Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

MONGOLIAN MINING CORPORATION

(In Provisional Liquidation)

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2016, Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**") generated a total revenue of United States Dollar ("**USD**") 120.0 million, compared to USD99.5 million for the year ended 31 December 2015.

For the year ended 31 December 2016, the total sales volume of the Group's primary product, washed hard coking coal ("**HCC**"), was 1.5 million tonnes ("**Mt**"), representing 29.2% increase compared with 1.2 Mt of HCC sold for the year ended 31 December 2015.

The average selling price ("**ASP**") for HCC was USD77.2 per tonne for the year ended 31 December 2016, compared to USD63.2 per tonne in the year ended 31 December 2015.

The loss attributable to the equity shareholders of the Company for the year ended 31 December 2016 was USD154.2 million, compared to a loss of USD187.8 million for the year ended 31 December 2015. The basic loss per share attributable to the equity shareholders of the Company amounted to USD1.67 cents for the year ended 31 December 2016, compared to the basic loss per share of USD2.03 cents for the year ended 31 December 2015.

Major contributing factors of the Group's net loss position are (i) net finance costs of USD121.5 million for the year ended 31 December 2016 and (ii) depressed ASP and lower sales volume of coking coal products due to tough market conditions in the first half of 2016.

The board (the "**Board**") does not recommend the payment of dividend for the year ended 31 December 2016 (dividend for the year 31 December 2015: nil).

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

The Board of directors (the "**Directors**") of the Company is announcing the audited annual results of the Group for the year ended 31 December 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Note	**2016** *USD'000*	2015 *USD'000*
Revenue	*4*	**120,028**	99,485
Cost of revenue	*5*	**(120,346)**	(165,604)
Gross loss		**(318)**	(66,119)
Other revenue		**(2,808)**	848
Other net income/(loss)	*6*	**4,116**	(1,082)
Selling and distribution costs	*7(c)*	**(17,654)**	(8,589)
General and administrative expenses		**(13,133)**	(30,520)
Loss from operations		**(29,797)**	(105,462)
Finance income	*7(a)*	**1,186**	5,084
Finance costs	*7(a)*	**(122,705)**	(104,106)
Net finance costs	*7(a)*	**(121,519)**	(99,022)
Share of losses of associates		**(5)**	(15)
Share of losses of joint venture		**(21)**	(87)
Loss before taxation	*7*	**(151,342)**	(204,586)
Income tax	*8*	**(2,650)**	16,873
Loss for the year		**(153,992)**	(187,713)
Attributable to:			
Equity shareholders of the Company		**(154,248)**	(187,763)
Non-controlling interests		**256**	50
Loss for the year		**(153,992)**	(187,713)
Basic and diluted loss per share	*9*	**(1.67) cents**	(2.03) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)
For the year ended 31 December 2016

	Note	**2016** *USD'000*	2015 *USD'000*
Loss for the year		**(153,992)**	(187,713)
Other comprehensive income for the year (after reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(47,504)**	(22,632)
Surplus on revaluation of plants, buildings, machinery and equipment	*11, 12*	**341,819**	–
Total comprehensive income for the year		**140,323**	(210,345)
Attributable to:			
Equity shareholders of the Company		**140,067**	(210,395)
Non-controlling interests		**256**	50
Total comprehensive income for the year		**140,323**	(210,345)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	**2016** **USD'000**	2015 *USD'000*
Non-current assets			
Property, plant and equipment, net	*11*	**776,464**	540,714
Construction in progress	*12*	**79,976**	55,164
Lease prepayments		**53**	68
Intangible assets	*13*	**509,221**	510,380
Interest in associates		**32**	45
Interest in joint venture		**58**	95
Other non-current assets		**61,917**	50,582
Deferred tax assets		**35,341**	46,629
Total non-current assets		**1,463,062**	1,203,677
Current assets			
Assets held for sale		**131**	55
Inventories		**42,181**	45,829
Trade and other receivables	*14*	**58,751**	93,857
Cash and cash equivalents		**12,268**	50,702
Total current assets		**113,331**	190,443
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*15(b)*	**93,000**	197,631
Senior notes	*17*	**599,692**	–
Trade and other payables	*16*	**342,196**	213,429
Current taxation		**269**	144
Total current liabilities		**1,035,157**	411,204
Net current liabilities		**(921,826)**	(220,761)
Total assets less current liabilities		**541,236**	982,916
Non-current liabilities			
Senior notes	*17*	**–**	597,634
Provisions		**13,585**	13,567
Deferred tax liabilities		**150,176**	102,483
Other non-current liabilities		**46,166**	79,441
Total non-current liabilities		**209,927**	793,125
NET ASSETS		**331,309**	189,791
CAPITAL AND RESERVES			
Share capital		**92,626**	92,626
Reserves		**238,085**	96,823
Total equity attributable to equity shareholders of the Company		**330,711**	189,449
Non-controlling interests		**598**	342
TOTAL EQUITY		**331,309**	189,791

NOTES

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is 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 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 (the "**Listing Rules**").

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. 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 is provided below.

Basis of Preparation of the Financial Statements

As at 31 December 2016, the Group had net current liabilities of approximately USD921,826,000 and made a loss of USD153,992,000 for the year then ended. These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the going concern assumption.

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in evaluating whether the going concern basis in preparing the consolidated financial statements is appropriate. The Directors have concluded that there are material uncertainties surrounding going concern as below:

1) The Group is due to redeem the senior notes issued by the Company with a principal amount of USD600,000,000 on 29 March 2017 ("**Senior Notes**", see Note 17). The Group was due to repay the secured interest-bearing borrowings from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (collectively, the "**Lenders**") with a principal amount of USD93,000,000 (the "**BNP and ICBC Facility**") within the year ended 31 December 2016 (see Note 15). The Group is in payment default of interest under the Senior Notes and also in payment default of the BNP and ICBC Facility. In addition, the Group is overdue in repaying promissory notes of USD72,216,000 to QGX Holding Ltd. ("**QGX**") (see Note 16(v)). The Group commenced debt restructuring negotiations with the holders of the Senior Notes ("**Noteholders**"), Lenders, and QGX (collectively "**Creditors**") ("**Debt Restructuring**") in 2016. In November 2016, the Company obtained support from certain holders of the Senior Note (the "**Steering Committee**"), the Lenders and QGX for the key commercial terms of the updated debt restructuring proposal ("**Updated Debt Restructuring Proposal**"). The Steering Committee, the Lenders and QGX entered into restructuring support agreements (collectively, the "**RSAs**") with the Company and the appointed joint provisional liquidators ("**JPLs**") with respect to the Debt Restructuring on 21 December 2016. Following the order granted by the Grand Court of the Cayman Islands ("**Cayman Court**") on 21 December 2016 (Cayman Islands time), all provisions of the RSAs have become effective in accordance with their terms.

2) The Debt Restructuring is not yet effective as at the issuance date of the consolidated financial statements. In February 2017, the applications were filed with the Cayman Court and the High Court of Hong Kong (the "**Hong Kong Court**") in relation to seeking orders (the "**Convening Orders**") to grant permission for the Company to convene meetings of Noteholders for the purpose of considering, and if thought fit, approving (with or without modification) the schemes of arrangement in the Cayman Islands and in Hong Kong (the "**Cayman Scheme**" and "**Hong Kong Scheme**", respectively). As at the issuance date of the consolidated financial statements, the outcome of the Debt Restructuring is subject to (including but not limited to): a) the on-going discussions with the Creditors and consequentially, the execution of definitive legal documentation to effect the terms and provisions of the Updated Debt Restructuring Proposal as agreed with its Creditors in a form and substance satisfactory to all parties; b) sanction of the Cayman Scheme by the Cayman Court and the sanction of the Hong Kong Scheme by the Hong Kong Court; and c) the conditions in the Cayman Scheme and Hong Kong Scheme are satisfied.

3) Given the volatility of coal product price, future trading may not be in line with the assumptions in the Group's latest forecasts, the achievability of which is dependent upon the current economic environment and the sustainability of the price of coking coal in the market.

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

Based on the most recent developments on Debt Restructuring, the Group's business plan and cash flow forecast, and the assumed ongoing support from its Creditors, the Directors expect to have sufficient financial resources to cover its operating costs and to meet its financing commitments following the Debt Restructuring becoming effective. The Directors have identified a number of management initiatives that would mitigate the liquidity and solvency pressure including:

– As at 4:00 p.m. New York time on 20 January 2017, the Lenders, QGX, and approximately 96.06% of the Noteholders entered into RSA, pursuant to which they have undertaken to work in good faith with the Company to implement the Debt Restructuring as soon as possible. The Company has also filed applications with the Cayman Court and the Hong Kong Court seeking the Convening Orders to convene meetings of the Noteholders for the purpose of considering, and if thought fit, approving the Cayman Scheme and the Hong Kong Scheme. As announced by the Company on 14 March 2017, both the Cayman Court and the Hong Kong Court have granted the Convening Orders. Based on the progress of the negotiations with the Creditors, and considering the commercial basis of this restructuring, the Directors have no reason to believe that the Debt Restructuring will not be achieved.

– The Group is managing capital expenditure to minimum levels;

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

Although there is a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, the Directors, after making a balanced evaluation, are satisfied that if the above measures are successful the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 December 2016. 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 in the going concern basis of preparation being considered inappropriate.

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in associates and a joint venture.

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

– Financial instruments classified as available-for-sale or as trading securities;

– Buildings and plants as well as machinery and equipment;

– Derivative financial instruments.

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

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.

