MONGOLIAN MINING CORPORATION

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

ANNUAL REPORT 2021

Cover image courtesy of KHATANZAYA T. (8 years old), the winner of a drawing contest organised by the Company in 2021

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COMPANY PROFILE

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

I. MISSION, VISION AND VALUES

We recognise that people are our key asset. Therefore:	MMC places the safety of our personnel as the highest priority As a responsible employer, MMC provides equal employment opportunities within a meritocratic workplace
We believe that modern and cost-efficient technology will bring sustainable growth and prosperity. Therefore:	MMC aims to use technology and innovate in the same to produce quality products safely at the lowest cost MMC continues to contribute to the development of technical standards in the global extractive industry
We are committed to environmental sustainability in our operations. Therefore:	MMC strives to minimise the impact of our operations on the environment MMC complies with all required environmental standards, and take further measures to prevent and mitigate potential environmental impact
We are committed to socially responsible mining practices. Therefore:	MMC strives to build mutually beneficial relationships with local communities and officials MMC contributes to social development through community development initiatives and other programmes
We are committed to transparent and fair business practices. Therefore:	MMC fosters mutually beneficial relationships with our suppliers and contractors MMC develops, maintains and values long-term relationships with our customers
We believe sound corporate governance is a cornerstone of MMC's management and operations. Therefore:	MMC complies with the best international practices MMC continues to cultivate a culture of corporate governance as an integral part of its ongoing organisational development

Our mission

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

Our vision

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

II. CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Od Jambaljamts
Enkhtuvshin Gombo
Enkhtuvshin Dashtseren
(resigned with effect from 1 January 2022)
Myagmarjav Ganbyamba
(appointed with effect from 1 January 2022)

Independent Non-Executive Directors

Khashchuluun Chuluundorj
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Cheung Yuet Fan

INDEPENDENT AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Cheung Yuet Fan

LEGAL ADVISERS

Davis Polk & Wardwell
8th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

Snow Hill Consultancy LLP
6th Floor, Democracy Palace
Genden Street 16
Sukhbaatar District
Ulaanbaatar 211213
Mongolia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman KY1-1100
Cayman Islands

HONG KONG SHARE REGISTRAR

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

COMPANY WEBSITE

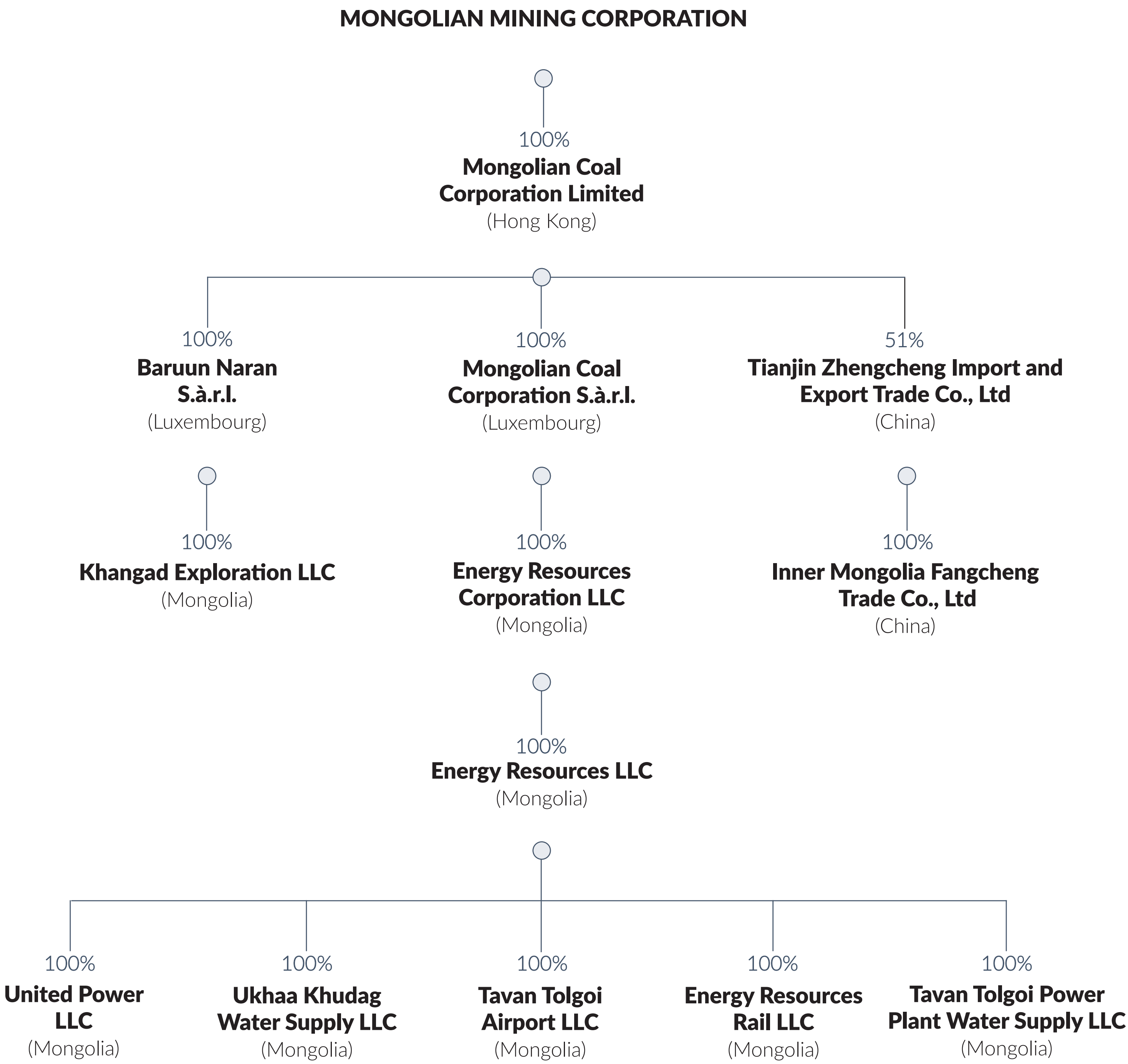
www.mmc.mn

STOCK CODE

975

III. GROUP STRUCTURE

(as at 31 December 2021)



IV. DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

ODJARGAL JAMBALJAMTS, aged 56, is an executive Director and Chairman of the board (the "**Board**") of directors (the "**Directors**") of the Company. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC and was appointed as the Chairman of MCS Mongolia LLC, a controlling shareholder of the Company, in 2017 (together with its subsidiaries, the "**MCS Group**"). Mr. Jambaljamts was a director of Starain Limited from January 2011 to August 2017, MCS Global Limited and MCS (Mongolia) Limited from 2012 to 2017, Novel International Investment Limited from March 2012 to October 2019, Novel Holdings Group Limited from March 2012 to January 2021, and MCS Mining Group Limited from July 2012 to January 2021, respectively. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and a controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

BATTSENGEL GOTOV, aged 49, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. He joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. Since 2004, Dr. Gotov has served at various managerial positions within MCS Group. He was appointed as the Chief Executive Officer of Khangad Exploration LLC on 7 December 2012. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation, and stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov is a board member of the Mongolian National Mining Association since his appointment in 2010. He was appointed as a member of the Mineral Resources Policy Council on 7 October 2014. He was appointed as the chairman and board member of the Mongolian Coal Association in May 2016. He was also appointed as the Chairman of Energy 3x3 Club in January 2020. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

OD JAMBALJAMTS, aged 57, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Environmental, Social and Governance Committee of the Company. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within MCS Group, and a member of the board of MCS Mongolia LLC, a controlling shareholder of the Company. Mr. Jambaljamts was appointed as the president of Ulaanbaatar Chamber of Commerce in March 2015 and was re-designated as a member of the board of Ulaanbaatar Chamber of Commerce in January 2017. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in a diversity of fields. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts was a director of MCS Global Limited and MCS (Mongolia) Limited from 2012 to 2017, MCS Mining Group Limited from July 2012 to January 2021, and Trimunkh Limited from July 2011 to March 2020, respectively. Mr. Jambaljamts was awarded a bachelor's degree in International Relations by the Institute of International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

ENKHTUVSHIN GOMBO, aged 50, is a non-executive Director of the Company. Ms. Gombo was appointed as a non-executive Director of the Company on 30 September 2017. She is also a member of the Audit Committee of the Company. Ms. Gombo is the vice president and a director of the Finance Department of MCS Holding LLC, and a member of the board of MCS Mongolia LLC, a controlling shareholder of the Company. Ms. Gombo joined MCS Holding LLC in 2003 as a financial analyst and was subsequently appointed as the head of the Planning Unit under the Finance Department in 2006. Ms. Gombo became the vice president and director of the Finance Department of MCS Holding LLC in 2008. Since her appointment by MCS Holding LLC, she has successfully organised the first international auditing within MCS Group and established a strong financial team, and good relationships with international financial organisations as well as with commercial banks. In addition, Ms. Gombo has previously served as a non-executive Director and a member of the Audit Committee of the Company for the period from its initial public offering on 13 October 2010 to 12 October 2014.. Ms. Gombo was awarded a bachelor's degree in Banking and Finance by the Economics College of Mongolia in 1994. In 1997, she was awarded a master's degree in International Banking and Finance at Birmingham University Business School, Birmingham, United Kingdom.

MYAGMARJAV GANBYAMBA, aged 37, is a non-executive Director of the Company. Mr. Ganbyamba was appointed as a non-executive Director of the Company on 1 January 2022. He is a member of the Environmental, Social and Governance Committee of the Company. Mr. Ganbyamba joined MCS Group in 2005 as a financial analyst of Interpress and Anun LLC and worked as a financial analyst at MCS Holding LLC from 2007 to 2009 and the Company from 2009 to 2010. Mr. Ganbyamba served as the deputy chief executive officer of Goyo LLC from 2012 to 2013, and subsequently served as the vice president and chief financial officer of Unitel Group from 2013 to 2020. Mr. Ganbyamba is the chief executive officer of MCS Investment LLC and MCS Ventures LLC, respectively. Mr. Ganbyamba was awarded a bachelor's degree in Financial Management from the Mongolian University of Science and Technology in 2006 and awarded a master's degree in Financial Management by the Keller Graduate School of Management, DeVry University in California, United States in 2012. Mr. Ganbyamba is also a Chartered Financial Analyst.

UNENBAT JIGJID, aged 59, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Environmental, Social and Governance Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. From 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. He was a director of Resources Investment Capital from October 2010 to November 2013. Mr. Jigjid has been an executive director of the Corporate Governance Development Center in Mongolia since 2009 and was appointed as the Head of the Center on 30 March 2015. He was a member of the supervisory board of the Bank of Mongolia from January 2004 to January 2019. From October 2010 to present, Mr. Jigjid has been serving as a director of Golomt Bank. He has been the board member of Open Society Forum in Mongolia since March 2011. On 26 April 2013, Mr. Jigjid was appointed as an independent non-executive director of APU JSC, a company listed on the Mongolian Stock Exchange. From April 2015 to April 2019, Mr. Jigjid was a non-executive director of Mongolia Telecom JSC, a company listed on the Mongolian Stock Exchange. Mr. Jigjid was reappointed and served as an executive director and secretary general of the Mongolian Bankers Association from November 2015 until February 2020. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

KHASHCHULUUN CHULUUNDORJ, aged 55, is an independent non-executive Director of the Company. Dr. Chuluundorj was appointed as an independent non-executive Director on 8 January 2016. He is the Chairman of the Remuneration Committee and a member of the Audit Committee, Environmental, Social and Governance Committee and Nomination Committee of the Company. Dr. Chuluundorj is a professor at the Department of Economics and a member of the Academic Council of the National University of Mongolia. He serves as an executive director of the Mongolia Oil Shale Association and is engaged in managing a number of non-governmental organisations and research consulting activities. Dr. Chuluundorj has served as a member of the working group on Long-term Development Strategy for Mongolia 2016-2030 and a member of the board of directors of Ulaanbaatar City Development Corporation from 2015 until June 2020. He joined the National University of Mongolia as a lecturer of Political Economy in 1989. From 2011 to 2012, he was a member of the board of directors of Erdenes MGL LLC, a state-owned enterprise for strategic mining deposits. From 2009 to 2012, Dr. Chuluundorj worked as the chairman of National Development and Innovation Committee of Mongolia, a government agency in charge of national development strategy and investment policy. From 2010 to 2011, he was appointed as the inaugural chairman of the board of directors to lead the establishment of Development Bank of Mongolia and was a member of the board of directors of the Central Bank of Mongolia from 2006 to 2012. Dr. Chuluundorj served as a member of the President's Economic Advisory Council from 2006 to 2008 and a member of the Policy Council of the Ministry of Trade and Industry from 2005 to 2007. He also managed government efforts on the introduction of private-public partnership concept and adoption of the Law on Concession, Law on Innovation and Law on Economic Development Planning, and revision of Law on Budget to adopt development policies, introduction of Regional Development index for fiscal transfers, private sector support policies. Dr. Chuluundorj was appointed as an independent director of MIK Holding JSC in June 2017, the shares of which are listed on the Mongolian Stock Exchange. From January 2017 to June 2020, he was appointed as an independent director of Ulaanbaatar Development Corporation JSC, the shares of which are listed on the Mongolian Stock Exchange. He was re-designated as the chairman of the board of Practical Insurance LLC since May 2018. Dr. Chuluundorj was appointed as an independent member of the Monetary Policy Council of Bank of Mongolia in June 2018. He was appointed as an independent director of each of MMFG Group in January 2018 and Invescore Financial Group in November 2018 respectively. In June 2019, he was also appointed as an independent director of Invescore NBFI, the shares of which are listed on the Mongolian Stock Exchange. He was also appointed as a member of the board of directors of Mongolian Investment Rating Agency on 1 December 2021. Dr. Chuluundorj was awarded a bachelor's degree in economics by the Moscow State University, Moscow, Russia in 1989, a master's degree in economics from the Graduate School of Economics, Yokohama City University, Yokohama, Japan in 1996 and a doctorate degree in international economics by the Graduate School of Economics, Keio University, Tokyo, Japan in 2003.

CHAN TZE CHING, IGNATIUS, aged 65, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and member of the Environmental, Social and Governance Committee of the Company. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan served as a member of the board of directors of the Community Chest of Hong Kong from September 1999 to 22 June 2020 and was re-appointed for various terms. From 28 November 2012 to 20 June 2014, Mr. Chan was appointed as an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**" or "**Stock Exchange**"). From 1 March 2011 to 19 June 2016, Mr. Chan served as a member of the Sponsorship and Development Fund of The Open University of Hong Kong. From 19 October 2012 to 18 October 2018, Mr. Chan served as a member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission. From 1 April 2013 to 31 December 2015, Mr. Chan served as Deputy Chairman of the Council of the Hong Kong Polytechnic University and from 1 January 2016 to 31 December 2018, he served as Chairman of the Council. From 1 April 2013 to 31 March 2019, Mr. Chan served as a member of the Hong Kong Tourism Board. Mr. Chan was appointed as the deputy chief executive of the Bank of China (Hong Kong) Limited in 2008, senior advisor of The Bank of East Asia Limited in March 2009, member of the Council of Hong Kong Red Cross in April 2010, senior advisor of CVC Capital Partners Limited in November 2010. Mr. Chan has served as Board Adviser of Hong Kong New Territories General Chamber of Commerce since 28 May 2013. He served as an Honorary Advisory Vice President of The Hong Kong Institute of Bankers from 14 February 2011 to 31 December 2018. Mr. Chan served as a member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region from 1 January 2014 to 31 December 2019. Mr. Chan has served as a member of the Financial Reporting Council (FRC) from 1 December 2014 to 30 September 2020. He has served as a member of the Standing Committee on Judicial Salaries and Conditions of Service on 1 January 2017. Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited since 11 December 2009 and has served as an independent non-executive director of Hong Kong Exchanges and Clearing Limited since 23 April 2009, the shares of which are listed on the Stock Exchange. Mr. Chan has served as a non-executive director of Rizal Commercial Banking Corporation (RCBC) from 28 November 2011 to 24 June 2019, the shares of which are listed on the Philippines Stock Exchange. From 6 August 2013 to 12 March 2018, he served as a non-independent non-executive director of Affin Holdings Berhad, the shares of which are listed on Bursa Malaysia. Affin Holdings Berhad's listing on the Malaysian stock exchange was replaced by Affin Bank Berhad on 2 February 2018. He has served as a non-independent non-executive director of Affin Bank Berhad since 1 December 2017, the shares of which are listed on Bursa Malaysia on 2 February 2018. He served as a chairman of PRASAC Microfinance Institution in Cambodia from 14 March 2017 to 7 April 2020. Mr. Chan was awarded the bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

Senior Management

OYUNBAT LKHAGVATSEND, aged 45, is the President and Deputy Chief Executive Officer of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013 and the Chief Executive Officer of Energy Resources Rail LLC on 8 February 2011. Mr. Lkhagvatsend has over 17 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the Chief Executive Officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

ULEMJ BASKHUU, aged 43, is an Executive Vice President and the Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company's Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

UURTSAIKH DORJGOTOV, aged 58, is an Executive Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Programme of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

BAASANDORJ TSOGOO, aged 60, is the Vice President and Chief Operating Officer of the Company. Mr. Tsogoo was appointed as the Chief Operating Officer of the Company on 1 January 2017 and Chief Executive Officer of United Power LLC since 10 February 2013 and Tavan Tolgoi Airport LLC since 1 April 2013. Mr. Tsogoo served at various managerial positions within MCS Group and worked in highly successful projects in Mongolia since 1994, such as the Taishir Hydropower Plant project. Mr. Tsogoo holds a bachelor's degree in civil and hydropower engineering from the Agricultural Institute in Irkutsk, Russia and a master's degree in business administration from the National Academy of Governance in Mongolia.

TUVSHINBAYAR TAGARVAA, aged 48, is the Vice President and Chief Marketing Officer of the Company. Mr. Tagarvaa was appointed as the Company's Chief Marketing Officer with effect from 1 April 2017. Since 2003, Mr. Tagarvaa served at various managerial positions within MCS Group and joined the Group in 2011 as an Executive General Manager for Transportation and Logistics which was instrumental in the successful implementation of the Company's efforts to improve efficiency and cost of transportation and logistics while ensuring a stable supply of coal products exported by the Company. Mr. Tagarvaa holds a bachelor's degree and a master's degree in business administration from the Institute of Finance and Economics of Mongolia.

CHEUNG YUET FAN, aged 56, is the Company Secretary of the Company. Ms. Cheung is a director of Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional services provider specialising in integrated business, corporate and investor services. The Company has engaged Tricor as external service provider and appointed Ms. Cheung as the Company Secretary of the Company since 30 October 2017. Ms. Cheung has over 30 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Prior to joining Tricor, Ms. Cheung worked in the corporate secretarial department of Deloitte Touche Tohmatsu in Hong Kong and in various Hong Kong listed companies in the role of company secretary and corporate governance areas. She is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Chartered Governance Institute (formerly "The Hong Kong Institute of Chartered Secretaries") and The Chartered Governance Institute (formerly "The Institute of Chartered Secretaries and Administrators"). Ms. Cheung obtained a Bachelor of Arts degree in Accountancy from City Polytechnic of Hong Kong (now known as City University of Hong Kong).

V. CHAIRMAN'S STATEMENT

Dear Shareholders,

During the past year, the novel coronavirus ("**COVID-19**") outbreak continued to negatively impact the Group's business performance. Coal export shipments from Mongolia to China were significantly reduced due to temporary limitations imposed by the Chinese authorities after increase of COVID-19 infection cases in Mongolia.

As reported by China Customs, the country imported 54.7 million tonnes ("**Mt**") of coking coal in 2021, representing 24.7% decrease compared to 72.6 Mt imported in 2020. China's informal ban on Australian coal shifted sea-borne coking coal trade flows, with Chinese buyers turning to coking coal imported from Russia, Canada, and USA. As such, coking coal imports from Australia in 2022 declined by 82.5% compared to 2021, while coking imports from Russia, Canada and USA increased by 59.7%, 97.9% and 920.0%, respectively. Land-borne coking coal imports from Mongolia were 14.0 Mt in 2021, representing 41.2% decline from the previous year, as COVID-19 related restrictions limited import flows from Mongolia. However, Mongolia was the largest coking coal supplier to China in 2021, supplying more than quarter of total coking coal imports to China.

It is expected that China will continue to adopt a so-called "Zero-COVID policy" during 2022, which will be the main factor limiting exports from Mongolia to China. Therefore, it is extremely important that Mongolia implements initiatives related to logistics infrastructure required to enhance its exports of main commodities such as copper concentrate, coal, and iron ore.

We have been closely monitoring the impact of the developments on the Group's businesses and have put in place contingency measures, such as temporary adjustment to levels of production. Moving forward, we shall continue to navigate through challenges associated with COVID-19 by remaining fully committed to the well-being of our employees and their families by maintaining strict health and safety protocols and work-place hygiene procedures recommended by authorities. Our employees have been successfully enrolled under the immunisation program initiated by the Government of Mongolia ("**GoM**") and more than 93% of our staff have been administered a third dose of COVID-19 vaccine, "booster shot", at the end of 2021. Moreover, effective from 14 February 2022, the GoM lifted COVID-19 related restrictions by permitting all types of public activities without any limitations and opened its borders for all passengers without any vaccination and testing requirements.

Although the COVID-19 virus outbreak has negatively impacted the Group's financial results in 2021, we continue to believe that the Group remains well positioned to pursue its strategic objectives and operational targets, once the COVID-19 situation is under control and business activities return to normal. We shall remain committed to pursuing following key strategies in order to maintain and enhance our competitive position as one of the major mining companies in Mongolia: (i) maintaining an adequate capital structure by implementing prudent financial policy; (ii) scaling up production and sales volumes by maximising assets utilisation to the extent possible; (iii) supporting initiatives to improve logistics infrastructure providing access to our customers located in China and beyond; (iv) exploring opportunities to expand and diversify our business portfolio and revenue sources through potential strategic cooperation and joint venture arrangements, and also identifying possible investment targets in Mongolia; and (v) remaining fully committed to safety, environment and socially responsible operations.

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

ODJARGAL JAMBALJAMTS
Chairman

21 March 2022

VI. MANAGEMENT DISCUSSION AND ANALYSIS

COVID-19 Pandemic and State Response

The Parliament of Mongolia ("**Parliament**"), the GoM and the State Emergency Commission continued to take legislative, economic, and preventive measures in response to the outbreak of the COVID-19 during 2021.

Mongolia launched its COVID-19 vaccination program from March 2021 and administrated full two doses to 67% and third dose, "booster shot", to 31% of its total population as at 31 December 2021.

The Law on Prevention from and Fight against Coronavirus (COVID-19) Pandemic and Mitigating its Social and Economic Impact was extended until 31 December 2022 and the GoM continues to have broader authorisation to take respective response measures against COVID-19 impacts.

The COVID-19 color-coded alert level "red" was imposed by the GoM after the first local transmission cases were reported in November 2020. All public activities were restricted, full or partial lockdowns were enforced several times to limit movements of people. The COVID-19 color-coded alert level was downgraded from "red" to "orange" from 1 July 2021 until 14 February 2022, under which public activities were permitted with certain limitations, with sports and entertainment facilities opening with up to 50% capacity requirements. On 14 February 2022, the GoM resolved to further downgrade the color-coded alert level from "orange" to "yellow" under which all types of public activities were permitted without restrictions, lifting the enhanced readiness status and opened its borders for all passengers, subject to vaccination and testing requirements. Notwithstanding, all hygiene and disinfection rules will still be applicable.

On 30 December 2021, the Parliament adopted the "New Revival Policy" to stimulate post-pandemic economic recovery. The policy addresses six focus areas to drive economic growth, including (i) port logistics and infrastructure; (ii) energy; (iii) industrialisation; (iv) urban and rural living standards; (v) green development; and (vi) public service efficiency.

Industry Overview

Chinese Steel, Coke and Coking Coal Sectors' Performance

Crude steel production in China decreased by 3.0% from the previous year to 1,033.0 Mt in 2021, as reported by the World Steel Association. China's property sector together with construction-related manufacturing, and infrastructure account for most of China's total domestic steel consumption. The deceleration is attributable to the debt related shocks in the property market, imposition of government cap on steel production, and the spike in raw material prices.

Chinese domestic crude steel consumption decreased by 4.4% year-on-year ("**y-o-y**") to 973.1 Mt in the reporting year compared to 1,017.9 Mt recorded in 2020 based on the estimates made by Fenwei Digital Information Technology Co., Ltd ("**Fenwei**"). On the contrary, Chinese steel export increased by 24.6% y-o-y to 66.9 Mt in 2021.

Coke production stood at 464.5 Mt in 2021, representing y-o-y decrease of 1.4% compared to 471.2 Mt reported in 2020 according to the National Bureau of Statistics. Fenwei estimates show that coke consumption also dropped by 3.6% on y-o-y basis to 458.6 Mt in 2021 compared to 475.7 Mt in 2020, due to decreased crude steel production in China. Coke exports from China increased by 82.9% y-o-y to 6.4 Mt in the reporting year.

According to Fenwei, China's coking coal consumption was 545.4 Mt in 2021, a decrease of 2.2% from the previous year and domestic coking coal production reached 489.9 Mt, representing a 1% increase from 2020.

According to estimates by China International Capital Corp, China's coking coal production in 2022 is expected to remain at around 489 Mt, similar to the levels recorded in 2021.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

Coking coal imports to China declined to 54.7 Mt in 2021, representing a 24.7% y-o-y decrease compared to 72.6 Mt imported in 2020, according to the General Administration of Customs of China. Mongolia was the main source for coking coal imports to China with 25.7% market share in 2021. However, this represents 41.2% y-o-y decrease and such decline in coking coal supply from Mongolia was mainly attributable to the COVID-19 outbreak, which impacted the cross-border logistics for coal exports.

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

Countries	**2021**	**Market Share**	2020	Change
Mongolia	**14.0**	**25.6%**	23.8	-41.2%
Russia	**10.7**	**19.6%**	6.7	59.7%
USA	**10.2**	**18.6%**	1.0	920.0%
Canada	**9.3**	**17.0%**	4.7	97.9%
Australia	**6.2**	**11.3%**	35.4	-82.5%
Others	**4.2**	**7.7%**	1.1	281.8%
Total	**54.7**	**100.0%**	**72.6**	**-24.7%**

Source: Fenwei

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, y-o-y percentage changes and market share.

Operating Environment

Regulations related to taxation

On 23 June 2021, the GoM issued Resolution No. 174 and terminated regulations used to define sales value of the exported coals and iron ores based on respective sales contract prices, subject to royalty calculation, effective from 1 July 2021. Royalty of coal and iron ore were resolved to be calculated based on monthly reference sales value "reference price" to be defined by the authorities based on information made available at the website of sxcoal.com (http://en.sxcoal.com) for coal and the website of umetal.com (www.umetal.com) for iron ore, which the GoM recognises as market information sources. Such change in royalty calculations resulted in unfair discrepancy and the Group, jointly with other coal producers, is engaged in communication through Mongolian Coal Association with relevant authorities by explaining and defending the coal industry position, and, if necessary, will proceed with legal claim through the courts.

On 2 December 2021, the Citizen Representative Meeting of Umnugobi aimag issued Resolution No. 4/5 and No. 4/6 and renewed respective immovable property tax and land fee calculation indicators applied in South Gobi province. Immovable property tax rates increased from 1.0% to 2.0% for mining companies and to 1.5% for contractors, transporters, and subcontractors of mining entities. Due to these changes, land fees are expected to increase by 22% for UHG mine and by 15% for BN mine starting from 2022. However, the Group does not expect that such changes will have material impact on its financial position.

Labour related legislation

On 1 July 2021, the Parliament revised the Law on Labour to be effective from 1 January 2022. Under the revision, requirements for roster work schedule applicable to mining and processing sectors were changed to maximum 14 days on work premises and minimum 14 days off work premises. Also, the length of a single shift was limited at 12 continuous hours. Night shift overtime pay shall be calculated by 1.2 times or more of the employee's average wage, as the rate previously used was agreed by the collective and labour agreements.

In the past, the Group has developed and implemented employees' resettlement program, including providing housing support. Therefore, a substantial majority of the Group's mining and processing staff are soum-resident employees and applicable work schedule is not subject to roster work schedule requirements.

Regulations related to the environmental protection

On 4 October 2021, President of Mongolia, Khurelsukh Ukhnaa, initiated the "One Billion Trees" national campaign to reduce global climate change and increase Mongolia's contribution and participation in achieving the Sustainable Development Goals. The President encouraged citizens, businesses, governmental and non-governmental organisations to protect nature and fight climate change by planting trees. The Group joined the initiative with commitment to plant 40 million trees until 2030 at its UHG and BN mine site areas.

On 22 December 2021, the GoM issued Resolution No. 393 to add Energy Resources LLC ("**ER**"), a wholly-owned subsidiary of the Company, to the "List of entities that are fully exempted from air pollution fee" which was adopted by the GoM Resolution No. 227 in 2014. An air pollution fee of 1,000 Mongolian Togrog ("**MNT**") is charged per each tonne of coal mined. The Group will be exempted as long as the Group continues to supply, free-of-charge, no less than 70% of total coal used for manufacturing coal briquettes under the government program to reduce Ulaanbaatar city air pollution and improve air quality during the winter heating season.

Business Overview

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

The UHG deposit sits within the 2,960 hectares Mining License MV-011952 ("**UHG mining license**"), granted to the Group effective for 30 years from 29 August 2006, extendable twice by 20-year periods. Since the UHG mining license was granted, the Group has prepared four Australasian Joint Ore Reserves Committee ("**JORC**") compliant Coal Resource estimates, the most recent of which, stated as at 31 December 2021.

The 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).

Resources are divided in order of increasing geological confidence, into inferred, indicated, and measured categories. The most recent resource update performed in 2021 focused on improving the details and accuracy of the 3D coal seam model. As a result, the unclassified, inferred, and indicated coal resources were moved to the measured resource category, representing higher confidence level. The updated resource report includes new information gathered from 16,935 metres ("**m**") of drilling by 89 boreholes and 6,108 samples with laboratory analysis that were completed between October to December of 2020.

Exploration activities conducted in the process of preparing the four 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 2021, included:

- 1,645 individual boreholes drilled for 208,211m, including 116,709m of HQ-3 (63.1 millimetre ("**mm**") core, 96.0mm hole diameter) and 91,502m of 122mm diameter open hole drilling;
- 43,656 individual analytical samples collected and analysed;
- 71 kilometres ("**km**") of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International Ltd ("**Polaris**") and analysed by Velseis Processing Pty Ltd ("**Velseis**"); and
- results from large-diameter, bulk-sample drilling samples analysed at the ALS Group laboratories in Ulaanbaatar.

JORC compliant Coal Resource estimate figures reported are based upon an in-situ density, at an as-received moisture basis, are summarised in Table 2.

Internal peer audit of these latest structural and coal quality models was conducted by Mr. Lkhagva-Ochir Said, employed by the Group as Executive General Manager of Mining and Processing. This peer audit 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).

Appendix I of this 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 update, by depth and category, as at 31 December 2021 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	7	1	3	8	**11**
BHWE to 100m	64	4	13	68	**81**
From 100m to 200m	96	9	20	105	**125**
From 200m to 300m	134	6	14	140	**154**
From 300m to 400m	88	3	4	91	**95**
Below 400m	85	7	14	92	**106**
Sub-Total above 300m	301	20	50	321	**371**
Sub-Total below 300m	173	10	18	183	**201**
Total	**474**	**30**	**68**	**504**	**572**
Total (Rounded)	**470**	**30**	**70**	**500**	**570**

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the Australasian Institute of Mining and Metallurgy ("**AusIMM**") (Member #318198) and has over 12 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). Mr. Barkhas consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this report. The estimates of the Coal Resource set out in Table 2 presented in this report are considered to be a true reflection of the UHG Coal Resource as at 31 December 2021, 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. Lkhagva-Ochir Said is employed by the Group as Executive General Manager for Mining and Processing. Mr. Said is a member of the AusIMM (Member #316005) and has over 14 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 MV-014493 ("**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 2021, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 31 December 2021 for the BN and THG mining licenses.

The new resource update was done based on 8,335.4m of drilling data on the BN deposit. The drilling focused on the H pit mining boundary. 3,766 samples were collected and tested, confirming the coal quality and coal seam structure. As a result, the inferred and indicated coal resources were moved to the measured resource category, and the geological model was updated with improved accuracy. Moreover, based on 2018 exploration drilling result, the technical team improved the interpretation of the seam correlation between the BN and Tsaikhar Khudag ("**THG**") deposits and classified an indicated resource in THG resource estimation.

The Coal Resource stated as at 31 December 2021 incorporated additional exploration data gained from the exploration drilling program conducted in 2018. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated Coal Resource statement as at 31 December 2021:

- total of 135 exploration boreholes at BN, with a total of 36,875m drilled, of which 16,102m were HQ-3, 9,640m were PQ-3 (83.0 mm core, 122.6mm hole diameter) and 11,133m were 122 mm diameter open boreholes;

- total of 32 exploration boreholes at THG, with a total of 9,970m drilling at THG, of which 5,900m were HQ-3, 3,610m were PQ-3 and 460m were 122mm open boreholes;

- total of 12,502 (BN) and 3,824 (THG) coal samples collected and analysed; and

- total of 75 km of 2D seismic survey captured by Polaris over the BN mining license, and analysed by Velseis.

Internal peer review was conducted by Mr. Lkhagva-Ochir Said, the Group's Executive General Manager of Mining and Processing. 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 Coal Resources statement as at 31 December 2021 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 update, by depth and category, as at 31 December 2021 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	**Total (M+I+I)**
Subcrop to BHWE	7	1	1	8	**9**
BHWE to 100m	62	9	5	71	**76**
From 100m to 200m	88	12	8	100	**108**
From 200m to 300m	89	13	8	102	**110**
From 300m to 400m	87	16	9	103	**112**
Sub-Total above 300m	246	35	22	281	**303**
Sub-Total below 300m	87	16	9	103	**112**
Total	**333**	**51**	**31**	**384**	**415**
Total (Rounded)	**330**	**50**	**30**	**380**	**410**

Table 4. THG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2021 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	**Total (M+I+I)**
Subcrop to BHWE	–	1	0	1	**1**
BHWE to 100m	–	13	4	13	**17**
From 100m to 200m	–	18	4	18	**22**
From 200m to 300m	–	19	5	19	**24**
From 300m to 400m	–	16	9	16	**25**
Sub-Total above 300m	–	51	13	51	**64**
Sub-Total below 300m	–	16	9	16	**25**
Total	**–**	**67**	**22**	**67**	**89**
Total (Rounded)	**–**	**70**	**20**	**70**	**90**

Notes:

(i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the AusIMM (Member #318198) and has over 12 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). Mr. Barkhas consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this report. The estimates of the Coal Resource set out in Table 3 and Table 4 presented in this report are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2021, 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. Lkhagva-Ochir Said is employed by the Group as Executive General Manager for Mining and Processing. Mr. Said is a member of the AusIMM (Member #316005) and has over 14 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

The Group engaged Glogex Consulting LLC ("**Glogex**") to prepare an updated JORC (2012) Coal Reserve statement and life-of-mine ("**LOM**") Study as at 1 January 2022 for the UHG deposit. 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. Updated Coal Resource estimate served as a base to prepare such updated Coal Reserve estimate. It shall be noted that Reserve in Proved and Probable category are derived from Resource in Measured and Indicated category only. As such, increase in Resource estimate under Measured and Indicated category is expected to lead to increase in Reserve estimate.

Pit optimisation 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. Due to the increase in the measured resource concerning the coal seam structure accuracy improvement and movement of unclassified, inferred, and indicated coal resource to the measured coal resource, the coal reserve increased. 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 by the Group's processing team 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 and 0AU from thermal to coking coal production, based upon results observed during production trials in 2017;

- 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 prepared by Fenwei, 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.

The run-of-mine ("**ROM**") raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2022 based upon an as-received basis with 3.64% total moisture for coking coal and 2.68% for thermal coal types, are shown in Table 5.

Table 5. UHG mining license JORC (2012) Coal Reserve estimate, as at 1 January 2022 (Notes):

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	Proved	Probable	Total
Coking	341	10	351
Thermal	20	0	20
Total	**361**	**10**	**371**

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. Naranbaatar Lundeg, who is a member of the AusIMM (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 20 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation 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. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this report.

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

Comparison of Coal Reserve estimates made in 2018 and 2021 is shown in Table 6.

Table 6. Comparison of UHG mining license JORC (2012) Coal Reserve to previous coal reserves statement:

	(Mt)
Coal Reserve as at 1 January 2018 (ROM)	**333**
Coal mined and depleted from 1 January 2018 to 1 January 2022	(30)
Increase in Coal Reserves identified in the 2018 Reserves estimate that are economically viable for mining as at 1 January 2022	68
Coal Reserve as at 1 January 2022 (ROM)	**371**

Baruun Naran (BN) deposit

Coal Reserve statement and LOM study for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2022. The LOM mining plan prepared to underpin the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimisation 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 360m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla of 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 Corporation ("**Norwest**");
- cost input assumptions based on stripping and blasting estimates derived from the current mining contractors; and
- revenue input assumptions derived from an updated market study of the principal coking and thermal coal markets in China, completed by Fenwei.

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 7, with tonnage estimation based on an as-received basis with 1.8% total moisture for coking coal and 2.62% for thermal coal types.

Table 7. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2022 (Notes):

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	Proved	Probable	Total
Coking	246	23	269
Thermal	10	1	11
Total	**256**	**24**	**280**

Notes:

(i) The estimate of Coal Reserve presented in Table 7 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. Naranbaatar Lundeg, who is a member of the AusIMM (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 20 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation 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. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this report.

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

Comparison of Coal Reserve estimates made in 2018 and 2021 is shown in Table 8.

