum parting mining thickness of 0.5 m. – Mineable coal section roof and floor loss of 100 mm. – Mineable coal section roof and floor dilution of 100 mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.46 t/m^3, and ash of 92%. – Relative density data in the geological model is based on an average in-situ moisture of 3.2% (ar). ROM moisture is assumed to be 5% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar) and thermal product coal moisture 5% (ar). • The application of "Affected Zones" with higher global losses, as per the 2013 LOM Study, were discontinued on the basis of actual mining coal recovery reconciliation results supplied by MMC for an 18 month period of sampling undertaken by MMC from January 2014 to June 2015. • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the BN mine. The infrastructure will be expanded as UHG production expands.
Metallurgical factors or assumptions	• ***The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.*** • ***Whether the metallurgical process is well-tested technology or novel in nature.***

Criteria	Commentary
	• ***The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.*** • ***Any assumptions or allowances made for deleterious elements.*** • ***The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.*** • ***For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?*** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. Coking coal seams 0C, 3A and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed. • The process generates primary coking coal product from a low cut point that will produce a 10.5% (ad) ash HCC and 9.5% (ad) SSCC product, and a secondary middlings product of 18% (ad) ash is produced from a variable high cut. • International coal processing consultant Norwest Corporation has generated ash-yield curves for all the coking coal seams. • A conventional Jig washing plant is planned for processing thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.
Environmental	• ***The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.*** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.

Criteria	Commentary
Infrastructure	• ***The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.*** • All necessary infrastructure to support the UHG mine is in place at either the mine site or at the UHG mine industrial area. Power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.
Costs	• ***The derivation of, or assumptions made, regarding projected capital costs in the study.*** • ***The methodology used to estimate operating costs.*** • ***Allowances made for the content of deleterious elements.*** • ***The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co- products.*** • ***The source of exchange rates used in the study.*** • ***Derivation of transportation charges.*** • ***The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.*** • ***The allowances made for royalties payable, both Government and private.*** • Project capital cost estimates for mining plant and equipment have been provided by MMC. • Operating cost estimates have been provided from MMC's assessment of existing operating costs incurred in the operation and also from MMC's mining contractor. — Actual mining contractor coal mining costs were provided and applied in the study in \$/bcm; however for presentation in Table 5.8 *(in Report No. ADV-MN-00132 'Statement of Open Cut Coal Reserves as at 30 November 2015 dated March 2016)* RPM converted to \$/t ROM using the weight average relative density of coal in the pit shells). • Coal processing costs are based on those actually being incurred in the existing CHPP operation. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of UHG product coal. There are no private royalties payable.

Criteria	Commentary
Revenue factors	• ***The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.*** • ***The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.*** • Shanxi Fenwei Energy Consulting Co Ltd ("Shanxi Fenwei") completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China. • Based on the Shanxi Fenwei study and MMC's assessment of the current market prices for hard coking coal, semi soft coking coal, middlings coal product (6,300 kcal/kg nar) and thermal coal product (6,300 kcal/kg nar), long term (2021 – 2025) real prices of USD$78/t, USD$56/t, USD$18/t and USD$18/t respectively have been assessed and used in the study.
Market assessment	• ***The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.*** • ***A customer and competitor analysis along with the identification of likely market windows for the product.*** • ***Price and volume forecasts and the basis for these forecasts.*** • ***For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.*** • Shanxi Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets in Mongolia and China.
Economic	• ***The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.*** • ***NPV ranges and sensitivity to variations in the significant assumptions and inputs. Price and volume forecasts and the basis for these forecasts.*** • The inputs to the economic analysis of UHG are the project derived capital and operating cost estimates outlined above. The source of the inputs is real and the confidence satisfactory. The economic modelling is in real terms and a range of discount factors between 8% and 12% have been used in assessing NPV.

Criteria	Commentary
	• The NPV results produced from the economic modelling using a range of discount factors, as outlined above, have generated positive NPVs indicating the viability of the UHG mine. • The NPV has been assessed for variations of ±10% and ±20% in revenue. The results indicate that the project is not robust and that project value becomes stressed with decreases in the base coal sales prices.
Social	• ***The status of agreements with key stakeholders and matters leading to social licence to operate.*** • All key stakeholder agreements are in place providing a social license to operate.
Other	• ***To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:*** • ***Any identified material naturally occurring risks.*** • ***The status of material legal agreements and marketing arrangements.*** • ***The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.*** • All material legal agreements, marketing agreements and government agreements are in place to allow the UHG mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.

Criteria	Commentary
Classification	• ***The basis for the classification of the Ore Reserves into varying confidence categories.*** • ***Whether the result appropriately reflects the Competent Person's view of the deposit.*** • ***The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).*** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.
Audits or reviews	• ***The results of any audits or reviews of the Ore Reserve estimates.*** • Internal peer by RPM of the Reserves estimate has been completed.
Discussion of relative accuracy/confidence	• ***Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve 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 reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of 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.*** • ***Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.***

Criteria	Commentary
	• ***It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.*** • Coal production at UHG commenced in April 2009, and since this time some 202 Mbcm of waste and 37 Mt of ROM coal has been mined to date until 30 November 2015. • Since the preparation of the last Reserves estimate effective as of 31 December 2012 the UHG mine has completed reconciliations of actual coal mined against the geological model for the period January 2014 to June 2015. • As a result of the reconciliations that have been undertaken and the observations made associated with the mining activities over this period of time, the mining modifying factors in this Reserves estimate have been adjusted to be less conservative particularly with respect to assumed losses incurred in the "affected zones", and in the assumed reassignment of coking coal to thermal coal.

MONGOLIAN MINING CORPORATION

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