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. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Previously, the Group's two classes of non-financial assets, namely buildings and plants as well as machinery and equipment, were stated at cost less accumulated depreciation and any impairment losses. The Directors are in the opinion that the adoption of revaluation model for these two classes of non-financial assets would result in the consolidated financial statements providing more reliable and relevant information on the Group's financial position and financial performance by better reflecting their values to the Group. Accordingly, the Group has changed its accounting policy for these two classes of non-financial assets with effect from 31 December 2016, which is to measure them at valuation, being their fair values at the date of the revaluation less any subsequent accumulated depreciation. The revaluation surplus is recognised in assets revaluation reserve in equity. The initial application of a policy to account for some classes of property, plant and equipment as well as construction in progress under revaluation model has been dealt with in accordance with IAS 16 *Property, Plant and Equipment*, and the opening balance of equity has not adjusted and comparatives are not restated.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

(i) Fair value of buildings and plants, machinery and equipment classified as property, plant and construction in progress

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and construction in progress were revalued by an external appraiser as at 31 December 2016 (see Notes 11 and 12). Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgement is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity.

(ii) 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.

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.

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.

(iii) 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.

(iv) Impairment of assets

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

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

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

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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.

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.

(x) 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.

(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)(v), (vi) and (vii).

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:

	2016	2015
	USD'000	*USD'000*
Self-produced coal		
HCC	**119,313**	75,594
Washed thermal coal ("**middlings**")	**715**	1
Trading of coal procured from Chinese third party sources	**–**	23,890
	120,028	99,485

Revenue during the year ended 31 December 2016 include approximately USD69,783,000 (2015: USD37,997,000) which arose from sales of HCC to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

During the year ended 31 December 2016, the Group had four customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD15,657,000, USD14,798,000, USD13,440,000 and USD13,360,000, respectively. 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.

5 COST OF REVENUE

	2016	2015
	USD'000	*USD'000*
Mining costs	**33,802**	34,830
Processing costs	**12,963**	13,084
Transportation costs	**20,683**	15,387
Provision losses on coal inventories	**4,315**	6,122
Others *(Note (i))*	**22,919**	43,309
Cost of revenue during mine operations	**94,682**	112,732
Cost of revenue during idled mine period *(Note (ii))*	**25,664**	52,872
Cost of revenue	**120,346**	165,604

Notes:

(i) Others include royalty tax on the coal sold (2015: Others also include cost of coal procured from Chinese third party sources).

(ii) Cost of revenue during idled mine period for the year ended 31 December 2016 includes USD18,149,000 (2015: USD34,390,000) of mining contractor costs and depreciation expense related to idled plant and equipment.

6 OTHER NET INCOME/(LOSS)

	2016	2015
	USD'000	*USD'000*
Receipt of compensation *(Note (i))*	**12,981**	–
Gain on disposal of subsidiaries *(Note (ii))*	**2,772**	–
Write-off of prepayments in relation to demobilized mining properties *(Note (iii))*	**(11,832)**	–
Others	**195**	(1,082)
Other net income/(loss)	**4,116**	(1,082)

Notes:

(i) Compensation received from the Government of Mongolia ("**GoM**") for waiver of certain contractual rights in relation to 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 ("**UHG**") coking coal mine and Gashuun Sukhait ("**GS**") border check point of Mongolia (the "**UHG-GS Railway**").

(ii) During the year ended 31 December 2016, the Group transferred its entire investment in Tavan Tolgoi Power Plant Water Supply LLC ("**TTPPWS**"), a wholly-owned subsidiary of the Group, to a third party for consideration of MNT12.5 billion as a part of the settlement of its certain overdue obligations. The transaction was completed and share transfer registered on 8 July 2016.

(iii) As a part of efforts to decrease immediate costs being borne by the Group, some fleets under mining contract were demobilized from the Group's projects. According to contract clause, related prepayments cannot be claimed back from the mining contractor. Therefore USD11,832,000 prepayments were written off during the year ended 31 December 2016.

7 LOSS BEFORE TAXATION

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

(a) Net finance costs:

	2016	2015
	USD'000	*USD'000*
Interest income	**(1,186)**	(5,084)
Finance income	**(1,186)**	(5,084)
Interest on bank and other borrowings	**16,379**	22,276
Interest on liability component of senior notes *(Note 17)*	**57,724**	54,978
Transaction costs	**2,488**	4,136
Unwinding interest on		
– Accrued reclamation obligations	**338**	854
Net interest expense	**76,929**	82,244
Foreign exchange loss, net	**45,776**	21,862
Finance costs	**122,705**	104,106
Net finance costs	**121,519**	99,022

* No borrowing costs have been capitalised for the years ended 31 December 2016 and 2015.

(b) Staff costs:

	2016	2015
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**10,775**	20,961
Retirement scheme contributions	**1,382**	2,322
Equity-settled share-based payment expenses	**1,195**	3,298
	13,352	26,581

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:

	2016	2015
	USD'000	*USD'000*
Selling and distribution costs *(Note(i))*	**17,654**	8,589
Depreciation and amortisation	**32,707**	39,179
Provision for impairment losses on trade and other receivables *(Note 14(b))*	**(436)**	8,512
Provision for impairment loss on non-financial assets *(Note (ii))*	**–**	–
	(436)	8,512
Operating lease charges: minimum lease payments		
– hire of plant and machinery	**262**	705
– hire of other assets (including property rentals)	**510**	962
	772	1,667
Net gain on disposal of property, plant and equipment and assets held for sale	**(524)**	(62)
Auditors' remuneration		
– audit services	**428**	536
– tax and other services	**132**	9
	560	545
Cost of inventories *(Note(iii))*	**120,346**	165,604

Notes:

(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 of the coking coal market's volatility and the operating losses sustained by the Group during the year ended 31 December 2016, 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 Baruun Naran ("**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.

– 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 2016 and the year end of 2015 followed the same mechanism based on as coal product price consensus and life-of-mine ("**LOM**") production plan.

– 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.

Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2016 is consistent with that at the year end of 2015, which was also 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 2016 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, and 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.

– 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.

– 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 2016 (2015: 20%). The directors believe that the post-tax discount rate was match with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2016, and has not resulted in the identification of an impairment loss for the year ended 31 December 2016. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2016 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
1% decrease in long-term coal price	31,000
1% decrease in the estimated production volume	30,000
1% increase in the estimated operating costs	41,000
One percentage point increase in post-tax discount rate	79,000
20% increase in the estimated capital expenditure	15,000

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.

(iii) Cost of inventories

Cost of inventories includes USD34,954,000 (2015: USD50,475,000) 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 USD670,000 (2015: USD862,000).

8 INCOME TAX

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

	2016	2015
	USD'000	*USD'000*
Current tax		
Provision for the year	**615**	647
Exemption of withholding tax obligation in prior years *(Note(b)(v))*	**–**	(7,647)
Deferred tax		
Origination and reversal of temporary difference	**2,035**	(9,873)
	2,650	(16,873)

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

	2016	2015
	USD'000	*USD'000*
Loss before income tax	**(151,342)**	(204,586)
Notional tax on loss before taxation	**3,246**	(21,504)
Tax effect of non-deductible items *(Note (iii))*	**4,789**	(5,880)
Tax effect of non-taxable items *(Note (iv))*	**(5,436)**	15,819
Tax losses not recognised	**51**	2,339
Exemption of withholding tax obligation in prior years *(Note (v))*	**–**	(7,647)
Actual tax expenses	**2,650**	(16,873)

Notes:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate 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 2016 and 2015. 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 2016 and 2015.

(iii) Non-deductible items mainly represent the non-deductible expenses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2016 and 2015.

(iv) Non-taxable items mainly represent the net unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2016 and 2015.

(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.

9 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 USD154,248,000 (2015: USD187,763,000) and the 9,262,591,250 ordinary shares (2015: 9,262,591,250 ordinary shares) in issue during the year. In calculating basic loss per share, the weighted average number of shares outstanding during the years ended 31 December 2016 and 2015 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 2016 and 2015, 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 are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2016 and 2015.

10 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.

11 PROPERTY, PLANT AND EQUIPMENT, NET

Mining properties as at 31 December 2016 include stripping activity assets carrying book value of USD190,400,000 (2015: USD225,233,000) and application fee for the mining rights of USD651,000 (2015: USD770,000) in relation to the Group's mine deposits.

The addition of mining properties for the year ended 31 December 2016 include the increase in reclamation provision of USD2,805,000 (2015: increase in reclamation provision of USD454,000).

Fair value measurement of property, plant and machinery

(i) Fair value hierarchy

The following table presents the fair value of the Group's property, plant and machinery measured at the end of the reporting period 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 as at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	USD'000	*USD'000*	*USD'000*	*USD'000*
Recurring fair value measurement				
Buildings and plants	346,277	–	–	346,277
Machinery and equipment	213,057	–	–	213,057
Buildings and plants, machinery and equipment under construction	77,544	–	–	77,544
Total	**636,878**	**–**	**–**	**636,878**

During the year ended 31 December 2016, 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 end of the reporting period in which they occur.

As at 31 December 2016, buildings and plants as well as machinery and equipment were revalued and such valuation was carried out by a firm of external appraisers, Duff and Phelps Corporation, who has among their staff fellows of the American Society of Appraisers, Royal Institute of Charted Surveyors, Chartered Certified Accountant, Chartered Financial Analyst and Financial Risk Manager with recent experience in the mining property valuation worldwide including valuation of coal mines. The Group's property manager and the chief financial officer have discussion with the appraisers on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The subject properties are purpose-built industrial facilities including buildings and plants, machinery and equipment and construction in progress located in South Gobi of Mongolia. They are operated according to their highest and best use for coal mining and processing. There is no other alternative use of the subject properties. Upon consideration of all relevant facts, it was concluded that the properties subject to valuations are specialized properties.

The markets approach may not be used to value specialized property due to the fact that active market for it does not exist. As required by International Valuation Standards ("**IVS**"), depreciated replacement cost approach is used where there is insufficient market data to arrive at market value by means of market-based evidence.