Table 8. Comparison of BN mining license JORC (2012) Coal Reserve to previous coal reserves statement:

	(Mt)
Coal Reserve as at 1 January 2018 (ROM)	**176**
Coal mined and depleted from 1 January 2018 to 1 January 2022	(4)
Increase in Coal Reserves identified in the 2018 Reserves estimate that are economically viable for mining as at 1 January 2022	108
Coal Reserve as at 1 January 2022 (ROM)	**280**

Production and Transportation

Coal Mining

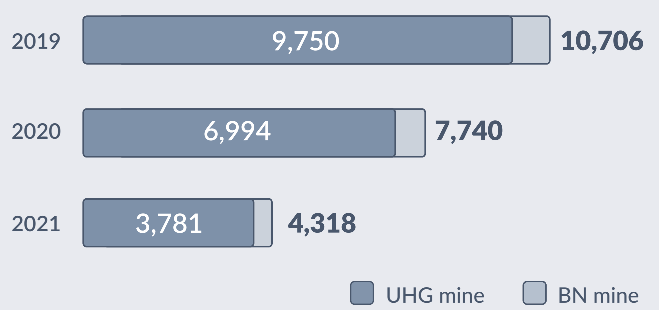
The Group's total ROM coal production was 4.3 Mt in 2021, of which 3.8 Mt and 0.5 Mt of ROM coal was produced from UHG mine and BN mine, respectively.

A total of 25.3 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 6.7 bcm per ROM tonne for the year at UHG mine. Such increase compared to 5.6 bcm per ROM tonne reported in 2020 is primarily due to continuous adjustments undertaken by the management to the mining schedules in connection with cross-border logistics situation. With substantial advanced overburden removal performed in 2021, the Group expects its stripping activities to be lower in 2022.

At BN mine, a total of 4.3 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 8.0 bcm per ROM coal tonne for the period.

The Group's combined annual mine production from UHG and BN mines for the last three years is shown in Figure 1.

Figure 1. The Group's annual ROM coal production volumes (in thousand tonnes) for 2019-2021:

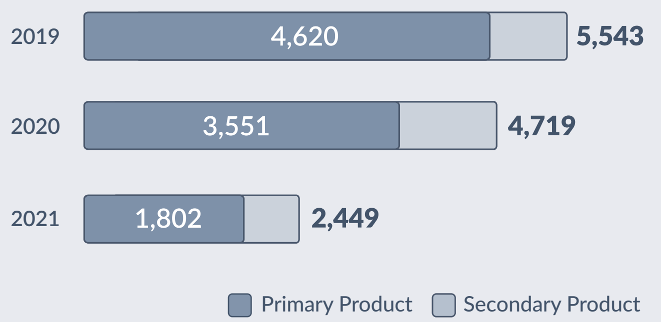


Coal Processing

The Group has processed a total of 3.7 Mt ROM coking coal in 2021, of which 3.3 Mt and 0.3 Mt was sourced from UHG and BN mines, respectively. The coal handling and preparation plant ("**CHPP**") has produced 1.8 Mt of washed coking coal as a primary product at 49% yield, and 0.6 Mt of washed thermal coal as a secondary product at 18% yield.

The Group's washed coal production in 2021 was adjusted to coal transportation and sales profile impacted by the COVID-19 outbreak and comparative figures for the last three years are shown in Figure 2.

Figure 2. The Group's annual processed coal production volumes (in thousand tonnes) for 2019-2021:



Logistics Infrastructure

On 9 April 2021, ER, entered into a joint venture agreement with CHN Energy Coal Coking Co., Ltd ("**CECC**", formerly known as "Shenhua Inner Mongolia Coal and Coking Co., Ltd"), an independent third party and one of the Group's largest customers. Pursuant to the joint venture agreement, ER and CECC agreed to establish a joint venture company, which will own and operate Chiheng enclosed warehouse facility ("**Chiheng stockyard**") for coal storage and handling customs bonded stockyard located at Ganqimaodu ("**GM**"). The construction work for Chiheng stockyard with annual coal storage and handling capacity of up to 15 Mt was completed in July 2020 and the facility is currently operational after commissioning by relevant authorities. Further capacity expansion is anticipated according to the staged development plan. ER and CECC will respectively hold 10% and 90% of the total equity interests in joint venture company with registered capital RMB500 million, which will be contributed by ER and CECC respectively, in proportion to their equity interests.

In order to secure export shipments while minimising COVID-19 impact, on 2 July 2021, the GoM issued Resolution No. 185, to establish a custom bonded terminal for containerised shipments at key border checkpoints for coal exports under public-private-partnership principles. Accordingly, on 5 July 2021, Mongolian Customs General Administration and Border Protection General Administration allotted 30-hectare area at the Gashuunsukhait border checkpoint for the construction of a custom bonded terminal for containerised shipments ("**GS Terminal**"). The GS Terminal is designed to lessen human-to-human contact and lower the risk of cross-border infection transmission, thus allowing to increase coal exports.

ER was assigned with the task to manage this project, with the construction successfully completed in September 2021 and subsequently the GS Terminal was commissioned by the relevant authorities on 7 October 2021. This project was 60%, 15% and 25% jointly financed by Erdenes Tavantolgoi JSC, Tavantolgoi JSC and ER respectively. The GS Terminal capacity utilisation was agreed to be split among the companies in the same proportion and the ownership has been transferred to Border Port Special Administration.

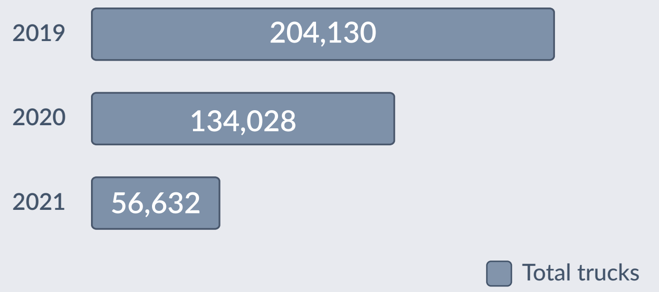
Transportation and Logistics

During 2021, coal transportation and logistics operations via Gashuunsukhait-Ganqimaodu ("**GS-GM**") were significantly impacted by limitations imposed by the Chinese authorities due to COVID-19 from mid-March 2021 after reports of COVID-19 infection cases in Khanbogd soum adjacent to the border. Certain improvements were observed in October and November, unfortunately, restrictions on the number of coal-loaded trucks passing via GS-GM was imposed from December after the spread of omicron variant was reported by the World Health Organization.

According to the data compiled by Group and its customers, 56,632 coal-loaded trucks passed from Mongolia to China via GS-GM border in 2021 compared to 134,028 coal-loaded trucks passed in 2020.

The Group shipped its coal products for exports to China utilising trans-shipping facility at Tsagaan Khad ("**TKH**"). Coal was transported from UHG to TKH exclusively by the Group's own trucking fleet. Coal was stockpiled at TKH and after export clearance by Mongolian Customs, it is shipped further by trucks to GM from TKH. Coal transportation from TKH to GM was performed by the Group's own trucking fleet and by third party contractors as well.

Figure 3. Total number of coal-loaded trucks crossing via GS-GM border for 2019-2021:



In 2021, the Group's coal export transportation from Mongolia to China via GS-GM border crossing point was 1.2 Mt, of which 39.0% was carried by utilising the Group's own trucking fleet and remaining 61.0% was carried by third party contractors.

Occupational Health, Safety and Environment

During the reporting year, approximately 5.9 million man-hours were recorded as worked by employees, contractors, and sub-contractors of the Group. In 2021, no occurrences of Lost Time Injury ("**LTI**") was recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.0 LTIs per million man-hours worked equivalent being recorded as compared to 0.55 LTIs per million man-hours worked equivalent being recorded during the same period in 2020.

The Group is committed to creating and maintaining a culture of "Vision Zero" in which fatalities and incidents shall be fully preventable. 2021 was the first year, since the commencement of reporting, that the Group has recorded a full annual period without any occurrences of LTI and a LTIFR of 0.0.

The Group identified and remedied 17 situations that may pose risks classified as class 1, risks that could result in fatality or permanent disabling injury, throughout our operational areas. Additional training and safety inductions were conducted as part of the countermeasure for the situations identified for all employees and contractors.

Risk assessment and safety analysis were conducted during the reporting year to minimise or eliminate work-related hazards and to enhance awareness of daily safety routines among the Group's employees. Routine working condition inspections and checks were performed, including heat, noise, lighting, vibration, dust and toxic gases monitoring. During the reporting year, the Group engaged a third-party to perform Occupational Health Risk Assessment and Workplace Condition Monitoring.

The Group continued to deliver Occupational Health, Safety and Environment specific training to employees, contractors, sub-contractors and visitors, with 7,850 training sessions to individuals, totaling 46,928 man-hours in 2021.

In 2021, Umnugobi aimag's Specialised Inspection Agency conducted their periodical review for the Group's operations and issued official evaluation report at "low risk" level, a check list score of 93 out of 100 (2020: 91 out of 100).

The Group's "Incident Investigation and Reporting Procedures" were updated in July 2019 and environmental incidents, classifications and reporting were included within the updated procedure. Accordingly, the risk rating scale uses five classifications which are low, minor, moderate, high and extreme. More specific classifications were developed for each environmental risk subjects including oil spills, waste disposal, land disturbance, air emissions, fatal injury and others.

In 2021, the Group recorded no environmental incidents with "high" or above classifications. Four incidents occurred with "low" classification which were related to oil spillage. For all incidents, full investigations were carried out to identify the root causes, and corrective and preventive actions were taken to prevent re-occurrences.

In accordance with the Law on Environmental Protection, an external audit on environmental management was conducted by the Environment and Tourism Department of Umnugobi aimag at the Group's mine site in December 2021 with the results in the areas of environmental management and legal compliance rated at 92.2% out of 100.0% (2020: 94.0% out of 100.0%).

The Group continues to perform regular weekly and biweekly testing by using rapid test kits for all deployed employees, including contractors and sub-contractors, with testing frequency linked to specific risk profile. During the reporting year, a total of 44,567 rapid tests were performed for diagnostic purposes.

Moreover, truck drivers deployed for cross-border transportation have been tested via polymerase chain reaction ("PCR") testing on regular basis as requested by authorities. The Group has also developed various contingency and preventive plans and risk assessments and has set temporary procedures and instructions in place.

The Group has successfully enrolled its employees under the immunisation program initiated by the GoM. According to the data compiled by the Group, more than 93% of its staff have been administered a third dose, "booster shot", of COVID-19 vaccine as at 31 December 2021.

The Group provides all employees with health insurance and during the year, the health insurance coverage was renewed to include COVID-19 diagnosis and treatment package.

Sales and Marketing

The Group's washed coking coal products were dispatched from Mongolia after export customs clearance to designated customs bonded yards at GM. Once import customs clearance and quality inspections were completed by relevant authorities at GM, washed coking coal products were sold to end-user customers under FOT GM terms. Washed thermal coal was exported and sold under Delivery-at-Place ("**DAP**") GM terms. The Group's coal products were consumed mainly in Inner Mongolia, Hebei, Gansu and Tianjin.

In 2021, due to disruptions in export logistics via GS-GM, the Group adopted washed coking coal sales under additional alternative terms such as (i) ex-works ("**EXW**") UHG; (ii) free carrier ("**FCA**") TKH; and (iii) DAP GM.

The Group sold a total of 1.6 Mt of coal products in 2021, split by coal product type as follows: (i) 1.2 Mt of HCC; (ii) 66.0 thousand tonnes ("**kt**") of semi-soft coking coal ("**SSCC**"); and (iii) 0.4 Mt of thermal coal.

The Group remains committed to strengthening its relations with key end-user customers with aim to boost its sales volumes back to pre-pandemic levels. On 5 November 2021, ER and CECC, one of the Group's largest customers, signed annual protocol at the China International Import Expo 2021. Both parties agreed to target up to 3.0 Mt of HCC and 1.0 Mt of SSCC to be supplied by the Group to CECC during the period from November 2021 to November 2022.

During 2021, the Group supplied free-of-charge 0.6 Mt of washed thermal coal under EXW terms through ER to Tavan Tolgoi Tulsh LLC ("**TTT**") as a part of its commitment to socially responsible operations. TTT is a state-owned entity, designated for manufacturing and distributing coal briquettes to Ulaanbaatar residents under the GoM's program to reduce air pollution and improve air quality during the winter heating season.

Outlook and Business Strategies in 2022

The global impact of the COVID-19 virus outbreak since early 2020 has brought uncertainties to the Group's operating environment. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures, such as temporary adjustment to levels of production. The Group will keep contingency measures under review as the situation evolves.

Although the COVID-19 virus outbreak has negatively impacted the Group's financial results in 2021, the Board continues to believe that the Group remains well positioned to pursue its strategic objectives and operational targets, once the COVID-19 situation is under control and business activities return to normal.

The Company remains committed to pursuing its key strategies in order to maintain and enhance its competitive position as a major washed coking coal producer in Mongolia: (i) maintaining an adequate capital structure by implementing prudent financial policy; (ii) scaling up production and sales volumes by maximising assets utilisation; (iii) supporting initiatives to improve logistics infrastructure providing access to its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint venture arrangements, and also identifying possible investment targets in Mongolia; and (v) remaining fully committed to safety, environment and socially responsible operations.

Financial Review

Revenue

The COVID-19 pandemic continued to significantly impact the Group's operating environment and business performance during the year ended 31 December 2021, primarily on the Group's sales volume resulting from the reduced cross border throughput of the GS-GM checkpoint.

The Group generated a total revenue of USD184.1 million from approximately 1.6 Mt of coal products sold during the year ended 31 December 2021, compared to USD417.4 million of total revenue generated from 4.2 Mt of coal products sold during the year ended 31 December 2020. Total sales volume during the reporting year included approximately 1.2 Mt of HCC, 0.4 Mt of thermal coal and 66.0 kt of SSCC, compared to 3.1 Mt of HCC, 0.7 Mt of thermal coal and 0.4 Mt of SSCC sold during 2020.

Coal price and market demand have been strong during the reporting year. The Group's average selling price ("**ASP**"), which represents the price exclusive of applicable value added tax ("**VAT**") in China, for HCC was USD150.6 per tonne for the year ended 31 December 2021, representing an increase of 24.1% compared to USD121.4 per tonne in 2020. Historically, delivery period from signing of sales contracts averaged around 15-17 days during which the market price and contract price stayed relatively stable. Due to the reduced border throughput, such delivery period prolonged to 57-88 days during the first two quarters and further prolonged to 126-168 days during the last two quarters of 2021. This created a time gap between the contract price and realised price in revenue recognition upon delivery.

The ASP for HCC under FOT GM term was USD142.7 per tonne for the first half of 2021 and USD156.5 per tonne for the second half of 2021, compared to USD120.6 per tonne for the year ended 31 December 2020. The ASP for SSCC under FOT GM term was USD98.6 per tonne during the first half of 2021 and USD102.0 per tonne during the second half of 2021, compared to USD81.9 per tonne in 2020. During the second half of 2021, the Group started selling its coal products under EXW UHG sales term in addition to DAP GM term due to reduced border throughput. The ASP for HCC was USD168.9 per tonne under DAP GM term and USD141.4 per tonne under the EXW UHG term for the year ended 31 December 2021.

During the reporting year, the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD30.2 million and USD23.3 million. For the year ended 31 December 2020, the Group derived individually more than 10.0% of its revenue from three customers, with purchase amounts of approximately USD127.5 million, USD65.3 million and USD45.4 million.

Cost of Revenue

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

The Group continued to closely monitor the evolving situation caused by the COVID-19 pandemic and made downward adjustments to production levels and temporary suspension of operations during the reporting year. As a result, idling cost of USD20.0 million was recorded for the year ended 31 December 2021, from which USD8.2 million was attributable to depreciation and amortisation. During the year ended 31 December 2020, idling cost of USD7.6 million was recorded, from which USD5.0 million was attributable to depreciation and amortisation.

During the year ended 31 December 2021, the total cost of revenue was USD161.5 million, including idling cost, compared to USD288.8 million during the year ended 31 December 2020. Decrease in cost of revenue was mainly due to lower sales volume.

From the total cost of revenue, USD155.4 million was attributable to coal products produced from the UHG mine and USD6.1 million was attributable to coal products produced from the BN mine.

Table 9. Total and individual costs of revenue:

Year ended 31 December		
	2021	2020
	(USD'000)	(USD'000)
Cost of revenue	**161,490**	288,848
Idling cost	**20,021**	7,633
Cost of revenue excluding idling cost	**141,469**	281,215
Mining cost	**42,475**	108,333
Variable cost	**20,700**	55,734
Fixed cost	**12,771**	32,765
Depreciation and amortisation	**9,004**	19,834
Processing cost	**11,950**	35,430
Variable cost	**3,464**	12,302
Fixed cost	**1,703**	4,233
Depreciation and amortisation	**6,783**	18,895
Handling cost	**4,734**	9,862
Transportation cost	**43,138**	67,587
Logistic cost	**3,129**	5,572
Variable cost	**1,596**	3,331
Fixed cost	**1,166**	1,868
Depreciation and amortisation	**367**	373
Site administration cost	**10,837**	19,461
Transportation and stockpile loss	**2,269**	8,293
Royalties and fees	**22,937**	26,677
Royalty	**21,293**	21,849
Air pollution fee	**984**	2,669
Customs fee	**660**	2,159

The mining costs consist of costs associated with overburden and topsoil removal and ROM coal extraction, including costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and fuel costs. The mining contractor's base fee is indexed to the market coal price and is charged based on the total number of fleets utilised under the mining contract.

The Group identifies components of the mine in accordance with the mine plan. Accounting of the unit mining cost is based on the accounting stripping ratio applicable to each component of the mine, which was mined during the respective reporting periods. The average accounting stripping ratio for components mined was 3.7 bcm per tonne for the year ended 31 December 2021 (2020: 3.7 bcm per tonne).

Unit mining cost, excluding idling cost, was USD16.7 per ROM tonne for the reporting year, compared to USD14.6 per ROM tonne during 2020. The increase is mainly due to lower sales volume during the reporting year.

Table 10. Unit mining cost per ROM tonne, excluding idling cost:

Year ended 31 December		
	2021	2020
	(USD/ROM tonne)	(USD/ROM tonne)
Mining cost	**16.7**	14.6
Blasting	**0.9**	0.8
Plant cost	**5.0**	4.6
Fuel	**2.2**	2.1
National staff cost	**1.1**	1.0
Expatriate staff cost	**0.4**	0.2
Contractor fee	**3.5**	3.2
Ancillary and support cost	**0.1**	0.02
Depreciation and amortisation	**3.5**	2.7

Mining costs are not only recorded in the statement of profit or loss but also cost of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, is capitalised in the statement of financial position as mining structure and subsequently amortised once the attributable ROM coal is extracted according to the mining operations progress.

Processing costs primarily include costs associated with operations of the CHPP including power generation and water extraction costs. During the year ended 31 December 2021, the Group's processing costs were approximately USD11.9 million (2020: USD35.4 million), of which approximately USD6.8 million was related to the depreciation and amortisation of the CHPP, USD0.7 million was costs related to power generation and distribution, and USD0.5 million was costs incurred for water extraction and distribution related to the washed coal sold during the reporting year.

Unit processing cost, excluding idling cost, calculated per ROM coal in-feed tonne was USD4.8 per ROM tonne for the years ended 31 December 2021 and 2020.

Table 11. Unit processing cost per ROM tonne, excluding idling cost:

Year ended 31 December		
	2021	2020
	(USD/ROM tonne)	(USD/ROM tonne)
Unit processing cost	**4.8**	4.8
Consumables	**0.3**	0.3
Maintenance and spares	**0.6**	0.5
Power	**0.3**	0.5
Water	**0.2**	0.3
Staff	**0.4**	0.3
Ancillary and support	**0.3**	0.3
Depreciation and amortisation	**2.7**	2.6

The handling costs are related to feeding ROM coal from ROM coal stockpiles to the CHPP, raw and thermal coal handling, and the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the reporting year, the Group's total handling costs were approximately USD4.7 million (2020: USD9.9 million). The handling cost decrease was mainly due to lower sales volume during the reporting year.

During the year ended 31 December 2021, the Group's transportation costs were USD43.1 million (2020: USD67.6 million) including fees paid for the usage of the UHG-GS paved road.

The Group used two-step shipment for coal export transportation from the mine area to GM during the reporting year. The first step is around 240 km long-haul section from UHG to TKH, the transshipment yard on the Mongolian side of the border. The Group used solely its own double-trailer trucking fleet on the long-haul section with transportation cost of USD9.9 per tonne during the year ended 31 December 2021 compared to USD6.2 per tonne during the year ended 31 December 2020. Increase in unit transportation cost on the long-haul section was mainly attributable to lower sales volume and, to a lesser extent, fuel price increases.

The second step is around 20 km cross border short-haul shipment between TKH and GM, the Chinese side of the Sino-Mongolian border crossing. During the reporting year, on this short-haul section the Group utilised a combination of its own trucking fleet and third party contractors fleet. In addition, the Group also utilised the new containerised GS Terminal. Due to high volatility of the border throughput level prolonging the roundtrip of each truck during the reporting year, higher fuel price and third party contractor fee, as well as the increased staff costs incurred in relation to quarantine and other preventive health measures, overall transportation cost increased to USD37.8 per tonne (2020: USD17.2 per tonne).

For the year ended 31 December 2021, the Group recorded a total transportation loss of around USD0.3 million (2020: USD0.8 million), and unrealised inventory loss of USD1.9 million for ROM coal and washed coal product stockpiles (2020: USD7.5 million). The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the mine sites and product coal stockpile inventories at UHG, TKH and inland China. 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. Hence, the measurement of stockpile quantities is an estimation in which errors are inherent.

Site administration costs are primarily associated with the site support facilities, such as overall supervision and management of the Group's mining, processing, transportation, and laboratory activities. During the year ended 31 December 2021, the site administration costs were USD10.8 million compared to USD19.5 million during 2020. Decrease in site administration costs was mainly due to lower sales volume and temporary production idling during the reporting year.

Logistics costs are associated with loading and unloading of coal products at UHG, TKH and GS. The Group's logistics costs were USD3.1 million during the reporting year, compared to USD5.6 million during 2020. Decrease in logistics costs was mainly due to lower sales volume.

Governmental royalties and fees are related to royalties, air pollution fees and customs fees paid in accordance with the applicable laws and regulations of Mongolia. The progressive royalty rate is applied in the range of 5% to 8% for exported processed coal products and 5% to 10% for exported raw coal products based on monthly reference price determined by the relevant governmental authorities of Mongolia, which increased rapidly following the market price increase during the reporting year. Historically, there were minimal differences between realised prices used in revenue recognition upon delivery and reference prices used for progressive royalty rate. However, during the second half of the reporting year, the reference prices increased rapidly in line with market prices. On the other hand, delivery period of coal products lengthened as a result of border throughput limitations, which led to substantial difference between ASP and the reference prices. As a result, the Group's effective royalty rate for the year ended 31 December 2021 increased to approximately 11.6% for coal exported from Mongolia based on customs clearance documentation (2020: 6.0%).

Gross Profit

The Group's gross profit for the year ended 31 December 2021 was approximately USD22.6 million, compared to gross profit of approximately USD128.6 million recorded for the year ended 31 December 2020. Decrease in gross profit was driven by lower sales volume and higher transportation cost and royalty recorded during the reporting year.

Non-IFRS Measure

Certain parts of financial reporting and disclosure may contain non-IFRS financial measures and ratios, such as EBITDA, adjusted EBITDA, free cash flow and net debt, which are not recognised measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by the management to monitor the underlying performance of the business and operations and are presented because they are considered important supplemental measures of performance, and the Group believes that these and similar measures are widely used in the industry in which the Group operates as a way to evaluate operating performance and liquidity. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures and ratios may not be comparable to the measures used by other companies under the same or similar names.

The Group's adjusted EBITDA for the year ended 31 December 2021 was approximately USD38.1 million, compared to the adjusted EBITDA of approximately USD142.4 million recorded for the year ended 31 December 2020.

Selling and Distribution Costs

The Group's selling and distribution costs were USD9.6 million for the year ended 31 December 2021 (2020: USD27.6 million) which was associated with 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 agent fees. The selling and distribution costs are associated with the sales volume realised under FOT GM and C&F terms for inland China sales activities. Decrease in selling and distribution costs was mainly attributable to lower sales volume.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, donations, depreciation and amortisation of office equipment and other expenses. For the year ended 31 December 2021, the Group's general and administrative expenses were approximately USD24.2 million (2020: USD19.8 million). Increase in general and administrative expenses was driven by 0.6 Mt of washed thermal coal supplied free of charge to TTT, a state-owned entity designated for manufacturing and distributing coal briquettes to Ulaanbaatar residents under the GoM's programme to reduce air pollution and improve air quality, as part of the Group's social contribution during the reporting year (2020: 0.3 Mt of washed thermal coal).

Net Finance Costs

Net finance costs for the year ended 31 December 2021 were approximately USD48.9 million (2020: USD41.1 million). Net finance costs are comprised of (i) accrued interest expense of 9.25% per annum on the Senior Notes due 2024 with outstanding principal amount of USD440,000,000, (ii) accrued interest expense of 5% to 8% per annum based on benchmark coal price on the Senior Notes due 2022 with outstanding principal amount of USD14,912,012, (iii) change in fair value of the derivative component of the Senior Notes due 2022, including the interest rates linked to the benchmark coal price index and cash sweep premium, (iv) amortisation of the difference between the fair value and the principal amounts due on the Senior Notes due 2022 and the Senior Notes due 2024 using the effective interest rate method, and (v) foreign exchange net loss.

Increase in net finance costs was mainly due to foreign exchange net loss recorded in relation to RMB appreciation against USD, compared to the prior reporting year. Breakdown of the net finance costs is set out in note 6 to the consolidated financial statements.

Income Tax Expenses

The Group did not have income tax expense for the year ended 31 December 2021 due to net loss incurred, but had income tax credit of USD5.0 million as a result of recognised deferred tax asset (2020: income tax expense of USD10.6 million).

Loss for the Year

The loss attributable to equity shareholders of the Company for the year ended 31 December 2021 amounted to approximately USD55.2 million (2020: profit attributable to equity shareholders of USD28.9 million). Major contributing factor of the Group's net loss position was the lower sales volume and higher transportation cost and royalty recorded during the reporting year due to limited border throughput impacted by the increase of COVID-19 spread in Mongolia.

Liquidity and Capital Resources

For the year ended 31 December 2021, the Group's cash needs were primarily related to working capital requirements.

Table 12. Combined cash flows:

Year ended 31 December		
	2021	2020
	(USD'000)	(USD'000)
Net cash generated from operating activities	**84,911**	108,687
Net cash used in investing activities	**(56,763)**	(70,794)
Net cash used in financing activities	**(41,664)**	(41,650)
Net decrease in cash and cash equivalents	**(13,516)**	(3,757)
Cash and cash equivalents at the beginning of the year	**38,904**	40,619
Effect of foreign exchange rate changes	**549**	2,042
Cash and cash equivalents at the end of the year	**25,937**	38,904

Note: USD56.8 million used in investing activities comprises of USD44.5 million incurred for payments of deferred stripping activity, USD12.3 million used for acquisition of property, plant and equipment and other assets and USD0.04 million generated from sale of property, plant and equipment.

Cash balance of USD25.9 million as at 31 December 2021 stated in Table 12 above consists of (i) consolidated cash balance of USD23.7 million at ER, an indirect wholly-owned subsidiary of the Company, which includes ER and Energy Resources Corporation LLC and their respective subsidiaries ("**ER Group**"), (ii) cash balance of USD1.2 million at Khangad Exploration LLC ("**KE**"), an indirect wholly-owned subsidiary of the Company, and (iii) cash balance of USD1.0 million at the remaining investment holding and trading subsidiaries of the Company. Cash and cash equivalents are mainly held in USD, RMB and MNT.

The gearing ratio (calculated based on the fair value of total bank and other borrowings as stated in the consolidated financial statements of the Group as at 31 December 2021 divided by total assets) of the Group as at 31 December 2021 was 24.1% (31 December 2020: 25.9%). All borrowings are denominated in USD.

Fixed Assets Revaluation

The fixed assets of the Group are held by the Group's subsidiaries located in Mongolia. The Group has changed its accounting policy of property, plant and equipment from cost model to revaluation model in accordance with International Accounting Standard ("IAS") 16, *Property, Plant and Equipment*, from the year ended 31 December 2016 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. According to IAS 16 requirement, the revaluations of buildings and plants, machinery and equipment shall be made with sufficient regularity (i.e. three or five years). Following such requirement, the Group engaged Duff & Phelps Corporation to revaluate these assets as at 31 December 2021.

As a result of the fixed assets revaluation as at 31 December 2021, the carrying amount of the revaluated assets was increased and other comprehensive income of USD62.9 million was recognised as a revaluation surplus in equity side of the balance sheet for the year ended 31 December 2021. 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 at 31 December 2021, the Group had USD454.9 million outstanding principal payments consisting of (i) USD14.9 million Senior Notes due 2022 and (ii) USD440.0 million Senior Notes due 2024.

Credit Risk

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

As at 31 December 2021, the Group had approximately USD14.0 million in trade receivables and USD85.5 million in other receivables. As at 31 December 2020, the Group had approximately USD11.1 million in trade receivables and USD83.3 million in other receivables.

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

With regards to other receivables of USD85.5 million, this amount is mainly related to USD24.2 million VAT receivables and USD49.2 million of other deposits and prepayments. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

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 2021 and 31 December 2020 amounted to USD22.7 million and USD29.5 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate amounted to nil as at 31 December 2021 and 31 December 2020.

Pledge of Assets of the Group

As at 31 December 2021, the Group had no pledge of assets. The Group's pledge of 4,306,791 common shares in International Medical Centre LLC ("**IMC**") to secure loan repayment obligation of IMC in proportion to the Group's equity interest in IMC was released on 17 May 2021 upon IMC's full repayment of its loan.

Contingent Liabilities

As at 31 December 2021, 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 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 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, 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.

Under the royalty provision 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's share option scheme, adopted on 17 September 2010 ("**Share Option Scheme**"), became effective on the Listing Date on 13 October 2010, in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**" or "**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. The Share Option Scheme expired on 12 October 2020, however, the provisions of the Share Option Scheme remain in force to the extent necessary to give effect to any Options granted or exercised thereto or otherwise as may be required.

On 8 May 2017, the Company granted 40,000,000 and 100,000,000 Share Options to a director and employees, respectively, at the exercise price of HKD0.2392. The outstanding number of the Share Options was adjusted to 13,740,000 Share Options and the exercise price was adjusted to HKD2.392 due to the share consolidation in August 2019. The Share Options granted on 8 May 2017 will lapse after 5 years since the allocation. During the year ended 31 December 2021, a total number of 2,400,000 Share Options were exercised by employees.

On 16 June 2021, the Company adopted a new share option scheme ("**New Share Option Scheme**"), in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. There is no Share Options granted under the New Share Option Scheme during the year ended 31 December 2021.

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 2021, USD0.03 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

As at 31 December 2021 and 2020, the capital commitments outstanding were as follows:

Table 13. Capital commitments:

	As at 31 December 2021	As at 31 December 2020
	(USD'000)	(USD'000)
Contracted for	**763**	1,626

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

	Year ended 31 December	
	2021	2020
	(USD'000)	(USD'000)
CHPP	**795**	2,232
Investment in associate company	**785**	–
Others	**10,764**	5,748
Total	**12,344**	7,980

Significant Investments Held

As at 31 December 2021, the Company did not hold any significant investments. Save as disclosed in this annual report, the Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

For the year ended 31 December 2021, the Company did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures.

Other and Subsequent Events

Save as disclosed in this annual report, there have been no events subsequent to 31 December 2021 which require adjustment to or disclosure in this annual report.

Employees

As at 31 December 2021, the number of employees of the Group was 1,880, compared with 2,094 employees as at 31 December 2020.

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 share option scheme adopted by the Company on 17 September 2010 and became effective on 13 October 2010 expired on 12 October 2020. On 16 June 2021, at the 2021 Annual General Meeting of the Company, the shareholders approved the resolution to adopt a new share option scheme effective for a period of 10 years.

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 2021, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2021, a total of 10,859 employees attended different professional trainings, out of which 7,850 employees attended occupational, health, and safety training, 2,167 employees attended professional development training and 842 employees attended general skills development training.

During the reporting year, the Group continued online safety training for all office workers, a new series of specific theoretical and practical trainings were provided to 19 mining heavy equipment operators. In order to improve the skills and methods of the training instructors, they were enrolled in different ISO module trainings as well as given first aid training and additional general skills training.

For the year ended 31 December 2021, the Group's staff cost was USD23.3 million, compared to USD30.7 million in 2020.

Non-exempt Continuing Connected Transaction

The Company has entered into the following continuing connected transactions (the "**CCTs**") in the ordinary course of business with certain of its connected persons. Set out below is a summary of the CCTs entered by the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") recorded for the year ended 31 December 2021 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules.

(1) Service Agreement

Principle Terms

On 20 December 2019, ER entered into a Service Agreement with Uniservice Solution LLC ("**USS**"), a subsidiary of MCS Holding LLC, pursuant to which USS agreed to provide office and camp supporting services to the Group for a term of three years commencing from 1 January 2020 to 31 December 2022.

Connected Person

As at the date of this annual report, USS is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.36% of the issued share capital of the Company. As such, USS is a connected person of the Company.

Consideration

The aggregate amount of consideration payable by the Group to USS under this agreement is MNT36,012,151,287 (then equivalent to approximately USD13,190,539) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by USS. The consideration was determined after arm's length negotiation between the Company and USS taking into account the size of the location where services are to be provided and the number of employees utilising the camp site, the temporary ger camp located at the operational sites and the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by USS. Invoices are issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of a valid invoice from USS.

Annual cap for this agreement for the year ended 31 December 2021 is MNT12,004,050,429 (then equivalent to approximately USD4,396,846). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2021 under this agreement was approximately USD2,723,703.

(2) Security Service Agreement

Principle Terms

On 20 December 2019, ER entered into a Security Service Agreement with M-Armor LLC (previously MCS Armor LLC), a wholly-owned subsidiary of MCS Holding LLC, pursuant to which M-Armor LLC agreed to provide security services, safeguarding and services for prevention of unlawful conducts and violations at the Ulaanbaatar office, UHG mine site, BN mine site, TKH site and other premises of the Group and vehicle inspection and safety assurance services for the Ulaanbaatar office of the Company on a day-to-day basis. The agreement is for a term of three years commencing from 1 January 2020 to 31 December 2022.

Connected Person

As at the date of this annual report, M-Armor LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.36% of the issued share capital of the Company. As such, M-Armor LLC is a connected person of the Company.

Consideration

The aggregate amount of consideration payable by the Group to M-Armor LLC under this agreement is MNT26,901,809,829 (then equivalent to approximately USD9,853,601) inclusive of VAT, other applicable taxes and all other costs undertaken by M-Armor LLC and payable on a monthly basis within 60 days upon receipt of valid invoice from M-Armor LLC. The consideration was determined on an arm's length basis between the Company and M-Armor LLC based on the bid submitted by M-Armor LLC, estimated number of security guards required and labour costs.

Annual cap for this agreement for the year ended 31 December 2021 is MNT8,967,269,943 (then equivalent to approximately USD3,284,534). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2021 under this agreement was approximately USD2,847,558.

(3) Power System Operation and Maintenance Agreement

Principle Terms

On 28 March 2018, ER entered into a Power System Operation and Maintenance Agreement with MCS International LLC, a wholly-owned subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including: (i) UHG Power Plant and electricity distribution facilities operation and maintenance; (ii) heating facilities operation and maintenance; (iii) diesel generators operation and maintenance; and (iv) supply of electricity and heating to end customers and contractors of the Group and billing for the consumption to the Group (the "**2018 Power System Operation and Maintenance Agreement**"). This agreement was for a term of three years commencing from 1 April 2018 to 31 March 2021. On 27 January 2021, ER and MCS International LLC entered into a new agreement which covers the same scope of services as those set out in the 2018 Power System Operation and Maintenance Agreement for a term of three years commencing from 1 April 2021 to 31 March 2024 (the "**2021 Power System Operation and Maintenance Agreement**").

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.36% of the issued share capital of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by the Group to MCS International LLC under the 2021 Power System Operation and Maintenance Agreement, which equals to the sum of the annual caps for the three years ended 31 March 2024, is MNT81,501,588,305 (then equivalent to approximately USD28,601,565), including VAT, other applicable taxes and all other costs incurred by MCS International LLC in providing the services as set out in the agreement. The monthly fee consists of variable and fixed charges where fixed charge is determined taking into account fixed costs to be incurred by MCS International LLC such as machineries, equipment, tools and consumables used for maintenance and servicing of facilities, labour costs including salary, transportation, insurance, safety, accommodation and catering for personnel of MCS International LLC, other work related direct expenses, overheads to cover indirect expenses, and a profit margin; whereas variable portion of the monthly fee is determined based on agreed electricity tariff applicable for the electricity produced and covers variable costs related to the production of the electricity such as consumables, chemicals, diesel for internal usage of the power plant, costs of running machineries and equipment, etc. The costs, electricity tariff and profit margin applicable to the services were determined on an arm's length basis between the Group and MCS International LLC, taking into account fixed and variable costs to be incurred by MCS International LLC and the historical transaction amounts for the transactions under the 2018 Power System Operation and Maintenance Agreement. Invoices are issued on monthly basis, payable within 60 days upon receipt of a valid invoice from MCS International LLC.

The Group shall be responsible for the costs of the supplies of fuel, water, coal, spare parts, machineries, materials, lubricants and equipment mechanism and other supplies required for the operation and overhaul of the facilities including the UHG Power Plant, electricity distribution network, boiler houses, heating distribution network, and diesel generators owned by ER in relation to the performance of services to be provided by MCS International LLC under the agreement as well as property insurance, immovable property taxes and depreciation.

Annual cap for the 2021 Power System Operation and Maintenance Agreement from 1 April 2021 to 31 December 2021 is MNT20,375,397,076 (then equivalent to approximately USD7,150,391) whereas annual cap for the 2018 Power System Operation and Maintenance Agreement from 1 January 2021 to 31 March 2021 is MNT7,162,774,080 (then equivalent to approximately USD2,991,120).

The actual transactions (excluding VAT) made by the Group under the 2021 Power System Operation and Maintenance Agreement was approximately USD5,792,940 from 1 April 2021 to 31 December 2021. Under the 2018 Power System Operation and Maintenance Agreement, the actual transactions (excluding VAT) made by the Group was approximately USD1,779,449 from 1 January 2021 to 31 March 2021.

(4) Power Distribution Facilities Operation and Maintenance Agreement

Principle Terms

On 27 January 2021, KE entered into a Power Distribution Facilities Operation and Maintenance Agreement with MCS International LLC, a wholly-owned subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide power distribution facilities operation and maintenance services to the Group with regards to the 35 kilovolts ("**kV**") of electricity distribution overhead line and 35/0.4 kV of four substations which connects the Company's BN mine site to the UHG mine site continuing approximately 39.3 km. This agreement is for a term of three years commencing from 1 April 2021 to 31 March 2024.