Depreciated replacement cost is defined by IVS as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization". Depreciated replacement cost application for major assets classes briefly described below:

– Buildings and plants, and such items under construction status:

  - Reproduction cost new ("**RCN**") estimation for the buildings and structures were calculated using indexing method;

  - Indices were applied to the historical cost. The indices were obtained from recognised sources such as: Chinese indices (Rider Levett Buckhall), FM Global, BMT Construction costs, Bureau of Labor Statistics of the Department of Labor, AUS Consultants, etc.;

  - Physical depreciation was applied using straight line method based on the economic useful life of production, auxiliary, administrative facilities, land improvements, transfer devices;

  - There was no any functional obsolescence revealed.

– Machinery and equipment:

- Machinery RCN was estimated based on the actual machinery quotations received from purchase department of the Company. These estimates were adjusted with installation expenses, engineering expenses and interest during construction. Estimated RCN was compared to indexed historical cost and considered to be relevant. Additionally, unitary reproduction cost (USD/kg of equipment weight) of major and most expensive equipment appraised such as crushers, screens, spirals and flotation cells was compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Processing plant modules unitary cost parameter (USD/ton of processing capacity) is in the middle of the range of recently constructed coal processing plants;

- Engineering and general administrative expenses estimated as average of several recently constructed coal mines and equal to 7% of RCN;

- Interest during Construction estimated equal to 7.8% of RCN based on the actual interest paid during Processing Plant module 1 construction.

(ii) Information about Level 3 fair value measurements

IVS requires that for a private sector entity with specialized assets, a valuation assessed by depreciated replacement cost must be subject to a test of profitability in relation to the whole of the assets held by the entity or the cash-generating unit. For the purpose of profitability test, the Company was considered as a single cash-generating unit.

In testing profitability, the impact that current economic conditions may potentially have on the Company's operations, financial performance, expectations of financial performance of or financial conditions is considered. Such impact was assessed with the use of financial models, which make use projections of operating activities and financial performance of the Company provided by the Management. No economic obsolescence for the Group was indicated by the profitability test.

(iii) Depreciated cost of properties held for own use carried at fair value

Had the revalued properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	2016	2015
	USD'000	*USD'000*
Buildings and plants	**142,301**	188,860
Machinery and equipment	**62,625**	92,233
Buildings and plants, machinery and equipment under construction *(Note 12)*	**41,774**	52,131
	246,700	333,224

12 CONSTRUCTION IN PROGRESS

	2016	2015
	USD'000	*USD'000*
At 1 January	**55,164**	58,421
Additions	**12**	184
Disposal	**(2,806)**	(443)
Revaluation gain	**35,770**	–
Exchange adjustments	**(8,164)**	(2,998)
At 31 December	**79,976**	55,164

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

13 INTANGIBLE ASSETS

	Acquired mining right	**Software**	**Total**
	USD'000	***USD'000***	***USD'000***
Cost:			
At 1 January 2015	701,557	4,738	706,295
Exchange adjustments	–	(263)	(263)
At 31 December 2015	701,557	4,475	706,032
At 1 January 2016	701,557	4,475	706,032
Exchange adjustments	–	(887)	(887)
At 31 December 2016	701,557	3,588	705,145
Accumulated amortisation and impairment loss:			
At 1 January 2015	195,203	3	195,206
Amortisation charge for the year	–	452	452
Exchange adjustments	–	(6)	(6)
At 31 December 2015	195,203	449	195,652
At 1 January 2016	195,203	449	195,652
Amortisation charge for the year	–	420	420
Exchange adjustments	–	(148)	(148)
At 31 December 2016	195,203	721	195,924
Carrying amount:			
At 31 December 2016	506,354	2,867	509,221
At 31 December 2015	506,354	4,026	510,380

Acquired mining right represents the mining right acquired during the acquisition of BN mine.

14 TRADE AND OTHER RECEIVABLES

	2016	2015
	USD'000	*USD'000*
Trade receivables *(Note (a))*	**11,807**	1,976
Other receivables *(Note (c))*	**46,944**	92,317
	58,751	94,293
Less: allowance for doubtful debts *(Note (b))*	**–**	(436)
	58,751	93,857

Notes:

(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:

	2016	2015
	USD'000	*USD'000*
Within 90 days	**11,786**	631
90 to 180 days	**–**	734
180 to 365 days	**–**	175
Over 365 days	**21**	–
	11,807	1,540

(b) Impairment of trade receivables

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

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

	2016	2015
	USD'000	*USD'000*
At 1 January	**436**	10,135
Provision for impairment losses	**–**	8,512
Amounts reversed	**(436)**	–
Amounts written off	**–**	(18,211)
At 31 December	**–**	436

As at 31 December 2016, no allowance for doubtful debts (2015: USD436,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

Receivables that were past due but not impaired relate to a number of independent customers that have good track record with the Group, or had reached payment schedules with the Group before the authorised issue of this financial report. Therefore, management anticipates full recovery of its remaining outstanding trade receivables; therefore, no further loss provisions have been recorded in respect of the Group's trade receivables.

(c) Other receivables

	2016	2015
	USD'000	*USD'000*
Amounts due from related parties *(Note (i))*	**1**	456
Prepayments and deposits *(Note (ii))*	**29,623**	25,462
VAT and other tax receivables *(Note (iii))*	**16,542**	20,752
Amounts due from the GoM in relation to the termination of the Concession Agreement *(Note (iv))*	**–**	41,952
Others *(Note (v))*	**778**	3,695
	46,944	92,317

Notes:

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

(ii) At 31 December 2016 and 2015, 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 Mongolian Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.

(iv) It represented the compensation amount receivable from the GoM upon the termination of the Concession Agreement, which was settled by issuance of MNT denominated promissory notes by the Ministry of Finance ("**MOF**") to the Group.

(v) At 31 December 2016, this item mainly represented miscellaneous receivables due from other companies. At 31 December 2015, this item mainly represented the interest receivables on deposit.

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

15 BORROWINGS

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

	2016	2015
	USD'000	*USD'000*
Bank loan		
– secured	**93,000**	144,818
– unsecured	**–**	40,000
Less: Current portion of long-term borrowings less amortised transaction costs	**(93,000)**	(182,631)
Less: Unamortised transaction costs	**–**	(2,187)
	–	–

As at 31 December 2016, the Group's current portion of long-term interest-bearing borrowings under the BNP and ICBC Facility of USD93,000,000 (31 December 2015: USD93,000,000), bearing interest of LIBOR + 6.00% per annum, were secured by the Group's cash at bank and inventory.

As stated in Note 2, the BNP and ICBC Facility is under the Debt Restructuring negotiated by the Group with the Lenders.

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

	2016	2015
	USD'000	*USD'000*
Within 1 year or on demand	**93,000**	184,818

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

	2016	2015
	USD'000	*USD'000*
Bank loans		
– Unsecured	**–**	15,000
Current portion of long-term borrowings		
– Bank loan	**93,000**	184,818
Less: Unamortised transaction costs	**–**	(2,187)
	93,000	197,631

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 2016.

16 TRADE AND OTHER PAYABLES

	2016	2015
	USD'000	*USD'000*
Trade payables *(Note (i))*	**104,579**	39,287
Receipts in advance *(Note (ii))*	**41,038**	40,016
Amounts due to related parties *(Note (iii))*	**14,680**	11,565
Payables for purchase of equipment	**2,643**	2,691
Security deposit on construction work	**355**	978
Interest payable *(Note (iv))*	**81,846**	18,961
Other taxes payables	**8,777**	3,310
Promissory notes *(Note (v))*	**72,216**	72,230
Others *(Note (vi))*	**16,062**	24,391
	342,196	213,429

Notes:

(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:

	2016	2015
	USD'000	*USD'000*
Within 90 days	**27,458**	14,122
90 to 180 days	**3,831**	2,153
180 to 365 days	**2,514**	14,019
Over 365 days	**70,776**	8,993
	104,579	39,287

Based on the service agreement reached with mining contractor on 20 November 2015, settlement of USD78,465,000 payables as at 31 December 2015 would be deferred to the year ending 31 December 2017 and repaid on a 12-month average basis. Accordingly, USD78,465,000 balance was presented as Other Non-current Liabilities as at 31 December 2015.

(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.

(iv) Interest payables as at 31 December 2016 include 2% default interest calculated on the BNP and ICBC Facility starting from 22 March 2016, accrued and unpaid coupon under the Senior Notes and accrued and unpaid interest payables under the promissory notes issued to QGX. The interest and coupon payables are included under the Debt Restructuring negotiated by the Group with the Lenders, the Noteholders and QGX.

(v) On 27 November 2012, the Company issued two promissory notes to QGX each in the amount of USD52,500,000, and bear interest at a rate of 8.0% per annum as at 31 December 2016. The original maturity date was 22 November 2013 and it has been extended several times since then, the latest extension of the maturity date of the two promissory notes was granted until 15 April 2016. As stated in Note 2, the promissory notes are under the Debt Restructuring negotiated by the Group with QGX.

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

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

17 SENIOR NOTES

	USD'000
At 1 January 2016	597,634
Interest charged during the year *(Note 7(a))*	57,724
Interest payable	(55,666)
At 31 December 2016	599,692

On 29 March 2012, the Company issued the 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 are due to be redeemed in 2017. As stated in Note 2, the Senior Notes are under the Debt Restructuring negotiated by the Group with the Noteholders.

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 initially 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 ("**ER**"), Energy Resources Mining LLC and Transgobi LLC.

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

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 was charged to profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 31 December 2016 was nil (2015: 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.

18 DIVIDENDS

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2016 (dividend for the year ended 31 December 2015: nil).