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.36% of the issued share capital of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by the Group to MCS International LLC under this agreement, which equals to the sum of the annual caps for the three years ended 31 March 2024, is MNT4,813,739,647 (then equivalent to approximately USD1,689,298), including VAT, other applicable taxes and all other costs incurred by MCS International LLC in providing the services as set out in the agreement. The monthly fee consists of fixed charges where fixed charge is determined taking into account fixed costs to be incurred by MCS International LLC such as machineries, equipment, tools and consumables used for maintenance and servicing of facilities, labour costs including salary, transportation, insurance, safety, accommodation and catering for personnel of MCS International LLC, other work related direct expenses, overheads to cover indirect expenses, and a profit margin. The costs and profit margin applicable to the services were determined on an arm's length basis between the Group and MCS International LLC, taking into account fixed and variable costs to be incurred by MCS International LLC and the historical transaction amounts for the transactions under the 2018 Power System Operation and Maintenance Agreement. Invoices are issued on monthly basis, payable within 60 days upon receipt of a valid invoice from MCS International LLC.

The Group shall be responsible for the costs of the supplies of fuel for diesel generators, spare parts, machineries, materials, lubricants and equipment mechanism and other supplies required for the operation and overhaul of the power and electricity network and substations owned by KE in relation to the performance of services to be provided by MCS International LLC under the agreement as well as property insurance, immovable property taxes and depreciation.

Annual cap for this agreement from 1 April 2021 to 31 December 2021 is MNT1,203,434,912 (then equivalent to approximately USD422,325). The actual transactions (excluding VAT) made by the Group from 1 April 2021 to 31 December 2021 under this agreement was approximately USD145,905.

The independent non-executive Directors reviewed the CCTs of the Group set out in items (1) to (4) above pursuant to Rule 14A.55 of the Listing Rules.

In the opinion of the independent non-executive Directors, the CCTs set out in items (1) to (4) above were entered into by the Group:

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

(ii) on normal commercial terms or better; and

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

The Board has received a letter from the auditor of the Company confirming the matters set out in Rule 14A.56 of the Listing Rules that in respect of the disclosed CCTs as set out in items (1) to (4) above:

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

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

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

(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (4) above, nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the annual cap as set by the Company in respect of each of the disclosed CCTs.

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

Internal Control Measures

The Company has comprehensive internal control system to ensure that the terms of the CCTs are fair and reasonable, and the CCTs are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include strict measures for evaluation and selection of suppliers and the tendering process; regular monitoring of actual amounts incurred for the CCTs to ensure the relevant annual caps are not exceeded; regular internal control tests to evaluate completeness and effectiveness of internal control measures; and regular review by the internal audit department, the audit committee of the Board, the Board, and the independent non-executive Directors.

Non-exempt Connected Transaction

(1) Coal Sales Agreement

Principal terms

On 16 October 2021, Tianjin Zhengcheng Import and Export Trade Co., Ltd ("**TZJV**"), an indirect non wholly-owned subsidiary of the Company, entered into a Coal Sales Agreement with Risun Supply Management Co., Ltd (formerly known as Risun Mining Co., Ltd) ("**Risun**"), whereby TZJV agreed to supply a total of approximately 92 kt of HCC. The agreement term is from 16 October 2021 to 31 March 2022. The details of the Coal Sales Agreement were disclosed in the announcement of the Company dated 20 April 2022.

Connected Person

As at the date of this annual report, Risun is a substantial shareholder of TZJV, holding 49% shareholding interest in TZJV and therefore Risun is a connected person of the Company at the subsidiary level.

Consideration

The aggregate amount of consideration payable by Risun to TZJV under the Coal Sales Agreement is RMB100,970,100 (then equivalent to approximately USD15,689,306) inclusive of VAT. Under the Coal Sales Agreement, the price of HCC per tonne was RMB1,100, which was determined with reference to the ASP charged by the Group for trading similar quality coal products with its other customers, and the terms were determined on an arm's length basis.

During the year ended 31 December 2021, TZJV has supplied a total of approximately 50 kt of HCC to Risun under the Coal Sales Agreement, while the remaining HCC is expected to be delivered to Risun in the following months subject to the GS-GM border throughput situation. The delay in delivery schedule occurred due to border throughput logistics issues in 2021 after increase of COVID-19 infection cases in Mongolia. The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2021 under this agreement was approximately USD7,477,260.

VII.
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the report

This report covers the Group's Environmental, Social and Governance ("**ESG**") performance, highlights and accomplishments for the reporting period from 1 January to 31 December 2021. The report was prepared in accordance with the ESG Reporting Guide of the SEHK and ISO 26000:2010 voluntary guidance on Corporate Social Responsibility ("**CSR**"), and we have been reporting with reference to the Global Reporting Initiative – comprehensive level reporting, since 2010. It is published at the same time and as part of our integrated Annual Report 2021.

Reporting boundaries

In setting our reporting boundary, we consider impacts across all of our sustainable development metrics and results from operations within the Group's subsidiary companies as well as from outside the Group such as the suppliers, at a certain level. We do not report on entities or operations that are not owned, operated or managed by us. Although the first aim of our reporting is to provide complete, timely, reliable and accurate data, it must be noted that it is not possible to 100% guarantee this, as the report requires complex streams of data accumulated over the entire duration of the reporting period. At this stage, our sustainability data has not been subject to external assurance unless otherwise required.

Alignment with Sustainable Development Goals (SDGs)

Our activities and policies towards sustainability in general are guided by the United Nation's SDGs, and the most relevant and priority SDGs across our sustainability platform our mapped as below, to better determine our contribution to individual SDGs. Going forward, we will re-define all of our sustainability targets in alignment with the SDGs.

Our contributions towards the achievement of the SDGs are made through:

- Responsible mining operation that takes into account its impact and environmental footprint
- Taxes, royalties and payments to the state and local budget
- Provision of a safe, healthy and diverse workplace
- Direct and sustainable business operations with contractors, sub-contractors and suppliers
- Voluntary social and community development projects and others

COMMUNITY

ENVIRONMENT

EMPLOYMENT

GOVERNANCE

Board review and oversight

The Board has a dedicated ESG committee to ensure that the Board is meaningfully involved in assessing and addressing ESG related matters and risks.

As specified in its Terms of Reference, the ESG committee:

- Reviews the Company's ESG vision, strategy, policies and practices and make relevant recommendations (if any) to the Board;
- Reviews the Company's risk assessment and its impact on health, safety, environment and society;
- Reviews, evaluates and advises on the Company's overall ESG objectives, targets and individual key performance indicators ("**KPIs**"); and
- Reviews the compliance with the ESG Reporting Guide contained in Appendix 27 of the Listing Rules and disclosure requirements in the ESG Report.

Our 2021 ESG performance and sustainability targets and individual KPIs included in it were therefore reviewed and approved by the Board through the ESG committee.

Additionally, to place additional importance on risk management, we have a formal Risk Committee comprising of the senior management, since 2019, which reports directly to the Audit Committee. The committee oversees the Group's overall risk management framework and assesses the effectiveness of risk controls and its mitigation tools, including ESG risks and challenges. The Committee's main areas of focus include risk management, regulatory compliance and legal matters.

BOARD

EGS Committee

Nomination Committee

Remuneration Committee

Audit Committee

SUSTAINABILITY AT MMC

At MMC, safety, health, environment and sustainable development are at the core of our business strategy. We prioritise the health and safety of our employees and communities and seek to minimise our impacts on the environment. At each and every level of our operations, we work in compliance with applicable international standards and local legislations. These standards and values are reinforced through our policies such as Sustainable Development Policy and CSR Policy. We believe that mutually beneficial partnership with multiple stakeholders is crucial in achieving our goals in the long run. As one of the largest local employers and taxpayers in Mongolia, our operations give us the opportunity to bring long-lasting positive changes to the communities and the country as a whole. Therefore, through direct employment and partnership with customers and suppliers, we invest and create jobs and business opportunities to help foster development of the communities in which we operate.

As the COVID-19 pandemic and restrictions continued throughout 2021, we aimed to reinforce our status as a responsible employer and put the health, safety and wellbeing of our employees as the utmost priority.

Contractors working as part of our operations are required to comply with our standards and requirements in all applicable areas such as occupational health and human resources. We also engage with and encourage our suppliers and service providers to maintain business standards that are comparable to ours. Transparency, accountability, respect for the rule of law and respect for human rights are all crucial in sustaining meaningful and long-term engagement with our stakeholders.

Our governance framework clearly defines the role and approaches our Board and management should take in overseeing the performance in sustainability. The ESG committee established under the Board has reviewed and oversaw the sustainability related targets and KPIs, disclosed through the ESG report.

Our 2021 sustainability targets and performance are shown below.

KPIs	Target	Performance 2021	Status
PEOPLE AND SAFETY			
Fatality	Zero fatalities	"0"	✓
Occupational disease	Zero case of occupational disease	"0"	✓
Total Recordable Injury Frequency Rate ("**TRIFR**")	Sustain or reduce TRIFR	38.4% reduction	+
Legal compliance on safety	Legal compliance on safety – minimum 90%	94%	✓
Percentage of persons with disabilities in total employment	Sustain percentage of persons with disabilities in total employment	Sustained	✓
COMMUNITIES			
Community events	Zero significant community events	"0"	✓
Local (Umnugobi) employees	Sustain percentage of local employees	4% increase	+
Community development programs	Increase or sustain the reach of community development programs	Sustained	✓
ENVIRONMENT			
Environmental incident	Zero significant environment incident	"0"	✓

Legal compliance on environmental related matters	Legal compliance on environmental related matters - minimum 90%	92.2%	+
Ground water withdrawal	Reduce or sustain freshwater withdrawal	-42% reduction	✓
	Reduce or sustain raw water usage per tonne of processed coal	-3.5% reduction	✓
Waste recycling	Increase or sustain waste recycling rate	36% increase	+
Total GHG CO_2 emissions	Sustain 2020 rate at 90-105% range (390,162 tonnes)	266,647	✓
GHG Scope 1 emissions	Sustain 2020 rate at 90-105% range (257,751 tonnes)	179,496	✓
GHG Scope 2 emissions	Sustain 2020 rate at 90-105% range (91,758 tonnes)	80,613	✓
GHG Scope 3 emissions	Sustain 2020 rate at 90-105% range (40,653 tonnes)	6,538	✓
CO_2 Intensity	Sustain 2020 rate at 90-105% range (0.083 tonnes CO_2 -e/ tonnes)	0.108	-

Code of Conduct and Fair Operating Practices

Integrity and accountability are core values at MMC and are central to our reputation as a responsible mining company. Our Code of Conduct (the "**Code**") guides our approach in doing business and reinforces our commitment to responsible action. A set of desirable behaviours are embedded in the Code which promote positive and responsible professional attitude among employees and managers. Employees at all levels, including executives and contractors must strictly follow the Code and act with responsibility, honesty, trust, respect, and loyalty, complying with all laws and regulations in effect.

The Code strictly prohibits engaging in unethical behaviour and contains explicit guidelines on the receipt of gifts, donations, travel offers or hand-outs. MMC discourages the acceptance of gifts or donations on the Company's behalf and all gifts that were received have to be disclosed. It is also the Company's policy to not make any in-kind contributions to political parties or politicians. We avoid all actions that are anti-competitive or otherwise contrary to the laws that govern anti-competitive practices both domestically and internationally. Any individual, regardless of his or her relationship with our Company, can report incidents of unethical behaviour, bribery, corruption or fraud. Employees' rights to report such incidents are also emphasised in applicable training and induction programmes. All new employees of the Group are required to complete a mandatory training on HR rules, which includes a dedicated section on our Code, ethical behaviours and anti-corruption statements. Additionally, all employees of the Group, including the management, undergo a refresher training once a year, which cover the above topics, together with their responsibility to do so. Violations of the Code are taken seriously and can result in disciplinary actions. There was one case of misconduct recorded in 2021, and a disciplinary action was taken against the employee as per the Company's internal policies and the Code accordingly.

Our Code and other guidelines clearly prohibit bribery and corruption in all forms of business dealings and to the best of our knowledge, our employees, subsidiaries, agents and contractors have been free of any notice or actions from relevant regulators with regards to anti-money laundering and/or anti-bribery or corruption issues. We strive to implement socially responsible supply chain practices and anti-corruption practices by working closely with our suppliers, host communities and the relevant government agencies. A system is in place to ensure that our procurement and operational practices are free from unfair business dealings, suspicious payments and financings related to terrorism or money laundering. All of our Codes, systems and policies are in full conformity with the applicable legislation relating to the area including the Mongolian Law on Combating Money Laundering and Terrorism Financing enacted in 2013, the Law on Combating Terrorism enacted in 2004, the Law on Anti-corruption enacted in 2006, as well as the Criminal Code of Mongolia effective since 2002.

We have an independent internal audit function as well as a Donation/Sponsorship Committee which strives to prevent all kinds of unfair dealings or making of payments in kind (gifts or favours) to influence individuals and/or business decisions. The Company's management, under the oversight of the Board, through the Audit Committee, is responsible for designing, implementing and monitoring the risk management and internal control systems and such systems are reviewed by the management and the Board at least annually.

The Company's Risk Management Policy, Internal Control Procedure and other policies, procedures and work instructions establish the Company's risk management and internal control frameworks.

Internal audits on the Group-wide policies and procedures are conducted on an annual basis, to determine any inconsistencies, and improve systematic functioning. In 2021, an internal audit was carried out on:

- Controls and management systems of insurance and claims activities
- ESG systems
- Continuing connected transactions
- Fatigue management
- Fuel distribution and consumption
- Safety and maintenance of lifting equipment, pressure vessels and tools

and corrective actions were taken based on the observations. These included review and update of relevant procedures and safe-work instructions including the insurance claim procedure, lifting equipment inspection and maintenance procedure, fuel distribution procedure, fuel warehouse procedure, pressure vessels and gas tools procedure, and fatigue management procedure.

We are committed to cooperative, respectful and positive dialogue with policymakers and government agencies. We believe this should be based on genuine consultation and accountability. We engage with the government and other stakeholders on a variety of issues, including workers' health and safety, environmental protection, trade, economic development, infrastructure, transparency, rule of law, and other areas of public policy that are important for our operations. This engagement is in strict accordance with all applicable laws, Extractive Industry Transparency Initiative ("**EITI**") requirements, the Code, and standards on ethical conduct.

We recorded no cases of bribery, corruption, extortion, fraud or money laundering against the Company or our employees during the reporting period.

Human Rights

Recognising and respecting the importance of human rights is an integral part of our sustainable development approach. As such, we aim to address human right risks and potential impacts in respect of local communities and/or stakeholders in an integrated manner. In addition to complying with all applicable laws of Mongolia, we uphold the United Nations Universal Declaration of Human Rights, The International Labour Organization Declaration on Fundamental Principles and Rights at Work as well as the United Nations Guiding Principles for Business and Human Rights.

We provide fair, transparent and equal employment opportunities at all levels of our business activity and operations, irrespective of race, gender, nationality, age, religious belief, social origin, political views, union affiliation, pregnancy, disability or any other basis. We respect freedom of association and freedom of speech, therefore designated feedback boxes are operated at our mine sites to allow employees to express their opinions and report any breaches of ethical conduct and behaviour. Where our employees wish to be represented by trade unions or work councils, we cooperate in good faith with the bodies that our employees collectively choose to represent them within the appropriate national legal frameworks.

We respect the rights of people in communities where we operate and seek to identify adverse human rights impacts and take appropriate steps to address and remedy them. Moreover, we maintain continuous engagement based on dialogues and mutual trust for their rights to access land, access to water, freedom of movement and freedom of expression. Our community grievance handling platform allows the host community members to freely submit their complaints and grievances to the Company's management and respective departments or units. In the value chain, we seek to establish relationships with suppliers and contractors which share our principles and values while promoting awareness of human rights protection.

As part of our Human Rights Program, we provide regular trainings on Voluntary Principles on Security and Human Rights to our security service providers and relevant staff. No human rights violations were recorded at our sites and offices during the reporting period.

Forced Labour and Child Labour

The Company does not tolerate the use of child or forced labour, and/or exploitation of children in any of its operations and facilities. Specifically, we do not employ a person who is under the national legal age of employment and in line with our Recruitment Policy, we employ people aged 18 or older. The Company strictly follows the Mongolian Law on Child Protection adopted in 2016 and works in full compliance with other relevant documents and legislation including the Convention on the Rights of the Child, ratified by Mongolia in 1990, the Minimum Age Convention ratified in 2002, and the Worst Forms of Child Labour Convention, ratified in 2001. In addition to the above, we strictly adhere to our principles that an employee should have the right to leave the work premises after completing the standard workday and to terminate employment after giving reasonable notice.

Use of forced labour is strictly prohibited as stipulated in our internal labour policy and the Mongolian Law on Labour, and we have not recorded any incident associated with such practices, ever since the commencement of our operations. Our recruitment officers are trained to ensure that no child is employed at any of our sites and facilities. In the year under review, the Company has not employed any person under the age of 18.

Transparency

We report our financial, operational and sustainable development performances in accordance with all applicable legislations in a timely manner. We are also one of the active supporters of the EITI in Mongolia and have been disclosing our payments to the EITI office in Mongolia since the commencement of our mining operations in 2009 annually.

Although EITI national council meetings were not physically held due to COVID-19 restrictions in 2021, we disclosed all relevant information including payments to the government, spending on community development projects, tax payments at local level, sponsorships and environmental issues, among others. We believe that direct and two-way communication is essential in ensuring that our information reaches various stakeholders in a transparent manner. Our project related information is disclosed to our host communities every year as part of our Public Consultation and Disclosure Plan and during regular meetings and communications through our Community Development Advisory Councils.

We joined International Financial Corporation's ("**IFC**") voluntary code of practice for common water management and reporting for the mining industry in the South Gobi region in 2013. Accordingly, we voluntarily report our water usage, reservation and re-usage information to IFC Mongolia on a regular basis.

In 2019, we signed a voluntary codex on responsible mining with the Mongolian National Mining Association together with 8 other mining and extractive industry companies in Mongolia. The voluntary codex aims to promote accountability and responsible mining practices in the country and encourages other mining companies to join the Codex by adhering to responsible mining practices and standards. As one of the leading mining companies in Mongolia, MMC's CSR programs and responsible mining practices are highly evaluated by the peers, and all participating companies agreed to meet at least once a year to share experience in the mentioned fields. Also, the participants voluntarily commit to report their ESG achievements and areas of concern to the Mongolian National Mining Association on an annual basis.

Voluntary initiatives and partnerships

- Extractive Industry Transparency Initiative
- IFC – Voluntary code of practice on Water management
- Mongolian National Mining Association – Voluntary codex for responsible mining
- Sustainability dialogue Mongolia

Product Responsibility and Quality Assurance

We see product responsibility as a way to ensure our reliable access to the market. Therefore, we seek to obtain a preferred supplier status from our customers and recognition for our commitment to the safe and responsible production and use of products. Our product handling, sales and shipment as well as relationship with buyers and customers are guided by the International Commercial Terms published by the International Chamber of Commerce as well as our internal regulations on product sales distribution and its supervision. In ensuring product quality and requirements, we work strictly in compliance with both local and international standards such as the national standard on coal classification MNS 6456:2014, the national standard on coal and coal product classification MNS 6457:2014 and the People's Republic of China ("**PRC**") standard on commercial sales quality evaluation and technology control GB/T 31356:2014.

We also have a nationally accredited coal quality laboratory at our mine sites to ensure reliable and regular control on safety and quality of our products. The Company pays visits to customers, their subsidiaries and trading company representatives on a regular basis to maintain the outreach and reliability of our services and to strengthen the existing relationships with customers.

In 2021, however, substantial changes were introduced to our sales terms due to COVID-19 related challenges and border restrictions, hence physical meetings with customers were mostly unavailable. We have designated officers who receive and handle customer feedbacks and inquiries via e-mail, telephone and other means. All inquiries and correspondences are reviewed and acted upon immediately, involving our existing sales channels where necessary. The Company did not receive any significant complaint or inquiry on coal supply and quality over the reporting period, while minor inquiries were handled through mutual discussion and understanding in accordance with our contract terms. We also work to ensure that all of our contracts with customers and partners have a “confidentiality and non-disclosure” clause that regulates privacy matters including protection of customer information and data. Since the product quality specifications are clearly stipulated in our contracts with customers, and we sign contracts based on confirmation of such specifications by the customers, there has been no incident of product recalling for safety, quality and other reasons, both in the reporting period and for the past years. For clarity, our customers verify our product quality at the point of delivery, by having coal product samples examined through a standard procedure. Additionally, we ensure the consistency of our product quality, by sending samples from our product stockpiles at TKH to the Central Geology Laboratory in Ulaanbaatar every month. All such conditions are strictly in accordance with the International Commercial Terms and applicable domestic legislations.

To streamline our operation at all levels, increase productivity and further ensure safety and environmental protection, the Company successfully implemented and adopted Integrated Management System (“IMS”) in 2018 for the first time in Mongolia. The IMS covers international standards ISO 9001:2015 (Quality management), ISO 14001:2015 (Environmental management) and OHSAS 18001:2007 (Occupational health and safety management) and was certified by AFNOR Group, an international standardisation body based in France. Accordingly, we have a complete Quality Management System and process improvement as part of the IMS.

The IMS implementation and follow-up measures are validated by internal audit on a regular basis and all required preparation works were done for a new round of surveillance audit in 2021.

Our People

Highlights of 2021:

- No cases of discrimination and labour disputes were recorded.
- Despite COVID-19 related uncertainties and challenges, we fully preserved our employment base and kept all workplaces. Due to quarantines and travel restrictions, we kept our non-local staff on partial suspension with full allowances, while operational continuity was maintained by utilising the local staff only.
- As the health and safety of our employees were a top priority, flexible work arrangements were continued, and hybrid work models were adopted where necessary.
- Over a dozen of human resources related policies and guidelines were updated and many new guidelines were newly adopted as part of the preparation and smooth transition to new arrangements required by the Labour Law of Mongolia, effective from 2022.
- As the pandemic situation brings long-lasting implications for corporate culture and ways of work, distance learning platforms and online applications are being introduced as much as possible to reduce physical interactions in required areas and support new working models.

Management approach

Our Human Resources (“**HR**”) activities are in full compliance with all relevant laws and legislations in Mongolia including but not limited to the Law of Mongolia on Labour (“**Labour Law**”), the Law on Gender Equality, the Law on Social Insurance, the Law on Employment Support and many others. Overall, there are more than 60 laws, legislations and state procedures that we strictly follow in carrying out our HR activities.

In addition to the above, there are many areas where we exceed HR legal requirements and provide various voluntary offers and conditions for the employees. For instance, we offer more benefits and alternatives to our contract-based employees than required by the local legislation, in order to improve and maintain our total employee job satisfaction.

As the Labour Law was amended in July 2021, to be effective from 1 January 2022, we took all required measures and preparations to comply with the new requirements, including changes in roster schedules for the mining industry staff. Under the new requirements, the rosters were changed to 14-14 days work and vacation regime and a single roster duration shall not exceed 14 days. All applicable policies and guidelines were updated, and some new policies were adopted to safely adjust our employee relations to the new requirements.

Working hours, duration of day and night shift, lunch breaks, and all other related arrangements are clearly stipulated in our procedure on working hours as well as written resolutions approved by our on-site senior management.

Our contractors, sub-contractors and their employees are required to follow all of our HR policies, rules, standards and guidelines, and the requirements are stipulated in written agreements between the Company and the contractors.

As a responsible miner and one of the largest private sector employers at both Umnugobi aimag and national level, we remain committed to:

- Provide equal employment opportunities, equal pay systems and respect the rights of our people. Recruit based on skills and support local employment.
- Offer compensation and benefit schemes competitive within the Mongolian mining industry and support employees through housing projects and other social benefits.
- Ensure challenging yet exciting work environment where employees can realise their full potential and develop their skills.
- Ensure awareness of ethical working standards and other internal procedures of the Company through the Code.
- Provide distance learning and remote access opportunities as much as possible, in order to promote productivity, reduce unnecessary workload and adjust to new ways of work.

We believe that employees are the most important asset and foundation of our business. Therefore, the wellbeing of our people and provision of safe, healthy, balanced and inclusive work environment has always been vital in conducting successful business operations. Through continuous support to their personal and professional development, we strive to maintain and retain our top talent and maximise their value.

We offer competitive compensation packages and welfare benefits to all of our employees, which are consistent with the Labour Law and other relevant legislation. Our Remuneration and Compensation Policy is designed to attract and retain skilled employees and motivates them to achieve maximum results while supporting high-performance culture which fosters teamwork and collaboration. Our policies relating to parental and other types of paid leave are in full compliance with applicable legislation and regulations including the Labour Law and the Law of Mongolia on Social Insurance. Salary reviews are conducted on an annual basis as part of the performance review and account for the individual's role, performance and prevailing salary trends in the local market.

In 2021, we spent over MNT68 billion in employee salary, remuneration, bonus and benefits. The benefits are offered to all employees irrespective of their position and length of employment with the Company. In total, there are 10-20 different benefits and allowances offered for the employees, which range from performance bonus and incentive schemes to parental and other types of paid leaves and various insurance packages. We also provide all types of one-off allowances in full conformity with the local legislations. Our bonus and incentives plan are tied to the Company's financial performance and individual employee and team performances and is aimed at retaining top performing employees.

We are fully aware of the challenges resulting from the COVID-19 impact on the labour market and employee relations and taking all necessary measures to deal with the pandemic's toll on employees and their livelihoods. As of the end of the reporting period, our staff were fully vaccinated against COVID-19 and about 93% of our total employees were administered third dose or "booster shot" of the COVID-19 vaccine. In 2021, our employees' health insurance package was renewed to include medical services for COVID-19 diagnosis and treatment. As the corporate culture, workplace environment and ways of work are constantly evolving due to the pandemic related effects, we are carefully monitoring the shifts in employee tendencies and aiming to constantly review our overall HR practices and policies.

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

Lack and shortage of skilled professional workers in the local market, especially in the isolated Gobi region with small population, and demand for more specialised skills pose one of the critical challenges for us and there is a growing concern on keeping the employee turnover rate at minimum. Regardless, we take active measures to overcome the challenges, such as to expand our HR eligibility list, update our training policies for the existing employees to better match the lacking skills and cooperate with leading universities and educational facilities.

As of the year ending 2021, we had 1,880 permanent employees, and safely preserved our employment base in the challenging year.

Table 15. MMC workforce

MMC

	2021	2020
Total number of direct and indirect employees	**2,509**	3,987
Total number of direct full-time employees	**1,880**	2,094
Percentage of local (Umnugobi) employees	**40%**	36%

Diversity and Equal Opportunity

Our principle of Equal Opportunity is reflected in the Code and all relevant documents of the Company including Recruitment Policy, Benefits Policy, Training and Development Policy, promotions and compensation scheme and other aspects. We do not tolerate discrimination based on race, gender, nationality, age, religious belief, social origin, political views, union affiliation, pregnancy, disability or any other nature and abide by the Labour Law and all applicable legislations with respect to non-discrimination. Moreover, we strive to engage in good practice efforts that go beyond the mandatory legal requirements. Our internal rules and guidelines clearly reflect the policy to conduct all types of HR activities based on principles of non-discrimination.

Since 2019, we have been implementing a preferential employment program, specifically dedicated to recruiting and retaining persons with disabilities and providing them with flexible work arrangements. We cooperate with the governor's offices of Umnugobi aimag and Tsogttsetsii soum and maintained the number of employees with physical disabilities (73) which comprise about 4% in our total employment. Whilst promoting diversity and equal employment principles within the Company, the program helps in resolving critical social issues in an isolated Gobi region. Going forward, we are aiming to further increase and/or sustain this percentage by expanding the reach of our program.

As part of our efforts to attract and retain skilled employees on a long-term basis, the average age of our total workforce is gradually going up and currently almost half of our direct employees have been with the Company for 5 years or more.

Table 16. Inclusivity

MMC

	2021	2020
Employees aged 30 or below	**27%**	30%
Employees between 30-50 years of age	**67%**	64%
Employees aged 50 or above	**7%**	6%
Female employees in total workforce	**14%**	13%
Female employees in management	**33%**	32%
Female representation in Board	**12%**	12%
People with disabilities in total workforce	**4%**	4%

We follow the principles of equal pay, equal work in all relevant fields of employee relations. Accordingly, we pay equal base salary for all employees in the same work position and under the same establishment or working conditions, and do not tolerate wage discrimination between men and women or local and non-local employees etc. The salary variation is therefore due to formally set criteria, including but not limited to employees' competency, seniority, grade system, workload and level of expertise.

As of 31 December 2021, we had a total of 1,880 employees. The percentage of our local employees were increased from 36% to 40%, which is primarily associated with our policy to promote and increase local hiring as much as possible. Although the small number of population in rural Gobi area and the overall limit of skilled workforce available pose considerable challenges, we strongly enforce our Local employment policy and take supporting measures. These include provision of training and professional courses where necessary and reflection of demographic challenges in our employment and training policies.

In 2021, female employees made up around 14% of our total workforce which is higher than the national industry average of 10% (Source: Mineral Resources and Petroleum Authority of Mongolia). Although the mining industry workforce is still relatively male-dominant and lacks skilled female employees, especially in rural Gobi areas, the Company continues to keep a strong focus on increasing the representation of women in the total workforce through upgraded systems and training programs. We also have specialised job trainings dedicated for newly hired female employees, especially those from isolated rural areas. Accordingly, female labour participation rate at the Company, especially the specialist and managerial positions held by women, have been kept relatively stable over the years at about 30%. In 2021, the percentage of female employees in senior management was at 33%.

Female representation at MMC

Total workforce	Senior management	Total new hires 2021	On-site workforce
14%	**33%**	**14%**	**18%**

Across all sectors and industries, there is a growing tendency that COVID-19 related quarantines and restrictions are amplifying disruptions in employee relations and potentially workplace inequalities. For example, working mothers are pushed for the choice to care for their children at home due to the prolonged quarantines/closures at schools and pre-schools. Accordingly, there was a noticeable decline in the number of female applicants and job seekers over the past couple years. Notwithstanding, we continue to support flexible working conditions and fair employment access for female employees and job seekers and provide training opportunities for them as much as possible.

In addition to free-of-charge housing provisions for our female employees working on roster arrangements, we continue with our four office-day week working arrangements for our female employees with children aged 0-6. While increasing their overall job satisfaction, the new arrangement promotes work-life balance of our female employees and helps maximise their productivity.

All of our female employees are entitled to maternity/parental leave, return to work from the maternity leave and full allowances, as stipulated in the Labour Law. As of the year ending 2021, we had 55 employees on full maternity leave and 180 employees who received parental leave and targeted allowances. According to our internal statistics, in any given year, approximately 30% of total employees on maternity leave return to their work with the Company.

In full accordance with the Law of Mongolia and other relevant legislations, all of our direct and indirect employees are free to be represented by trade unions, work councils and/or similar bodies and get covered by collective bargaining agreements. As a responsible employer, we continuously seek to enhance relations with our employee representative bodies and understand/reflect their concerns to the maximum.

During the reporting period, we recorded no cases of discrimination or labour disputes at our mine sites and offices.

Local employee arrangements during COVID-19 lockdowns

Our strong local presence and extensive local employment base served as a crucial advantage through the COVID-19 lockdown periods in 2021. Due to travel restrictions both locally and internationally, roster arrangements have become mostly unavailable, forcing majority of the peer mining companies to either entirely suspend their operations or transition to a "longer than normal" shift arrangement for their on-site employees.

At MMC, by deploying our resettled employee base in Umnugobi, we were able to facilitate our operations to run entirely by our local-based staff and maintain operational continuity with normal work/rest regimes and minimal interruptions. While our non-local employees were on partial suspensions with full allowances, our resettled local employees in Tsogttsetsii soum were able to continue with their jobs, without having to leave their families or stay in miners' camps.

The arrangements involved around 900 local employees and prevented us from potential risks that could result from inability to change work shifts, including fatigue, health problems, workplace disruptions, drop in employee satisfaction and on-site spreading of COVID-19 infection etc. As one of the major local employers in Tsogttsetsii soum and Umnugobi aimag, the full engagement of our local employee base has also made a realistic contribution to the economies of the local communities during the challenging times.

Employee Turnover

Our employee retention strategy is closely tied to our overall CSR Policy and long-term community development efforts. To keep our employee turnover rate at the minimum possible rate, the Company strictly adheres to sound employment practices in compliance with the Labour Law as well as its own Employee Relocation Policy. Since the vast majority of our total workforce are based in Umnugobi, the policy enables all of our employees working on-site to have access to a housing project and get financial assistance from us where appropriate. Since 2013, when we completed and put into operation an apartment complex in Tsogttsetsii, approximately 1,000 employees have been conveniently relocated to "Tsetsii" town with their families. During the reporting period, 4 employees were provided with new housing arrangements and as part of our Retention Policy, a total of 66 eligible employees were transferred full ownership of their apartments or housing units.

Compared to fly-in/fly-out and roster arrangements, a conveniently resettled employee base provides us with an opportunity to increase our productivity and reduce costs. We pay special attention to the families of resettled employees, providing them with all kinds of direct and indirect assistances and job offers and carry out targeted social development programs. As at the year ending 2021, we have a total of 300 employees hired from the families of resettled employees.

In 2021, we created about 156 new jobs and our employee turnover rate has been stable at around 9%-12% for the last two years. In 2021, the Group-wide employee turnover rate was at 12%. Precisely, at 16%, the turnover rate for female employees was higher than that of male counterparts (11%), which is considered to be linked with COVID-19 related quarantine situations requiring more women to stay home and care for children. By age group, the turnover rate was at lowest (11%) for employees aged 29 or below and highest for the age group of 40-49 (20%). Location wise, the rate was highest for our head office employees (20%), compared to 14% for our on-site employees at UHG and 7% for those at BN and other areas. As a result of our long-term employee retention policies, nearly half of our employees have been with the Company for over 5 years and over 95% of our employees are hired on a permanent basis, signifying our stable employee engagement.

Training and Development

As employees are the most valuable asset in the Company, trainings and skills development are vital to the advances of our business and sustainability as a whole.

We are continuing to invest in the training of mining professionals to build a capable and effective work force in the remote Gobi region. Due to the lack of suitably skilled personnel both at the local and national level, job specific trainings form a big part of our overall training platform. The Company mainly focuses on conducting in-house trainings rather than outsourcing, with an aim to reduce costs and improve operational efficiency.

Additionally, the pandemic related restrictions and lockdowns resulted in a significant increase in online learning methods. Currently, we are using a remote HR access application for engagement with newly hired employees and vast majority of our trainings took place via online platforms in 2021.

Based on individual work performance and assessment on level of skills, training needs matrixes and plans are devised for each employee, to help them have clear prospect on their jobs and potential career opportunities.

In general, we adhere to the following general principles in conducting all kinds of trainings for employees:

- The Training Policy is reviewed at least every 2 years and in the event of any changes in relevant legislation or mandatory training needs;
- Training needs matrix is provided to each operational area to assist the line managers/supervisors in identifying appropriate training needs;
- All newly hired employees must receive a safety induction on the first day of their job;
- All staff must undergo regular and mandatory health and safety training sessions relevant to their job role and work activities;
- Refresher training courses are provided every 6 months;
- All completed trainings are recorded in the training register system and reported in the annual safety report; and
- COVID-19 prevention and work process change related trainings have become mandatory.

We have a dedicated Training unit under our Operational department, and internal and external trainings are generally classified as below:

- Safety inductions and workplace safety related trainings;
- Corporate and management skills training; and
- Vocational training courses (heavy machinery equipment maintenance, heavy machinery operator etc).

Due to the nature and needs of the mining industry, safety inductions and related trainings form a big part of our overall training platform. During the reporting period, over 7,850 people completed general safety inductions and associated safety trainings, while corporate skills trainings and vocational trainings involved 1,817 people respectively. As we operate in the isolated rural region with scarce population and lack of skills, our internal vocational trainings are becoming more and more important in sourcing and building capable workforce from the local communities, especially during the COVID-19 restrictions.

The COVID-19 pandemic and associated restrictions challenged us to review and modify our overall training platform and increasingly focus on internal trainings rather than outsourcing and state mandatory trainings. Moreover, online/distance learning platforms continue to play a big part in effectively carrying out the trainings. With the digital transformation of the overall training methodologies, we have a significant increase both in the number of in-house trainings and the number of trainees. Compared to the previous year, the number of employees enrolled in general skills training was increased over three-fold from 250 to 815.

Our heavy machinery training centre in Tsogttsetsii soum runs regular training courses for the local community members and individuals who wish to work for mining companies. In 2021, due to the COVID-19 restrictions and partial work suspensions, the training centre activities were mostly idle. However, based on the demand from the job seekers, one full training course was conducted with the enrollment of 19 participants. All graduates of our heavy machinery repair and maintenance training course were provided with job opportunities upon successful completion of the courses.

The frequency and coverage of our trainings are also tied to the IMS across our entire operations. We organised a series of specific trainings on the update of our operational procedures and involved all employees of our site-based contractors in addition to our own.

As the mining industry is still male dominant, we pay major attention to offering training and career opportunities to women, especially those in Umnugobi aimag. During the reporting period, the overall number of enrollments in heavy machinery courses dramatically reduced due to COVID-19 quarantines, but we continued to provide refresher trainings for our heavy machinery operators. The percentage of female operator trainees in refresher trainings was 19% in 2021.

Table 17. Female enrollment in vocational trainings

	Number of female trainees	Percentage of female trainees
Operator refresher trainings	271	19%
Operator certification courses	2	5%

To better adjust to the COVID-19 situations, we continued to develop new types of online training programs and distance learning methodologies during the reporting period and training materials were mostly distributed through our internal online platforms and e-training blog spots.

Occupational Health and Safety

Highlights of 2021:

- “0” fatalities and “0” case of occupational disease or related incidents.
- “0” occurrence of LTI, resulting in a LTIFR of 0.0 for the first time since the commencement of our operations.
- ISO/PAS 45005:2020 – “General guidelines for safe working during the COVID-19 pandemic” standards were translated and successfully implemented throughout the Group’s operation. The experience was shared with peer mining companies as well as the relevant authorities of local governing bodies.
- Adoption of ISO 45001 standard with a shift from OHSAS 18001 was successfully carried out to be effective from 2022 and all required preparation works were completed.
- The Group’s operations were periodically reviewed by Umnugobi Province’s Specialized Inspection Agency and was evaluated at “low risk”, with a check list score of 93 out of 100.
- The Group wide Emergency response procedures were updated in accordance with internationally applied standards of National Fire Protection Association (“**NFPA**”).