19 EXTRACT OF INDEPENDENT AUDITOR'S REPORT TO BE ISSUED ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

"Opinion

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 7 to 15, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 2(b) to the consolidated financial statements, which discloses that the Group had net current liabilities of approximately USD921,826,000 as at 31 December 2016 and made a loss of USD153,992,000 for the year then ended. These conditions, along with other matters as set forth in note 2(b), in particular the proposed debt restructuring, 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 and creditors and the Group's ability to generate sufficient cash flows from future operations to enable it to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. Our opinion is not modified in respect of this matter."

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

Following the first ever contraction in two decades reported in 2015, Chinese annual steel production increased by 1.2% to 808.4 Mt in 2016 and China retains its position as the largest crude steel producer in the world, according to World Steel Association ("**WSA**"). However, as economic transition cuts demand for steel, its domestic crude steel consumption has declined by 0.4% to 687.1 Mt in 2016, according to estimates provided by China Coal Resource ("**CCR**").

In 2015, according to CCR, steelmakers in China shipped a record of 112.4 Mt of steel overseas, sending the global market into a tailspin as profits and prices collapsed, causing trade frictions. Chinese steel producers continued to push their excessive production to export markets with 109.0 Mt steel exported in 2016. Although this represents 3.0% reduction compared to previous year, such volume is comparable with entire steel production reported by Japan, the second largest steel producer in the world.

As a part of measures taken for supply side reform policy, Chinese government remains determined to remove excessive steel production capacity. In 2016, according to National Development and Reform Commission ("**NDRC**"), China closed down 72.7 Mt of surplus steel capacity which exceeds its planned target of 45.0 Mt. Chinese officials reaffirmed their plans to cut steel industry capacity by 140 Mt from 2016 to 2020, closer to the higher limit of 100-150 Mt target range set previously. World Steel Dynamics ("**WSD**") forecasts the capacity cuts will happen on a bigger and faster scale than that, falling by 215 Mt to 850 Mt by the end of 2018.

According to CCR, Chinese coke production increased by 0.3% to 447.6 Mt in 2016 from 446.3 Mt recorded in 2015. Following crude steel production patterns, the coke consumption reached 442.0 Mt in 2016 or 0.3% increase compared to 440.7 Mt reported in 2015. Also, Chinese coke export continued to grow and increased to 10.2 Mt in 2016 from 9.9 Mt recorded in 2015, representing 3.6% year-on-year increase.

According to National Bureau of Statistics ("**NBS**"), China's combined raw coal output dropped by 9.4% from the preceding year to 3.4 billion tonnes ("**Bt**") in 2016. Chinese officials cut over 290 Mt of coal production capacity in 2016, exceeding their original target of 250 Mt. In line with supply side reform policy, the coking coal production in China has been reduced to 433.7 Mt, declining by 12.6% from previous year, whilst the coking coal consumption increased by 1.2% to 533.9 Mt in 2016.

Chinese officials are expected to continue curbing overcapacity in the coal industry according to the official road map outlined in the 13th Five-Year Plan with 800 Mt of outdated coal production capacity to be eliminated and replaced by 500 Mt of advanced coal capacity. According to the NDRC and the National Energy Administration ("**NEA**"), the domestic coal production in China is expected to be capped at 3.9 Bt by 2020 and the number of coal mines in China will be controlled at around 6,000 where the larger mines with capacity above 1.2 million tonne per annum ("**Mtpa**") will account for over 80% and smaller mines with capacity below 0.3 Mtpa will account for less than 10% of total coal mines in operation.

Fixed asset investment ("**FAI**") in China's coal mining and washing industry fell to RMB303.8 billion in 2016, representing a 24.2% decline compared to the preceding year. Driven by pricing improvements resulting from rebalancing supply and demand dynamics in 2016, Chinese coal mining and washing industry reported a combined profit of RMB109.1 billion, representing a 223.6% year-on-year increase, according to NBS.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

China, as the largest steel producer in the world, accounts for about 65% of iron ore and 21% of seaborne metallurgical coal which are the main steel making ingredients, traded internationally, according to a joint report published by Westpac Banking Corp and Australia's Department of Industry, Innovation, Science.

With production limits officially imposed on domestic production, Chinese coking coal imports increased to 59.3 Mt in 2016, representing a 23.2% year-on-year increase compared to 48.1 Mt imported in 2015, according to CCR. For imported coking coal, Australia retained its leading position in 2016, although its market share decreased to 45.2% from 53.8% in 2015. Mongolia remains as the second largest supplier of coking coal to China and its market share has grown to 39.7% in 2016 from 26.3% in 2015.

As such, Australia and Mongolia continue to dominate the coking coal volumes imported to China with a combined market share reaching 84.9% in 2016 compared to 80.1% reported for 2015.

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

Countries	**2016**	2015	**Change**	**Market Share**
Australia	**26.8**	25.9	**3.7%**	**45.2%**
Mongolia	**23.6**	12.7	**85.8%**	**39.7%**
Canada	**5.2**	5.7	**-9.2%**	**8.8%**
Russia	**2.6**	3.2	**-18.8%**	**4.4%**
USA	**0**	0.1	**-100.0%**	**0.0%**
Others	**1.1**	0.5	**116.1%**	**1.9%**
Total	**59.3**	48.1	**23.2%**	**100.0%**

Source: CCR

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, year-on-year percentage changes and market share.

According to the data from Mongolian National Statistics Office, Mongolia reported record high volumes for its coal exports to China which reached 25.8 Mt in 2016, representing a 78.3% increase compared to 14.5 Mt reported in previous year. In particular, during the second half of 2016, the export volume from Mongolia jumped to 16.2 Mt resulting in a 68.1% increase from the first half of 2016, following the increased demand from China.

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

On 1 February 2016, the GoM issued Resolution No. 81 which revised the pricing determinants for mineral products exported by mining license holders from Mongolia used for royalty calculations. For coal exports, two sources are identified: (i) contract price; and (ii) market index source as indicated under the website of http://www.sxcoal.com.

Mining license holders exporting coal are allowed to pay their royalties based on their actual contract pricing, which shall be adjusted with reference to the closest border crossing point used for export from Mongolia. If mining license holders fail to comply with the respective requirements for royalty calculation based on their contractual prices, the royalty payable will be calculated according to the benchmark reference price which will be determined by the relevant authorities, based on the information obtained from the market index source.

On 28 March 2016, the GoM issued Resolution No. 179 which adopted a template for the community cooperation agreement as stipulated under the Minerals Law, with such community cooperation agreement to be entered between exploration and mining license holders and aimag (province) governors representing the local authorities. The community cooperation agreement is designed to cover various aspects of the community engagement, including matters related to the environmental protection, employment creation and infrastructure development.

The Group remains committed to a sustainable business model with a strong focus on community development by way of implementing various programs. Currently, the management is engaging in open and transparent discussions at the joint committee established together with the governor's office of Umnugobi province and community representatives for the purpose of drafting the community cooperation agreement, which is expected to be finalized and entered within the first half of 2017.

Labour Relations, Occupational Health and Safety related legislation

On 20 April 2016, Trilateral National Committee for Labour and Social Agreement (Confederation of Mongolian Trade Union, Mongolian Employers Federation and the GoM) approved Resolution No. 4 and agreed to increase the minimum monthly wage from MNT192,000 to MNT240,000 effective from 1 January 2017. The Group does not expect any impact on its financial position, because its existing internal remuneration policies sufficiently cover the adopted minimum monthly wage requirements.

Taxation, Accounting and Financial Reporting related legislation

During 2016, the excise and customs duties of imported gasoline and diesel were reduced by the GoM using its 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.

On 5 October 2016, the GoM issued Resolution No. 109 and decreased excise duty for diesel, which are imported through Sukhbaatar, Zamiin-Uud and Altanbulag border ports, from MNT520,000 to MNT280,000, and decreased excise duty for gasoline from MNT400,000 to MNT260,000 per tonne.

On 30 November 2016, the GoM issued Resolution No. 166 and further decreased excise duty for imported diesel, which are imported through Sukhbaatar, Zamiin-Uud and Altanbulag border ports, up to MNT180,000 per tonne and decreased excise duty for gasoline up to MNT160,000 per tonne.

Moreover, on 25 January 2017, the GoM issued Resolution No. 34 and decreased excise duty for gasoline with octane rate up to 90 from MNT160,000 to MNT50,000 per tonne and gasoline with octane rate above 90 from MNT160,000 to MNT30,000 per tonne. It also decreased excise duty for diesel, that are imported through Sukhbaatar, Zamiin-Uud and Altanbulag border ports, from MNT180,000 to MNT70,000 per tonne.

Such decrease of excise duty on imported gasoline and diesel enables the Group to reduce its costs related to fuel consumed by the Group's operations in Mongolia, to the extent possible in connection with imported fuel price fluctuations, subject to international oil prices movements.

Political Environment

The parliamentary election of Mongolia was held on 29 June 2016 and the opposition party, Mongolian People's Party ("**MPP**"), clinched a landslide victory, gaining 65 seats out of 76 seats in the Parliament. The Democratic Party took 9 seats while the remaining 2 seats went to the Mongolian People's Revolutionary Party and an independent candidate.

Following the election results declared by the General Election Committee and officially presented to the President of Mongolia, Mr. Elbegdorj Tsakhia, the first session of the newly elected Parliament was called. On 5 July 2016, Mr. Enkhbold Miyegombo, the Head of the MPP, was elected as the Speaker of the Parliament. On 8 July 2016, Mr. Erdenebat Jargaltulga was appointed by the Parliament as the Prime Minister to lead the newly formed cabinet, consisting of 16 ministers.

Having majority seat by one party at the Parliament may increase the decision making efficiency of the Parliament, but there can be no assurances that it will have any negative or positive impact on the operations of the Company.

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 31 December 2014 and two Coal Resource updates.

This most recent Coal Resource estimate has been made in accordance with the requirement of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). Compared to the previous JORC Coal Resource update stated as at 30 November 2015, the last update stated as at 31 December 2016 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 December 2015 and 31 December 2016. No further exploration data was incorporated.

Exploration activities conducted in the process of preparing the three preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2016, 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 ("**ALS**") laboratories in Ulaanbaatar.

Internal peer audit of these latest structural and coal quality models was conducted by Mr. Gary Ballantine, employed by the Group at that time 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.

With updated surface topography being the only new information 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 Group's 2015 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 31 December 2016 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	2	3	5	5	10
BHWE to 100m	70	23	17	93	110
From 100m to 200m	92	48	26	140	166
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	16	92	108
Below 400m	40	44	30	84	114
Sub-Total above 300m	255	138	69	393	462
Sub-Total below 300m	97	79	45	176	222
Total	**352**	**217**	**115**	**569**	**684**
Total (Rounded)	**350**	**220**	**110**	**570**	**680**

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 9 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 estimates of the Coal Resource set out in Table 2 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2016, 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 was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 26 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

Baruun Naran (BN) deposit

The BN deposit is covered by two mining licenses. Mining License 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 license respectively.

No further drilling was conducted at the BN deposit in 2016, 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 diameter 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, the then 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 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to BHWE	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 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to BHWE	–	–	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 9 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 estimates of the Coal Resource set out in Table 3 and Table 4 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

(ii) Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 26 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 forecast 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.

Following pit optimisation works to determine the economic pit limits, practical pit designs were then created, and mineable in situ coal within the pit shell was converted to run-of-mine ("**ROM**") and product coal quantities. Raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 30 November 2015 based upon an as-received basis with 5% total moisture, are shown in Table 5. Between 1 December 2015 and 31 December 2016, the stated Coal Reserve has been depleted by approximately 3.5 Mt as result of mining activity.

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

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

Notes:

(i) The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the 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 RPM 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 the 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 to 50.7%, 56.7% and up to 64.0% reduction in forecasted mine gate revenue assumptions for HCC, washed semi-soft coking coal ("**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 2016, 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 a 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. An updated JORC Coal Resources Report has been prepared as of 30 June 2015. However, coal reserves have not yet been updated based on this coal resources estimate.

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 the 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 2016 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 (Notes):

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 RPM 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.

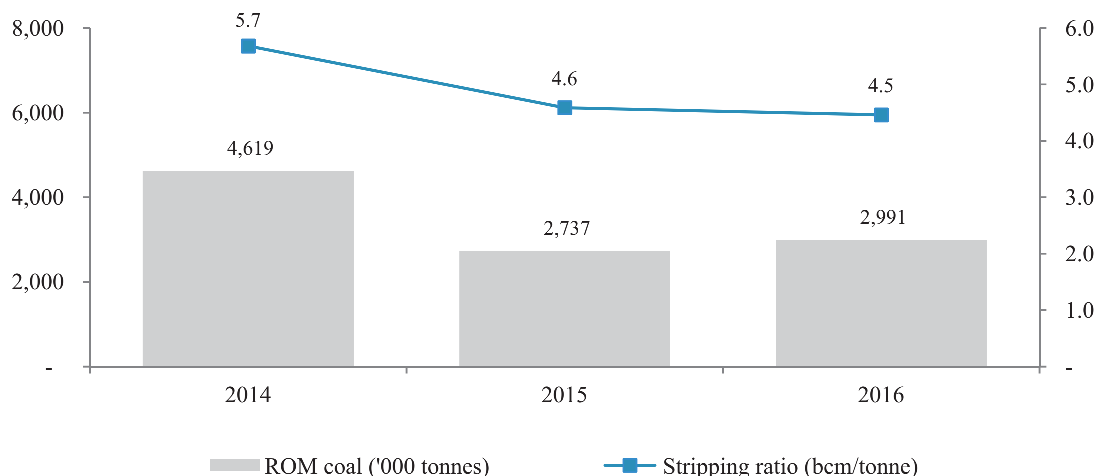
Production and Transportation

Coal Mining

In 2016, the Group has produced 3.0 Mt ROM coal as shown in Figure 1, all coal has been extracted from UHG mine whilst mine operation at BN remained suspended. Following market development during the reporting period, ROM coal production increased to 2.1 Mt in the second half of the year, representing an increase of 126.8% compared to 0.9 Mt reported for the first half of the year. To access the coal, approximately 13.3 million bcm of overburden was removed, resulting in an actual stripping ratio of 4.5 bcm per ROM tonne in 2016.

The successful introduction of Seam 0B coal in ROM coal feed blend to the coal handling and preparation plant ("**CHPP**") for HCC production was the main contributing factor to maintain lower stripping ratio. Seam 0B coal lies partially uncovered at the bottom of the existing pit and was previously considered only as a source for thermal coal production. Following a more thorough investigation conducted by the Group's technical services, including drill hole chip sampling and trench sampling, a significant proportion of Seam 0B has been identified as suitable for HCC production. Approximately 919 thousand tonnes ("**kt**") of Seam 0B coal was delivered for processing to CHPP, representing 30.4% of the total ROM coal tonnes feed in 2016.

Figure 1. The Group's annual ROM coal production volumes (in kt) and actual stripping ratio (in bcm of overburden per ROM tonne of coal) for 2014-2016:

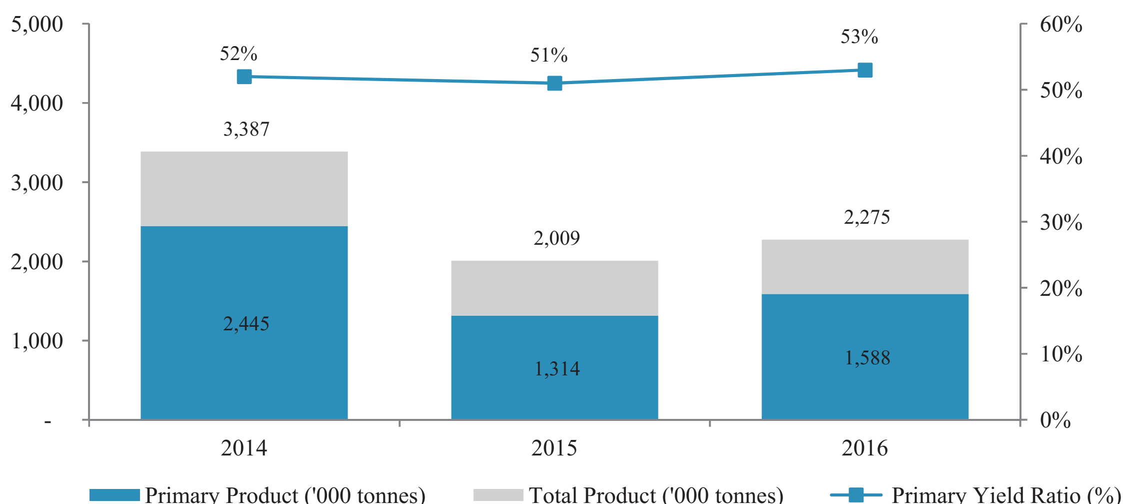


Coal Processing

ROM coal volume processed by CHPP was 3.0 Mt in 2016, which are all ROM coal feed sourced from UHG deposit. This resulted in 1.6 Mt of HCC, the primary product, at yields of 52.5%, and 0.7 Mt of middlings, the secondary product, at a yield of 22.7%.

Following successful initial test trials in 2015, incorporating Seam 0B into ROM feed blend for HCC production, a full scale operation incorporating this concept was executed in 2016.

Figure 2. The Group's annual total and primary processed coal production volumes (in kt) for 2014-2016:



Transportation and Logistics

In 2016, a total of 1.5 Mt of HCC was hauled from the UHG to the Tsagaan Khad ("**TKH**") coal stockpile and trans-shipping facility adjacent to the GS and Ganqimaodu ("**GM**") Sino-Mongolian border crossing. This was achieved by solely utilizing the Group's own fleet of double-trailer trucks.

All middlings produced 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.

Total of 1.6 Mt of coal products were exported by transportation from TKH via GS to GM, utilizing predominately third party contractors. Also, 0.1 Mt of HCC was exported by direct transportation from UHG to GM, which started in the second half of 2016, after obtaining the required permits from Mongolian and Chinese authorities for the Group's own trucks.

Occupational Health, Safety and Environment

The Group has an internal rating scale for environmental incidents based on their severity, which was last updated in April 2015. Accordingly, the risk rating scale uses five 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, fatal injury and others. In 2016, the Group recorded no environmental incidents with "high" or above classifications. Five incidents occurred with "low" and "minor" classifications which were related to spillage of tailings and fuel. For all incidents, full investigations were carried out to identify the root causes, and corrective and preventive actions were taken to prevent re-occurrences.

During the reporting period, approximately 3.0 million man-hours were recorded as worked by employees, contractors and sub-contractors of the Group. During 2016, one occurrence of Lost Time Injury ("**LTI**") was recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.3 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 2016, the Group continued to deliver Occupational Health, Safety and Environment ("**OHSE**") specific training to employees, contractors, sub-contractors and visitors, with delivery of 7,264 training sessions to individuals, totalling 19,283 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

The prolonged market slowdown in the first half of the year took a better turn as a result of the Chinese government's measures to implement supply side reform policies, in particular, the steps undertaken by NDRC to impose regulations limiting total annual operating time to 276 days which reduced the coal mines output in China and resulted in supply shortage leading to improved pricing for coal products in the second half of 2016. Following this positive market development, the Group's coal sales volume almost doubled in the second half of the year compared with the volumes reported for the first half of the year.