Management approach

The safety and well-being of our employees, contractors and those who work with us are a top priority for us. Our IMS Policy ensures that we constantly strengthen our company-wide safety communication and remain committed to the principle of “Vision Zero” to our people and host communities as well as minimal adverse impact on the environment.

We remain committed to creating and maintaining culture of “Vision Zero” in which there is no fatality and all incidents are preventable. Identification and assessment of potential hazards, prevention of work-related accidents and occupational illnesses, maintenance of comprehensive risk management and a healthy work environment are all vital in our efforts towards “Vision Zero”.

Our health and safety management systems are designed to provide our employees and contractors the necessary directions to practice safe work behaviours and make each individual accountable for the implementation of IMS and its accompanying elements, rules and procedures. We have a formally approved health, safety and environmental management structure and HR in place to ensure the continual improvement of the safety system according to the requirements of ISO 14001:2015 and ISO 45001:2018 standards we are adopting.

We operate in full compliance with local legislations and applicable international standards including, but not limited to the Occupational Safety and Hygiene Law of Mongolia, State regulations on the prevention of industrial accidents and acute poisoning investigation, and OHSE International Standard ISO 45001:2018. We also have over 60 policies, procedures and guidelines that are followed in the areas of IMS implementation, change management and risk management.

In line with our internal policy, all procedures and guidelines on health and safety must be reviewed in every three years, and urgent updates can be made at any time, where needed. In 2021, a total of 35 procedures were reviewed and updated. Notably, all of our emergency response procedures were updated in accordance with the internationally accepted NFPA standards.

We work to ensure that the safety system is implemented throughout the entire lifecycle of our operations and involves all of our contractors, sub-contractors and suppliers. Currently, over 5,000 people comprising our direct employees and those of our contractors and sub-contractors are covered by this system. Our business units periodically review their management systems against corporate standards and are responsible for integrating sustainability issues into day-to-day operations, project development and decision-making. Specifically, all of our contractors and sub-contractors are required to report on their occupational health and safety performances on a monthly basis, attend our monthly meetings on safety performance and take corrective actions where necessary, to ensure full compliance with our safety management systems and standards. In accordance with our Procedure on Incident Investigation and Reporting, incidents and near misses of our contractors must be included in our safety reports and follow-up actions need to be taken.

Our employees are a part of the local communities in which we operate, and any public health issues confronting the community can potentially affect our workforce as well. As the local health authorities often lack the resources to deal with major public health challenges, we work in close partnerships with the local communities, public health authorities and other stakeholders to improve education on, protection from and prevention of public health risks and widespread diseases. Throughout the reporting period, we have maintained close cooperation with the local health and safety authorities, provided support in relevant areas and fully complied with the COVID-19 related standards and requirements, applied both locally and nationally.

We have a dedicated occupational health, safety and compliance department which consists of occupational health and safety unit, emergency unit, compliance unit and 24/7 stand-by medical and emergency response teams working on-site to ensure that any accidents and emergencies are responded immediately. We also have a system in which volunteer safety officers are assigned in each shift to help coordinate the safety measures within the department units. The emergency response team responds to fire and other emergency calls within the local community as well.

In 2021, we successfully passed another round of periodic surveillance audit by AFNOR Group, an international standardisation and accreditation institution and a member of the International Organization for Standardization, for a successful implementation of IMS which includes ISO 45001:2018 on occupational health and safety management. The audit is a follow-up measure on our IMS implementation and performance, and signifies continuous improvement of our safety management systems and internal compliance since the launch of the IMS in 2018.

All preparation works necessary for adoption of the ISO 45001:2018 and a shift from OHSAS 18001:2007 were completed in the reporting period, and we are expecting a formal start of the system implementation in 2022. Although the approach of ISO 45001:2018 standard is similar to that of ISO 18001:2007 and preceding standards in general, there are some notable differences. While ISO 45001:2018 takes a proactive approach that requires hazard risks to be evaluated and remedied before they cause accidents and injuries, the OHSAS 18001:2007 takes a reactive approach that focuses solely on risks and not solutions. Adoption of a new standard in workplace safety is therefore considered as an important step in further streamlining our risk management and safety system improvement.

Safety performance

In 2021, within all operations under the management of the Group, approximately 5.9 million man-hours were recorded as worked by our employees, contractors and sub-contractors, in which ZERO occurrence of LTI were recorded, resulting in an overall LTIFR of 0.0 per million man-hours worked equivalent being recorded. This signifies a historic milestone, as it was the first annual period we achieved a ZERO LTI safety performance since the commencement of our mining operations.

The below table and corresponding graphs show our occupational health and safety performance in 2021. As a result of the continued improvements in our safety reduction and prevention plan and SMART TL systems for safety, we achieved a significant decrease of 38.4% in our TRIFR and recorded LTIFR of 0.0. These achievements signify the steady level of our safety indicators that are kept below the average of similar mines internationally.

We also recorded no fatality and no case of occupational disease in 2021. Nonetheless, we are committed to decreasing the incident rate as much as possible and further improving our safety statistics.

Figure 4. TRIFR and LTIFR 2019-2021:

Table 18. Safety statistics

	2021	2020	2019
Total man-hours worked (in million)	**5.9**	9.1	9.2
Fatalities	**0**	2	0
Occupational disease	**0**	0	0
TRIFR	**1.01**	1.64	2.64
LTIFR	**0.00**	0.55	0.66
Legal compliance (average)	**97%**	97%	93%

Rescue actions and corresponding corrective actions were performed immediately and on schedule throughout the year. Throughout our entire operations, we reported and remedied a total of 17 situations that may pose risks classified as Class 1 or that could result in fatality or permanent disabling injury.

The Company continued to deliver occupational health and safety specific trainings to employees, contractors, sub-contractors and visitors. During the reporting period, a total of 37 training sessions were organised involving over 7,850 individuals with a total of 46,928 training hours being recorded. In general, our occupational health and safety related trainings are classified as below:

- Safety inductions for all visitors
- General safety trainings for new employees
- Recurrent trainings
- Toolbox trainings
- High risk management trainings.

In 2021, in response to COVID-19 related challenges, our training system and methodologies were broadly updated to reflect the growing demand for distance and online learning. All safety related instructions and guidelines were made available at company-wide networks and new online training blogs and platforms were developed for our employees and those of our contractors.

Risk register and management

We have an Occupational Health and Safety Risk Management Procedure which applies to all of our employees and those of our contractors and sub-contractors. The procedure details all necessary steps required in preventing, registering and handling of potential risks at work, starting from personal and team risk assessments to change management and feedback system. According to the procedure, all employees must actively take part in risk prevention and system improvement processes, and all workplace hazards are reported to immediately.

Workplace risk assessments are carried out in five steps:

1. Workplace hazard notification (fill-out forms and subsequent actions)
2. Stop-Look-Assess-Manage ("**SLAM**") individual checklist register and subsequent actions
3. Team risk assessment before start of a work/task
4. Workplace risk assessment
5. Change management and continuous improvement.

All identified hazards and non-conformities must be investigated in order to discover and eliminate root causes. In 2021, 96% of all non-conformities were corrected through immediate corrective actions and 91% of the reported hazards were eliminated.

We also have an online-based safety program which enables our on-site teams to register and communicate risk and hazard information on a real-time basis.

Within the framework of our IMS and periodic surveillance audits, the update and improvement of safety related procedures continued throughout the reporting period and were subsequently introduced to our employees, contractors and sub-contractors.

As part of the preventive measures against COVID-19, the Company is fully cooperating with the professional and local authorities and strictly following the applicable standards and guidelines. In 2021, we translated and implemented ISO/PAS 45005:2020, “General guidelines for safe working during the Covid-19 pandemic” and the experience was shared with other mining companies as well as the local safety authorities. To ensure COVID-19 free workplaces for our employees, the Group continues to perform regular weekly or biweekly testing by using rapid test kits for all on-site employees, including contractors and sub-contractors, and testing frequency is linked to specific risk profiles. During the reporting period, a total of 44,567 rapid tests were used for regular diagnosis. Additionally, regular PCR testing is performed for our truck drivers deployed for cross-border transportation. By the year ending 2021, nearly all our employees were vaccinated against COVID-19 with two doses of vaccines and 93% were administered a third dose or a “booster shot” of COVID-19 vaccine. Employees’ health insurance coverage was also renewed to include COVID-19 diagnosis and treatment package.

To better deal with the lingering effects of the pandemic, we continue to reinforce our safety risk assessments, contingency measures and special control plans in all applicable areas.

Audit and legal compliance

Workplace occupational hygiene and safety environment inspections were carried out 221 times at various workplace locations in 2021.

Periodic monitoring on workplace occupational hygiene and safety was conducted throughout the year. These include monitoring for thermal and environmental factors, noise, lighting, vibration, general and small particulate airborne dust, level of oxygen and other toxic gases in the atmosphere, excessive noise, whole of body vibration, etc. The monitoring took place a total of 12 times at 13 workplaces across the mine operations and corrective actions were taken subsequently. Also, fire prevention inspections were carried out 432 times at various workplace locations.

In addition to internal checks and audits on legal compliance, our operations are subject to periodic audits and inspections by state agencies and professional bodies.

In 2021, three authorised agencies conducted their periodical review on the Group’s operations:

- The Specialized Inspection Agency of Umnugobi aimag performed its periodic review on our operations, evaluating our risk level at “low”, with a check list score 93 out of 100.
- The National Emergency Management Agency performed a review on fire safety emergency preventive measures of our operations and evaluated the risk level at “low”.
- The National Center of Occupational Health and Safety performed a review on our training operations, with a check list score 100 out of 100.

The inspections covered 154 areas including the mine operations, storage and handling of hazardous and toxic chemicals and safety of transportation etc. Corrective actions and follow-up measures were also investigated and evaluated at 100%.

Environmental Stewardship

Highlights of 2021:

- “0” high-risk environmental incident.
- With the continued optimisation of our water recycling technologies and the operations of the Belt Filter Press (“**BFP**”) facility, the amount of ground water withdrawal was further reduced and the usage of raw water per tonne of processed coal was reduced by 3.5% from previous year.
- As a result of ongoing awareness campaigns and continuous efforts targeted at source separation of waste, the rate of our day-to-day waste handling and recycling has increased by around 36%.
- As part of the biodiversity offset program, the Company rehabilitated 7 hectares of land damaged by illegal gold mining at the Gobi Gurvan Saikhan National Park with its own equipment and manpower.
- In accordance with the Law on Environmental Protection, an external independent audit on environmental management was conducted at our mine sites and the legal compliance of our operations was evaluated as 97.4%.

Management approach

As part of our IMS, we have robust environmental management systems and practices through which we assess and identify potential environmental risks, conduct routine monitoring, and report the performance results to minimise the adverse impact of our operations on the environment. At each and every stage of our operations, we strive to promote the efficient use of resources, the reduction and prevention of pollution and the enhancement of biodiversity protection. As a responsible miner, we strive to meet, and where possible, exceed the regulatory requirements in our environmental performance.

In total, there are over 30 environmental related laws and 200 regulations in force in Mongolia and we are required to work in compliance with all of them. The main applicable laws are the Law on Environmental Protection, the Law on Environmental Impact Assessment and the Minerals Law. In accordance with these legislations, we submit a complete environmental management plan followed by an implementation report to the GoM on an annual basis.

The IMS was adopted in 2018 to ensure further streamlining of our HSE activities and existing systems on environmental protection and management. As part of the IMS, we develop an annual action plan and its implementation is reviewed as planned accordingly. Additionally, internal audit and management review processes are conducted according to the International Standard Environmental Management System ISO 14001:2015. The internal audit is a follow-up measure to ensure continuous implementation and improvement of the IMS and covers all areas associated with the environmental management and control system. In 2021, several environmental related internal procedures were reviewed and updated such as Procedures on Spill response, Procedures on Waste Handling and Procedures on Environmental Aspect and Environmental Monitoring.

We have individual management plans that are devised based on the results of our comprehensive Environmental and Social Impact Assessment. The following environmental management plans are in place to ensure that we are accountable for our environmental footprint: Dust Management Plan, Erosion and Sediment Control Plan, Waste Management Plan, Hazardous Waste Management Plan, Tailings Storage Facility Management Plan, Mining Closure and Reclamation Plan, and Monitoring Plan. The implementation of these plans is reviewed annually against various key performance indicators. Based on the outcomes of the review, corrective actions are taken for continuous improvement.

Environmental Incidents

The main types of potential environmental incidents and risks that can potentially result from our operations are dust exceeding the allowed limits, hydrocarbon spills, improper use and storage of chemical substances and hazardous materials, wildlife deaths, improper disposal of waste and other incidents that negatively impact the environment. All occurrences of environmental incidents are investigated, remedied, monitored and reported by our environment team to prevent recurrence in the future. We have an internal rating scale for incidents based on their severity. 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, fauna injury and others.

In 2021, we recorded no environmental incidents with a risk rating of “high” or above. Four incidents occurred with a risk rating of “low”, which was related with a spillage of oil. Full investigations were carried out strictly in line with applicable internal procedure to identify the root cause of the incident, followed by corrective and preventive actions to prevent re-occurrences.

When evaporated, spilled or mishandled, chemical substances can cause hazards to the safety of employees and the communities, with a possibility of irreversibly altering the soils, streams and ground waters, and thus affecting the environment. To ensure maximum level of prevention against incidents associated with chemical substances and the proper usage and handling of chemicals, a specifically designated chemical storage facility was built at our mine-site in previous year. In 2021, the facility was furnished with additional shelves and cabinets specifically designed for storage of chemicals and their empty containers. Additionally, small scale stations for spillage prevention was put in place at the mine site in order to further ensure readiness against potential incidents that could result in oil spillage.

Biodiversity

According to the botanic-geographical zones, both of our UHG and BN mines belong to the Alashan Gobi desert in the Central Gobi region of the Central Asian geomorphologic zone. The region provides habitat for a diversity of wildlife species, livestock, and a scarce human population.

External large-scale studies found that 121 species of vertebrate animals belonging to three classes of mammals, birds and reptiles are likely to be found within our mine site area. These include 47 mammal species, 64 bird species, and 10 reptiles. The associated field surveys in the area also recorded 126 plant species that belong to 79 genera and 29 families. Out of these, there are 16 species of fauna that can potentially occur in our mining and transportation related areas.

Within the Umnugobi aimag, State Special Protected Areas cover over 3.0 million hectares of total area. These consist of Small Gobi Strictly Protected Areas, Gobi Gurvan Saikhan National Park and Zagyn Us Nature Reserve. The closest one to our operations is Gobi Gurvan Saikhan National Park which was established as a National Park in 1993 for the purpose of conserving the sensitive and unique Gobi ecosystem. The area is located to the west of the UHG mine site over a 100 km in distance.

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

Based on the results of monitoring and assessments, we continue to organise targeted wild animal conservation activities on a regular basis. For example, as part of our biodiversity offset program activities, we place salt marsh and hay at designated places in the Gobi Mountains as an extra food support for hoofed mountain animals in the region every year. In 2021, we placed 300kg salt marsh and 225 bales of hay at designated places in the Gobi Mountains as an extra food support for hoofed mountain animals in the region. Employees of our company participated in this wildlife protection activities on a voluntary basis, which we consider as an important way to raise awareness about the Company's environment protection work internally.

A solar powered well for wild animals equipped with automatic sensors and surveillance camera was placed in the Ikh Mountain area in 2020 and continue to serve as one of our wildlife monitoring tools.

During the reporting period, we carried out a fauna study in Khanginakh and Tugiin tsokhio mountain area in Umnugobi aimag jointly with a specialised third-party company. These and other studies help us observe the species composition, population and movement of the Gobi fauna and enable us to plan our wildlife conservation activities for the coming years. Within the framework of our wildlife protection activities, more than 700 poles supporting the 60 km power line in the Naimant and Naimdai valleys of the water supply system were installed with designated insulators. The insulators are a bird protecting device, specifically designed to prevent birds from getting injured or killed by getting in contact with the power lines. According to our studies, the insulators are far more effective than visual repellent devices that prevent birds from sitting on the poles. In 2021, the insulators were further installed at more than 400 poles, making almost 90% of the power lines of our water supply system completely safe for bird perching.

Land

Securing access to land and managing it responsibly are essential components of our commitment to sustainable development and our ability to maintain social license to operate. Therefore, we support sustainable development of land resources through effective planning and cooperation with respective stakeholders. We want to ensure that in the future, disturbed land becomes available for other uses such as grazing and housing. Our Land Management Plan provides a sound framework for rehabilitation and other land management activities which involve leveling and contouring, reshaping, adding topsoil and land re-vegetating to restore the land for future use. Our policies and activities relating to land management activities are in full compliance with applicable legislation and regulations including the Law of Mongolia on Land and the Law of Mongolia on Subsoil. Specifically, sewage water discharge into land and related aspects are regulated by the Mongolian Law on Water and a national standard MNS 4943:2015. The Company's land management activities fully comply with the above regulations and standards.

Topsoil that will be disturbed by the expansion of mine pit excavation and waste dump is stripped and stored fully in accordance with the Mongolian standard MNS "Stripping and storage of fertile soil during earthworks" MNS 5916:2008. Each topsoil stockpile is numbered and recorded, including the date of stockpiling and soil volume. During the reporting period, 21,238m3 of topsoil was stripped and stockpiled as per above procedures.

Our 2.5 hectares nursery field continues to serve as a good source of our environmental protection and reclamation activities. By continuously nurturing the field, we determine the most suitable trees and plants for re-vegetation in the Gobi region and use for reclamation and other landscaping projects around the project site and the soum centre. We have around 30,000 shrubs, trees and perennial plants of over 20 different endemic and non-endemic species growing in the nursery field. In 2021, approximately 5,500 seedlings were harvested from the nursery field for use in various tree planting, landscaping and gardening projects. Tree planting and collective activities towards development of green areas in Gobi continued to take place. On the National Tree Planting Day, the Company employees planted over 2,050 trees in and around the Tsogttsetsii soum centre and the UHG project mine-site and 625 seedlings were donated to local organisations.

As part of the "Tooroi tree", our project with a long-term vision to conserve endangered and rare tree species native to South Gobi region and restore Gobi lands through Tooroi tree forest, another 1,000 seedlings were planted by its seeds in designated containers. Additionally, 300 Tooroi seedlings which were propagated at our tree nursery were successfully transplanted at our forest belt area in October 2021. Historically, the project is becoming one of the very few attempts to cultivate the endangered Gobi tree in its native habitat and as the propagation work requires special care and attention, the success rate of the planting will only be perceptible in the coming spring.

"Populus diversifolia Schrenk", or more commonly known as Tooroi tree is a very rare, native Gobi plant listed in the Red Data Book of Mongolia. Considered to be the largest tree in the Gobi region, Tooroi is hugely important in the conservation of the Gobi eco system. Unfortunately, due to human-led activities, land degradation and climate change related factors, the population of Tooroi trees has been in decline for the past decades and are threatened with extinction. We started the "Tooroi tree" project in 2019.

In October 2021, Khurelsukh Ukhnaa, the President of Mongolia, initiated the "One Billion Trees" national campaign to increase Mongolia's contribution to the fight against global climate change and urged businesses, state entities, non-governmental organisations ("**NGOs**") and citizens to join the tree planting efforts. The Group joined the initiative with a commitment to plant up to 40 million trees until 2030 at its UHG and BN mine site areas.

Case study – Rehabilitating waste rock dumps for the first time in Mongolian Gobi

In accordance with the feasibility study of UHG mine, we have been carrying out rehabilitation of mine-site waste rock dumps since 2019, fully in compliance with relevant Mongolian standards and appropriate methodologies. In general, the rehabilitation work of external stockpiles is carried out in three main phases: shaping of the tailing's stockpiles, covering of the surface with fertile topsoil and vegetation of the area covered with topsoil. For the latter two phases, we cooperated with professional third-parties specialised in mine-site rehabilitation.

As at the year ending 2021, we had landscaped a total of 32 hectares of land out of which 10 hectares were covered with topsoil and 3 hectares were vegetated. Some highlights of our rehabilitation work include:

- As all rehabilitated areas require stabilisation to protect them against the risk of erosion from wind or water, a 1,276m long stone-lined ditch was constructed to protect the rehabilitated area from surface runoff that could result from heavy rainfall.
- Irrigation system and water tanks were installed in the vegetation area and regular irrigation was carried out on schedule.
- For the vegetation, perennials such as Alfalfa and Onobrychis, as well as local plants such as Allium polyrhizum and Saltworth were selected to maximise and improve soil nutrition. As the works progress, our revegetation practices are expected to evolve over the course of the mine life, for continual improvement.

Rehabilitation of the tailings dump is the first of its kind in the Mongolian Gobi, and despite facing numerous challenges, we are making realistic progresses, with a vision to further improve the quality of land reprofiling as needed.

Water

We are committed to responsible use of water as it is a scarce and highly valuable resource in the arid Gobi region in which we operate. Access to water is critical to our continuity of operations and effective water management is considered an essential factor of our project and operational sustainability. A comprehensive Water Management Plan guides the actions of our management, employees and contractors regarding the use and re-use of water. Specifically, this concerns the effective management of groundwater, taking into consideration its use by local herders. Aspects relating to water management and discharge into water are regulated by the Mongolian Law on Water and a national standard MNS 4943:2015. The Company ensures that all such activities are in full compliance with the stated regulations. We have cooperated with international organisations active in the water management fields and have worked as a member of IFC Mongolia's South Gobi Water and Mining Industry Joint Roundtable project since 2013. Moreover, we signed a Voluntary Code of Practice on Responsible Water Management in 2016, together with some major mining companies that operate in the South Gobi region.

We use a combination of both groundwater and recycled water at the mine sites. As part of our water use and management, we provide filtered drinking water for the local communities, and welcome their participation in our periodic water monitoring activities.

At our operations, water is sourced from groundwater boreholes and stored in two water reservoirs with a total storage volume of 56,000m^3, covered by synthetic membrane to prevent evaporation.

In 2021, the total amount of ground water withdrawal was reduced by approximately 42% to 883 million litres ("**ML**") and around 410ML of water was recovered by our BFP facility for re-use in coal processing. While continuously supplying the CHPP with recycled water, the BFP facility enables us to experiment various options for optimisation of water saving technologies.

Efforts aimed at preventing and reducing potential impacts on groundwater continued in the reporting period. These include:

- With a dry-cooling system specifically designed for the arid Gobi climate, our on-site power plant uses at least twice as less water compared to regular power plants in Mongolia;
- Around 60ML of surface run-off water was collected in a designated pond and was used for various purposes at the mine-site;
- Over 150ML of domestic wastewater was treated out of which 11ML was used for road and tree watering; and 37ML of condensed water from our on-site power plant was used for mine dust suppression and various purposes;
- Monitoring of the water level at herder wells and observation of boreholes around the mine and water extraction areas continued on a monthly basis.

Waste Management

Effective waste management practices are critical in mitigating the mining impacts on the environment and reducing the operational liabilities and long-term risks. Our mine sites operate within the framework of a comprehensive waste management system which involves handling and management of all kinds of day-to-day and industrial waste streams. These activities and related aspects are governed by the Law of Mongolia on Waste, regulations and procedures on disposal and landfill of hazardous wastes and requirements on waste containers and waste disposal sites, approved by the Mongolian Ministry of Environment and Tourism.

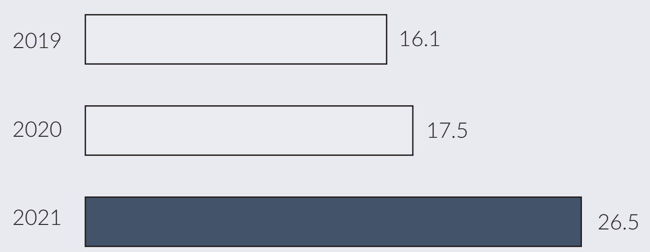
The main purpose of our Waste Management Policy is to minimise the waste generation and ensure safe handling, treatment and disposal of generated wastes. This is achieved through the following steps:

- Waste reduction and avoidance at source;
- Waste segregation applied from the point of generation; and
- Waste recycling, waste re-use, storage, treatment and disposal to international standards.

As the overall waste stream continues to grow globally due to the COVID-19 pandemic, the impact and pressures on the landfills, resources and environment are increasing as well. We are highly aware of the changes spurred by the pandemic and the growing importance of waste recycling and its role in economy, health of our people and environmental protection than ever before. Therefore, despite some partial suspensions of operation in the reporting period, we fostered our relations with waste drop-off centres and intensified activities towards waste segregation at source and awareness raising in related areas. As a result, the percentage of our day-to-day waste recycling was increased by about 36% and the total amount of solid waste generated from the mine site activities was 9,448m3. As a whole, waste recycling takes about 26% in our waste handling.

Employees' habit of waste segregation at source is gradually forming to a full extent, due to ongoing efforts to encourage such habits, which include convenient ways to separate waste and placement of additional trash bins specifically dedicated for COVID-19 prevention items such as disposable masks, gloves and sanitizers etc.

PERCENTAGE OF RECYCLING IN TOTAL WASTE HANDLING



We further aim to achieve waste reduction through measures such as purchase restrictions that ensure the waste generated from suppliers is at minimum or conversion of waste into useful materials. We engage with a small-scale waste recycling facility, where scrap materials are used in making of products such as garbage bins, metal fences, sliding doors, wooden benches, blocks etc. For example, by using 2,040 oil filters derived from our operations, 510 road poles were made and put back into use within our mine-sites and about MNT10 million were saved.

Certain types of waste such as plastic bottle of drinking water is pressed with designated presser equipment and sent to recycling factories.

In 2021, a total of 336m^3 of plastic, 146m3 of plastic bags, 438m3 of carton paper, 78m^3 of HDPE plastic were sent for recycling and 72m^3 of waste iron and 35.5m^3 of wood were sent for storage. Waste treatment and disposals take place at a designated area on-site run by a company specialised in waste handling. In 2021, 4,522m^3 of wastes were landfilled, fully in accordance with applicable standards.

We continued to organise awareness campaigns on waste management for our employees and community members to encourage their active participation in waste recycling and waste segregation at source.

Table 19. Waste disposal

Total waste (m^3)		
Landfill	4,522	47.9%
Recycling	2,508	26.5%
Burn	1,539	16.3%
Storage	879	9.3%
Total	**9,448**	**100%**

The handling and management of non-hazardous waste are conducted fully in line with the requirements set out in the Mongolian Law on Waste, and specific targets and achievements are stipulated in our annual Environmental Management Plan and its performance reports. These plans and its implementation are reviewed and approved by the Mongolian Ministry of Environment and Tourism as required.

Hazardous Waste

We have Hazardous Waste Management Policy which requires us to identify and assess the characteristics and risks associated with all types of hazardous wastes. Accordingly, we implement prevention control measures associated with the transport, storage, use, transfer and disposal of hazardous materials. The percentage of recycled hazardous waste was about 16% in the reporting period, basically the same as of last year.

Table 20. Hazardous and non-hazardous waste at UHG mine site

Waste types	**2021**	2020
Total hazardous waste	**2,434 m^3**	2,964 m^3
Production	**2,449,106 t**	4,719,662 t
Intensity	**0.0009 m^3/t**	0.0006 m^3/t
Total non-hazardous waste	**7,014 m^3**	**6,197 m^3**

Depending on their types, hazardous wastes are delivered back to the suppliers for re-use or appropriate disposal. For instance, printer cartridges are sent back to suppliers for refill and re-use. Collecting and recycling of used oil is crucial in preventing oil contamination to soil and groundwater. In 2021, 279 tonnes of used oil was collected in a designated tank and sent to a recycling facility which produces fuel and other types of raw materials. Waste oil filters, printer toners and accumulators are also stored, handled and re-used in a suitable way.

In total, about 1,540m^3 of hazardous waste were incinerated, 458m^3 were landfilled, 389m^3 of hazardous waste were sent for recycling and 116m^3 were sent for storage in accordance with relevant procedures and applied standards.

As part of the hazardous waste management procedures, a total of 522 used batteries of heavy machinery were delivered back to suppliers and 364 batteries were sent to authorised waste handling companies in the reporting year.

With the COVID-19 pandemic situation, potentially hazardous waste generated by infection prevention purposed were handled strictly in accordance with relevant requirements. The medical waste bins were placed in all required locations and disposal was carried out in accordance with applicable procedures.

Air Quality and Noise

We are aware of the impacts generated by our operations, such as dust, noise and traffic, and we continuously work to mitigate them. There are several sources of noise that are typically associated with our mining operations. They include dump trucks, large earth-moving equipment such as excavators and coal transportation trucks. Blasting activities, which are an essential component of our mine operations, cause ground vibration as well as overpressure, and may occasionally be felt or heard by our closest neighbouring communities. We have Noise Management Plan according to which we identify and evaluate sources of noise and vibration on a regular basis.

For the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the Dust Management Plan of our comprehensive Environmental and Social Management Plan. The measures include:

- Regular control on spontaneous coal combustion in mine-site areas;
- Regular spraying of mine haulage roads with water;
- Application of various technologies in reducing dust generation around the mine haul roads;
- Special fencing of major coal stockpiles;
- Management of vehicle speed etc.

In 2021, two additional Dust separators were installed at the coal feed conveyor of our CHPP and these are fully automated from the plant's control room. The result of the fine particle measurements revealed that dust concentration was reduced by around 50% when the Dust separators were running at the workplace.

Noise levels were continued to be measured at 10 monitoring points in and around the UHG mine site and the results were in full compliance with the national standard. Some of the practical steps we undertake to minimise noise and vibration include:

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

Monitoring and measurement of PM2.5 dust level were carried out at 15 different sites in and around the UHG mine and TKH area. During the reporting period, PM2.5 level measurements were conducted over 100 times against the national MNS 4585:2016 standard, at certain points at UHG mine site, Tsogttsetsii soum and TKH area. The average level of PM2.5 throughout the year stood below the acceptable value of national air quality standard (0.05 mg/m^3) at most of the measuring points.

Climate Change and Emissions

As the global effort against climate change and carbon emissions intensifies, mining companies are working harder on various ways and technologies to mitigate such emissions. In line with our overall Sustainability policy, we are adopting an integrated approach to managing our climate-related risks and use site-based targets to better monitor our performance in the relevant areas.

Currently, we review our emissions regularly and apply strict air quality control standards across our operations in accordance with the regulatory requirements of Mongolia. Stationary source monitoring is regularly conducted for chimney fume of the on-site power plant against the national standard MNS 5919:2008 for maximum acceptable level of air pollutants in the exhaust gases. Other types of air emissions such as sulphur dioxide and nitrogen dioxide in ambient air are regularly measured by an authorised laboratory against the national air quality standard MNS 4585:2016, while measurements of gases such as sulphur dioxide, nitrogen dioxide and carbon monoxide at the UHG power plant are performed against the national air quality standard MNS 5919:2008.

To prevent air pollution from self-combustion of coal stockpiles, we are conducting daily control on stockpile management according to our internal procedures and applying cooling and separation to the heated parts of the coal stockpiles where required.

The measured emission of air pollutant gases was reduced from previous year and is below the acceptable levels.

Table 21. Emissions

Emissions	**2021**	2020
NOx	**50.1t**	145.5t
Sox	**0.7t**	1.1t
PM	**4.6t**	10.6t

Direct measurement of the greenhouse gases ("**GHGs**") at the emission source can give the most accurate and precise assessment of GHG emissions. This is typically not feasible at the mine site due to several reasons such as the amount of costs involved, the level of disruption to production and large number of trucks and plant equipment involved. Emission factors remove the need for site specific testing of emissions. The factors are expressed as the amount of GHG emissions per unit of activity and can be used to determine inventories for the site.

To better control and manage our carbon footprint, we have scaled up our emission measurement to include all three scopes of GHG emissions since 2019. Within the Scope 3 emission, we measured emissions derived from our purchased goods, upstream transportation, waste generation, employee commuting and upstream leased assets. The improved measurement provides us with a better view of the processes that lead to emissions, enabling us to track, monitor and reduce the emissions in a systematic way. In 2021, our operation's overall GHG performance intensity increased from 0.083t to 0.108t CO2-e/t ROM, while the total amount of GHG emissions was notably reduced by about 32%.

The GHG emission intensity is directly proportionate to the amount of processed coal products in a given year. Despite partial suspensions of CHPP operations and a decrease in the amount of processed coal, mining earthworks and UHG power plant continued normal operations. Therefore, the increase in the intensity of GHG emissions in the reporting period is directly attributable to our production level which was decreased by about 48 percent compared to the previous year.

Table 22. GHG emissions

Total GHG emissions	**2021**	2020
GHG/CO_2-e/t/	**266,647t**	390,162t
Scope 1	**179,496t**	257,751t
Scope 2 (location based)	**80,613t**	91,758t
Scope 3	**6,538t**	40,653t
Production	**2,449,000t**	4,719,662t
Intensity	**0.108 t CO_2-e/t**	0.083 t CO_2-e/t

Additionally, as part of the efforts to offset GHG emissions, we have been planting trees in and around the UHG mine site since the commencement of mining operations in 2009, with over 110,500 trees successfully grown in total. The amount of GHG removals from tree planting in Gobi region was about 1% of our total emissions resulted from the operations. Although GHG removals amount is not substantial at this point, we expect that tree planting and cultivation of forest belt at its natural habitat will increasingly contribute to the fight against desertification and climate change related impacts in the arid Gobi region in the long run.

We also maintain special operational regime of the power plant to prevent high emission of pollutant gases.

Use of Resources – Water and Energy Saving

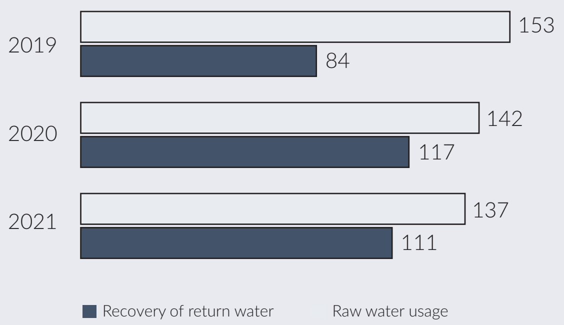
We recognise that the efficient and responsible use of natural resources is critical to the sustainability of our environment and we will continue to focus on reducing our energy and water consumption. Efficient and responsible use of resources including water, energy and raw materials are guided by the Minerals Law, the Energy Law of Mongolia, the Energy Conservation Law of Mongolia, the Law on Renewable Energy and the Law on Water. Accordingly, the Company has adopted IMS Policy designed to ensure efficient use of energy and natural resources. We also have a Water Resources Management Plan that ensures efficient use of water resources and prevention of water pollution. In line with the Energy Conservation Law of Mongolia adopted in 2015, we have a system in place to manage our efforts on energy efficiency.

As one of the very few Mongolian companies engaged in coal processing, MMC has achieved an optimal utilisation of coal reserves, resulting in comprehensive mining efficiency as well as savings on transportation turnover and associated energy consumption. In 2021, the Company produced 1.8 Mt of washed coal products at primary yields of about 50%. By incorporating various seams into ROM coal feed, we ensure at least 50% saving of natural coal reserves every year compared to raw coal production. Moreover, by introducing systematic production efficiency in coal production and processing, we aim to ensure a gradual increase of energy savings at all applicable fields of our operation.

We use a combination of both groundwater and recycled water for our operations and aim to ensure optimal water efficiency through water saving technologies. To control and monitor water consumption, as well as the amount of extracted water, consumed water and treated wastewater, we use integrated telemetry control system with real time data collection. Furthermore, the dry cooling system of the UHG power plant ensures no water evaporation due to condensation re-use and as a result, the water usage of the power plant is at least twice as less than other power plants with the same capacity. The Company is also increasing the capacity and efficiency of the BFP facility at the CHPP in certain stages, resulting in reduction of water usage per tonne of processed coal product.

Accordingly, the water usage per unit of processed coal reached its historic low level in 2021. Precisely, the usage/withdrawal of raw ground water has reached 137 L/ROM tonne, further 3.5% decrease from the previous year.

The Group's CHPP water usage (L/ROM tonne) 2019-2021:



Several new initiatives were planned for 2021 in accordance with the Company's internal energy reduction plan but most of them were temporarily delayed due to the pandemic situation. Our UHG power plant and CHPP have annual action plans that support gradual improvement of energy efficiency. We also continue to enforce practical steps and technical adjustments for energy efficiency at all levels of our site operations. For instance, the introduction of energy efficient technology in the lighting of the UHG water supply system and the power plant saved 21,094kW of energy in 2021 and reduced carbon emissions by about 16.7 tonnes.

Environmental Monitoring

Environmental monitoring activities play an important role in our proactive approach towards environmental sustainability. It also serves as a tool for us in creating an effective dialogue with the host communities on our performance in environmental management area. Periodic monitoring and measuring of the environmental impact of our activities are conducted at around 115 specific points within the project impact area to ensure that they are within the nationally accepted levels. Our monitoring activities include biodiversity studies and the monitoring of dust emissions, noise levels, air pollution, soil erosion, groundwater pollution and shallow water pollution. Our Environmental Monitoring Plans are approved by the national environmental authorities every year and monitoring activities are conducted on a monthly, quarterly and annual basis depending on their types. The sampling and measurements are performed in compliance with the national environmental standards, using the latest equipment and measurement devices. Samples are tested at accredited national and international laboratories.

In 2021, air samples were taken from 5 locations near the mine and soum centre and were tested for microelements by a laboratory in Australia, to confirm our monitoring indicators, and the results were within the national accepted levels.

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

In order to ensure transparency of the Company's environmental activities, the results of environmental monitoring are presented to local stakeholders every year. Air quality monitoring is conducted throughout the project area on a monthly basis, while dust concentration measurement is carried out on a daily basis. Although public gathering/events were mostly unavailable due to the pandemic related restrictions in 2021, we continued to communicate the results of our measurement and monitoring activities to our host communities via bulletins, CSR reports and social media accounts.

Environmental Protection Awareness

We organise voluntary environmental protection activities and awareness campaigns for our employees and local citizens on a regular basis. A dedicated training and development unit delivers comprehensive training to our employees on MMC's OHSE policies, procedures and emergency prevention and response measures. The trainings also cover environmental protection topics such as effective waste management, spill control, water and energy consumption.

Besides general induction, thematic trainings are organised to provide additional information on environmental protection for specific tasks such as topsoil stripping for dozer operators, and storage and handling of cleansing and disinfecting agents for cleaners. During the reporting period, safety and environmental induction trainings were organised for a total of 7,720 man-hours.