The Group strove to maintain its relationship with its existing end-user customers' base with long term strategic value, while continuing to focus on liquidity and credit risk management. The Group's existing customers mostly comprise of steel mills and coke plants located in Inner Mongolia and Hebei areas, including Baotou Iron and Steel Co. Ltd, Jianlong Janeboat Steel Co., Ltd, Qiananshi Jiujiang Wire Co., Ltd and Tangshan Dafeng Coking Co., Ltd.

Besides maintaining sales through its existing sales and distribution channels, the Group continued to expand its end-user customers' base in 2016 and has subsequently started supplying HCC to new customers such as Chifeng Jiu Lian Coal Chemical Co., Ltd and Chifeng Defeng Coking Co. Ltd in Inner Mongolia province, Jiuquan Iron and Steel in Gansu province, Hebei Iron and Steel Group Company, Tangshan Dongfang Gas and Coking Coal Co., Ltd, Tangshan Lanhai Industrial Co.Ltd, Tangshan Yongshun Gas and Coking Co. Ltd, in Hebei province and also two major steel makers in Liaoning province.

The Group sold a total of 1.6 Mt of self-produced coal products in 2016, of which 1.5 Mt was HCC and 0.1 Mt was middlings. HCC sales volume in 2016 increased by 29.2% compared to 1.2 Mt HCC sold in 2015.

OUTLOOK AND BUSINESS STRATEGIES IN 2017

The combination of reduced coal production in China after imposing 276 working days per annum limit for coal mines, supply-chain disruptions both within China and in seaborne markets, along with a lift in Chinese steel production, has resulted in an improved market situation with Free-on-Board ("**FOB**") Australia benchmark contract prices for premium HCC settled at USD200 per tonne in the fourth quarter of 2016 and USD285 per tonne in the first quarter of 2017. Industry sources predict that FOB Australia quarterly benchmark contract prices in the second and third quarters of 2017 may end up close to current spot prices currently trading around USD160 per tonne, with a growing sense of market stability after a peak in prices seen at the end of last year.

International coking coal spot prices were fluctuating around quarterly benchmark contract price during the first half of 2016, indicating relatively well balanced supply and demand equilibrium. However from the third quarter of 2016, markets started to observe certain market mismatches and spot prices drastically jumped over USD300 per tonne in the fourth quarter of 2016 driven by the elevated demand from China. Coking coal prices in China followed similar trends observed in the seaborne market, although the price increase magnitude was at a lesser extent and also phased over a few months.

The coking coal market underwent pricing corrections after China eased restrictions on production of steel-making materials and Chinese production recovered after the government scaled back limits to allow mines operate 330 days per year from the previous 276 days. It was reported that most of China's large coal producers, both thermal and coking coal miners, suggested to the government to reinstate 276 working-day regulations at all coal mines after the winter period ends, in a bid to underpin price and ease anticipated supply pressure. However, NDRC signaled that such drastic measures would not be introduced this year. Instead, Chinese officials restated their commitment to continue with implementing supply side reform policy, including eliminating overcapacity in the coal industry, and vowed to cut more than 150 Mtpa of excess capacity this year. Meanwhile, actions were taken to balance coal production with an aim to avoid pricing volatility and it was reported that NDRC has encouraged large state-owned thermal and coking coal producers to enter into long term supply contracts with end-users. As such, one may expect that in absence of major unpredictable supply disruptions during 2017, the coking coal prices in China will stabilize at current levels reported, subject to typical seasonal fluctuations.

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.

With improved market conditions, the Company will aim to maximize its production and sales volumes in 2017. The ultimate intention is to ramp up production output in a safe manner by fully utilizing existing capacity, whilst managing working capital requirements and continuing to focus on cost control.

Reducing environmental footprint from our operations shall also remain as the main priority, including minimising power and water usage rates.

The management shall continue to maximize transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume shall be achieved by adopting aggressive marketing strategy to expand market penetration with direct access to ultimate end-user customers.

The Company achieved significant progress in its dialogue with its creditors about a possible restructuring arrangement in relation to its debt facilities. The management will remain absolutely focused in completing this process under the proposed restructuring arrangements with the ultimate goal to achieving outcomes acceptable and in the long term beneficial to all of its stakeholders. For details and progress of the proposed restructuring arrangements, please refer to the announcements published by the Company from time to time.

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 the 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 public-private-partnership model. On 15 December 2016, the Consortium received an official letter from the working group established by the GoM, formed after the parliamentary election of Mongolia in June 2016, for the purpose of continuing negotiations in relation to the Tavan Tolgoi coalfield development. 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

During the year ended 31 December 2016, the Group sold approximately 1.6 Mt of coal products and generated a total revenue of USD120.0 million, compared to 1.5 Mt and USD99.5 million in the year ended 31 December 2015. As a result of improving market sentiment and higher coking coal prices in China towards the last quarter of 2016, USD88.9 million or 74.1% of the total revenue was booked during the second half of 2016. There were no sales of coal products procured from third party sources in the year ended 31 December 2016, compared to 0.3 Mt in the year ended 31 December 2015.

The Group's pricing reflects the current price trend in the coking coal market. The ASP for HCC was USD77.2 per tonne for the year ended 31 December 2016, compared to USD63.2 per tonne in the year ended 31 December 2015. In line with the coking coal market rebound in the second half of 2016, the Group's ASP for HCC reached USD92.8 per tonne in the second half of 2016, compared to USD52.2 per tonne in the first half of 2016, representing an increase of 77.8%.

For the year ended 31 December 2016, the Group derived individually more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD15.7 million, USD14.8 million, USD13.4 million and USD13.4 million, respectively. In 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.

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 2016, the total cost of revenue of USD120.3 million was only associated with self-produced coal, representing a decrease of 27.3% compared to USD165.6 million during the year ended 31 December 2015, which included costs relating to both self-produced coal of USD132.7 million and procured coal from Chinese third parties of USD23.4 million.

The total cost of revenue of USD120.3 million for the reporting period, includes inventory provision and idling costs. The USD4.3 million inventory provision was booked due to weak prospects of net realizable value of low grade coal inventories. The Group temporarily suspended operations at certain times during the reporting period for cash conservation and efficiency purposes. Therefore at certain periods production was held at limited levels, and as a result, idling costs were recorded, which was approximately USD25.7 million, including depreciation and amortization of USD9.9 million.

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

	Year ended 31 December	
	2016	2015
	(USD'000)	(USD'000)
Cost of self-produced coal	**116,031**	132,701
Idling cost	**25,664**	52,872
Cost of self-produced coal excluding idling cost	**90,367**	79,829
Mining cost	**33,802**	34,830
Variable cost	**14,969**	15,960
Fixed cost	**16,316**	16,598
Depreciation and amortization	**2,517**	2,272
Processing cost	**12,963**	13,084
Variable cost	**4,985**	5,216
Fixed cost	**1,453**	2,664
Depreciation and amortization	**6,525**	5,204
Handling cost	**2,209**	1,185
Transportation cost	**20,683**	15,387
Logistic cost	**3,465**	2,690
Variable cost	**1,888**	1,416
Fixed cost	**1,439**	1,169
Depreciation and amortization	**138**	105
Site administration cost	**6,440**	6,261
Transportation and stockpile loss	**670**	862
Royalties and fees	**10,135**	5,530
Royalty	**7,607**	3,509
Air pollution fee	**1,333**	1,127
Customs fee	**1,195**	894

The mining cost consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and costs paid to fuel suppliers. For the year ended 31 December 2016, the Group's mining costs were approximately USD33.8 million (2015: USD34.8 million). Mining unit cost was USD11.5 per ROM tonne for the year ended 31 December 2016, compared to USD15.5 per ROM tonne for the year ended 31 December 2015, representing a decrease of 25.8%, which was due to the successful negotiation and revision of the agreement with the Company's mining contractor. Major amendments include adjustment in the mining fleet rate, indexing project base fee to market coal price and reducing plant rates which, in aggregate, helped the Group reduce its mining unit cost.

The Group identified components of the mine in accordance with the mine plan, and accounting of mining unit cost 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 2016 was 2.4 bcm per tonne, compared to 2.5 bcm per tonne for the year ended 31 December 2015. 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 capitalized in the balance sheet as mining structure.

Table 8. Total unit mining cost per ROM tonne:

	Year ended 31 December	
	2016 (USD/ ROM tonne)	2015 (USD/ ROM tonne)
Mining cost	**11.5**	15.5
Blasting	**1.0**	1.3
Plant cost	**2.3**	3.5
Fuel	**1.8**	2.3
National staff cost	**0.7**	1.4
Expatriate staff cost	**0.3**	0.6
Contractor fee	**4.5**	5.2
Ancillary and support cost	**0.03**	0.2
Depreciation and amortization	**0.9**	1.0

Note: The above mining cost does not include idling cost

The processing cost primarily includes costs associated with operations of CHPP including power and water costs. During the year ended 31 December 2016, the Group's processing cost was approximately USD13.0 million (2015: USD13.1 million), of which approximately USD6.5 million was related to the depreciation and amortization of the CHPP, USD2.4 million were costs related to power generation and distribution, and USD1.0 million were costs incurred for water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne decreased from USD5.8 per ROM tonne for the year ended 31 December 2015 to USD4.4 per ROM tonne for the year ended 31 December 2016, representing a decrease of 24.1%. The decrease was mainly attributable to the higher utilization and MNT depreciation.

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

	Year ended 31 December			
	2016	2015	**2016**	2015
	(USD'000)	(USD'000)	**(USD/ROM tonne)**	(USD/ROM tonne)
Total	**12,963**	13,084	**4.4**	5.8
Consumables	**719**	671	**0.3**	0.3
Maintenance and spares	**857**	812	**0.3**	0.4
Power	**2,446**	2,956	**0.8**	1.3
Water	**963**	777	**0.3**	0.3
Staff	**626**	1,767	**0.2**	0.8
Ancillary and support	**827**	897	**0.3**	0.4
Depreciation and amortization	**6,525**	5,204	**2.2**	2.3

Note: The above processing cost 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 course reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2016, the Group's handling cost was approximately USD2.2 million (2015: USD1.2 million). Unit handling cost was USD1.4 per tonne for the year ended 31 December 2016 (2015: USD1.0 per tonne).