In response to COVID-19 challenges and uncertainties, our training platforms were broadly updated and involved distance/online training methods as much as possible. Nonetheless, we aimed to continue with our community engagements with regards to waste management and awareness campaigns. Awareness activities on waste management were successfully carried out throughout the reporting period. For example, the "Green Voice" campaign was organised in May 2021 to promote legal awareness of employees on the prevention of environmental crimes and violations.

With an aim to enhance emergency preparedness and conduct on-site check of the level of employees' preparedness for potential emergencies, a practical training on spillage was organised at the Company's fuel depot and follow-up recommendations were presented to relevant parties.

Online training on chemical substance handling and management was also organised involving 63 employees at the mine-site. The training covered topics related to chemical hazards, the Mongolian laws and regulations related to chemicals handling, potential risks caused by chemicals used for industrial purposes, and prevention control.

External Audit

The Company's environmental performances at the UHG and BN mines are subject to periodic review by state professional authorities to ensure that our activities in applicable fields were in full compliance with national standards and relevant legislation.

In line with the Group's Incident Investigation and Reporting Procedures, no "high risk" environmental incident was recorded at our mine-sites in the reporting period, and our overall environmental compliance level was evaluated at 90% and higher.

In 2021, the Company was not audited by a state organisation on compliance of environmental legislation. However, in accordance with the Mongolian Law on Environmental Protection, an external independent audit on environmental management was conducted at our mine sites in November 2021. Based on the documentation review and site inspections, the performance result and legal compliance of our operations were evaluated at 97.4%. Nonetheless, the Environmental team of the Company is working on the follow-up recommendations of the audit to further improve its operations.

As per the applicable national legislations, our annual Environmental Management Plan was approved by the Mongolian Ministry of Environment and Tourism and its performance was evaluated by Umnugobi aimag Environmental Agency at 92%. The recommendations of the evaluation and follow-up activities are included in our Environmental Management Plan for 2022, accordingly.

Case study – Rehabilitation of disturbed land at Gobi National Park

The GoM has been taking several measures within the scope of its "Land reclamation 2024" program and 2020-2024 action plan, which included restoration of over 8,000 hectares of land damaged by illegal mining related activities in various parts of the country.

In support of this initiative and as part of our biodiversity offset program, the Company rehabilitated 7 hectares of land damaged by illegal artisanal gold mining activities at the Gobi Gurvan Saikhan National Park, with its own equipment and manpower. The Gobi Gurvan Saikhan National park is the second largest special protected area in Mongolia and has the richest wildlife species in the Gobi region. Land surface and soil reclamation is therefore hugely important in restoring the habitat of wildlife in Gobi. The Umnugobi aimag's Department of Environment and Tourism has highly evaluated the quality of our reclamation work, siting the importance of its contribution to the maintenance of Gobi eco system.

SOCIETY

Highlights of 2021:

- No significant community event or inquiry associated with our operations.
- Due to travel restrictions and lockdowns, the continuity of operations was maintained by deploying our site-based local workforce, contributing to the community employment stability during the challenging economic times.
- Despite pandemic related restrictions, most of our community targeted programs and initiatives continued with minimal interruptions. Notably, our long-term based Local education support program continued to benefit students of the local secondary school with free access to online math programs. "Good neighbour" program was also continued, ensuring direct engagement with our host communities.
- With a broader vision to promote communities through the pandemic and associated impacts, the scope of our local small and medium enterprise support project was expanded by involving potential participants from two neighbouring soums in Umnugobi in addition to Tsogttsetsii soum.
- To help combat the COVID-19 pandemic, active engagement with local authorities and the soum emergency committee continued through all possible means, including but not limited to donation of necessary supplies such as disinfecting products, personal protective equipment and disposable rapid tests etc.

Management Approach

As one of the largest private sector companies of Mongolia and one of the largest local employers, MMC is proud of the contributions it makes to the host communities as well as the country's socio-economic development. While respecting local cultures and minimising the impact of our operations, we strive to build quality relationships with our host communities and create lasting benefits. Despite the challenges and uncertainties associated with COVID-19 pandemic, we were able to maintain the reach and scope of our community targeted programs and continued active engagement with the host communities in the reporting period.

Involving various stakeholders, our operations bring substantial positive impact to the society and our host communities, while having a potential to raise concerns associated with our mining and related activities. Therefore, monitoring of societal expectations and effective and transparent engagement with multi stakeholders are crucial in maintaining our social license in the long run. Our social and community related investments are based on comprehensive socio-economic baseline studies and are aimed at bringing long-term benefits to our host communities and the society as a whole.

In conducting CSR and community engagement activities, we follow the ISO 26000:2010 voluntary guidance on Social responsibility in addition to the local standards and legislations, such as the relevant sections of the Minerals Law of Mongolia. We also follow applicable recommendations of international bodies such as the United Nations, IFC and requirements of some other international banking and finance institutions.

Our Sustainability and CSR policies guide our activities in the area of sustainability and require us to carry out risk assessments to determine both the positive and negative impacts of our operations to the community. Based on the findings of the assessments, we develop individual plans to mitigate any adverse impacts associated with our activities, and at the same time, initiate programs and investments that support positive impacts to the sustainable development of the region. Since the commencement of our mining operations in 2009, we have implemented about 50 independent projects and programs in the area of community development. Most of the programs are long-term based and are still ongoing. The following and other documents guide our community related activities. They are regularly reviewed and updated to reflect concerns and expectations of the host communities as well as the findings and updates of socio-economic baseline studies:

- Stakeholder Engagement Plan;
- Community Health and Safety Management Plan;
- Community Grievance Policy;
- Donation and Sponsorship Policy;
- Public Consultation and Disclosure Plan;

Through our community investments, we seek to deliver long-term sustainable outcomes for the communities where we operate and empower the local people to develop independently of the Company operations when our mining activities cease. Therefore, long-term sustainability projects are preferred over one-off grants and donations or short-term activities.

Procurement from local Umnugobi businesses
MNT4.8 billion
(2020: MNT3.7 billion)

Community investment
MNT9.5 billion
(2020: MNT8.5 billion)

We have a long-term Community Development and Cooperation agreement signed with the Umnugobi aimag Governor's office that provides a mechanism through which the benefits of our community investments reach the broader communities and are based on mutual discussion and understandings. According to the terms of the agreement, the performance of our community related cooperation activities are to be reviewed every 4 years and suggestions for improvements can be reflected where necessary. The focal areas of the agreement include but not limited to environmental protection, infrastructure development, employment/job creation and support for sustainable development of the communities. Accordingly, we submit annual report on the performance of the agreement and discuss ways for improvement.

Community Engagement

We believe that through mutual trust, respect and well-established communication with host communities we can address social and environmental impacts and minimise adverse effects. Thus, we aim to foster robust relationships and build trust with the local community members, local authorities and other stakeholders, which is vital for successful business operations and sustainable development.

Tsogttsetsii soum of Umnugobi aimag, where our main operations take place, is a small administrative unit home to about 8,200 official residents and "mobile" populations of over 17,000. Although several mining companies operate in the soum, herder families still constitute roughly 20% of the officially registered households in Tsogttsetsii and live outside of the soum centre. Compared to the 2000s, where it had just over 2,000 residents, the soum has experienced substantial development in terms of communications, business, services and overall basic infrastructure, and currently records nearly "0" rate of unemployment. With the UHG project development, the Company has carried out a number of social infrastructure and large-scale community development projects in Tsogttsetsii, hence associated social facilities benefit majority of the soum residents.

In order to facilitate our ongoing efforts and community relations, MMC has strived to develop effective ways to engage the stakeholders and pioneered the first public consultation and discussion event in Umnugobi. Although the currently effective legislations in Mongolia do not require mining companies to organise public consultation events, we exceeded the legal requirements and have organised the event on a regular basis since 2009. The events serve as a bridge between the Company and the local community members including herders that live in the mine impact area.

We encourage and facilitate open, transparent and two-way communications with the communities and in accordance with our Stakeholder engagement plan, the Company updates and reports on community related activities are locally communicated on a timely basis.

Our overall consultation and engagement platform with communities occur in many forms, including but not limited to:

- Regular communications of our dedicated community engagement staff with herder households and community members in the mine impact area;
- Regular meetings and information exchange with the local administration;
- Monthly or quarterly meetings with Community Development Advisory Councils to provide a better platform for dialogue between the Company and the local communities;
- Public consultation and disclosure activities ("Open ger" events);
- Operation of Local information centre;
- Independent grievance mechanism;
- Annual reports and CSR reports;
- News updates and bulletins; and
- Social media pages of the Company.

At MMC, we are proud that numerous external monitoring and evaluations performed by both international and local experts identified our community engagement practice as one of our strongest assets in the UHG project. MMC continued its active engagement with the local administration in the reporting period and provided updates on the Company operations on a regular basis through reports, bulletins, news updates and meetings etc.

Our Community Development Advisory Council meetings take place to directly address and discuss community concerns associated with our activities. During the COVID-19 social distancing and strict quarantines, the monthly Council meetings were held mostly via online format.

Our community relations officers also had quarterly engagement with the local stakeholders through phone calls and online meetings.

Grievance Management

Our operations are required to have formal processes to accept, assess and resolve community concerns, complaints and grievances about the Company performance, activities or the behaviour of our people. As part of the resolution process, all complaints and grievances are required to be acknowledged, documented and investigated internally. We receive grievances via the internet, telephone, through face-to-face interviews and in writing. Upon receiving complaints and grievances, appropriate actions are taken and the complainants are advised of the outcome. In line with the grievance handling mechanism, we respond to all complaints within 30 days of submission, and more quickly in urgent cases. All complaints are treated in a confidential manner, and in all cases, grievances are addressed without prejudice. All resolutions of community complaints and grievances are openly reported to the public, and cases of major or serious complaints or inquiries, if any, must be reported to the Board's ESG committee.

Stakeholder grievances and concerns, especially those from our host community members, provide us with a valuable insight to improve our existing ways of engagement and proactively address potential risks of operations. As a result of our effective community engagement activities, we received no significant complaint or inquiry associated with our operations since 2016.

In 2021, we recorded and processed a total of 24 requests and concerns from the local communities via our grievance mechanism. All of the requests were related to financial or material support, donations and employment opportunities, with no inquiries or complaints. To our understanding, the decrease in submittal of requests and concerns were mostly due to the COVID-19 lockdowns and overall economic and social activities of the soum being idle in general for the majority of the reporting period. All requests were handled and responded to within the deadline stated in our Grievance Procedure.

Community Investment

Through community investment, we strive to create opportunities for "shared value" – an outcome that benefits both the Company and the host community. Our contributions range from improving local infrastructure, access to quality education and creation of training and employment opportunities to local workforce to capacity building of local SMEs. Preferential local procurement, implementation of community targeted programs, such as Sustainable Livelihood Support Program, "Good neighbour" program, or Community Health Support programs aim to bring sustainable positive impact to the local communities including herdsmen. In 2021, we steadily maintained the scope of our community investment and spent about MNT9.5 billion on community investment and related activities.

Table 23. Community investment (MNT)

	2021	2020
Local procurement	**4,800,000,000**	3,700,000,000
Local infrastructure development	**3,153,200,000**	2,711,985,000
Grants and donations	**1,318,293,000**	1,748,980,000
Community development programs	**194,450,000**	316,500,000

Community Development Programs

Based on the needs of the local communities identified through consultation and our socio-economic baseline studies, we design and prioritise our community development programs. We implement wide range of programs in the areas of education, health and well-being, cultural heritage preservation and local business development to build strong and sustainable communities. All of them are intended to mitigate any adverse impacts associated with our mining activities and at the same time support any positive impact to contribute to the development of the region in the long run.

Sustainable Livelihood Support Program

The Company has implemented a Sustainable Livelihood Support Program since 2012 that focuses on providing micro-financial support to the local start-ups and SMEs. As part of our Sustainable Development Policy, we believe that supporting local start-ups and SMEs will create new economic opportunities for the local communities. We are expanding the outreach of the program in certain stages and involve families of our resettled employees as well. In 2021, we further expanded the program scope to involve herdsmen and small business owners in two other soums of Umnugobi province, namely Khankhongor and Tsogt-Ovoo.

During the reporting period, 9 new applicants, including 4 people from Tsogt-Ovoo soum received an interest-free micro loan through the project partner XacBank, making the total number of beneficiaries to about 70. Some of the SMEs are further supported through procurement of their services and goods by the Company and are enrolled in start-up business and project development training courses organised by our local partner NGO Amjiltiin Tomiyo.

Local Education Support Program

As part of our efforts to improve the quality of education at local level, we partnered with Umnugobi aimag Governor's office and built a modern school, kindergarten and dorm facility in Tsogttsetsii soum in 2013. Although the school is officially transferred to state administration and operates as a public school and kindergarten for over 1,500 children as of now, we continue to provide technical support to the school and implement long-term capacity building programs targeted for its teachers and students. In 2018, the scope of our program was further expanded to include both secondary schools in Tsogttsetsii soum, raising the number of the program beneficiaries to over 2,000.

Within the scope of the program, math and English certified instructors provide workshops and trainings to local teachers on a regular basis. Additionally, as part of the program, resources were made available to attract experienced math teachers to the school. In the reporting period, due to COVID-19 related restrictions, we further increased the capacity of our online math program to involve as many children as possible during the school quarantines.

Forest Belt Project in Gobi

To support the vegetable gardening initiatives of the local community members and assist them in generating an additional source of income in water scarce Gobi region, we started Forest belt project in 2011. Over the past 10 years, the project area within the Forest belt was successfully expanded from 15 to 23 hectares, has over 15,000 trees with a growth success rate of over 85% and serves as an offset against desertification. In addition to properly managing the land and irrigation system, the Company organises professional training programs on vegetable growing and provides the community members with seeds and supplies. By facilitating direct engagement with the community members, we are having a continual increase in the number of participants each year. In 2021, over 70 households and 2 entities from Tsogttsetsii soum grew over 20 types of vegetables in the area. The program participants have also formed a communal group "Harvest" to join their efforts on sales and storage of their products.

"Good Neighbour" Program

Within the framework of our long-term based "Good Neighbour" program, we organise community events and provide various types of in-kind assistance to the communities. The following were carried out in 2021:

- In addition to our operations, we continue to provide Tsogttsetsii soum where we operate with 24-hour electricity and filtered drinking water;
- Approximately 20,000 tonnes of thermal coal was provided free-of-charge to Dalanzadgad soum power plant and 11 soums of Umnugobi aimag during the winter heating months;
- Free-of-charge hay and fodder support is provided to Tsogttsetsii soum and other neighbouring soums every year. In 2021, 425 herders of the nearby communities as well as winter reserve funds of Nomgon, Khanbogd, Bayan-Ovoo, Khankhongor and Tsogt-Ovoo soums were provided with over 5,000 bales of hay and 45 tonnes of fodder;
- In the fight against COVID-19 pandemic, necessary supplies such as disinfecting products, personal protective equipment and disposable rapid tests were donated to the local authority and Tsogttsetsii soum emergency committee;
- As part of the Lunar New Year celebrations, our community relations team paid respect to over 220 elders of the Tsogttsetsii soum and neighbouring communities.

Case study - Sustainable Livelihood Support Program outreach

In 2021, the scope of our Sustainable Livelihood Support Program was expanded to include participants from two other soums of Umnugobi aimag, in addition to Tsogttsetsii soum where we operate. Through our project partner XacBank in Tsogttsetsii, we provide interest-free loans to small business owners or local start-ups and support their business initiatives.

As an initial step of the program reach, we organise small meetings at target communities, deliver information on how to apply to the program and listen to suggestions from local business entities. Potential applicants are then encouraged to write up a short business proposal and are enrolled in our short-term trainings on small business management and account running.

Nine new applicants including four businesses from a newly enrolled Tsogt-Ovoo soum were accepted to our program in 2021. Bat-Ochir Kh., a silversmith from Tsogttsetsii is one of them. He has been designing and crafting jewels, souvenirs and household items with silver, precious and semi-precious stones for almost 10 years. After successfully completing our initial training on SME, he got an interest-free loan from the program for purchase of professional tools and equipment for his silversmithing studio, needed in advancing his business. As most of the local small business owners do not meet the formal loan requirements of the banks, our program has proven to be increasingly helpful to the local communities and provided support to about 70 small businesses over the past years.

Socio-Economic Contribution

We create substantial economic value for our communities and the country as a whole, through employment, taxes and royalties, as well as purchase of local goods and services, infrastructure development and voluntary social and community projects.

Despite the COVID-19 related challenges and overall economic setbacks, we maintained our position as one of the largest taxpayers of the country, and fully retained jobs of our employees. Over the course of the reporting period, we purchased goods and services worth of MNT4.8 billion from the local Umnugobi communities, provided wages and local employee benefits in excess of MNT68 billion, paid taxes and fees of approximately MNT132 billion and maintained the ongoing continuity of our community development programs. Since the commencement of our mining operation in 2009, the Company has paid about MNT1.4 trillion in taxes and fees, a significant contribution to the country's economy.

Maintaining our status as one of the largest local employers, we continued our efforts to retain our employees and hired and trained local people where possible during the reporting period. As at the year ending 2021, MMC employed 1,880 direct employees, about 40% of whom were locally hired. In general, approximately 3,000 people are provided with direct or indirect employment through our major contractors and sub-contractors within the scope of the UHG and BN projects.

In addition to being one of the major employers and tax contributors of Mongolia, we remain committed to continue our cooperation with the local authorities, communities and other stakeholders and play our part in improving local health access, quality education, employment and living standards.

On top of the long-term community development programs, the Company continued with its involvement in some large-scale social projects in 2021, aimed at bringing substantial socio-economic benefits at a broader level.

Long-term Support for 3x3 Basketball Teams

With its versatility and fun-themed nature, 3x3 basketball is gaining major popularity in Mongolia, attracting large number of players and spectators from around the country. As the outreach and necessity grow, MMC launched a long-term collaboration program with the 3x3 basketball national teams, providing them with the resources and opportunities to enhance their practices and trainings, build teams and compete nationally and internationally. The program will also help aspiring young athletes make their way to the professional teams and start their career in team sports. Energy 3x3 club which we officially formed in 2020 currently supports over 30 athletes in six (four male teams and two female teams) professional teams, providing them with access to professional guidance, facilities, equipment and an opportunity to compete at high-rank 3x3 tournaments internationally. In the reporting period, our club teams successfully competed at 5 international tournaments and a series of national level tournaments.

Efforts Against Air Pollution

Due to harsh winter season and prevalent use of raw thermal coal for heating, air quality in Mongolia has become a critical issue, especially in the capital city Ulaanbaatar and rural provincial centres. As part of its measures to intensify the fight against air pollution in winter heating months, the GoM imposed a ban on the burning of raw coal in Ulaanbaatar and introduced a usage of refined smokeless fuel/briquette starting from 2019. Within the framework of this project, the Company continues to provide washed thermal coal free-of-charge to TTT, a state-owned company in charge of manufacturing and distributing briquettes to the residents of Ulaanbaatar. During the reporting period, we provided over 600 kt of washed thermal coal worth over MNT20 billion. By the GoM Resolution in 2021, the Group was exempted from air pollution fee. This exemption is to remain effective for the duration of period the free-of-charge supply is continued, for provision of 70% of more percentage of the total coal used for manufacturing of smokeless fuel.

Procurement

We aim to maximise our economic contribution to both the country's economy and the communities in which we operate. While ensuring accountable and responsible business conducts in our procurement practices, we encourage and develop local partnership at every level of our operation and give priority to local businesses from Mongolia and Umnugobi aimag.

We follow ethical business practices in our purchasing and supply management and require our suppliers to adhere to our social and business procedures at every level of operations. In addition to following the guiding principles of the United Nations Convention on Contracts for the International Sale of Goods, Incoterms by ICC, and the Civil Law of Mongolia, we have over 10 policies and procedures that guide our overall procurement practices and activities. The main ones are the Procurement Policy, Procurement Procedure, Procurement Committee Procedure, Inbound Logistics Procedure, Procurement Contract Management Procedure among others. These documents regulate all kinds of client-supplier relations and related aspects, including but not limited to, proper determination of the needs and requirements for execution of the contract works and services, hazard identification and risk assessment, ethical business conduct as well as monitoring of work performance.

Accordingly, our suppliers are required to acknowledge our Code of Conduct and strictly follow safety, environment and quality related standards such as OHSAS 18001:2007 International standards on Occupational health and safety. The requirements are stipulated in all of the agreements executed between the Company and suppliers, and regular audits are carried out to ensure that the suppliers' practices are aligned with our policies and procedures. We have a specific internal procedure on control and monitoring of the HSE practices of our contractors and suppliers, through which they are required to adhere to environmentally friendly practices in their production and supply operations. Entities who do not meet the criteria set out in our procedures, or those who have unethical or environmentally harmful practices are therefore not allowed to be selected as our partners or suppliers.

During the reporting period, MMC cooperated with over 430 suppliers and service providers of which about over 80% were businesses in Mongolia, with the total procurement amount reaching MNT629 billion. In 2021, we sourced products and services from about 20 local businesses in Umnugobi aimag and the procurement amount totalled approximately MNT4.8 billion. By a geographic breakdown, the vast majority of the foreign suppliers were Chinese (94%), followed by Australian entities at 3% and the rest (USA, Korea and Japan). SMEs and local start-up businesses are also supported through the Company's Sustainable Livelihood Support Program.

Awards and Accolades

Despite the pandemic related challenges and overall economic setbacks, the Company maintained its position as one the country's top taxpayers and employers and was acknowledged for the efforts to sustain its socio-economic contribution.

The GoM Award – TOP 5 Enterprises of Mongolia

Based on our performance, MMC was included in the TOP 5 enterprises list of Mongolia by the GoM and the Mongolian National Chamber of Commerce and Industry for the 10th consecutive year. The annual selection is based on companies' socio-economic contribution, financial results and the scope and accountability of CSR activities.

Appreciation – State General Taxation Office of Mongolia

The State General Taxation Office of Mongolia named the Top taxpayers of the country and formally expressed gratitude for their sizable contribution to the state budget amidst the challenging economic times. The Company was listed as one of the Top 5 Taxpayers which were noted for their excellent performance of the public duty through timely filing and payment of taxes.

VIII.
CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2021.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and strengthen its transparency and accountability.

In December 2021, the Stock Exchange has announced amendments to the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules. The requirements under the new CG Code will apply to corporate governance reports of listed issuers for financial year commencing on or after 1 January 2022. The Company has adopted the principles of code provisions contained in Appendix 14 of the Listing Rules as basis of the Company's corporate governance practices.

In the opinion of the Directors, throughout the year ended 31 December 2021, the Company has complied with all the code provisions as set out in the CG Code applicable for the financial year under review (the "**then CG Code**"), except for code provisions C.5.1 (code provision A.1.1 of the then CG Code) and F.2.2 (code provision E.1.2 of the then CG Code) which states that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and the Chairman of the Board should attend the annual general meeting ("**AGM**") of the Company. The relevant details of which are discussed under "Board and Board Committee Meetings and Attendance Records of Directors" and "Communication with Shareholders and Investor Relations" below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

The Company has also established written guidelines (the "**Employees Written Guidelines**") of no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was recorded by the Company for the year ended 31 December 2021.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director and whether the Director is allocating sufficient time to perform his/her duties effectively to the Company.

Mr. Enkhtuvshin Dashtseren resigned as a non-executive Director and ceased to be a member of the Environmental, Social and Governance Committee with effect from 1 January 2022. Mr. Myagmarjav Ganbyamba was appointed as a non-executive Director and a member of the Environmental, Social and Governance Committee with effect from 1 January 2022.

The Board is currently comprised of eight Directors, consisting of two executive Directors, three non-executive Directors and three independent non-executive Directors.

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

NON-EXECUTIVE DIRECTORS:
Mr. Od Jambaljamts, *member of the Environmental, Social and Governance Committee*
Ms. Enkhtuvshin Gombo, *member of the Audit Committee*
Mr. Myagmarjav Ganbyamba, *member of the Environmental, Social and Governance Committee*

INDEPENDENT NON-EXECUTIVE DIRECTORS:
Dr. Khashchuluun Chuluundorj, *Chairman of the Remuneration Committee and member of the Audit Committee, the Environmental, Social and Governance Committee and the Nomination Committee*
Mr. Unenbat Jigjid, *Chairman of the Environmental, Social and Governance Committee and member of the Audit Committee, the Nomination Committee and the Remuneration Committee*
Mr. Chan Tze Ching, Ignatius, *Chairman of the Audit Committee and member of the Environmental, Social and Governance Committee*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 9 of the annual report for the year ended 31 December 2021 and there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between the Board save as disclosed therein.

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

During the year ended 31 December 2021, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing the adequate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then-current term.

All the Directors of the Company are subject to retirement by rotation and eligible for re-election at the AGM. Under the Articles of Association of the Company (the "**Articles**"), at each AGM, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Articles also provides that all Directors appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing, and coordinating the daily operation and management of the Company are delegated to the management.

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

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

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company, providing a balance in the Board by exercising effective independent judgement and impartial advices on issues of strategy, policy, performance, accountability, standard of conducts etc., and taking the lead where potential conflicts of interests arise.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

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

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to perform their responsibilities effectively and to ensure that their contribution to the Board remains informed and relevant.

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

Directors should commit with appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where applicable. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The Directors have participated in the following trainings during the year ended 31 December 2021:

	Types of training
Executive Directors	
Mr. Odjargal Jambaljamts	A, B
Dr. Battsengel Gotov	A, B
Non-executive Directors	
Mr. Od Jambaljamts	A, B
Ms. Enkhtuvshin Gombo	A, B
Mr. Enkhtuvshin Dashtseren (Resigned on 1 January 2022)	A, B
Independent Non-executive Directors	
Dr. Khashchuluun Chuluundorj	A, B
Mr. Unenbat Jigjid	A, B
Mr. Chan Tze Ching, Ignatius	A

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

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

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius (who possesses the appropriate professional qualifications or accounting or related financial management expertise), Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, and one non-executive Director, namely Ms. Enkhtuvshin Gombo. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Audit Committee include the following:

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

During the year ended 31 December 2021, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor, engagement of non-audit services and relevant scope of work, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met with the external auditor twice during the year ended 31 December 2021.

Remuneration Committee

The Remuneration Committee consists of three members, namely Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, being independent non-executive Directors, and Mr. Odjargal Jambaljamts, being executive Director. Dr. Khashchuluun Chuluundorj is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include the following:

- To determine the remuneration packages of individual executive Directors and senior management;
- To make recommendation on the remuneration policy and structure for all Directors and senior management;
- To assess performance of executive Directors and approve the terms of executive Directors' service contracts; and
- To establish transparent procedures for developing the remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year ended 31 December 2021, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters. During the year ended 31 December 2021, the Remuneration Committee has also reviewed and recommended for the Board's approval the letter of appointment and remuneration package regarding the appointment of Mr. Myagmarjav Ganbyamba as a non-executive Director.

Table 24. Remuneration by band of the senior management:

	2021
HKD Nil to HKD1,000,000	**2**
HKD1,000,001 to HKD1,500,000	**1**
HKD1,500,001 to HKD2,000,000	**0**
HKD2,000,001 to HKD2,500,000	**3**

Details of the remuneration of each of the Directors for the year ended 31 December 2021 are set out in note 9 to the consolidated financial statements.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Odjargal Jambaljamts, being executive Director, Dr. Khashchuluun Chuluundorj and Mr. Unenbat Jigjid, being independent non-executive Directors. Mr. Odjargal Jambaljamts is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include the following:

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

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and consider agreeing on and setting measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's Director Nomination Procedures that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The Director Nomination Procedures as adopted by the Board sets out the procedures and criteria in the nomination and appointment of Directors.

During the year ended 31 December 2021, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors to consider the qualifications of the retiring directors standing for re-election at the AGM. The Nomination Committee reviewed and discussed the measurable objectives for implementing diversity of the Board and considered an appropriate balance of diversity perspectives of the Board is maintained. During the year ended 31 December 2021, the Nomination Committee has also reviewed and made recommendations to the Board on the nomination of Mr. Myagmarjav Ganbyamba as a non-executive Director in accordance with the Director Nomination Procedures.

Board Diversity Policy

The Company has adopted a Board Diversity Policy on 27 August 2013 which was subsequently revised by a Board resolution passed on 31 December 2018 which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to, professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives. The Board currently has seven male Directors and one female Director. Currently, the Board has not established a specific target number or date by which to achieve a specific number of women on the Board. However, in recognising the particular importance of gender diversity so as to further improve our gender diversity at the Board level and workforce, we will endeavour to ensure there is gender diversity when recruiting staff at a mid to senior level so that we will have a pipeline of female employees (including senior management) and potential successors to our Board and engage more resources in training female staff who have extensive and relevant experience in our business, with the aim of promoting them to the senior management or directorship of our Group. For details of the gender ratio of the Group in the workforce, please refer to the Environmental, Social and Governance Report section on page 51 of this annual report.

Our Directors have a balanced mix of knowledge and skills. They obtained degrees in various majors including business administration, organic chemistry, foreign affairs, banking and finance and economics. We have three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of our Board. Furthermore, our Board has a diverse age and gender representation. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

The Nomination Committee will review the Board Diversity Policy regularly and as appropriate to ensure its effectiveness.

Director Nomination Procedures

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Board has adopted the Director Nomination Procedures on 27 August 2013 which shall guide the Nomination Committee in selecting and nominating the suitable candidates for directorships. The Director Nomination Procedures sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following before moving onto the nomination process:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experiences that are relevant to the Company's business and corporate strategy;
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and other directorships and significant commitments;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Diversity aspects under the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and industry and regional experience.

Where there is more than one candidate, the Nomination Committee shall rank the candidates by order of preferences based on the needs of the Company and where appropriate, to make recommendations to the Board. The Director Nomination Procedures also set out the procedures for re-election of Directors at the general meeting. The Nomination Committee shall also review the overall contribution and service to the Company of the retiring directors including their participation and performance before making recommendations to the shareholders in respect of the proposed re-election of directors at the general meeting.

During the year ended 31 December 2021 and up to the date of this annual report, the change in the composition of the Board were as follows:

1. Mr. Enkhtuvshin Dashtseren resigned as a non-executive Director with effect from 1 January 2022.
2. Mr. Myagmarjav Ganbyamba was appointed as a non-executive Director with effect from 1 January 2022.

The Nomination Committee had made recommendations to the Board on the nomination of Mr. Myagmarjav Ganbyamba as the non-executive Director in accordance with the Director Nomination Procedures. The Nomination Committee will review the Director Nomination Procedures, as appropriate, to ensure its effectiveness.

Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee consists of five members with a majority of independent non-executive Directors, namely Mr. Unenbat Jigjid, Dr. Khashchuluun Chuluundorj and Mr. Chan Tze Ching, Ignatius, being independent non-executive Directors, and Mr. Od Jambaljamts and Mr. Myagmarjav Ganbyamba, being non-executive Directors. Mr. Unenbat Jigjid is the chairman of the Environmental, Social and Governance Committee.

The Environmental, Social and Governance Committee was established by the Board on 23 August 2019 in replacement of the Corporate Governance Committee for performing the functions set out in the code provision A.2.1 (code provision of D.3.1 of then CG Code) and for overseeing the environmental, social and governance matters of the Company. The principal duties of the Environmental, Social and Governance Committee include the following:

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

During the year ended 31 December 2021, the Environmental, Social and Governance Committee held one meeting to review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2021 is set out in the table below:

Table 25. Attendance records:

	Attendance/Number of Meetings					
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Environmental, Social and Governance Committee	Annual General Meeting
Odjargal Jambaljamts	3/3	1/1	1/1	N/A	N/A	1/1
Battsengel Gotov	3/3	N/A	N/A	N/A	N/A	1/1
Od Jambaljamts	3/3	N/A	N/A	N/A	1/1	1/1
Enkhtuvshin Gombo	3/3	N/A	N/A	2/2	N/A	1/1
Enkhtuvshin Dashtseren	3/3	N/A	N/A	N/A	1/1	1/1
Khashchuluun Chuluundorj	3/3	1/1	1/1	2/2	1/1	1/1
Unenbat Jigjid	3/3	1/1	1/1	2/2	1/1	1/1
Chan Tze Ching, Ignatius	3/3	N/A	N/A	2/2	1/1	1/1

According to CG Code Provision C.5.1 (code provision A.1.1 of the then CG Code) the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. As a result of strict requirements set for in person gathering and extension of nationwide state of enhanced readiness status during the year due to the COVID-19 pandemic, as well as for safety reasons, during the year ended 31 December 2021, the Board only held three regular board meetings. However, the Board was kept well informed of all developments relating to the Group's operations in a timely manner. The Company will make appropriate arrangement for holding at least four Board meetings in the forthcoming year.

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of other Directors during the year ended 31 December 2021.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and establishing and maintaining appropriate and effective risk management and internal control systems.

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the continuing connected transactions and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Audit Committee is delegated by the Board in leading the management and overseeing their design, implementation, and monitoring of the risk management and internal control systems.

The Company's management, under the oversight of the Board, through the Audit Committee, is responsible for designing, implementing, and monitoring the risk management and internal control systems and such systems are reviewed by the management and the Board at least annually.

The Company's "Risk Management Policy", "Internal Control Procedure" and other policies, procedures and work instructions establish the Company's risk management and internal control frameworks. The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including sales, financial reporting, HR, and information technology ("**IT**").

Key risks and uncertainties relating to the Company's business and industry are categorised into (i) routine operational and technical risks; (ii) corporate risks; and (iii) external risks. Specific risks are identified via executives', management, and tool-box meetings and other communication channels, and included into risk registers, which are maintained for each risk category and contain specific risk rating by evaluating (i) occurrence possibility; and (ii) impact significance with the controls and mitigation measures defined.

Routine operational and technical risks are those arising within the organisation that are controllable and ought to be minimised with its consequences mitigated. Routine operational and technical risks include, but are not limited to, risks related to mining, processing, transportation activities, technical compliances; HSE risks; project-related risks; and procurement and contract management risks. The Company's approach to managing these risks is to avoid or minimise occurrence through a compliance-based approach and active prevention by monitoring operational processes and guiding people's behaviours and decisions towards desired norms by managers in charge. Through extensive training of personnel and establishment of policies, standard operating procedures, work instructions, standard compliance tools, and internal controls, the management aims to have zero defects in operational and technical level processes. The internal control procedures are implemented to monitor these risks by verifying if policies, procedures, and work instructions are being followed without exception and by highlighting defects and deviations in compliance and routine operating processes.

Corporate risks are those that arise within the organisation. Risks under this category include:

- Legal compliance risks;
- Financial compliance risks;
- Financial risks such as liquidity, credit risks, financial planning and reporting risks;
- Investor relations risks;
- IT-related risks;
- HR related risks;
- Sales and trading risks, such as customer, brand, reputation, and supply chain risks;
- Public relations and communications risks; and
- Social and governance-related risks.

The management's approach in managing these risks is to reduce the likelihood and impact of such risks, through the implementation of appropriate processes and internal control procedures that protect the Company from fraud, negligence, legal and other potential regulatory liabilities, including segregation of duties and dual authorisations. Moreover, the management identifies the major plausible risks inherent in the decision-making process, attempts to mitigate and manage those risks, and then continuously monitors the acceptable risk exposures.

External risks arising from events outside the Company and are beyond our influence and control include, but are not limited to:

- Natural disaster and pandemics risks;
- Political and government-related risks;
- Industry and market-related risks; and
- Macroeconomic risks such as foreign currency, inflation, economical shifts.

The Company implements different risk management techniques, such as risk avoidance, risk minimisation, risk mitigation, and risk transfer, and places different internal controls to address these risks.

The Group has insured its major assets such as all modules and support facilities of the CHPP, the Power Plant and its relevant assets, Water Supply System, and other support infrastructure assets and properties at the mine site with a panel of 15 international reinsurers. Mining fleets, used in our operations, heavy haul trucks, and light vehicles are sufficiently covered by local and international insurance policies, ensuring the uninterrupted continuation of the Group's operations. Health and personal accident insurance coverage are provided, ensuring the health and safety of all employees. All the local and international policies are made that our risks are adequately covered to the fullest extent possible. The international insurers arrange an annual risk review of insured properties and assets and based on the recommendations; the Group performs ongoing improvements.

The COVID-19 pandemic continued to have a substantial impact on the Company's operations. The Company's Operations division has made COVID-19 related risk assessments, identified the internal control measures, and made required updates to the Company's operations procedures and instructions. COVID-19 prevention and emergency response teams that were established in 2020 worked throughout the reporting period implementing the COVID-19 Emergency Response Plan, which was updated in response to the situations at the operational sites. Further, the coal transportation and export plan for the pandemic situation was prepared and implemented under the guidance provided by the State and local government authorities.

The internal control system of the Company is based on the "Three Lines of Defense" model.

As the first "line of defense", the Company implements various internal controls built into day-to-day operations.

The functional departments' reviews and controls make the second "line of defense". In addition to the continuous controls, the Compliance unit of the UHG branch conducts compliance reviews annually to identify compliance risks that may potentially impact the business of the Group in various aspects. In 2021, compliance reviews were conducted using 16 checklists consisting of 671 control questions covering Mongolian laws, regulations, technical standards, and rules pertinent to the main operational areas of the Company, including the subcontractors' operations. The compliance rate was assessed as good and having a low level of risk. Further, the Compliance unit has prepared compliance assessment checklists consisting of 1,500 questions covering open-pit mining safety, minerals processing, and mining operation under COVID-19 risk conditions and had operational units carry out self-assessments internally.

As the third "line of defense", the Internal Audit Department performs an independent review of the adequacy and effectiveness of the risk management and internal control systems of the Company. During the year 2021, the Internal Audit Department reviewed the effectiveness of the risk management and internal control systems of the Technical Services department covering mine planning, geology, geotechnics, coal processing, laboratory, site dispatching, and the mine control sections in detail. The review was made using the "Enterprise Risk Management-Integrated Framework" and the "Internal Controls Integrated Framework", both developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The audit review concluded that the key risks in the Technical Services department were being managed effectively.

Further, the Internal Audit Department conducted several audit reviews, including (i) a review of continuing connected transactions for the year 2021; (ii) compliance of and internal controls over the lifting equipment; (iii) compliance of and internal controls over the pressure vessels and tools; (iv) fuel distribution and consumption; (v) fatigue management; and (vi) insurance procedures and claims management; and respective recommendations for improvement were made. Reports of all audit reviews and recommendations were submitted to the Audit Committee and the executive management on a quarterly basis and the closing of the identified non-compliances was tracked and reported to the management and the Audit Committee.

The Company had six external and third-party audits during the reporting period by regulatory bodies such as the National Emergency Management Agency, Emergency Management Agency of Umnugobi aimag, the Umnugobi governor's office, Professional Inspection Agency of Umnugobi aimag, the Professional Inspection Agency of Ulaanbaatar, and the National Auto Transportation Centre. The audits covered areas such as disaster and emergency preparedness, fire protection, local budget contribution, labour relations, the safety of nuclear sources, telecommunication lines, radiofrequency, auto transportation, safety, occupational health, and the training on safety and occupational health. The Company's compliance risk exposure level within these audited areas was assessed as low. The Company implemented follow-up actions over the non-compliances identified by the external audits and reported back to the regulatory bodies concerned.

The management has confirmed to the Board and the Audit Committee the effectiveness of the risk management and internal control systems for the year ended 31 December 2021.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational, and compliance controls, for the year ended 31 December 2021. The review was undertaken (i) based on the ongoing communications and discussions with the management about the Company's principal risks and the management's responses to the risks including the control mechanisms; and (ii) through the internal and external audits' reviews. The Board has considered that risk management and internal control systems within the Group were effective and adequate. The annual review also covered the financial reporting, internal audit functions, as well as resources, staff qualifications, experiences, training programs, and budget of these functions and the Board considered them adequate. During the year under review, there was no material weakness in the Group's risk management and internal controls and the Company considers its risk management and internal control systems effective and adequate.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control, fraud, or other matters of the Company.

The Procedures and Internal Controls for Handling and Dissemination of Inside Information

The general principle for the handling of inside information is to limit access to confidential information to a minimum number of employees on a "need to know" basis, prohibit employees from disclosing any confidential information that the Company considers private and is not generally available outside the Company to third parties or other employees who do not have a valid business reason for receiving such information, prohibit employees from using the information for personal gain; and to ensure that the Directors and relevant employees refrain at all times from dealing in any securities of the Company when they are in possession of unpublished inside information. The Company conducts its affairs in strict compliance with the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited. With respect to procedures and internal controls for the handling and dissemination of inside information, the Company has:

- approved the "Written Guideline for Securities Transactions by Relevant Employees" for securities transactions by employees; and
- adopted the "Model Code" for securities transactions by Directors.

Both of the above policies require that the Directors and the relevant employees not to deal in the securities of the Group when they are in possession of inside information and must ensure that the strictest security of the information is observed within the Company as well as by its advisers.

Further, the Company has:

- implemented "Disclosure Policy" that guides the Directors, officers, senior management and relevant employees of the Company in handling confidential and inside information and ensures material information is promptly identified, assessed, and escalated to the Board or its delegate for a decision on disclosure and preservation of confidentiality of the information;
- established procedures for responding to external inquiries about the Company's affairs. Senior managers of the Company are identified and authorised to act as the Company's spokespersons and respond to inquiries in allocated areas of issues; and
- implemented "Communication Strategy Policy" that (i) ensures the Company's commitment to comply with the Listing Rules; (ii) ensures disclosure of timely and accurate information equally to all shareholders and market participants; (iii) identifies channels for disseminating information to stakeholders in a fair, timely and cost-efficient manner.

There are also several internal policies and procedures that further regulate and clarify processes of and controls over handling of inside information. These include:

- Corporate internal labour rules;
- Procedures for employment contract closure and off-boarding;
- IT policy and information security procedures;
- Confidentiality procedure;
- Standard employment agreement; and
- Standard non-disclosure agreement.

The Internal Audit Department reviewed current policies, procedures and practices for the handling and dissemination of inside information within the Group and the Board concluded that the Group's policies and procedures extensively cover matters related to inside information and are adequate and effective that meet the requirements specified in Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**") and the Listing Rules.

The Internal Audit Department conducts periodic reviews of policies, procedures, the implementation practices, including those for the handling of inside information. In 2017, the department carried out a comprehensive review of the policies, procedures, and practices for the handling and dissemination of inside information within the Group. Also in 2019, a review of the effectiveness and implementation of the policies and procedures which included among others, policies and procedures for the handling and dissemination of inside information was conducted. Both review reports were submitted to and considered by the Audit Committee of the Board. In addition, the Internal Audit Department annually reviews the updates made to the policies and procedures related to the handling of inside information, if any; reviews the working documents and communications on a sample basis. Any non-conformances, if identified, are reported to the Audit Committee.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021.

The Directors consider that there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, which is set out in note 2(b) to the consolidated financial statements. The Directors are in the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 105 to 109.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2021 is set out below:

Service Category	Fees Paid/Payable
Audit Services	USD639,000
Non-audit Services including the fees for tax advisory services	USD30,052
	USD669,052

COMPANY SECRETARY

Ms. Cheung Yuet Fan has been appointed by the Board as the Company's Company Secretary. Ms. Cheung is a director of Tricor, a global professional services provider specialising in integrated business, corporate and investor services. All Directors have access to the advice and services of the Company Secretary on corporate governance and board practices and matters. Dr. Battsengel Gotov, executive Director and Chief Executive Officer and Ms. Uurtsaikh Dorjgotov, Executive Vice President and Chief Legal Counsel of the Company are the primary contact persons at the Company who would work and communicate with Ms. Cheung on the Company's corporate governance and secretarial and administrative matters.

During the year ended 31 December 2021, Ms. Cheung Yuet Fan has complied with the professional training requirement of taking no less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

Email: contact@mmc.mn

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. At the AGM, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

According to CG Code Provision F.2.2 (code provision E.1.2 of the then CG Code), the chairman of the board, Mr. Odjargal Jambaljamts should attend the AGM. Mr. Chan Tze Ching, Ignatius, independent non-executive Director, attended as Chairman at the 2021 AGM of the Company held on 16 June 2021, as Mr. Odjargal Jambaljamts was unable to attend the 2021 AGM physically due to international travel restrictions caused by COVID-19 outbreak. Mr. Odjargal Jambaljamts joined the 2021 AGM via webcast. He will use his best endeavours to attend all future shareholders' meetings of the Company.

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

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

Dividend Policy Summary

The Company has adopted a dividend policy (the "**Dividend Policy**") on payment of dividends pursuant to code provision F.1.1 (code provision E.1.5 of then CG Code) that became effective on 1 January 2019, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to the shareholders of the Company. The Company do not have any pre-determined dividend payout ratio. According to the Dividend Policy, the Board has the discretion to declare and distribute dividends to the shareholders subject to the Articles and all applicable laws and regulations and taking into account the relevant factors of the Company and its subsidiaries, including but not limited to financial results, cash flow situation, business conditions and strategies, interests of shareholders and any other factors that the Board may consider relevant. The Board may propose and/or declare interim, final or special dividends and any distribution of net profits that the Board may deem appropriate, and while doing so, the Board should ensure that the Company maintains adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. Any final dividend for a financial year will be subject to the shareholders' approval.

IX.
DIRECTORS' REPORT

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial KPIs is provided in the Management Discussion and Analysis section on pages 11 to 37 and Financial Summary section on page 196 of this annual report.

The Group generated a revenue of approximately USD184.1 million during the year ended 31 December 2021, compared to USD417.4 million of revenue generated during the year ended 31 December 2020.

The Group's adjusted EBITDA for the year ended 31 December 2021 was approximately USD38.1 million, compared to the adjusted EBITDA of approximately USD142.4 million recorded for the year ended 31 December 2020.

The loss attributable to the equity shareholders of the Company for the year ended 31 December 2021 was USD55.2 million, compared to USD28.9 million of profit attributable to the equity shareholders of the Company recorded for the year ended 31 December 2020.

The basic and diluted loss per share attributable to the equity shareholders of the Company amounted to USD5.35 cents for the year ended 31 December 2021, compared to the basic and diluted earnings per share of USD2.81 cents for the year ended 31 December 2020.

Environmental Policies and Performance

We are committed to complying with Mongolian environmental laws, regulations and applicable international standards as part of our effort to minimise the adverse impact of our operations on the environment. Our integrated HSE Management System ("**MS**") helps to achieve the targets set out in our HSE policy. These systems and processes provide our employees and contractors the necessary directions to practice safe work behaviours and make them accountable for the implementation of the HSE MS. Our environmental team continually upgrades the HSE MS and its accompanying elements and procedures and ensures that our activities in relevant fields comply with national legislations and international standards. The HSE MS has been developed to align with requirements under the international management system standards ISO 14001:2015 (Environmental management system standard). OHSAS 18001:2007 (Occupational health and safety management system standard) and ISO 45001:2018 (Occupational health and safety management system standard) which we are in the process of adopting.

We are required to comply with applicable national legislations including the Law on Environmental Protection (1995), Law on Environmental Impact Assessment (2012), Law on Natural Resources Use Fee (2012), Law on Water and Water Pollution Fee (2012), Law on Air (2012) and Law on Air Pollution Fee (2010), Law on Land (2002), Law on Land Fee (1997), Law on Soil Protection and Desertification Prevention (2012) and Law on Toxic and Hazardous Chemicals (2006). In line with these legislations and pursuant to the Law on Environmental Protection and Law on Environmental Impact Assessment, we submit an environmental management plan followed by an implementation report to the Ministry of Environment and Tourism on an annual basis. We get comprehensive inspections on environmental and occupational health activities by local, provincial and state inspection agencies on a regular basis and our compliance rate has been assessed to be satisfactory since the start of our mining operations. The details on our environmental management activities, compliance with relevant legislations and environmental impact mitigation measures can be found in the subsection headed “ENVIRONMENTAL STEWARDSHIP” set out in the Environmental, Social and Governance Report section on pages 55 to 65 of this annual report.

Compliance with relevant Laws and Regulations

Discussions on compliance with relevant laws and regulations which have a significant impact on the Group are set out in the subsection headed “OPERATING ENVIRONMENT” under the Management Discussion and Analysis section on page 14 of this annual report.

The Group has complied with all the relevant laws and regulations that have a significant impact on their businesses.

Key Relationships with Stakeholders

In relation to the Company’s key relationships with its employees, customers and suppliers, discussions on the Company’s policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibility are provided in Management Discussion and Analysis section on page 33 and the Environmental, Social and Governance Report section on pages 38 to 72 of this annual report.

Risk Management, Key Risks and Uncertainties

A description of possible risks and uncertainties that the Group may be facing is provided in the Management Discussion and Analysis section on page 31 of this annual report.

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

The Risk Management Committee comprising of the executive management report directly to the Audit Committee of the Board. The committee oversees the Group’s overall risk management framework and assesses the effectiveness of risk controls and its mitigation tools.

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

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

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

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

Prospects

A description of the likely future development in the Company's business is provided in the subsection headed "OUTLOOK AND BUSINESS STRATEGIES IN 2022" under the Management Discussion and Analysis section on page 24 of this annual report.

Subsequent Events

A description of particulars of important events affecting the Company that have occurred since the end of the financial period can be found in the paragraph headed "Other and Subsequent Events" under the Management Discussion and Analysis section on page 33 of this annual report. Save as disclosed above, there have been no post balance sheet events subsequent to 31 December 2021 and up to the date of this annual report which require adjustment to or disclosure in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 26.

Table 26. Sales and purchases attributable to the major customers and suppliers

	Percentage of the Group's total Revenue from sales of goods and rendering of services	Purchases
The largest customer	16.7%	
Five largest customers in aggregate	52.3%	
The largest supplier		33.7%
Five largest suppliers in aggregate		55.4%

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

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2021 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 110 to 195.

TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividend, of USD55.2 million (2020: profit of USD28.9 million) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 113.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2021. The Board does not recommend the payment of a dividend for the year ended 31 December 2021 (dividend for the year ended 31 December 2020: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2021 amounted to USD8,539,593 (2020: USD622,000).

PROPERTY, PLANT AND EQUIPMENT

Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

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

BANK LOANS AND OTHER BORROWINGS

There was no outstanding principal amount of borrowing as at 31 December 2021 (2020: nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 196.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Od Jambaljamts
Ms. Enkhtuvshin Gombo
Mr. Enkhtuvshin Dashtseren *(resigned on 1 January 2022)*
Mr. Myagmarjav Ganbyamba *(appointed on 1 January 2022)*

Independent Non-executive Directors

Dr. Khashchuluun Chuluundorj
Mr. Unenbat Jigjid
Mr. Chan Tze Ching, Ignatius

In accordance with the Articles, Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being Executive Directors, Mr. Chan Tze Ching, Ignatius, being an independent non-executive Director, and Mr. Myagmarjav Ganbyamba, being a non-executive Director will retire from directorship at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 9.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in this annual report, as at 31 December 2021 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' PERMITTED INDEMNITY PROVISION

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

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, or any other person engaged in the full-time employment of the Company, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKING

Pursuant to a deed of non-competition dated 20 September 2010, and as amended on 3 April 2012, 4 July 2012 and 31 March 2021 (the "**Deed of Non-competition**") executed by Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, MCS Mining Group LLC and MCS Mongolia LLC (collectively the "**Undertakers**") in favour of the Company (for itself and on behalf of the Group), the Undertakers undertake, among other things, that at any time when the shares of the Company are listed on the SEHK and for so long as the Undertakers and its associates together hold, whether individually or taken together, 30% or more of the issued share capital or are otherwise regarded as a controlling shareholder of the Company under the Listing Rules, the Undertakers will not, and will procure that its associates (excluding the Group) will not, directly or indirectly, either on its own account or with each other or in conjunction with or on behalf of any person, firm or company, except through a member of the Group, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business (except for their aggregate 10% interest in Quincunx (BVI) Ltd) which is or may be in competition with the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) of any member of the Group from time to time. In the event that a business opportunity in relation to the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) is made available to the Undertakers and/or any of their associates, the Undertakers shall promptly notify the Company in writing and refer such business opportunity for the Company's consideration and the Undertakers shall not and procure his/their associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity has been rejected by the Company and the principal terms on which the Undertakers or his/their associates invest or participate are no more favourable than those made available to the Company.

Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2021, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition.

Each of the Undertakers has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2021.

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

As at 31 December 2021, the interest and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(a) Table 27. Interests in Shares:

	Ordinary shares of USD0.10 each		
Name of Director	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
Mr. Odjargal Jambaljamts (Note 1)	Beneficial Owner	46,164,754 (L)	4.48%
	Interest of controlled corporation	323,492,188 (L)	31.36%
Mr. Od Jambaljamts (Note 2)	Beneficial Owner	26,576,226 (L)	2.58%
	Interest of controlled corporation	323,492,188 (L)	31.36%
Mr. Enkhtuvshin Dashtseren (Note 3)	Beneficial Owner	60,000 (L)	0.0058%
Mr. Chan Tze Ching, Ignatius	Beneficial Owner	200,000 (L)	0.02%

(L) – Long position

Notes:

(1) Mr. Odjargal Jambaljamts is directly interested in approximately 57.28% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Mining Group LLC which in turn holds 323,492,188 shares in the Company.

(2) Mr. Od Jambaljamts is directly interested in approximately 30.19% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Mining Group LLC which in turn holds 323,492,188 shares in the Company.

(3) Mr. Enkhtuvshin Dashtseren resigned as a Director on 1 January 2022.

(b) Table 28. Interests in underlying Shares:

	Ordinary shares of USD0.10 each		
Name of Director	**Nature of interest**	**Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme**	**Approximate percentage of total issued share capital**
Dr. Battsengel Gotov	Beneficial Owner	4,000,000 (L)	0.39%

(L) – Long position

Save as disclosed above, as at 31 December 2021, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date on 13 October 2010 (the "**Adoption Date**"). The Share Option Scheme expired on 12 October 2020. No further Share Options could be granted under the Share Option Scheme, however, the provisions of the Share Option Scheme remain in force to the extent necessary to give effect to any Share Options granted or exercised thereunder or otherwise as may be required. The New Share Option Scheme was approved by the shareholders of the Company in the AGM held on 16 June 2021. The purpose of the New Share Option Scheme is to provide incentive and/or reward to eligible persons under the New Share Option Scheme for their contribution to, and continuing efforts to promote the interests of, the Group. The New Share Option Scheme shall be valid for a period of 10 years from the date of adoption. The New Share Option Scheme which was adopted on 16 June 2021 will expire on 15 June 2031.

SHARE OPTION SCHEME

Under the Share Option Scheme, the Company granted four batches of Share Options to its Director and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66 (adjusted to HKD4.53 after rights issue) and 3,000,000 and 32,200,000 Share Options were accepted by a Director and employees respectively. The Share Options granted on 12 October 2011 have lapsed at the end of 8 years after the date of grant.

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 (adjusted to HKD2.67 after rights issue). The Share Options granted on 28 November 2012 have lapsed at the end of 8 years after the date of grant.

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

A total of 4,810,000 Options were outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise prices and the number of shares falling to be issued under the outstanding Share Options were adjusted pursuant to Clause 11 of the Share Option Scheme (the "**Option Adjustments**") with effect from 1 January 2015, and such adjustments have been reviewed and confirmed by the independent financial adviser of the Company, Somerley Capital Limited. Please refer to the 2014 Annual Report of the Company for details.

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 Share Options granted on 10 June 2015 have lapsed at the end of 5 years after the date of grant.

On 8 May 2017, the Company granted another 40,000,000 and 100,000,000 Share Options to a Director and employees respectively at the exercise price of HKD0.2392.

As a result of the share consolidation which became effective on 26 August 2019, adjustments were made to the exercise price and the number of shares falling to be issued upon the exercise of the Share Options in accordance with the terms of the Share Option Scheme, the provisions of Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005. The exercise price of HKD4.53 for the Share Options granted on 12 October 2011 was adjusted to HKD45.3; the exercise price of HKD2.67 for the Share Options granted on 28 November 2012 was adjusted to HKD26.7; the exercise price of HKD0.445 for the Share Options granted on 10 June 2015 was adjusted to HKD4.45; and the exercise price of HKD0.2392 for the Share Options granted on 8 May 2017 was adjusted to HKD2.392. Please refer to the announcement of the Company dated 22 August 2019 for details.

During the year ended 31 December 2021, a total number of 2,400,000 Share Options granted under the Share Option Scheme were exercised by the employees. Please refer to table 30 for details.

As at 31 December 2021, the Company had 10,900,000 outstanding Share Options granted under the Share Option Scheme which shall continue to be valid and exercisable during the prescribed exercisable period in accordance with the Share Option Scheme.

Details of the movements in the number of Share Options granted under the Share Option Scheme of the Company during the year ended 31 December 2021 were as follows:

Table 29. Director:

				Number of Share Options					
Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2021	Granted during the year ended 31 December 2021	Lapsed during the year ended 31 December 2021	Cancelled during the year ended 31 December 2021	Exercised during the year ended 31 December 2021	Balance as at 31 December 2021
Dr. Battsengel Gotov	8 May 2017	(Note 1)	HKD2.392	4,000,000	-	-	-	-	4,000,000
Total				4,000,000	-	-	-	-	4,000,000

Table 30. Employees of the Group other than Directors:

				Number of Share Options				
Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2021	Granted during the year ended 31 December 2021	Lapsed during the year ended 31 December 2021	Cancelled during the year ended 31 December 2021	Exercised during the year ended 31 December 2021	Balance as at 31 December 2021
8 May 2017	(Note 1)	HKD2.392	9,680,000	-	380,000	-	2,400,000	6,900,000
Total			9,680,000	-	380,000	-	2,400,000	6,900,000

Notes:

1. The Share Options are subject to vesting scale in five tranches of 20% each. The exercise periods are as follows:
   (1) first 20% of the Share Options granted – 1 July 2017 to 8 May 2022
   (2) second 20% of the Share Options granted – 8 May 2018 to 8 May 2022
   (3) third 20% of the Share Options granted – 8 May 2019 to 8 May 2022
   (4) fourth 20% of the Share Options granted – 8 May 2020 to 8 May 2022
   (5) fifth 20% of the Share Options granted – 8 May 2021 to 8 May 2022

Treatment of Lapse of the Share Options

Pursuant to the Share Option Scheme, in the event that an employee ceases to be an employee of the Company before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine.

NEW SHARE OPTION SCHEME

Eligibility

Under the New Share Option Scheme, the Directors may invite any person belonging to any of the following classes of participants to take up options to subscribe for Shares:

a. any employee or proposed employee (whether full time or part-time and including any executive Director), business partners, consultants or advisers of or to the Company or any of its subsidiaries;

b. any non-executive Directors (including independent non-executive Directors) of the Company or any of its subsidiaries;

c. any supplier of goods or services to any member of the Group;

d. any customer of the Group;

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

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

And for the purposes of the New Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants.

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

Grant of Options

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

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

Subscription Price

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

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

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

c. the nominal value of the Shares.

Exercise of Options

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

Maximum Number of Shares Available for Subscription

The total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue as at the adoption date of the New Share Option Scheme, i.e. up to 102,918,678 Shares. The total number of Shares available for issue under the New Share Option Scheme is 102,918,678 Shares, representing 9.98% of the issued Shares of the Company as at the date of this annual report.

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

No share options have been granted under the New Share Option Scheme during the year ended 31 December 2021 since its adoption and up to the date of this annual report.

Maximum Entitlement of Each Participant

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

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed “Share Option Scheme” above, for the year ended 31 December 2021, the Company has not entered into any equity-linked agreement.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed “Share Option Scheme” above, at no time during the year ended 31 December 2021 had the Company or any of its subsidiaries or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

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

As at 31 December 2021, so far as was known to the Directors and chief executive of the Company and based on the information publicly available, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 31. Interests in the Shares and underlying Shares:

	Ordinary shares of USD0.10 each		
Name of substantial shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate percentage of total issued share capital**
MCS Mining Group LLC (Note 1)	Beneficial owner	323,492,188 (L)	31.36%
MCS Mongolia LLC (Note 1)	Interest of controlled corporation	323,492,188 (L)	31.36%
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	369,656,942 (L)	35.83%
Ms. Munkhsuren Surenkhuu (Note 1)	Interest of spouse	350,068,414 (L)	33.94%
Kerry Mining (UHG) Limited ("**KMUHG**") (Note 2)	Beneficial owner	75,000,000 (L)	7.27%
Kerry Mining (Mongolia) Limited ("**KMM**") (Note 2)	Interest of controlled corporation	75,000,000 (L)	7.27%
Fexos Limited ("**Fexos**") (Note 2)	Interest of controlled corporation	75,689,012 (L)	7.34%
Kerry Holdings Limited ("**KHL**") (Note 2)	Interest of controlled corporation	77,578,088 (L)	7.52%
Kerry Group Limited ("**KGL**") (Notes 2 and 3)	Interest of controlled corporation	121,623,187 (L)	11.79%

(L) – Long position

Note:

(1) MCS Mining Group LLC is wholly-owned by MCS Mongolia LLC. MCS Mongolia LLC is owned as to approximately 57.28% by Mr. Odjargal Jambaljamts, and approximately 30.19% by Mr. Od Jambaljamts. MCS Mining Group LLC holds 323,492,188 shares in the Company. Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts directly hold 46,164,754 shares and 26,576,226 shares, respectively, in the Company. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.

(2) (a) KMUHG is a direct wholly-owned subsidiary of KMM which in turn is approximately 59.04% owned by Fexos. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL were deemed to be interested in the 75,000,000 shares of the Company that KMUHG was interested.

(b) Kerry Asset Management Limited ("**KAM**") is a direct wholly-owned subsidiary of Fexos. Accordingly, Fexos, KHL and KGL were deemed to be interested in the 689,012 shares of the Company that KAM was interested.

(3) Out of KGL's corporate interest in 121,623,187 shares in the Company, KGL's wholly-owned subsidiaries (other than KHL) were interested in 44,045,099 shares of the Company, and KHL through Fexos was interested in 75,689,012 shares of the Company and KHL through wholly-owned subsidiaries (other than Fexos) were interested in 1,889,076 shares of the Company.

Save as disclosed above, as at 31 December 2021, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2021, the non-exempt CCTs of the Group were USD13.3 million. The details of non-exempt CCTs for the year ended 31 December 2021 are set out on pages 34 to 37 of this annual report.

CONNECTED TRANSACTIONS

For the year ended 31 December 2021, the non-exempt connected transaction of the Group was USD7.5 million. The details of the non-exempt connected transaction for the year ended 31 December 2021 are set out on page 37 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

Details of pledge of assets of the Group as at 31 December 2021 are set out on page 31 under the section headed "Management Discussion and Analysis" of this annual report.

EMOLUMENT POLICY

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

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

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

The Company has a Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company.

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

None of the Directors waived or agreed to waive any emoluments during the year ended 31 December 2021.

RETIREMENT SCHEME

The Group duly contributes to retirement benefit schemes pursuant to the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 8.5% of the eligible employees' salaries, which is applicable for both legal entities and insureds, effective from 1 January 2021. Such rate was set by an amendment made to the Law on Exemption of Social Insurance Contributions and Support from the Unemployment Fund on 13 November 2020 and an amendment made to the Law on Social Insurance on 11 June 2021.

Based on Collective (Tariff) Agreement of the Geology, Mining and Heavy Industry Sector for 2021 to 2022, entered into force on 1 July 2021, each employee who retires from the mining industry shall receive payment equal to double of the minimum wage of the industry multiplied by the number of years worked in the mining industry.

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

Pursuant to the Social Security Legislation of Mongolia, retirement scheme contributions are mandatory to be paid to the State Pension Fund and such fund is managed by respective public authorities. Thus, employers have no access nor right to use any contributions that are paid to the State Pension Fund, irrespective of employee's change of employers. As such, during the year ended 31 December 2021, no forfeited contributions had been used by the Company to reduce the existing level of contributions.

PRE-EMPTIVE RIGHTS

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

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

There were no charge of shares of the Company by the controlling shareholder during the year ended 31 December 2021.

ISSUE OF EQUITY SECURITIES

Save for the issue of shares as a result of the exercise of share options, no additional shares were issued during the year ended 31 December 2021.

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

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 32 to the consolidated financial statements. In respect of those related party transactions that constitute connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules. Save as disclosed in this annual report on pages 34 to 37, the related party transactions set out in note 32(a) of the consolidated financial statements, which constitute connected transactions are exempted connected transactions of the Company under Chapter 14A of the Listing Rules and none of them constituted a non-exempt connected transaction of the Company (including CCT) as defined under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

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

The over-allotment option was fully exercised on 18 October 2010 in respect of an aggregate of 10,791,400 shares and accordingly the lower public float percentage of the Company accepted by the SEHK is approximately 22.3%. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules.

CHANGES IN DIRECTORS' INFORMATION

Changes of information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2021 Interim Report are set out below:

Dr. Khashchuluun Chuluundorj was appointed as a member of board of directors of Mongolian Investment Rating Agency on 1 December 2021.

Mr. Chan Tze Ching, Ignatius ceased to be a senior advisor of CVC Capital Partners Limited with effect from 31 October 2021.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2021. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 16 June 2021.

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

On behalf of the Board

Odjargal Jambaljamts
Chairman

Hong Kong, 21 March 2022

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INDEPENDENT AUDITORS' REPORT

KPMG

Independent Auditor's Report to the Shareholders of Mongolian Mining Corporation
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 110 to 195 which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and 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 2021 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.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Assessing impairment of mining related assets

Refer to notes 2(h), 2(i), 3(a), 13, 14 and 16 to the consolidated financial statements and the accounting policies.

The Key Audit Matter

The Group's mining related assets are the most quantitatively significant items in the consolidated statement of financial position and mainly comprise property, plant and equipment, construction in progress, and intangible assets relating to the Group's mining operations located in Mongolia, which are considered by management to represent a single separately identifiable cash generating unit ("**CGU**").

The Group recognised impairment of its mining rights in the amount of USD190 million which reflected downward pressures on the prices of certain coking coal products in 2014 and concluded that no further impairment or reversal of previously recognised impairment was necessary subsequent to 2014.

As at 31 December 2021, the carrying amount of net assets of the Group exceeded the Company's market capitalisation. Management considered this indicated that the Group's mining related assets may be impaired and performed an impairment assessment of the mining related assets to determine the recoverable amount.

How the matter was addressed in our audit

Our audit procedures to assess impairment of mining related assets included the following:

- evaluating the design and implementation of key internal controls over the estimations of the recoverable amounts of mining related assets;

- assessing the allocation of assets and liabilities by management to the mining CGU and the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards;

- challenging the key assumptions and estimates used in the discounted cash flow forecast as at 31 December 2021, including those relating to future commodity prices, future sales, future operating costs and the discount rates applied, which included involving our internal valuation specialists to assist us in comparing these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and in considering the key assumptions and estimates based on our knowledge of the Group and the industry in which it operates;

Assessing impairment of mining related assets

Refer to notes 2(h), 2(i), 3(a), 13, 14 and 16 to the consolidated financial statements and the accounting policies.

The Key Audit Matter	How the matter was addressed in our audit
Management determines the recoverable amount of mining related assets based on the value in use of the CGU to which the assets have been allocated by using discounted cash flow techniques. The preparation of a discounted cash flow forecast involves the exercise of significant management judgement in the selection of assumptions, in particular in estimating future commodity prices and the discount rate applied as well as in determining internal assumptions relating to future sales and future operating costs. We identified assessing impairment of mining related assets as a key audit matter because of its significance to the consolidated financial statements and the inherent uncertainty involved in forecasting and discounting future cash flows which involves significant management judgement and could be subject to management bias.	• assessing the reliability of management's forecasting process and whether there is any indication of management bias by comparing the key assumptions and estimates included in the discounted cash flow forecast prepared in the prior year with the current year's performance and those adopted in current year's forecast, and making enquiries of management as to the reasons for any significant variances or changes identified; • performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions and estimates and whether there were any indication of management bias; and • assessing the reasonableness of disclosures in the consolidated financial statements in respect of the impairment of mining related assets with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Man Siu Kei.

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

21 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	**2021** **USD'000**	2020 USD'000
Revenue	4	**184,069**	417,424
Cost of revenue	5	**(161,490)**	(288,848)
Gross profit		**22,579**	128,576
Other costs		**(3,422)**	(2,155)
Other net income		**3,382**	2,418
Selling and distribution costs	6(c)	**(9,625)**	(27,645)
General and administrative expenses		**(24,242)**	(19,773)
(Loss)/profit from operations		**(11,328)**	81,421
Finance income	6(a)	**54**	5,053
Finance costs	6(a)	**(48,980)**	(46,191)
Net finance costs	6(a)	**(48,926)**	(41,138)
Share of losses of associate		**(196)**	(77)
Share of losses of joint venture		**(1)**	(5)
(Loss)/profit before taxation	6	**(60,451)**	40,201
Income tax	7	**5,013**	(10,596)
(Loss)/profit for the year		**(55,438)**	29,605
Attributable to:			
Equity shareholders of the Company		**(55,238)**	28,940
Non-controlling interests		**(200)**	665
(Loss)/profit for the year		**(55,438)**	29,605
Basic (loss)/earnings per share	8	**(5.35) cents**	2.81 cents
Diluted (loss)/earnings per share	8	**(5.35) cents**	2.81 cents

The notes on pages 115 to 195 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 29(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	**2021 USD'000**	2020 USD'000
(Loss)/profit for the year		**(55,438)**	29,605
Other comprehensive income for the year (after tax and reclassification adjustments)	11		
Item that will not be reclassified to profit or loss:			
Surplus on revaluation of plants, buildings, and machinery and equipment	13,14,25	**62,895**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**184**	(7,556)
Other comprehensive income for the year		**63,079**	(7,556)
Total comprehensive income for the year		**7,641**	22,049
Attributable to:			
Equity shareholders of the Company		**7,841**	21,384
Non-controlling interests		**(200)**	665
Total comprehensive income for the year		**7,641**	22,049

The notes on pages 115 to 195 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021
(Expressed in United States dollars)

	Note	**2021 USD'000**	2020 USD'000
Non-current assets			
Property, plant and equipment, net	13	**968,681**	883,050
Construction in progress	14	**46,828**	43,961
Other right-of-use assets	15	**50**	51
Intangible assets	16	**500,086**	498,954
Interests in associates	18	**949**	360
Interest in joint venture		**23**	24
Other non-current assets	19	**55,634**	52,369
Deferred tax assets	25(b)	**21,767**	17,244
Total non-current assets		**1,594,018**	1,496,013
Current assets			
Inventories	20	**159,663**	106,268
Trade and other receivables	21	**99,520**	94,355
Cash and cash equivalents	22	**25,937**	38,904
Total current assets		**285,120**	239,527
Current liabilities			
Trade and other payables	24	**175,598**	142,981
Contract liabilities		**141,498**	25,911
Senior Notes	23	**17,885**	–
Lease liabilities		**72**	71
Current taxation	25(a)	**65**	3,323
Total current liabilities		**335,118**	172,286
Net current (liabilities)/assets		**(49,998)**	67,241
Total assets less current liabilities		**1,544,020**	1,563,254
Non-current liabilities			
Senior Notes	23	**434,716**	449,618
Provisions	28	**30,928**	19,458
Deferred tax liabilities	25(b)	**181,798**	166,985
Other non-current liabilities	26	**–**	39,029
Total non-current liabilities		**647,442**	675,090
NET ASSETS		**896,578**	888,164
CAPITAL AND RESERVES			
Share capital	29(c)	**103,158**	102,918
Reserves		**726,665**	718,291
Total equity attributable to equity shareholders of the Company		**829,823**	821,209
Perpetual notes	29(e)	**66,569**	66,569
Non-controlling interests		**186**	386
Total equity		**896,578**	888,164

Approved and authorised for issue by the board of directors on 21 March 2022.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 115 to 195 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

(Expressed in United States dollars)

		Attributable to equity shareholders of the Company									
	Note	Share capital USD'000 (Note 29(c))	Share premium USD'000 (Note 29(d)(i))	Other reserve USD'000 (Note 29(d)(ii))	Exchange reserve USD'000 (Note 29(d)(iii))	Property revaluation reserve USD'000 (Note 29(d)(iv))	Retained profits USD'000	Total USD'000	Perpetual notes USD'000 (Note 29(e))	Non-controlling interests USD'000	Total equity USD'000
At 1 January 2020		102,918	768,520	36,464	(491,697)	310,863	72,621	799,689	66,569	(279)	865,979
Profit for the year		-	-	-	-	-	28,940	28,940	-	665	29,605
Other comprehensive income	11	-	-	-	(7,556)	-	-	(7,556)	-	-	(7,556)
Total comprehensive income		-	-	-	(7,556)	-	28,940	21,384	-	665	22,049
Equity-settled share-based transactions	27	-	-	136	-	-	-	136	-	-	136
Reclassification of property revaluation reserve to accumulated losses upon disposals of assets concerned		-	-	-	-	(180)	180	-	-	-	-
At 31 December 2020		102,918	768,520	36,600	(499,253)	310,683	101,741	821,209	66,569	386	888,164

		Attributable to equity shareholders of the Company									
	Note	Share capital USD'000 (Note 29(c))	Share premium USD'000 (Note 29(d)(i))	Other reserve USD'000 (Note 29(d)(ii))	Exchange reserve USD'000 (Note 29(d)(iii))	Property revaluation reserve USD'000 (Note 29(d)(iv))	Retained profits USD'000	Total USD'000	Perpetual notes USD'000 (Note 29(e))	Non-controlling interests USD'000	Total equity USD'000
At 1 January 2021		102,918	768,520	36,600	(499,253)	310,683	101,741	821,209	66,569	386	888,164
Loss for the year		-	-	-	-	-	(55,238)	(55,238)	-	(200)	(55,438)
Other comprehensive income	11	-	-	-	184	62,895	-	63,079	-	-	63,079
Total comprehensive income		-	-	-	184	62,895	(55,238)	7,841	-	(200)	7,641
Equity-settled share-based transactions	27	240	806	(273)	-	-	-	773	-	-	773
Reclassification of property revaluation reserve to accumulated losses upon disposals of assets concerned		-	-	-	-	(2,751)	2,751	-	-	-	-
At 31 December 2021		103,158	769,326	36,327	(499,069)	370,827	49,254	829,823	66,569	186	896,578

The notes on pages 115 to 195 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	2021 USD'000	2020 USD'000
Operating activities			
(Loss)/profit before taxation		**(60,451)**	40,201
Adjustments for:			
Depreciation and amortisation	6(c)	**49,704**	61,199
Share of loss of associate and joint venture		**197**	82
(Gain)/loss on disposals of property, plant and equipment	6(c)	**(29)**	1
Net finance costs	6(a)	**48,926**	41,138
Equity-settled share-based payment expenses	6(b)	**34**	136
Employee benefit accrued		**(321)**	(340)
Changes in working capital:			
(Increase)/decrease in inventories		**(53,395)**	3,257
(Increase)/decrease in trade and other receivables		**(5,165)**	6,722
Increase/(decrease) in trade and other payables		**148,678**	(64,340)
(Increase)/decrease in other non-current assets		**(3,265)**	370
(Decrease)/increase in other non-current liabilities		**(39,029)**	38,316
Cash generated from operations		**85,884**	126,742
Income tax paid	25(a)	**(973)**	(18,055)
Net cash generated from operating activities		**84,911**	108,687
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(48,130)**	(68,419)
Proceeds from disposals of property, plant and equipment		**37**	291
Payments for acquisition of intangible asset		**(2,331)**	–
Acquisition of subsidiary, net of cash acquired		**(5,557)**	(2,776)
Payments for acquisition of an associate		**(785)**	–
Interest received		**3**	110
Net cash used in investing activities		**(56,763)**	(70,794)
Financing activities			
Capital element of lease rentals paid		**(141)**	(140)
Interest element of lease rentals paid		**(5)**	(6)
Interest paid		**(41,518)**	(41,504)
Net cash used in financing activities		**(41,664)**	(41,650)
Net decrease in cash and cash equivalents		**(13,516)**	(3,757)
Cash and cash equivalents at beginning of the year		**38,904**	40,619
Effect of foreign exchange rate changes		**549**	2,042
Cash and cash equivalents at end of the year	22	**25,937**	38,904

The notes on pages 115 to 195 form part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Mongolian Mining Corporation (the "**Company**") was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 October 2010. The Company and its subsidiaries (together referred to as the "**Group**") are principally engaged in the mining, processing, transportation and sale of coal.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Group and the Group's interests in two 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:

- Investments in debt and equity securities (see Note 2(f));
- Buildings and plants as well as machinery and equipment (see Note 2(h)); and
- Derivative financial instruments (see Note 2(g)).