Transportation costs include costs related to the direct or indirect transportation (via TKH) of coal products from UHG to GM, including fees paid to third party transportation contractors. During the year ended 31 December 2016, the Group's transportation costs, excluding idling cost, were USD20.7 million (2015: USD15.4 million). On a unit cost basis, the Group's combined average transportation costs from UHG to GM decreased from USD13.5 per tonne in the year ended 31 December 2015, to USD12.9 per tonne in the year ended 31 December 2016. The transportation cost in the long haul section (UHG-TKH), where own fleet was used, decreased from USD7.4 per tonne in the year ended 31 December 2015, to USD6.5 per tonne in the year ended 31 December 2016, due to higher transportation volume. In the short-haul (TKH-GM) section, where the Group utilized fleet from third party contractors, the transportation costs were USD6.7 per tonne in the year ended 31 December 2016, which was USD0.6 higher than the year ended 31 December 2015. The Group started direct transportation between UHG and GM using its own fleet during the second half of 2016, in order to mitigate the shortage of third party contractors in the short haul section. The unit transportation cost in UHG-GM section was USD8.5 per tonne during the year ended 31 December 2016.

The logistics costs are mainly related to costs associated with operating product stockpiles at UHG and TKH. For the year ended 31 December 2016, the Group's logistics cost was approximately USD3.5 million (2015: USD2.7 million).

The site administration cost during mine operations is primarily related to the site support facilities such as the airstrip operations, and also the overall supervision and joint management of the Group's mining, processing, transportation and logistics operations. For the year ended 31 December 2016, the Group's site administration cost was approximately USD6.4 million (2015: USD6.3 million).

For the year ended 31 December 2016, the Group recorded a total transportation loss of around USD0.2 million, which was negligible in 2015, and unrealized inventory loss of USD0.5 million for ROM coal and washed coal product stockpiles, which was USD0.8 million in 2015. 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, TKH, and inland China stock. Survey of coal quantity is a measurement of volume, and as for every bulk commodity, the conversion to tonnage requires the application of density assumption, which involves natural variance. Subsequently, the measurement of stockpile quantities is an estimation in which errors are inherent. Therefore, variations within 5% are tolerated, and any tonnages above/below this limit are recorded as stockpile gain/loss. The management expects that by maintaining lower levels of inventory and improving overall inventory management, the Company will be in a position to keep inventory losses under control.

Governmental royalties and fees are related to royalties, air pollution fees and customs 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 and Heavy Industry of Mongolia. Starting from 1 February 2016, the contract prices were allowed to be used for calculating royalty rates pursuant to Resolution No. 81 of the GoM. The Group's effective royalty rate for the year ended 31 December 2016, was approximately 5.0% for coal exported from Mongolia based on customs clearance documentation (2015: 5.4%).

Gross Loss/Profit and Gross Loss/Profit Margin

The Group's gross loss for the year ended 31 December 2016, was approximately USD0.3 million, compared to the gross loss of approximately USD66.1 million recorded for the year ended 31 December 2015. The decrease in gross loss position was largely due to an increase in ASP following a surge of coking coal price in the second half of 2016 and the continuing cost management.

Selling and Distribution Costs

The Group's selling and distribution costs of USD17.7 million for the year ended 31 December 2016 (2015: USD8.6 million) are associated with the inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution costs were higher compared to the same period in the year ended 31 December 2015, due to higher sales volume realized under inland China sales activities.

General and Administration Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, depreciation and amortization of office equipment and other expenses. For the year ended 31 December 2016, the Group's general and administrative expenses decreased by approximately USD17.4 million or 57.0% from USD30.5 million for the year ended 31 December 2015, to approximately USD13.1 million for the year ended 31 December 2016.

Net Finance Costs

Net finance costs for the year ended 31 December 2016 was approximately USD121.5 million (2015: USD99.0 million). Net finance costs comprised of interest expense and other credit facilities related expenses, and approximately USD45.8 million foreign exchange net loss, which is mainly due to the depreciating MNT.

The Group has triggered the event of default under the BNP and ICBC Facility with a principal outstanding amount of USD93.0 million as disclosed in the announcements of the Company dated since 23 March 2016, which also constituted an event of default under the Group's other certain indebtedness that contain cross-default provisions, including the Senior Notes issued by the Company with a principal amount of USD600.0 million on 29 March 2012. Accrued interest expenses in respect of the BNP and ICBC Facility totaled USD7.9 million for the year ended 31 December 2016, which is inclusive of 2% per annum default interest calculated starting from 22 March 2016, in addition to the accumulated interest payables of USD0.3 million for the prior period. Accrued interest in respect of the Senior Notes totaled USD55.7 million for the year ended 31 December 2016, in addition to the accumulated interest payables of USD13.6 million for the prior period. As announced by the Group on 3 November 2016, such accrued and unpaid interest of USD77.5 million of the BNP and ICBC Facility and the Senior Notes are included in the restructuring of the Group's certain indebtedness. Further details of the restructuring can be found in the Group's announcement made on 3 November 2016 and in the paragraph headed "Indebtedness" under the Management Discussion and Analysis section on pages 53 and 54 of this annual results announcement.

Income Tax Expenses

The Group's income tax expenses for the year ended 31 December 2016 was approximately USD2.7 million. The Group did not have income tax expenses 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.

Loss for the Period

As a result, the losses attributable to equity shareholders of the Company for the year ended 31 December 2016, amounted to approximately USD154.2 million (2015: USD187.8 million). Major contributing factors of the Group's net loss position are the depressed ASP and lower sales volume of coking coal products due to tough market conditions in China in the first half of 2016, and high net finance costs.

Liquidity and Capital Resources

For the year ended 31 December 2016, the Company's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

	Year ended 31 December	
	2016	2015
	USD'000	USD'000
Net cash generated from/(used in) operating activities	**29,350**	(14,184)
Net cash generated from/(used in) investing activities	**44,262**	(36,236)
Net cash used in financing activities	**(61,561)**	(151,709)
Net increase/(decrease) in cash and cash equivalents	**12,051**	(202,129)
Cash and cash equivalents at beginning of the year	**702**	202,856
Effect of foreign exchange rate changes	**(485)**	(25)
Time deposits with original maturity over three months	**–**	50,000
Cash and cash equivalents at end of the year	**12,268**	50,702

Note: USD44.3 million generated from investing activities comprises of USD6.6 million incurred for payments of deferred stripping activity, USD53.5 million generated from interest income and release of time deposit, USD0.4 million generated from disposal of property, plant and equipment and USD3.0 million used for payment of payable 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 2016 was 43.9% (31 December 2015: 57.0%). 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.

Fixed Assets Revaluation

The fixed assets of the Group are held by the Group's subsidiaries located in Mongolia, and due to functional currency of these subsidiaries being MNT, the value of fixed assets is recorded at historical costs of its acquisition denominated in MNT at the time of recognition of fixed assets. However, the presentation currency of the Group is USD and at each reporting period, the value of fixed assets of the Group is translated into USD using the foreign exchange rates prevailing at the balance sheet dates.

Due to substantial depreciation of MNT against USD for the last few years, the value of the fixed assets of the Group diminished significantly. For instance, the majority of the Group's capital investments were made during the period from 2010 to 2012 when the historical average USD rate was around 1,325.94 as published by the Bank of Mongolia. However, MNT rate has been significantly depreciated against USD and reached 2,489.53 as of 31 December 2016, representing a depreciation of 87.8% compared to the 2010-2012 historical average rate or a depreciation of 108.3% compared to the historical high of 1,195.27 during the period since 2010. Moreover, global inflation occurred in prices of equipment, spare parts and workforce, and there have been changes in asset utilization and its physical condition since the capital investments were made. Also the tax regime in Mongolia has been changing. For instance, under the revision of the Value-Added Tax Law of Mongolia, which became effective from 1 January 2016, VAT of 10% paid on imported or purchased goods, works and services for the purpose of establishment of fixed assets is excluded from the list of deductibles from the VAT taxable amount, and regulated to be capitalized into the book value of establishment of fixed assets. Previously, VAT imposed on purchase of fixed assets was recorded as VAT receivables in the accounting book and further deducted from respective tax payables or reimbursed back to an entity upon the Tax Authority inspection and approval.

Based on the above reasons, the Group has changed its accounting policy of property, plant and equipment from cost model to revaluation model in accordance with IAS 16 Property, Plant and Equipment, and engaged Duff & Phelps Corporation, the premier global valuation and corporate finance advisor, to revalue its major fixed assets including immovable assets and major infrastructure assets together with related machinery equipment as at the year ended 31 December 2016. In addition, such revaluation was done at the end of this reporting period because the Parliament adopted an amendment to the Accounting Law of Mongolia effective from the 1 January 2016 allowing entities to use dual-currencies for their accounting which would eliminate further balance sheet impacts arising from changes of the MNT value.

As the result of the fixed assets revaluation, the carrying amount of the evaluated assets was increased and other comprehensive income of USD341.8 million was recognized as a revaluation surplus in equity side of the balance sheet for the year ended 31 December 2016. The asset revaluation surplus is an accounting related adjustment and a non-cash item and therefore, does not have any impact on the cash flow of the Group. In addition, going forward annual depreciation amount will increase as result of asset revaluation surplus.

Indebtedness

As of 31 December 2016, the Company had USD693.0 million outstanding principal payments incurred under (i) USD600.0 million Senior Notes and (ii) USD150.0 million BNP and ICBC Facility.