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

The novel coronavirus ("**COVID-19**") outbreak has adversely impacted the operating environment and business performance of the Group during the year ended 31 December 2021. The coal sales volume has been impacted by temporary border crossing limitations and volatility caused by COVID-19 outbreak during the year of 2021. As a result, the Group recorded a net loss of USD55,438,000 for the year ended 31 December 2021 and had net current liabilities of USD49,998,000 as at 31 December 2021. The Group has been closely monitoring the impact of the COVID-19 outbreak on its operational and financial performance and has put in place contingency measures for cash conservation and efficiency purposes such as temporary adjustment to levels of production and obtained standby facilities from local banks in Mongolia totalling USD38,700,000 as of the reporting date. In addition, in order to secure export shipments by minimising COVID-19 impact, the Government of Mongolia ("**GoM**") established a custom bonded terminal for containerised shipments at Gashuunsukhait-Ganqimaodu border checkpoint ("**GS Terminal**") for coal exports, which has commenced operation in November 2021. The GS Terminal allows truck drivers to unload and pick up the containers with minimal human contact and thus lowering the risk of cross-border infection. Based on the cash flow forecast of the Group for the next twelve months ending 31 December 2022 prepared by the management, the directors of the Company (the "**Directors**") expect to maintain adequate financial resources to cover its operating costs and meet its financing commitments, as and when they fall due for the twelve months period subsequent to 31 December 2021.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**").

The functional currency of the Group's overseas holding entities and main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is Mongolian Togrog ("**MNT**").

The Company and the Group's presentation currency is USD.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(c) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*
- Amendment to IFRS 16, *Covid-19-related rent concessions*

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.

(d) Subsidiaries and non-controlling interests

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(e) Associates and joint ventures

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale (see Note 2(y)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture, after applying the ECL model to such other long-term interests where applicable (see Note 2(k)(i)).

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

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

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

In the Company's statement of financial position, investments in associate and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see Note 2(y)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(v)(ii)).

– fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value through profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in debt and equity securities (continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(g) Derivative financial instruments

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

(h) Property, plant and equipment

The following items are stated at their revalued amounts, being their fair values at the date of the revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses:

- buildings and plants (under the Property, plant and equipment and Construction in progress); and
- machinery and equipment.

Revaluations are performed with sufficient regularity to ensure that the carrying amounts of these assets do not differ materially from that which would be determined using fair values at the end of reporting period.

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)):

- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest;
- motor vehicles;
- office equipment; and
- mining properties.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment (continued)

Changes arising on the revaluation are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

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

Construction in progress represents property, plant and equipment under construction and equipment pending installation. Except for those stated at their revalued amount as aforementioned, other construction in progress items are initially recognised at cost less impairment losses (Note 2(k)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (Note 2(x)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment (continued)

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

	Depreciable life
– Buildings and plants	10 – 40 years
– Machinery and equipment	10 years
– Motor vehicles	5 – 10 years
– Office equipment	3 – 10 years
– Right of use assets are depreciated over the unexpired term of lease	

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

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

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

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

(i) Intangible assets

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

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

Amortisation of other intangible assets with finite useful lives is recognised in profit or loss on a straight-line basis over the expected useful lives. The software are amortised over 10 years from the date they are available for use, and GS Terminal is amortised for 3 years from the date it is available for use.

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(h) and 2(k)(ii)).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see Notes 2(f)(i), 2(v)(ii) and 2(k)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets (continued)

As a lessee (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, including loans to associates and joint ventures, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

– contract assets as defined in IFRS 15 (see Note 2(p)); and

– debt securities measured at FVOCI (recycling).

Other financial assets measured at fair value, including units in bond funds, equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) *Credit losses from financial instruments, contract assets and lease receivables* (continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(v)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(ii) Impairment of other assets

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

- property, plant and equipment, including right-of-use assets;
- construction in progress;
- intangible assets;
- other non-current assets (excluding other financial assets); and
- investment in subsidiaries, associates and joint ventures in the Company's statement of financial position.

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

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

- Recognition of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

(l) Inventories

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(p)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 2(t).

(n) Interest-bearing borrowings

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

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(p) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(m)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(v)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(v)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i).

(r) Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

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

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

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

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

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

  - the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Obligations for reclamation

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

(v) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue associated with the sale of coal is recognised when the control over the goods is transferred to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Translation of foreign currencies

The presentation currency of the Group is USD. The functional currency of the Company, the investment holding companies and main operating group entities located in Mongolia is USD and the functional currency of remaining group entities located in Mongolia is MNT. Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

The results of subsidiaries using the functional currency other than USD are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into USD at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(x) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Non-current assets held for sale

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

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

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

(z) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent, if any.

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

(bb) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Fair value of buildings and plants, machinery and equipment classified as property, plant and equipment 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 equipment and construction in progress were revalued by an external appraiser as at 31 December 2016 and 2021, respectively (see Notes 13 and 14). 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(ii) *Reserves* (continued)

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 is 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 to the statement of profit or loss 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 statement of financial position or charged to the statement of profit or loss 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(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, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Impairment of mining related assets

The Group identifies if there is any indication of impairment of mining related assets at each end of the reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow 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 result in increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(vi) Derivative financial instruments

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

(vii) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. Stripping costs (waste removal costs) are incurred during the development and production phases at open-pit mining and they 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. Judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and production stripping activity. These are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity assets.

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

- It is probable that future economic benefits associated with the asset will flow to the entity; and

- The costs can be measured reliably.

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(vii) Capitalised stripping costs (continued)

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

– It is probable that the future economic benefit (improved access to ore) will flow to the Group;

– The ore body or component of 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.

(viii) 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 judgements will result in different positions, the most likely amounts of the outcome will be estimated and adjustments to the liabilities will be made in the period in which such determination is made. Due to the inherent uncertainties related to the eventual outcome of each case, it is probable that certain matters may be resolved for amounts materially different from any estimated provisions or previous disclosures.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to certain Group's accounting policies. Respective information and assumptions and their risk factors are disclosed accordingly in Notes 3(a) (i), (iii), (iv), (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:

	2021	2020
	USD'000	USD'000
Washed hard-coking coal ("**HCC**")	**174,175**	378,594
Washed semi-soft coking coal	**6,357**	30,627
Washed thermal coal	**3,019**	7,892
Raw thermal coal	**518**	311
	184,069	417,424

During the year ended 31 December 2021, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD30,191,000 and USD23,320,000. During the year ended 31 December 2020, the Group had three customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD127,532,000, USD65,333,000 and USD45,432,000.

Revenue during the year ended 31 December 2021 includes approximately USD75,516,000 (2020: USD307,918,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

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

5 COST OF REVENUE

	2021 USD'000	2020 USD'000
Mining costs	**42,475**	108,333
Processing costs	**11,950**	35,430
Transportation costs	**43,138**	67,587
Others (Note (i))	**43,906**	69,865
Cost of revenue during mine operations	**141,469**	281,215
Cost of revenue during idled mine period (Note (ii))	**20,021**	7,633
Cost of revenue	**161,490**	288,848

Notes:

(i) Others include royalty tax on the coal sold.

(ii) For the year ended 31 December 2021, cost of revenue during idled mine period mainly includes depreciation expense related to idled plant and equipment, staff costs and mining contractor costs.

6 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2021 USD'000	2020 USD'000
Interest income	**(54)**	(110)
Net change in fair value of derivative component of senior notes	**–**	(548)
Foreign exchange gain, net	**–**	(4,395)
Finance income	**(54)**	(5,053)
Interest on liability component of senior notes (Note 23)	**46,170**	45,745
Interest on lease liabilities	**5**	6
Transaction fee	**66**	–
Unwinding interest on		
– Accrued reclamation obligations (Note 28)	**492**	440
Net interest expense	**46,733**	46,191
Net change in fair value of derivative component of senior notes	**608**	–
Foreign exchange loss, net	**1,639**	–
Finance costs	**48,980**	46,191
Net finance costs	**48,926**	41,138

No borrowing costs have been capitalised for the years ended 31 December 2021 and 2020.

6 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs:

	2021 **USD'000**	2020 USD'000
Salaries, wages, bonuses and benefits	**20,353**	26,850
Retirement scheme contributions	**2,894**	3,726
Equity-settled share-based payment expenses (Note 27)	**34**	136
	23,281	30,712

Pursuant to the relevant labour 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 8.5% 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:

	2021 **USD'000**	2020 USD'000
Selling and distribution costs (Note (i))	**9,625**	27,645
Depreciation and amortisation	**49,704**	61,199
Net (gain)/loss on disposals of property, plant and equipment	**(29)**	1
Auditors' remuneration		
– audit services	**639**	608
– tax and other services	**30**	56
	669	664
Cost of inventories (Note (ii))	**141,469**	281,215

Notes:

(i) 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 sales activities in inland PRC.

(ii) Cost of inventories includes USD48,711,000 (2020: USD82,805,000) relating to personnel expenses, and depreciation and amortisation which are also included in the respective amounts disclosed separately above for each of these types of expenses. Cost of inventories also includes transportation and stockpile losses amounted to USD2,269,000 (2020: USD8,293,000).

7 INCOME TAX

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

	2021 USD'000	2020 USD'000
Current tax		
Provision for the year (Note 25(a))	**132**	17,004
Deferred tax		
Origination and reversal of temporary difference (Note 25(b))	**(5,145)**	(6,408)
	(5,013)	10,596

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

	2021 USD'000	2020 USD'000
(Loss)/profit before taxation	**(60,451)**	40,201
Notional tax on (loss)/profit before taxation	**(12,141)**	8,301
Tax effect of non-deductible items (Note (iii))	**6,732**	4,052
Tax effect of non-taxable items (Note (iii))	**(334)**	(2,040)
Tax losses not recognised	**730**	283
Actual tax expenses	**(5,013)**	10,596

Notes:

(i) Pursuant to the income tax rules and regulations of Mongolia, the subsidiaries of the Group located in Mongolia are liable to Mongolian Corporate Income Tax at a rate of 10% of the first MNT6 billion taxable income, and 25% of the remaining taxable income for the years ended 31 December 2021 and 2020. According to the Corporate Income Tax Law of the PRC, the Company's subsidiaries in the PRC is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2021 and 2020.

(iii) Non-deductible and non-taxable items mainly include net unrealised exchange gain or loss, other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the years ended 31 December 2021 and 2020.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of USD55,238,000 (profit attributable to ordinary equity shareholders of the Company of 2020: USD28,940,000) and the weighted average of 1,031,576,786 ordinary shares (2020: 1,029,176,786 ordinary shares) in issue during the year.

(b) Diluted (loss)/earnings per share

For the years ended 31 December 2021 and 2020, basic and diluted (loss)/earnings per share are the same.

The equity-settled share-based payment transactions (see Note 27) are anti-dilutive and therefore not included in calculating diluted (loss)/earnings per share for the years ended 31 December 2021 and 2020.

9 DIRECTORS' REMUNERATION

Details of the Directors' remuneration disclosed are as follows:

	Year ended 31 December 2021					
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses (Note 10)	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	19	1,139	23	96	–	1,277
Battsengel Gotov	19	732	23	62	10	846
Non-executive directors						
Enkhtuvshin Gombo	19	–	–	–	–	19
Enkhtuvshin Dashtseren	19	–	–	–	–	19
Od Jambaljamts	19	–	–	–	–	19
Independent non-executive directors						
Khashchuluun Chuluundorj	19	–	–	–	–	19
Unenbat Jigjid	19	–	–	–	–	19
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	191	1,871	46	158	10	2,276

9 DIRECTORS' REMUNERATION (CONTINUED)

	Year ended 31 December 2020					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses (Note 10)) USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts (Chairman)	19	1,336	75	46	–	1,476
Battsengel Gotov	19	704	75	26	43	867
Non-executive directors						
Enkhtuvshin Gombo	19	–	–	–	–	19
Enkhtuvshin Dashtseren	19	–	–	–	–	19
Od Jambaljamts	19	–	–	–	–	19
Independent non-executive directors						
Khashchuluun Chuluundorj	19	–	–	–	–	19
Unenbat Jigjid	19	–	–	–	–	19
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	191	2,040	150	72	43	2,496

No emoluments have been paid to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2021 and 2020.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2021 **Number of individuals**	2020 Number of individuals
Directors	**2**	2
Non-directors	**3**	3
	5	5

The emoluments of the Directors are disclosed in Note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2021 **USD'000**	2020 USD'000
Basic salaries, allowances and benefits in kind	**749**	768
Discretionary bonuses	**83**	226
Retirement scheme contributions	**69**	33
Equity-settled share-based payment expenses (Note)	**15**	63
	916	1,090

The emoluments of the remaining individuals with the highest emoluments are within the following band:

	2021 **Number of individuals**	2020 Number of individuals
HKD2,000,001 to HKD2,500,000	**3**	–
HKD2,500,001 to HKD3,000,000	**–**	3

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2021 and 2020.

Note:

These represent the estimated value of share options granted to the key management under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(r)(ii) and, in accordance with that policy, included adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of the principal terms and number of options granted are disclosed under the paragraph in Note 27.

11 OTHER COMPREHENSIVE INCOME

	2021 **USD'000**	2020 USD'000
Exchange differences on translation of the financial statements of certain subsidiaries	**184**	(7,556)
Surplus on revaluation of plants, buildings, and machinery and equipment:		
– Before-tax amount (Notes 13, 14)	**78,672**	–
– Tax effects	**(15,777)**	–
– Net-of-tax amount	**62,895**	–
	63,079	(7,556)

Note:

Exchange differences on re-translation mainly resulted from the fluctuation of RMB exchange rate against USD during the respective reporting periods.

12 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority assets and liabilities are located in Mongolia and the majority of its customers are located in China. Based on information reported by 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 products. Accordingly, no additional business and geographical segment information is presented.

13 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Cost or valuation:						
At 1 January 2020	439,443	297,650	42,937	4,567	457,859	1,242,456
Additions	2,077	2,191	227	166	64,773	69,434
Disposals	(727)	(213)	(217)	(305)	–	(1,462)
Exchange adjustments	(5,113)	(2,387)	(2)	(19)	–	(7,521)
At 31 December 2020	435,680	297,241	42,945	4,409	522,632	1,302,907
Representing:						
Cost	360	–	42,945	4,409	522,632	570,346
Valuation	435,320	297,241	–	–	–	732,561
	435,680	297,241	42,945	4,409	522,632	1,302,907
At 1 January 2021	435,680	297,241	42,945	4,409	522,632	1,302,907
Additions	285	95	2,506	570	60,545	64,001
Disposals	(789)	(2,274)	(1,770)	(234)	–	(5,067)
Transfer from construction in progress	850	255	–	–	–	1,105
Surplus on revaluation	75,662	35,117	–	–	–	110,779
Exchange adjustments	31	14	2	–	–	47
At 31 December 2021	**511,719**	**330,448**	**43,683**	**4,745**	**583,177**	**1,473,772**
Representing:						
Cost	502	–	43,683	4,745	583,177	632,107
Valuation	511,217	330,448	–	–	–	841,665
	511,719	330,448	43,683	4,745	583,177	1,473,772
Accumulated amortisation and depreciation:						
At 1 January 2020	96,311	147,449	29,313	3,234	87,852	364,159
Charge for the year	14,061	18,750	4,199	533	21,219	58,762
Written back on disposals	–	(196)	(217)	(55)	–	(468)
Exchange adjustments	(1,413)	(1,168)	(3)	(12)	–	(2,596)
At 31 December 2020	108,959	164,835	33,292	3,700	109,071	419,857
At 1 January 2021	108,959	164,835	33,292	3,700	109,071	419,857
Charge for the year	13,490	17,853	4,326	567	11,568	47,804
Written back on disposals	(29)	(1,415)	(197)	(145)	–	(1,786)
Adjustment on revaluation	19,723	19,472	–	–	–	39,195
Exchange adjustments	11	7	1	2	–	21
At 31 December 2021	**142,154**	**200,752**	**37,422**	**4,124**	**120,639**	**505,091**
Carrying amount:						
At 31 December 2021	**369,565**	**129,696**	**6,261**	**621**	**462,538**	**968,681**
At 31 December 2020	326,721	132,406	9,653	709	413,561	883,050

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes:

(a) Majority part of the Group's property, plant and equipment are located in Mongolia.

(b) Mining properties as at 31 December 2021 include stripping activity assets with the carrying amount of USD424,554,000 (2020: USD386,376,000) and application fee for the mining rights of USD898,000 (2020: USD858,000) in relation to the Group's mine deposits.

(c) As at 31 December 2021, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2021 is approximately USD9,371,000 (2020: USD8,427,000). The Directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.

(d) Buildings and plants as at 31 December 2021 include right-of-use assets for office leasing with the carrying amount of USD71,000 (2020: USD70,000).

(e) 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

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(i) Fair value hierarchy (continued)

	Fair value as at 31 December 2021 USD'000	**Fair value measurements as at 31 December 2021 categorised into**		
		Level 1 USD'000	**Level 2 USD'000**	**Level 3 USD'000**
Recurring fair value measurement				
Buildings and plants	**369,495**	**–**	**–**	**369,495**
Machinery and equipment	**129,696**	**–**	**–**	**129,696**
Buildings and plants, machinery and equipment under construction (Note 14)	**46,828**	**–**	**–**	**46,828**
Total	**546,019**	**–**	**–**	**546,019**

	Fair value as at 31 December 2020 USD'000	Fair value measurements as at 31 December 2020 categorised into		
		Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Buildings and plants	326,651	–	–	326,651
Machinery and equipment	132,406	–	–	132,406
Buildings and plants, machinery and equipment under construction (Note 14)	43,961	–	–	43,961
Total	503,018	–	–	503,018

During the year ended 31 December 2021, 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 and 2021, 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 had discussion with the appraisers on the valuation assumptions and valuation results when the valuation was performed.

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 specialised properties.

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(i) Fair value hierarchy (continued)

Depreciated replacement cost is defined by International Valuation Standards ("**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 optimisation". Depreciated replacement cost application for major assets classes is briefly described below:

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

- Reproduction cost new ("**RCN**") estimations 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: FM Global, Unitary Construction costs, etc.;

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

- No any functional obsolescence was revealed.

– Machinery and equipment:

- Machinery RCN was estimated based on the actual machinery quotations received from the 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 were compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Coal Handling and Preparation Plant ("**CHPP**") modules' estimated unitary RCN (USD/tonne of processing capacity) is in the middle of the range of recently constructed coal processing plants;

- Engineering and general administrative expenses for several analysed coal mines range between 7-8% of RCN; and

- Interest During Construction estimated to be equal to 7.8% of RCN based on the actual interest paid during CHPP construction.

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(e) Fair value measurement of property, plant and machinery (continued)

(ii) Information about Level 3 fair value measurements

IVS requires that for a private sector entity with specialised 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 ("**CGU**"). For the purpose of the profitability test, the Company was considered as a single CGU.

In testing profitability, the impact that current economic conditions may potentially have on the Group'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 of projections of operating activities and financial performance of the Group 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:

	2021 **USD'000**	2020 USD'000
Buildings and plants	**141,397**	119,617
Machinery and equipment	**24,439**	21,941
Buildings and plants, machinery and equipment under construction (Note 14)	**20,692**	5,573
	186,528	147,131

(f) Impairment of mining related assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2021, according to IAS 36, *Impairment of assets*, the management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets related to the Ukhaa Khudag ("**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 CGU.

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(f) Impairment of mining related assets (continued)

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

The growth rate is estimated based on 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 different qualities and type of coal.

Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2021 is consistent with that at the year end of 2020, 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.

– 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.

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(f) Impairment of mining related assets (continued)

– 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 17% and pre-tax discount rate of 22% were applied to the future cash flows projection at the year end of 2021 (2020: post-tax discount rate of 18% and pre-tax discount rate of 23%). The Directors believe that the post-tax discount rate was matching 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 2021, and has not resulted in the identification of an impairment loss for the year ended 31 December 2021. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2021 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. The Directors consider that a reasonable changes in assumptions will not result in an impairment of mining related assets.

14 CONSTRUCTION IN PROGRESS

	2021 USD'000	2020 USD'000
At 1 January	**43,961**	33,796
Additions	**9**	10,151
Transfer to property, plant and equipment (Note 13)	**(1,105)**	–
Revaluation gain	**7,088**	–
Disposal	**(3,126)**	–
Exchange adjustments	**1**	14
At 31 December	**46,828**	43,961

Note: The construction in progress is mainly related to machinery and equipment.

15 OTHER RIGHT-OF-USE ASSETS

	2021 USD'000	2020 USD'000
Cost:		
At 1 January	**65**	65
At 31 December	**65**	65
Accumulated depreciation:		
At 1 January	**14**	13
Charge for the year	**1**	1
At 31 December	**15**	14
Net carrying amount:	**50**	51

Note: Right-of-use assets comprise interests in leasehold land held for own use located in Mongolia, with original lease period from 15 years to 60 years.

16 INTANGIBLE ASSETS

	Acquired mining right (Note (i))	Software	GS Terminal (Note (ii))	Total
	USD'000	USD'000	USD'000	USD'000
Cost:				
At 1 January 2020	701,557	3,676	–	705,233
At 31 December 2020	701,557	3,676	–	705,233
At 1 January 2021	701,557	3,676	–	705,233
Addition	–	–	3,031	3,031
At 31 December 2021	**701,557**	**3,676**	**3,031**	**708,264**
Accumulated amortisation and impairment loss:				
At 1 January 2020	202,004	1,839	–	203,843
Amortisation charge for the year	2,069	367	–	2,436
At 31 December 2020	204,073	2,206	–	206,279
At 1 January 2021	204,073	2,206	–	206,279
Amortisation charge for the year	1,467	368	64	1,899
At 31 December 2021	**205,540**	**2,574**	**64**	**208,178**
Carrying amount:				
At 31 December 2021	**496,017**	**1,102**	**2,967**	**500,086**
At 31 December 2020	497,484	1,470	–	498,954

Notes:

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

(ii) GS Terminal represents the permission to operate at the customs bonded terminal for 3 years.

17 INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong	1 share	100%	–	Investment holding
Mongolian Coal Corporation S.à.r.l	Luxembourg	1,712,669 shares of USD10 each	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	19,800,000 shares of USD1 each	–	100%	Investment holding
Energy Resources LLC ("**ER**")	Mongolia	117,473,410 shares of USD2 each	–	100%	Mining and trading of coal
Energy Resources Rail LLC	Mongolia	15,300,000 shares of MNT1,000 each	–	100%	Railway project management
Tavan Tolgoi Airport LLC	Mongolia	5,795,521 shares of MNT1,000 each	–	100%	Airport operation and management
Ukhaa Khudag Water Supply LLC	Mongolia	96,016,551 shares of MNT1,000 each	–	100%	Water exploration and supply management
United Power LLC	Mongolia	100,807,646 shares of MNT1,000 each	–	100%	Power supply project management
Tavan Tolgoi Power Plant Water Supply LLC	Mongolia	6,554,000 shares of MNT1,000 each	–	100%	Power supply and water exploration project
Khangad Exploration LLC	Mongolia	34,532,399 shares of USD1 each	–	100%	Exploration and development of coal mine
Baruun Naran S.à.r.l	Luxembourg	24,918,394 shares of EUR1 each	–	100%	Investment holding
Tianjin Zhengcheng Import and Export Trade Co., Ltd. ("**TZJV**")(i)	China	RMB2,035,998	–	51%	Trading of coals and machinery equipment
Inner Mongolia Fangcheng Trade Co., Ltd.(ii)	China	RMB1,000,000	–	51%	Trading of coals and machinery equipment

Notes:

(i) Registered as Sino-Foreign Cooperative Equity Joint Ventures under PRC law.

(ii) Registered as Private Enterprise under PRC law.

18 INTERESTS IN ASSOCIATES

The following table presents the particulars of the associates, which are unlisted corporate entities whose quoted market prices are not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company: Group's effective interest	Equity attributable to the Company: Held by a subsidiary	Principal activity
Gashuun Sukhait Road LLC	Incorporated	Mongolia	100,000 shares of MNT1,000 each	40.00%	40.00%	Paved road maintenance service (Note (i))
Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd.	Incorporated	People's Republic of China	RMB455,000,000	10.00%	10.00%	Operate warehouse for coal storage (Note (ii))

Notes:

(i) The principal activities of Gashuun Sukhait Road LLC are supplying safety, readiness, protection, repair and maintenance service for paved road operations from UHG to Gashuun Sukhait ("**GS**"). The investment in Gashuun Sukhait Road LLC enables the Group to monitor the usage situation of the aforementioned paved road.

(ii) The principal activities of Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd. ("**Guoneng Ganqimaodu**") are provision of customs-supervised warehousing services, road cargo transportation, general cargo warehousing services, domestic freight forwarding and loading service.

On 9 April 2021, ER, a wholly-owned subsidiary of the Company, entered into an investment agreement ("**Investment agreement**") with CHN Energy Coal Coking Co., Ltd. ("**CECC**"), an independent third party and one of the Group's largest customer. Pursuant to the Investment Agreement, ER and CECC agreed to establish Guoneng Ganqimaodu for coal storage and handling customs bonded stockyard located at the Ganqimaodu port in the PRC. ER and CECC hold 10% and 90%, respectively, of the total equity interests in Guoneng Ganqimaodu. The registered capital of Guoneng Ganqimaodu is RMB500,000,000 which is contributed by ER and CECC respectively, in proportion to their equity interests in Guoneng Ganqumaodu. On 30 December 2021, ER paid up RMB5,000,000 (equivalent to approximately USD785,000) of Guoneng Ganqimaodu's registered capital, and will pay the remaining of Guoneng Ganqimaodu's proportionate registered capital in 2022. Pursuant to ER's rights stated on the articles of association of Guoneng Ganqimaodu, the directors of the Company considered that the Group has significant influence on Guoneng Ganqimaodu through its participation in the board of directors of Guoneng Ganqimaodu.

All of above associates are accounted for using the equity method in the consolidated financial statements.

18 INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Gashuun Sukhait Road LLC	
	2021	2020
	USD'000	USD'000
Gross amounts of the associate:		
Current assets	**1,547**	1,665
Non-current assets	**859**	870
Current liabilities	**1,997**	1,636
Equity	**409**	899
Revenue	**1,898**	3,138
Loss from continuing operations	**(490)**	(192)
Total comprehensive income	**(490)**	(192)
Reconciled to the Group's interests in associate:		
Gross amounts of net assets of the associate	**409**	899
Group's effective interest	**40%**	40%
Group's share of net assets of the associate	**164**	360
Carrying amount in the consolidated financial statements	**164**	360

19 OTHER NON-CURRENT ASSETS

	2021	2020
	USD'000	USD'000
Prepayments in connection with construction work, equipment purchases and others (Note 21(c)(ii))	**55,020**	51,755
Other financial asset (Note)	**614**	614
	55,634	52,369

Note: The Group has an investment of 2.25% equity interest in International Medical Centre LLC.

20 INVENTORIES

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

	2021 USD'000	2020 USD'000
Coal	**155,217**	103,831
Materials and supplies	**14,883**	12,874
	170,100	116,705
Less: Provision on coal inventories	**(10,437)**	(10,437)
	159,663	106,268

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

	2021 USD'000	2020 USD'000
Carrying amount of inventories sold	**141,469**	281,215

21 TRADE AND OTHER RECEIVABLES

	2021 USD'000	2020 USD'000
Trade receivables (Note (a))	**14,038**	11,093
Other receivables (Note (c))	**85,482**	83,262
	99,520	94,355
Less: allowance for credit losses (Note (b))	**–**	–
	99,520	94,355

(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 loss allowance, is as follows:

	2021 USD'000	2020 USD'000
Within 90 days	**14,020**	7,378
90 to 180 days	**–**	3,715
180 to 270 days	**18**	–
	14,038	11,093

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Loss allowance for trade receivables

Credit 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 credit losses are written off against trade receivables directly (Note 2(k)(i)).

As at 31 December 2021, the Group evaluated the loss allowance for ECL and no loss allowance of trade receivables (2020: nil) was made based on the assessment. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in Note 30(b).

(c) Other receivables

	2021	2020
	USD'000	USD'000
Amounts due from related parties (Note (i))	**1**	381
Prepayments and deposits (Note (ii))	**49,220**	51,095
Value added tax ("**VAT**") and other tax receivables (Note (iii))	**24,236**	31,408
Others	**12,025**	378
	85,482	83,262

Notes:

(i) Amounts due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 32(a)).

(ii) At 31 December 2021 and 2020, 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 Mongolian Taxation Authority ("**MTA**"). According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties' payable to MTA against VAT receivable from MTA. The Group verifies the collectability of such funds with MTA on a regular basis, and based on currently available information, the Group anticipates full recoverability.

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

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2021 USD'000	2020 USD'000
Cash on hand	**2**	2
Cash at bank	**25,935**	38,902
Cash and cash equivalents in the consolidated cash flow statement	**25,937**	38,904

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Senior Notes due 2022 (Note) USD'000 (Note 23)	Senior Notes due 2024 (Note) USD'000 (Note 23)	Total USD'000
At 1 January 2021	**17,067**	**441,328**	**458,395**
Changes from financing cash flows:			
Interest paid	**(818)**	**(40,700)**	**(41,518)**
Total changes from financing cash flows	**(818)**	**(40,700)**	**(41,518)**
Changes in fair value	**608**	**–**	**608**
Other changes:			
Interest expenses (Note 6(a))	**1,408**	**44,762**	**46,170**
Others	**(82)**	**(2,082)**	**(2,164)**
Total other changes	**1,326**	**42,680**	**44,006**
At 31 December 2021	**18,183**	**443,308**	**461,491**

Note: Liabilities include accrued interest as disclosed in Note 24.

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Senior Notes due 2022 (Note) USD'000 (Note 23)	Senior Notes due 2024 (Note) USD'000 (Note 23)	Total USD'000
At 1 January 2020	17,306	439,545	456,851
Changes from financing cash flows:			
Interest paid	(804)	(40,700)	(41,504)
Total changes from financing cash flows	(804)	(40,700)	(41,504)
Changes in fair value	(548)	–	(548)
Other changes:			
Interest expenses (Note 6(a))	1,179	44,566	45,745
Others	(66)	(2,083)	(2,149)
Total other changes	1,113	42,483	43,596
At 31 December 2020	17,067	441,328	458,395

Note: Liabilities include accrued interest as disclosed in Note 24.

23 SENIOR NOTES

	2021	2020
	USD'000	USD'000
Senior Notes due 2022 (Note (i))	**17,885**	16,882
Senior Notes due 2024 (Note (ii))	**434,716**	432,736
	452,601	449,618

Notes:

(i) The outstanding principal amount of the Senior Notes due 2022 was USD14,912,012 as at 31 December 2021 (31 December 2020: USD14,764,368). The Senior Notes due 2022 bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually, and due on 30 September 2022 ("**Senior Notes due 2022**"). Interest rate of 5% per annum comprises of cash interest rate and paid-in-kind ("**PIK**") interest rate components. During the year ended 31 December 2021, PIK notes of USD147,644 (2020: USD146,182) were issued as PIK interest and added onto the outstanding principal amount of the Senior Notes due 2022.

The Senior Notes due 2022 have been accounted for as a hybrid financial instrument containing derivative components and a liability component. The fair value of the derivative component of interest rate linked to the benchmark coal price index, the derivative component of cash sweep premium and the derivative component of early redemption option as at 31 December 2021 was USD712,000, USD2,456,000 and nil, respectively (31 December 2020: USD114,000, USD2,446,000 and nil, respectively). The liability component was initially recognised at its fair value and is accounted on amortised cost subsequently. As at 31 December 2021, the carrying amount of the liability component was USD14,717,000 (31 December 2020: USD14,322,000).

Fair value of the derivative components of the Senior Notes due 2022 was estimated by the Directors based on the discounted cash flow method.

(ii) On 15 April 2019, the Group issued the Senior Notes due 2024 with a principal amount of USD440,000,000 ("**Senior Notes due 2024**") which were listed on the Singapore Exchange Securities Trading Limited. The Senior Notes due 2024 bear interest at 9.25% per annum fixed rate, payable semi-annually, and due on 15 April 2024.

The Senior Notes due 2024 have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of early redemption option was initially recognised at its fair value of nil. The fair value of the derivative component of early redemption option as at 31 December 2021 was nil (31 December 2020: nil). The liability component was initially recognised at fair value of USD429,795,446, after taking into account attributable transaction costs of USD10,204,554 and is accounted on amortised cost subsequently. As at 31 December 2021, the carrying amount of the liability component was USD434,716,000 (31 December 2020: USD432,736,000).

Fair value of the derivative component was estimated by the Directors based on the Binomial model.

24 TRADE AND OTHER PAYABLES

	2021	2020
	USD'000	USD'000
Trade payables (Note (i))	**141,395**	95,607
Amounts due to related parties (Note (ii))	**3,870**	5,019
Payables for purchase of equipment	**4,504**	4,301
Interest payable (Note (iii))	**8,890**	8,777
Other taxes payables	**13,276**	20,734
Others (Note (iv))	**3,663**	8,543
	175,598	142,981

Notes:

(i) As of the end of the reporting period, the ageing analysis of trade creditors based on the invoice date is as follows:

	2021	2020
	USD'000	USD'000
Within 90 days	**48,505**	47,828
90 to 180 days	**5,812**	8,222
180 to 365 days	**31,323**	9,159
Over 365 days	**55,755**	30,398
	141,395	95,607

(ii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 32(a)).

(iii) As at 31 December 2021, interest payables related to Senior Notes due 2022 and Senior Notes due 2024 are amounting to USD298,000 and USD8,592,000, respectively. (31 December 2020: USD185,000 and USD8,592,000, respectively).

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

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

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax payable in the consolidated statement of financial position represents:

	2021 USD'000	2020 USD'000
At 1 January	**3,323**	25,311
Provision for the year (Note 7(a))	**132**	17,004
Offsetting with other tax receivables	**(2,436)**	(19,972)
Income tax paid	**(973)**	(18,055)
Exchange adjustments	**19**	(965)
At 31 December	**65**	3,323

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of other properties USD'000	Tax losses USD'000	Unrealised profits on intra-group transactions USD'000	Depreciation and amortisation USD'000	Unrealised foreign exchange differences on long-term borrowings USD'000	Fair value adjustments in relation to the acquisition USD'000	Fair value of financial instrument USD'000	Total USD'000
Deferred tax arising from:								
At 1 January 2020	(66,069)	1,501	(1,029)	3,682	6,452	(99,616)	283	(154,796)
Credited/(charged) to profit or loss (Note 7(a))	3,961	13	(338)	(1,899)	4,541	396	(266)	6,408
Credited/(charged) to reserves	(2,434)	(61)	1,135	339	(321)	(2)	(9)	(1,353)
At 31 December 2020	(64,542)	1,453	(232)	2,122	10,672	(99,222)	8	(149,741)
At 1 January 2021	**(64,542)**	**1,453**	**(232)**	**2,122**	**10,672**	**(99,222)**	**8**	**(149,741)**
Credited/(charged) to profit or loss (Note 7(a))	**4,423**	**5,650**	**(820)**	**(4,328)**	**-**	**71**	**149**	**5,145**
Credited/(charged) to reserves	**(15,225)**	**1**	**8**	**(224)**	**3**	**1**	**1**	**(15,435)**
At 31 December 2021	**(75,344)**	**7,104**	**(1,044)**	**(2,430)**	**10,675**	**(99,150)**	**158**	**(160,031)**

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised (continued)

	2021 USD'000	2020 USD'000
Net deferred tax assets recognised in the consolidated statement of financial position	**21,767**	17,244
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(181,798)**	(166,985)
	(160,031)	(149,741)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD406,646,000 as at 31 December 2021 (2020: USD402,396,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated.

Expiry of unrecognised tax losses of Group entities located in Mongolia:

	2021 USD'000	2020 USD'000
Year of expiry		
2021	**–**	13
2022	**131**	131
2023	**96**	–
2024	**–**	–
2025	**1,021**	–
	1,248	144

In relation to group entities located in the jurisdictions other than Mongolia, the tax losses amounting to USD405,398,000 as at 31 December 2021 do not expire under current tax legislations (31 December 2020: USD402,252,000).

26 OTHER NON-CURRENT LIABILITIES

	2021	2020
	USD'000	USD'000
Long-term payables to mining contractor	**–**	38,695
Long-term employee benefit expense	**–**	334
	–	39,029

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company had a share option scheme ("**Share Option Scheme**") which was adopted on 17 September 2010, that became effective on the Listing Date on 13 October 2010 ("**Adoption Date**"), whereby the board of Directors of the Company is authorised, at their discretion, invites eligible participants to receive options to subscribe for shares ("**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group. The Share Option Scheme expired 12 October 2020; however, the provisions of the Share Option Scheme remain in force to the extent necessary to give effect to any Options granted or exercised thereto or otherwise as may be required.

On 16 June 2021, the Company adopted a new share option scheme ("**New Share Option Scheme**"), in which the board of Directors of the Company is authorised, at its discretion, to grant to eligible participants options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company. There is no Share Options granted under the New Share Option Scheme during the year ended 31 December 2021.

(a) The terms and conditions of the grants as at 31 December 2021 are as follows:

Grant Date	**Number of options (Note (b)(ii))** '000	**Vesting conditions**	**Contractual life of options**
8 May 2017	2,800	1 July 2017	1 July 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2018	8 May 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2019	8 May 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2020	8 May 2017 to 8 May 2022
8 May 2017	2,800	8 May 2017 to 8 May 2021	8 May 2017 to 8 May 2022

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

	2021		2020	
	Weighted average exercise price HKD	**Number of options ’000**	Weighted average exercise price HKD	Number of options ’000
Outstanding at 1 January	**2.39**	**13,680**	5.80	31,589
Forfeited during the year	**2.39**	**(380)**	7.12	(60)
Expired during the year	**–**	**–**	8.43	(17,849)
Exercised during the year (Note (ii))	**2.39**	**(2,400)**	–	–
Outstanding at 31 December	**2.39**	**10,900**	2.39	13,680
Exercisable at 31 December	**2.39**	**10,900**	2.39	11,020

Notes:

(i) Following the share consolidation on 26 August 2019, the numbers of outstanding share options have been adjusted from 353,477,207 shares to 35,347,720 shares, the exercise price of the outstanding share options also have been adjusted as follows:

Date of grant	**Exercise price before share consolidation** (HKD)	**Exercise price after share consolidation** (HKD)
8 May 2017	0.2392	2.392

(ii) 2,400,000 options were exercised during the year ended 31 December 2021 (year ended 31 December 2020: nil). The options outstanding at 31 December 2021 had an exercise price of HKD2.392 (2020: HKD2.392) per share and a weighted average remaining contractual life of 0.35 years (2020: 1.35 years).