During the reporting period, the Group has settled and repaid certain indebtedness. Under the Group's loan agreements with European Bank for Reconstruction and Development ("**EBRD**"), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("**FMO**") and Deutsche Investitions-und Entwicklungsgesellschaft mbH ("**DEG**") (together as the "**Parallel Lenders**"), the outstanding principal amount was USD51.8 million as at 30 June 2016. The Group announced on 25 July 2016 that the Group endorsed to the Parallel Lenders certain promissory notes with a total amount of approximately MNT105.6 billion, and in return the obligations under the borrowings were discharged in their entirety and the relevant security thereunder was released on the date of the announcement. Moreover, the revolving credit facility granted by the Trade and Development Bank of Mongolia and short-term loan granted by Golomt Bank of Mongolia had been fully repaid as at 31 December 2016.

The Senior Notes bear a fixed interest rate of 8.875% per annum payable semi-annually and was issued in 2012 for 5 years, unless earlier redeemed. As of 31 December 2016, the outstanding principal amount was USD600.0 million. The Group published an announcement on 14 March 2016 in regards to a formation of the Steering Committee for potential restructuring of the Senior Notes and announced that the Group would likely not be able to pay the interest due and payable in 2016.

On 5 March 2014, the Company entered into the BNP and ICBC Facility Agreement for a coal pre-export loan facility of USD150.0 million. The loan bears an interest rate of LIBOR plus 6.00% per annum, and was repayable in 10 quarterly installments starting from September 2014 and ending in December 2016. 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. On 23 March 2016, the Group published an announcement stating an event of default had occurred under the BNP and ICBC Facility Agreement and cross-default under the Senior Notes due to failure to make certain repayment of principal installments and interests and replenish certain collection account. On 26 April 2016, the Group received notice from the agent under the BNP and ICBC Facility Agreement (the "**Agent**") on acceleration and demand of the BNP and ICBC Facility Agreement ("**Acceleration Notice**") and a notice from the shared security agent ("**Shared Security Agent**") on enforcement under the intercreditor agreement ("**Intercreditors Agreement**") entered into between the Company, certain of its subsidiaries, the original lenders under the BNP and ICBC Facility Agreement, the trustee of the Senior Notes and the Shared Security Agent thereunder as referenced to the Group's announcement dated 23 March 2012. On 29 April 2016, the Group published an announcement stating that a default of interest payment of the Senior Notes had continued for a period of 30 consecutive calendar days and, as such, an event of default under the Senior Notes had been triggered. On 8 July 2016, an indicative terms of the restructuring was proposed by the Company (the "**Debt Restructuring Proposal**").

On 19 July 2016, the Cayman Court appointed Mr. Simon Conway of PwC Corporate Finance Recovery (Cayman) Limited and Mr. Christopher So Man Chun of PricewaterhouseCoopers Ltd. as JPLs of the Company on a soft touch basis to assist the Company and its Directors with the implementation of the Debt Restructuring pursuant to the terms of an order of the Cayman Court made on that date. The relevant announcements in regards to the appointment of the JPLs and the process afterwards were duly announced by the Company in due course.

On 3 November 2016, the Company announced that the Steering Committee, the Lenders and QGX have provided their support for the key commercial terms of the Updated Debt Restructuring Proposal. On 21 December 2016, the Company announced that the Company and the JPLs entered into the RSAs with certain consenting noteholders ("**Consenting Noteholders**"), QGX and the Lenders pursuant to which such Consenting Noteholders, QGX and the Lenders agreed to support the proposed Debt Restructuring. Each of the RSAs was approved by an order of the Cayman Court on 21 December 2016. Under the terms of the RSAs, the Consenting Noteholders, QGX and the Lenders have undertaken to work in good faith with the Company to implement the Debt Restructuring as soon as possible. Further developments regarding the Debt Restructuring can be found in the paragraph headed "Other and Subsequent Events" under the Management Discussion and Analysis section on page 57 of this annual results announcement.

Credit Risk

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

As at 31 December 2016, the Group had approximately USD11.8 million in trade receivables, which includes receivables from sales agents and bills receivables issued by the customers, USD46.9 million in other receivables and no allowance of doubtful debts. As at 31 December 2015, the Group had USD2.0 million in trade receivables and USD92.3 million in other receivables, as well as USD0.4 million for allowance of doubtful debts.

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

With regard to other receivables of USD46.9 million, this amount is mainly related to USD16.5 million VAT and other tax receivables, and USD29.6 million of other deposits and prepayments. For the VAT receivables, based on the Tax Authority inspection and approval of the VAT tax refund, the Group offset USD8.5 million against its other tax payments and payables to certain suppliers. The remaining amounts are other receivables in the ordinary course of business. Management believes that there is no issue in the collectability of such receivables.

Foreign Exchange Risk

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2016 and 31 December 2015 amounted to USD1.4 million and USD50.2 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2016 and 31 December 2015 amounted to nil and USD101.8 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

The Company pledged Collection and Cash Collateral accounts with BNP Paribas Hong Kong and certain coal stockpiles under the BNP and ICBC Facility Agreement as at 31 December 2016.

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

The total principal amount of indebtedness covered with the above pledges is USD693.0 million as at 31 December 2016.

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

Contingent Liabilities

As at 31 December 2016, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd. and Kerry Mining (Mongolia) Limited ("**KMM**") on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as 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 entered into by the same parties as the Share Purchase Agreement, the specified semi-annual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

Financial Instruments

The Company has a share option scheme, adopted on 17 September 2010 ("**Share option Scheme**"), in which the Board is authorized, 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 directors 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 2016, USD1.2 million was recognized in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

As at 31 December 2016, the Group had contracted USD0.5 million for capital commitments (as at 31 December 2015: USD0.5 million):

Table 11. Capital commitments:

	As at 31 December 2016 USD'000	As at 31 December 2015 USD'000
Contracted for	**510**	525
Authorized but not contracted for	**–**	–
Total	**510**	525

Table 12. The Group's historical capital expenditure for the periods indicated:

	Year ended 31 December	
	2016	2015
	USD'000	USD'000
CHPP	**–**	59
Water supply facility	**–**	124
Others	**276**	277
Total	**276**	460

Operating Lease Commitments

As at 31 December 2016, the Company had contracted obligations consisting of operating leases which totaled approximately USD0.2 million due within one year. Lease terms range from one to five years, with fixed rentals.

Significant Investments Held

As at 31 December 2016, the Company did not hold any significant investments. Save as disclosed in this announcement, 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 2016, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

The Company announced on 23 January 2017, that approximately 96.06% of the Noteholders of the Senior Notes supported the Company and entered into the Noteholder RSA as at 4:00 p.m. New York time on 20 January 2017.

On 20 February 2017, the Company announced that it has filed applications with the Cayman Court (in respect of the Cayman Scheme) and with the Hong Kong Court (in respect of the Hong Kong Scheme) seeking the Convening Orders and the hearings at which such orders are considered (the "**Convening Hearings**") granting permission for the Company to convene meetings of Noteholders for the purpose of considering, and if thought fit, approving (with or without modification) the Cayman Scheme and the Hong Kong Scheme. On 8 March 2017, the Company announced that it has filed the draft scheme of arrangement, the draft explanatory statement and certain supporting documents with the Cayman Court (in respect of the Cayman Scheme) and with the Hong Kong Court (in respect of the Hong Kong Scheme) ahead of the Convening Hearings. On 14 March 2017, the Company announced that both the Cayman Court and the Hong Kong Court have granted the Convening Orders. On 21 March 2017, the Company announced that the Cayman Court granted an order by way of consent authorizing the Company to proceed with the dissemination of the scheme documents.

For the details and progress of the restructuring, please refer to the announcements published by the Company from time to time.

Employees

As at 31 December 2016, the number of employees of the Group was 1,442, compared with 1,797 employees as at 31 December 2015.

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

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice, and share the newly gained experience with co-workers. The immediate management shall be responsible for the support and supervision of the process. During the year ended 31 December 2016, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2016, a total of 383 employees attended different professional trainings, out of which 45 employees attended mining heavy equipment operator training, 274 employees attended mine maintenance training and 64 employees attended professional development training.

For the year ended 31 December 2016, the amount of staff costs was USD13.4 million, compared to USD26.6 million in 2015.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Dividend

The Board does not recommend the payment of a dividend for the year ended 31 December 2016 (dividend for the year ended 31 December 2015: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

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

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision A.1.1 stipulates that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. The Board had only held two Board meetings during the year ended 31 December 2016 due to the ongoing Debt Restructuring of the Group, where at times multiple decisions were required to be made and calling Board meetings to consider, discuss and approve such decisions on time were not possible and practicable. However, the management regularly provided information and reports to the Board regarding the latest status of the Company. The Board members were informed and fully aware of the latest financial and operational status of the Company. During the year ended 31 December 2016, the Board issued 20 written resolutions. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code for the year ended 31 December 2016.

Review of Annual Results

The auditor of the Company, KPMG, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2016 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year in accordance with its engagement under Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" and with reference to Practice Note 730 "Guidance for auditors regarding preliminary announcements of annual results" issued by the Hong Kong Institute of Certified Public Accountants.

Closure of the Register of Members

The register of members of the Company will be closed from Wednesday, 24 May 2017 to Monday, 29 May 2017, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Monday, 29 May 2017, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 23 May 2017.

Review by the Audit Committee

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

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2016.

Publication of Annual Results and Annual Report

The annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2016 will be despatched to shareholders of the Company and published on the above-mentioned websites in due course.

For and on behalf of
Mongolian Mining Corporation
(In Provisional Liquidation)
Simon Conway
Joint Provisional Liquidator
who acts without personal liability

Hong Kong, 22 March 2017

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Od Jambaljamts, Mr. Gankhuyag Adilbish and Dr. Oyungerel Janchiv, being the non-executive Directors, and Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.