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of share options and assumptions:

	8 May 2017
Fair value at measurement date	HKD0.160 ~ HKD0.1150
Share price	HKD0.2392
Exercise price	HKD0.2392
Expected life	5 years
Risk-free interest rate	1.132%
Expected volatility	62%
Expected dividends	–

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

28 PROVISIONS

	2021 USD'000	2020 USD'000
Accrued reclamation obligations	**30,928**	19,458
Others	**1,500**	1,500
	32,428	20,958
Less: Current portion	**(1,500)**	(1,500)
	30,928	19,458

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the end of each reporting period, the Group reassesses the estimated costs and adjusts the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2021 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	2021 USD'000	2020 USD'000
At 1 January	**19,458**	15,407
Increase for reassessment of estimated costs	**10,978**	3,611
Accretion expense (Note 6(a))	**492**	440
At 31 December	**30,928**	19,458

Accrued reclamation costs change during the years ended 31 December 2021 and 2020 resulted from the reassessment of estimated costs.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital USD'000 (Note 29(c))	Share premium USD'000 (Note 29(d)(i))	Other reserve USD'000 (Note 29(d)(ii))	Accumulated losses USD'000	Perpetual notes USD'000 (Note 29(e))	Total equity USD'000
At 1 January 2020		102,918	768,520	22,759	(129,777)	66,569	830,989
Changes in equity for 2020:							
Total comprehensive income		–	–	–	(2,352)	–	(2,352)
Equity-settled share-based transactions	27	–	–	136	–	–	136
At 31 December 2020		102,918	768,520	22,895	(132,129)	66,569	828,773
At 1 January 2021		**102,918**	**768,520**	**22,895**	**(132,129)**	**66,569**	**828,773**
Changes in equity for 2021:							
Total comprehensive income		**–**	**–**	**–**	**(2,681)**	**–**	**(2,681)**
Equity-settled share-based transactions	27	**240**	**806**	**(273)**	**–**	**–**	**773**
At 31 December 2021		**103,158**	**769,326**	**22,622**	**(134,810)**	**66,569**	**826,865**

(b) Dividends

The board of Directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2021 (dividend in respect of the year ended 31 December 2020: nil).

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

	2021 Number of shares '000	2021 USD'000	2020 Number of shares '000	2020 USD'000
Ordinary shares, authorised				
At 1 January and 31 December	**1,500,000**	**150,000**	1,500,000	150,000

	2021 Number of shares' 000	2021 USD'000	2020 Number of shares '000	2020 USD'000
Ordinary shares, issued and fully paid				
At 1 January	**1,029,177**	**102,918**	1,029,177	102,918
Impact of share option exercise	**2,400**	**240**	–	–
At 31 December	**1,031,577**	**103,158**	1,029,177	102,918

2,400,000 share options were exercised during the year ended 31 December 2021 (2020: nil).

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Other reserve

The other reserve comprises the following:

- the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and
- the portion of the grant date fair value of unexercised share options granted to Directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii).

29 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (continued)

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's entities to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(w).

(iv) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in Note 2(h).

(e) Perpetual notes

The Company issued perpetual notes which were listed on the Singapore Exchange Securities Trading Limited on 4 May 2017, with a principal amount of USD195,000,000 and with a fair value of USD75,897,000. On 15 April 2019, the Company redeemed principal amount of USD23,972,000 with a fair value of USD9,328,000 through debt refinancing. After the debt refinancing, the outstanding principal amount of perpetual notes was USD171,028,000 with a fair value of USD66,569,000. There was no change during the years ended 31 December 2021 and 2020.

The perpetual notes have no fixed maturity and are redeemable at the Company's option. The distribution payments can be deferred at the discretion of the Company. So long as the perpetual notes are outstanding, the Company shall not declare or pay any dividend or make any distribution on or with respect to its capital shares; or redeem, reduce, cancel, buy-back or acquire for any consideration any of its capital shares.

Fair value of the perpetual notes was valued by the management with reference to a valuation report issued by an independent valuer based on the discounted cash flow method.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2021 was 24.1% (2020: 25.9%).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

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

Trade receivables are presented net of loss allowance. In order to minimise the credit risk, the credit committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes a loss allowance for trade receivables that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the end of the reporting period, the Group believes that no loss allowance for trade receivables is required in the consolidated financial statements. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as two customers accounted for 99% (2020: three customers accounted for 100%) of the total trade receivables as at 31 December 2021.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2021:

	2021		
	Expected loss rate %	**Gross carrying amount USD'000**	**Loss allowance USD'000**
Current	**0.0%**	**14,020**	**–**
90 – 180 days	**0.0%**	**–**	**–**
180 – 270 days	**0.0%**	**18**	**–**
		14,038	**–**

	2020		
	Expected loss rate %	Gross carrying amount USD'000	Loss allowance USD'000
Current	0.0%	7,378	–
90 – 180 days	0.0%	3,715	–
		11,093	–

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The credit risk on other receivables and related companies is limited because the counterparties have no historical default record and the Directors expect that the general economic conditions will not significantly change for the 12 months after the reporting date.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 21.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's overseas holding entities and main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is MNT. The currencies giving rise to this risk are primarily MNT and RMB.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year-end date.

	Exposure to foreign currencies (expressed in United States Dollars)								
	2021					2020			
	Mongolian Togrog USD'000	**Euros USD'000**	**Renminbi USD'000**	**Hong Kong Dollar USD'000**	**United States Dollars USD'000**	Mongolian Togrog USD'000	Euros USD'000	Renminbi USD'000	United States Dollars USD'000
Trade and other receivables	**11,955**	**-**	**3,390**	**-**	**-**	31,924	–	45,399	12
Cash and cash equivalents	**496**	**2**	**21,807**	**486**	**3**	398	2	29,088	2
Trade and other payables	**(21,242)**	**(18)**	**(13,828)**	**(179)**	**(272)**	(54,885)	(259)	(6,694)	(272)
Contract liabilities	**(28,706)**	**-**	**(81,584)**	**-**	**-**	(825)	–	(20,371)	–
Net exposure arising from recognised assets and liabilities	**(37,497)**	**(16)**	**(70,215)**	**307**	**(269)**	(23,388)	(257)	47,422	(258)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Currency risk (continued)

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(w) as at the respective end of the reporting periods would (increase)/decrease loss after taxation (2020: (decrease)/increase profit after taxation) by the amount shown below. This analysis assumes that all other risk variables remained constant.

Loss/profit for the year	2021 USD'000	2020 USD'000
5% increase in MNT	**(1,406)**	(921)
5% decrease in MNT	**1,406**	921
5% increase in RMB	**(2,632)**	1,747
5% decrease in RMB	**2,632**	(1,747)
5% increase in EUR	**(1)**	(1)
5% decrease in EUR	**1**	1
5% increase in USD	**(12)**	(12)
5% decrease in USD	**12**	12
5% increase in HKD	**15**	–
5% decrease in HKD	**(15)**	–

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk

The Group's interest rate risk arises primarily from senior notes. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk.

The following table details the profile of the Group's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the end of the reporting period. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 23.

	2021 **USD'000**	2020 USD'000
Net fixed rate borrowings:		
Senior Notes due 2024	**434,716**	432,736
	434,716	432,736
Net floating rate borrowings:		
Senior Notes due 2022	**17,885**	16,882
Less: Bank deposits	**(25,935)**	(38,902)
	(8,050)	(22,020)
Total net borrowings:	**426,666**	410,716

At 31 December 2021, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and decreased/increased retained profits by approximately USD3,205,000 (31 December 2020: decreased/increased profit after taxation and retained profits by approximately USD3,075,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after taxation that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss after taxation and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle or manage its obligations associated with financial liabilities. In 2021 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due. The Directors have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2022. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The Group's objective is to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2021					
	Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Carrying amount at 31 Dec USD'000
Senior Notes due 2022 (Note 23)	15,807	–	–	–	15,807	17,885
Senior Notes due 2024 (Note 23)	32,108	40,700	460,350	–	533,158	434,716
Trade and other payables (Note 24)	175,598	–	–	–	175,598	175,598
Lease liabilities	72	–	–	–	72	72
	223,585	40,700	460,350	–	724,635	628,271

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Liquidity risk (continued)

	2020					
	Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Carrying amount at 31 Dec USD'000
Senior Notes due 2022 (Note 23)	554	15,503	–	–	16,057	16,882
Senior Notes due 2024 (Note 23)	32,108	40,700	501,050	–	573,858	432,736
Trade and other payables (Note 24)	142,981	–	–	–	142,981	142,981
Contract liabilities	25,911	–	–	–	25,911	25,911
Lease liabilities	71	–	–	–	71	71
Long-term payables to mining contractor (Note 26)	–	38,695	–	–	38,695	38,695
	201,625	94,898	501,050	–	797,573	657,276

(f) Fair value measurement

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments 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

The Group has a team headed by the finance manager performing valuations for the financial instruments, including the redemption option embedded in the Senior Notes due 2024 and derivative components of the Senior Notes due 2022. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team with assistance of a third party at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value measurement (continued)

(i) *Fair value hierarchy* (continued)

	Fair value at 31 December 2021 USD'000	Fair value measurements as at 31 December 2021 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Financial asset				
– Redemption option embedded in Senior Notes due 2024	**–**	**Not applicable**	**Not applicable**	**–**
Financial liabilities				
– Derivative components of Senior Notes due 2022	**3,168**	**Not applicable**	**Not applicable**	**3,168**

	Fair value at 31 December 2020 USD'000	Fair value measurements as at 31 December 2020 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Financial asset				
– Redemption option embedded in Senior Notes due 2024	–	Not applicable	Not applicable	–
Financial liabilities				
– Derivative components of Senior Notes due 2022	2,560	Not applicable	Not applicable	2,560

During the year ended 31 December 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2020: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value measurement (continued)

(i) *Fair value hierarchy* (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Weighted average
Derivative components of Senior Notes due 2022	Discounted cash flow method	Bond yield	9.76% (2020: 9.88%)
		Coal price index	USD201 to USD294 (2020: USD113 to USD129)
Redemption option embedded in Senior Notes due 2024	Binomial model	Expected volatility	89.5% (2020: 107.2%)

The fair value of derivative components of the Senior Notes due 2022 is determined using discounted cash flow method and the significant unobservable input used in the fair value measurement is bond yield and coal price index. The fair value measurement is negatively correlated to the bond yield. As at 31 December 2021, it is estimated that with all other variables held constant, an increase/decrease in bond yield by 100bps would have decreased/increased the Group's net finance costs by USD4,000/USD4,000 respectively. The fair value measurement is correlated to the coal price index. As at 31 December 2021, it is estimated that with all other variables held constant, an increase/decrease in coal price index by 1% would have increased/decreased the Group's net finance costs by nil/nil.

The fair value of redemption option embedded in Senior Notes due 2024 is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2021, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's net finance costs by nil.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value measurement (continued)

(i) *Fair value hierarchy* (continued)

Information about Level 3 fair value measurements (continued)

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

	2021	2020
	USD'000	USD'000
Derivative components of Senior Notes due 2022:		
At 1 January	**2,560**	3,108
Changes in fair value recognised in profit or loss during the year	**608**	(548)
At 31 December	**3,168**	2,560
Total losses/(gains) for the period included in profit or loss for liabilities held at the end of the reporting year	**608**	(548)

	2021	2020
	USD'000	USD'000
Derivative component of long-term borrowings:		
At 1 January and 31 December	**–**	–
Total losses/(gains) for the period included in profit or loss for liabilities held at the end of the reporting year	**–**	–

The net unrealised gains or losses resulting from the remeasurement of the derivative components of the Senior Notes due 2022 and the redemption option embedded in the Senior Notes due 2024 are recognised in net finance costs in the consolidated statement of profit or loss.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value measurement (continued)

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2021 and 31 December 2020 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 31 December 2021		At 31 December 2020	
	Carrying amount USD'000	**Fair value USD'000**	Carrying amount USD'000	Fair value USD'000
Liability component of Senior Notes due 2022	**14,717**	**14,333**	14,322	13,731
Liability component of Senior Notes due 2024	**434,716**	**444,972**	432,736	433,039

31 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at respective end of the reporting periods not provided for in the financial statements were as follows:

	2021 USD'000	2020 USD'000
Contracted for	**763**	1,626

(b) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 28 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the Directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. However, environmental laws and regulations continue to evolve. Management of the Group regularly reassesses environmental remediation for its operations. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the year. During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS Mongolia LLC ("**MCS**")	Shareholder of MMC
MCS International LLC	Subsidiary of MCS
MCS Holding LLC	Subsidiary of MCS
MCS Property LLC	Subsidiary of MCS
MCS Investment LLC	Subsidiary of MCS
Uniservice Solution LLC	Subsidiary of MCS
M Armor LLC	Subsidiary of MCS
Shangri-La Ulaanbaatar LLC	Subsidiary of MCS
Shangri-La Ulaanbaatar Hotel LLC	Subsidiary of MCS
Unitel LLC	Subsidiary of MCS
Univision LLC	Subsidiary of MCS
Skynetworks LLC	Subsidiary of MCS
Risun Supply Management Co., Ltd.	Shareholder of TZJV

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2021 are as follows:

	2021 **USD'000**	2020 USD'000
Ancillary services (Note (i))	**13,502**	13,781
Lease of property, plant and equipment (Note (ii))	**208**	248
Purchase of property and goods (Note (iii))	**120**	–
Sales of property (Note (iv))	**–**	(257)
Sales of goods (Note (v))	**(7,477)**	–

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

Notes:

(i) Ancillary services represent expenditures for support services such as security service and vehicle inspection fees, cleaning and canteen expense, power and heat generation, and distribution and management fees paid to M Armor LLC, Uniservice Solution LLC, MCS International LLC, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, where applicable.

(ii) Lease of property, plant and equipment represents rental charges paid properties leased from Shangri-La Ulaanbaatar LLC and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

(iii) Purchase of property and goods represents purchase of furniture from MCS International LLC and its affiliates. The purchasing charges are based on comparable or prevailing market rates, where applicable.

(iv) Sales of property represents sale of furniture to MCS and its affiliates in 2020. There is no sales of property in 2021.

(v) Sales of goods represent the coal sales to Risun Supply Management Co., Ltd. The sales are carried out at comparable or prevailing market rates, where applicable.

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Amounts due from/(to) related parties

	2021	2020
	USD'000	USD'000
Other receivables (Note 21(c))	**1**	381
Other accruals and payables (Note 24)	**(3,870)**	(5,019)

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors.

Remuneration for key management personnel, including amounts paid to the Directors as disclosed in Note 9, and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2021	2020
	USD'000	USD'000
Salaries and other emoluments	**3,048**	3,170
Discretionary bonus	**170**	408
Retirement scheme contributions	**250**	112
Equity-settled share-based payment expenses	**28**	113
	3,496	3,803

(c) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Directors' Report.

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2021 USD'000	2020 USD'000
Non-current assets			
Interests in subsidiaries		**838,650**	835,125
Total non-current assets		**838,650**	835,125
Current assets			
Trade and other receivables		**281**	–
Cash and cash equivalents		**564**	5,998
Total current assets		**845**	5,998
Current liabilities			
Trade and other payables		**557**	331
Total current liabilities		**557**	331
Net current assets		**288**	5,667
Total assets less current liabilities		**838,938**	840,792
Non-current liabilities			
Senior notes		**12,073**	12,019
Total non-current liabilities		**12,073**	12,019
Net assets		**826,865**	828,773
Capital and reserves	29(a)		
Share capital		**103,158**	102,918
Reserves		**723,707**	725,855
Total equity		**826,865**	828,773

Approved and authorised for issue by the board of directors on 21 March 2022.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

34 IMPACTS OF THE COVID-19 PANDEMIC

The COVID-19 pandemic since early 2021 has brought certain uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures such as temporary adjustment to levels of production. The Group will keep the contingency measures under review as the situation evolves.

The Group regularly performs assessment on the liquidity risks, where appropriate, to assess the potential impact of business conditions on the Group's capital adequacy and liquidity. The results based on the Group's latest financial position showed that both capital and liquidity levels are sufficient to cope with the impact of the outbreak. Whenever necessary, prompt actions will be undertaken to mitigate potential impacts.

The Group has assessed the accounting estimates and other matters that require the use of forecasted financial information for the impact of the COVID-19 pandemic. The assessment included estimates of the unknown future impacts of the pandemic using information that is reasonably available at this time. Accounting estimates and other matters assessed mainly include the allowance for expected credit losses of receivables from customers, inventory valuation, impairment assessment of mining related assets, valuation of financial assets and liabilities, and the recoverability of tax assets. Based on the current assessment, there was no material impact to these annual financial statements. As additional information becomes available, the future assessment of these estimates, including expectations about the severity, duration and scope of the pandemic, could differ materially in the future reporting periods.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts — Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022
Amendments to IAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to IAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to IAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

XI. FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2021	2020	2019	2018	2017
	USD'000	USD'000	USD'000	USD'000	USD'000
Revenue	**184,069**	417,424	626,596	590,710	476,364
Cost of revenue	**(161,490)**	(288,848)	(374,534)	(360,310)	(273,797)
Gross profit	**22,579**	128,576	252,062	230,400	202,567
Other costs	**(3,422)**	(2,155)	(1,070)	(986)	(862)
Other net income/(loss)	**3,382**	2,418	(14,968)	2,146	(1,984)
Selling and distribution expenses	**(9,625)**	(27,645)	(54,271)	(61,410)	(56,631)
Administrative expenses	**(24,242)**	(19,773)	(21,849)	(16,458)	(19,097)
(Loss)/profit from operations	**(11,328)**	81,421	159,904	153,692	123,993
Finance income	**54**	5,053	1,120	134	48
Finance costs	**(48,980)**	(46,191)	(46,783)	(55,529)	(51,053)
Gain from the debt restructuring	**–**	–	–	–	262,968
Gain from the debt refinancing	**–**	–	21,101	–	–
Share of (losses)/profits of associates	**(196)**	(77)	140	171	163
Share of losses of joint venture	**(1)**	(5)	(16)	(8)	–
(Loss)/profit before taxation	**(60,451)**	40,201	135,466	98,460	336,119
Income tax	**5,013**	(10,596)	(38,746)	(16,050)	(25,813)
(Loss)/profit for the year	**(55,438)**	29,605	96,720	82,410	310,306
Attributable to:					
Equity shareholders of the Company	**(55,238)**	28,940	96,527	82,773	311,013
Non-controlling interests	**(200)**	665	193	(363)	(707)
Basic (loss)/earnings per share	**(5.35) cents**	2.81 cents	9.38 cents	8.04 cents	31.27 cents
Diluted (loss)/earnings per share	**(5.35) cents**	2.81 cents	9.38 cents	8.04 cents	31.27 cents

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2021	2020	2019	2018	2017
	USD'000	USD'000	USD'000	USD'000	USD'000
Total assets	**1,879,138**	1,735,540	1,732,172	1,717,968	1,631,432
Total liabilities	**982,560**	847,376	866,193	860,582	860,582
Net assets	**896,578**	888,164	865,979	817,261	770,850
Total equity	**896,578**	888,164	865,979	817,261	770,850
Equity attributable to equity shareholders of the Company	**829,823**	821,209	799,689	741,836	695,062
Perpetual notes	**66,569**	66,569	66,569	75,897	75,897
Non-controlling interests	**186**	386	(279)	(472)	(109)

XII. GLOSSARY AND TECHNICAL TERMS

"Adoption date"	13 October 2010, the date the Share Option Scheme became unconditional and effective
"AGM"	Annual general meeting
"ASP"	Average selling price
"BAP"	Biodiversity Action Plan
"bcm"	Bank cubic metres
"BFP"	Belt Filter Press
"BHWE"	Base Horizon of Weathering Elevation
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the Tavan Tolgoi formation
"BN mine"	The area of the BN deposit that can be mined by open-pit mining methods
"Board"	The Board of Directors of the Company
"C&F"	Cost-and-Freight
"CG Code"	The Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	The People's Republic of China
"CHPP"	Coal handling and preparation plant
"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "we", "us", "our", "Mongolian Mining Corporation" or "MMC"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010, the shares of which are listed on the Main Board of the Stock Exchange
"CSR"	Corporate Social Responsibility
"DAP"	Delivery-at-Place
"Director(s)"	Director(s) of the Company

“EBITDA”	Earnings before interest, tax, depreciation and amortisation
“EITI”	Extractive Industry Transparency Initiative
“Fexos”	Fexos Limited
“FOT”	Free-on-Transport
“Ganqimaodu” or “GM”	The China side of the China-Mongolia border crossing
“Gashuunsukhait” or “GS”	The Mongolia side of the China-Mongolia border crossing
“GoM”	Government of Mongolia
“Group” or “Our Group”	The Company together with its subsidiaries
“HCC”	Hard coking coal
“HKD”	Hong Kong Dollar
“HR”	Human resources
“HSE”	Health, Safety and Environment
“IASs”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRSs”	International Financial Reporting Standards
“JORC”	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
“KAM”	Kerry Asset Management Limited
“KGL”	Kerry Group Limited
“KHL”	Kerry Holdings Limited
“km”	Kilometres
“KMM”	Kerry Mining (Mongolia) Limited
“KMUHG”	Kerry Mining (UHG) Limited
“KPI”	Key performance indicator
“kt”	Thousand tonnes

"Listing Date"	13 October 2010, the date the shares were listed on the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LOM"	Life-of-Mine
"LTIFR"	Lost Time Injury Frequency Rate
"LTIs"	Lost Time Injuries
"MBGS"	McElroy Bryan Geological Services Pty Ltd.
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mt"	Million tonnes
"NBS"	National Bureau of Statistics of China
"New Share Option Scheme"	A share option scheme which was adopted by the Company on 16 June 2021
"Norwest"	Norwest Corporation
"Offer Date"	12 October 2011, 28 November 2012, 10 June 2015, and 8 May 2017, the dates of offer of a total of 3,750,000, 2,275,000, 15,475,000 and 14,000,000 Share Options (adjusted Share Options after share consolidation), respectively, to its Director and certain employees under the Share Option Scheme adopted by the Company
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably

"Parliament"	Parliament of Mongolia
"probable reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
"raw coal"	Generally means coal that has not been washed and processed
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"share(s)"	Ordinary share(s) of USD0.10 each in the share capital of the Company
"Share Options" or "Options"	The share options which were granted under the Share Option Scheme and granted or to be granted under the New Share Option Scheme to eligible participants to subscribe for Shares of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"SSCC"	Semi-soft coking coal
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG and BN deposits

“the Schemes”	Defined contribution retirement benefit schemes in which the Group participates
“thermal coal”	Also referred to as “steam coal” or “steaming coal”, thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
“THG”	Tsaikhar Khudag
“TKH”	Tsagaan Khad
“tonne”	Metric tonne, being equal to 1,000 kilograms
“TRIFR”	Total Recordable Injury Frequency Rate
“Tsogttsetsii” or “Tsogttsetsii soum”	Tsogttsetsii soum is the location where Tavan Tolgoi sits
“UHG”	Ukhaa Khudag
“UHG deposit”	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
“UHG mine”	The aboveground (<300m) portion of our UHG deposit
“USD”	United States Dollar
“VAT”	Value added tax
“washed coal”	Coals that have been washed and processed to reduce its ash contents

XIII. Appendix I

Technical details of the UHG Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4. Similar technical details relevant to the underlying UHG Coal Resource estimate were previously published in the form of 'JORC Table 1' Sections 1, 2 and 3 in the MMC Annual Report 2014.

JORC (2012) TABLE 1

Section 4: Estimation and Reporting of Ore Reserves

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• **Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.** • **Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.** • The Mineral Resource estimate used as the basis for this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation UHG mine (Licence MV-11952)", prepared by MMC, Energy Resources LLC, Geology Department, January 2022. • The Competent Person for the Mineral Resource estimate was Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas graduated in 2008 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#318198). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.
Site visits	• **Comment on any site visits undertaken by the Competent Person and the outcome of those visits.** • **If no site visits have been undertaken indicate why this is the case.** • The Competent Person for the Coal Reserves Statement made consecutive site visits since 2017. His last visit was in November 2021. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the UHG Life of Mine (LOM) plan update study April 2022. • The competent person believes a further site visit was warranted in 2022 to review changes in the mining progress as well as mining conditions.

Criteria	Commentary
Study status	• **The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.** • **The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically.** • A LOM study update, equivalent to a Feasibility Study update was completed in January 2018 by GLOGEX. • GLOGEX is completing preparation of an updated scenario of the Life of Mine ("**LOM**") Study for the UHG deposit. UHG design, mine planning has been completed and economic analysis will be completed in April 2022.
Cut-off parameters	• **The basis of the cut-off grade(s) or quality parameters applied.** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.
Mining factors or assumptions	• **The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design).** • **The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc.** • **The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.** • **The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).** • **The mining dilution factors used.** • **The mining recovery factors used.** • **Any minimum mining widths used.** • **The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.** • **The infrastructure requirements of the selected mining methods.** • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and hydraulic excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste.

Criteria	Commentary
	• Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants ("**AMC**"). • The mining factors used were: – Minimum coal mining thickness of 0.5m. – Minimum parting mining thickness of 0.5m. – Mineable coal section roof and floor loss of 100mm. – Mineable coal section roof and floor dilution of 100mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.46t/m^3, and ash of 92%. – Relative density data in the geological model is based on an average in-situ moisture of 3.58% (ar). ROM moisture is assumed to be 3.64% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar) and thermal product coal moisture 2.68% (ar). • The application of "Affected Zones" with higher global losses, as per the 2013 LOM Study, were discontinued on the basis of actual mining coal recovery reconciliation results supplied by MMC for an 18-month period of sampling undertaken by MMC from January 2014 to June 2015. • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the BN mine. The infrastructure will be expanded as UHG production expands.

Criteria	Commentary
Metallurgical factors or assumptions	• **The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.** • **Whether the metallurgical process is well-tested technology or novel in nature.** • **The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.** • **Any assumptions or allowances made for deleterious elements.** • **The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.** • **For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. Coking coal seams 0C, 3A and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed. • The process generates primary coking coal product from a low cut point that will produce a 11.0% (dry) ash HCC and 9.5% (dry) ash SSCC product, and a secondary middlings product of varied ash per customer request is produced from a variable high cut. • International coal processing consultant Norwest Corporation has generated ash-yield curves for major coking coal seams. MMC recently modified ash yield curves of extracted coal seams in the mine based on in pit bulk sampling. • Thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.
Environmental	• **The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.

Criteria	Commentary
Infrastructure	• **The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.** • All necessary infrastructure to support the UHG mine is in place at either the mine site or at the UHG mine industrial area. Power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.
Costs	• **The derivation of, or assumptions made, regarding projected capital costs in the study.** • **The methodology used to estimate operating costs.** • **Allowances made for the content of deleterious elements.** • **The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products.** • **The source of exchange rates used in the study.** • **Derivation of transportation charges.** • **The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.** • **The allowances made for royalties payable, both Government and private.** • Project capital cost estimates for mining plant and equipment have been provided by MMC. • The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at UHG provided by MMC year to date 1 January 2022 based on 2,850 MNT/USD exchange rate. GLOGEX reviewed key cost inputs and adjusted actual costs to reflect the key factors of the project to increase the accuracy of pit optimisation results. • Operating cost estimates have been provided from MMC's assessment of existing operating costs incurred in the operation and also from MMC's mining contractor. – Actual mining contractor coal mining costs were provided and applied in the study in USD/bcm; however for presentation in Table 5.7 Glogex converted to USD/t ROM using the weight average relative density of coal in the pit shells. • Coal processing costs are based on those actually being incurred in the existing CHPP operation. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of UHG product coal. There are no private royalties payable.

Criteria	Commentary
Revenue factors	• **The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.** • **The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.** • Shanxi Fenwei Energy Consulting Co Ltd ("**Shanxi Fenwei**") completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China. • The coal selling prices for Hard Coking Coal were estimated based on 6 years average of 2020-2021 historical prices and price forecast 2022-2025, as provided by MMC's actual coal selling prices as well as price forecast of Shanxi Fenwei product value at the DAP Ganqimaodu port of China. The coal selling prices for Semi-soft coking coal, Middlings and Thermal coal were estimated based on 6 year average of price forecast 2020-2025, as provided by MMC's actual coal selling prices as well as price forecast of Shanxi Fenwei product value at the DAP Ganqimaodu port of China. • The coal selling prices assigned to each product, were: • HCC < 11% ash (dry): USD134.7/t product (ar), • SSCC < 9.5% ash (dry): USD95.9/t product (ar), • Middlings ~ benchmark CV 6,000 kcal/kg (gar): USD48.8/t product (ar), • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD30.7/t product (ar).
Market assessment	• **The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.** • **A customer and competitor analysis along with the identification of likely market windows for the product.** • **Price and volume forecasts and the basis for these forecasts.** • **For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.** • Shanxi Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets in Mongolia and China in April 2021.

Criteria	Commentary
Economic	• **The inputs to the economic analysis to produce the net present value ("NPV") in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.** • **NPV ranges and sensitivity to variations in the significant assumptions and inputs.** • No economic analysis.
Social	• **The status of agreements with key stakeholders and matters leading to social licence to operate.** • All key stakeholder agreements are in place providing a social licence to operate.
Other	• **To the extent relevant, the impact of the following on the project and/ or on the estimation and classification of the Ore Reserves:** • **Any identified material naturally occurring risks.** • **The status of material legal agreements and marketing arrangements.** • **The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.** • All material legal agreements, marketing agreements and government agreements are in place to allow the UHG mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.

Criteria	Commentary
Classification	• **The basis for the classification of the Ore Reserves into varying confidence categories.** • **Whether the result appropriately reflects the Competent Person's view of the deposit.** • **The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.
Audits or reviews	• **The results of any audits or reviews of the Ore Reserve estimates.** • Internal peer review by GLOGEX CONSULTING LLC of the Reserves estimate has been completed. • Technical information in this UHG Coal Reserve estimation has been peer reviewed by Independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 29 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).

Criteria	Commentary
Discussion of relative accuracy/confidence	• **Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.** • **The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.** • **Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.** • **It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.** • Coal production at UHG commenced in April 2009. Run-of-Mine (“**ROM**”) coal production of 79.2 Mt was reported by mine survey measurement from April 2009 until end of 2021. • Since the preparation of Reserves estimate effective as of 1 January 2022 the UHG mine has completed reconciliations of actual coal mined against the geological model for the period from January 2021 to January 2022. Last Coal Reserves Statement for UHG was prepared as at 1 January 2022 by GLOGEX and reported as 371Mt (ROM) and the total Marketable reserve is 230 Mt. • As a result of the coal recovery reconciliations that have been undertaken by MMC and the observations made associated with the mining activities over this period of time, the mining modifying factors in this Reserves estimate have been adjusted to be less conservative particularly with respect to assumed losses incurred in the “affected zones”, and in the assumed reassignment of thermal to coking coal and semisoft coal to hard coking coal.

XIV. Appendix II

Technical details of the BN Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4.

JORC (2012) TABLE 1

Section 4: Estimation and Reporting of Ore Reserves

Criteria	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• **Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.** • **Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.** • The Mineral Resource estimate used as the basis of this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation Baruunnaran and Tsaikharkhudag coal mine (Licence MV-14493 and MV-017336)", prepared by Mongolian Mining Corporation, Energy Resources LLC, Geology Department, January 2021. • The Competent Person for the Mineral Resource estimate was Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas graduated in 2008 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#318198). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves.
Site visits	• **Comment on any site visits undertaken by the Competent Person and the outcome of those visits.** • **If no site visits have been undertaken indicate why this is the case.** • The Competent Person for the Coal Reserves Statement made consecutive site visits since 2017. His last visit was in November 2021. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the BN Life of Mine (LOM) plan update study April 2022. • The competent person believes a further site visit was warranted in 2022 to review changes in the mining progress as well as mining conditions.

Criteria	Commentary
Study status	• **The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.** • **The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered.** • A LOM study update, equivalent to a Feasibility Study update, was completed in January 2018 by GLOGEX. • GLOGEX is completing preparation of an updated scenario of the Life of Mine ("LOM") Study for the BN deposit. BN design, mine planning has been completed and economic analysis will be completed in March 2022.
Cut-off parameters	• **The basis of the cut-off grade(s) or quality parameters applied.** • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves.
Mining factors or assumptions	• **The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design).** • **The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc.** • **The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling.** • **The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).** • **The mining dilution factors used.** • **The mining recovery factors used.**

Criteria	Commentary
	• **Any minimum mining widths used.** • **The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.** • **The infrastructure requirements of the selected mining methods.** • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and hydraulic excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste.
	• Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants. • The mining factors used were: – Minimum coal mining thickness of 0.5m. – Minimum parting mining thickness of 0.5m. – Mineable coal section roof and floor loss of 100mm. – Mineable coal section roof and floor dilution of 100mm. – Global mining and geological loss 1%. – The quality of diluting material is relative density of 2.81g/cc (ar), and ash of 93.86% (ar). – Relative density data in the geological model is based on an average in-situ moisture of 4.55% (ar). ROM model moisture is 2.26% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar), and thermal product coal moisture 2.62% (ar).

Criteria	Commentary
	• Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the UHG mine. The infrastructure will be expanded as BN production expands.
Metallurgical factors or assumptions	• **The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.** • **Whether the metallurgical process is well-tested technology or novel in nature.** • **The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.** • **Any assumptions or allowances made for deleterious elements.** • **The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.** • **For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?** • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. UHG Coking coal seams 0C, 3A, and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed.

Criteria	Commentary
	• The process generates primary coking coal product from a low cut point that will produce a 11.5% (ad) ash SHCC and 9.5% (ad) ash SSCC product, and a secondary middlings product of varied ash per customer request produced from a variable high cut point. • International coal processing consultant Norwest Corporation has generated ash-yield curves for major coking coal seams. MMC recently modified ash yield curves of extracted coal seams in the mine based on in pit bulk sampling. • Thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use.
Environmental	• **The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.** • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals.
Infrastructure	• **The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.** • All necessary infrastructure to support the BN mine is in place at either the mine site or at the UHG mine industrial area. UHG power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities.

Criteria	Commentary
Costs	• **The derivation of, or assumptions made, regarding projected capital costs in the study.** • **The methodology used to estimate operating costs.** • **Allowances made for the content of deleterious elements.** • **The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products.** • **The source of exchange rates used in the study.** • **Derivation of transportation charges.** • **The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.** • **The allowances made for royalties payable, both Government and private.** • Project capital cost estimates for mining plant and equipment have been provided by MMC. • The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at BN provided by MMC year to date 1 January 2022 based on 2,850 MNT/USD exchange rate. GLOGEX reviewed key cost inputs and accepted for pit optimisation. • Operating cost estimates have been provided from MMC's assessment of actual costs incurring in the operation and as provided by MMC's mining contractor. • Actual mining contractor coal mining costs were provided and applied in the study in $/bcm; however, for presentation in Table 5.5 GLOGEX converted to $/t ROM using the weight average relative density of coal in the pit shells. • Coal processing costs are based on contract price between Energy Resources and Khangad exploration. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of BN product coal. There are no private royalties payable.

Criteria	Commentary

Revenue factors	• **The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.**
	• **The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.**
	• Shanxi Fenwei Energy Consulting Co Ltd ("**Shanxi Fenwei**") completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China.
	• The coal selling prices for semi-soft coking coal were estimated based on on 5 years average price forecast of 2022-2025, as provided to MMC by Shanxi Fenwei product value at the DAP Ganqimaodu port of China. The coal selling prices for semi-soft coking coal were estimated based on actual coal price provided by MMC from 2020 to 2021 and 5 year average price forecast of 2022-2025 by Shanxi Fenwei. The selling prices of Middlings and Thermal coal were estimated based on 5 year average price forecast of 2022-2025 as provided to MMC by Shanxi Fenwei product value at the DAP Ganqimaodu port of China.
	• The coal selling prices assigned to each product, were:
	  • SHCC < 11.5% ash (dry): USD128.8/t product (ar),
	  • SSCC < 9.5% ash (dry): USD95.9/t product (ar),
	  • Middlings ~ benchmark CV 6,000 kcal/kg (gar): USD48.8/t product (ar),
	  • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD30.7/t product (ar).

Market assessment	• **The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.** • **A customer and competitor analysis along with the identification of likely market windows for the product.** • **Price and volume forecasts and the basis for these forecasts.** • **For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.** • Shanxi Fenwei completed an independent market study for MMC and identified principal coking and thermal coal markets in Mongolia and China in April 2021.

Criteria	Commentary
Economic	• **The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.** • **NPV ranges and sensitivity to variations in the significant assumptions and inputs.** • No economic analysis.
Social	• **The status of agreements with key stakeholders and matters leading to social licence to operate.** • All key stakeholder agreements are in place providing a social licence to operate.
Other	• **To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves.** • **Any identified material naturally occurring risks.** • **The status of material legal agreements and marketing arrangements.** • **The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.** • All material legal agreements, marketing agreements and government agreements are in place to allow the BN mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.

Criteria	Commentary
Classification	• **The basis for the classification of the Ore Reserves into varying confidence categories.** • **Whether the result appropriately reflects the Competent Person's view of the deposit.** • **The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).** • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit.
Audits or reviews	• **The results of any audits or reviews of the Ore Reserve estimates.** • Internal peer by Glogex of the Reserves estimate has been completed. Technical information in this BN Coal Reserve estimation has been peer reviewed by independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 32 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).

Criteria	Commentary
Discussion of relative accuracy/confidence	• **Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.** • **The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.** • **Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.** • **It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.** • Coal production at BN commenced in 2011 and since that time some 34 Mbcm of waste and 4.9 Mt of ROM coal has been mined until 1st January 2018. ROM coal production of 4.9 Mt was reported by mine survey measurement from 2011 until end of 2021. • Since the preparation of Reserves estimate effective as of 1 January 2018 the BN mine has completed reconciliations of actual coal mined against the geological model for the period January 2017 to January 2018. Last Coal Reserves Statement for BN was prepared as at 1st January 2018 by GLOGEX and reported as 176Mt (ROM). • As a result of the coal recovery reconciliations that have been undertaken by MMC and the observations made associated with the mining activities over this period. The mining modifying factors in this Reserves estimate have been adjusted to accommodate size of the equipment being used in the mine (i.e., excavator) and the reassignment of hard coking coal to semihard coking coal.