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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2014, Mongolian Mining Corporation (“**MMC**” or the “**Company**”) and its subsidiaries (the “**Group**”) sold a total of 5.4 million tonnes (“**Mt**”) of coal products and generated total revenue of United States Dollar (“**USD**”) 328.3 million, compared to 5.7 Mt of coal products sold with total revenue of USD437.3 million for the year ended 31 December 2013. The decrease in the total revenue was largely attributable to the continued negative coking coal price trend, and to a lower sales volume of washed hard coking coal (“**HCC**”). The average selling price (“**ASP**”) of HCC was USD83.5 per tonne for the year ended 31 December 2014, compared to USD92.1 per tonne for the year ended 31 December 2013, representing a decrease of 9.3%.

The Group generated 60.2% of total revenue from sales at Delivery-at-Place (“**DAP**”) Ganqimaodu (“**GM**”) terms, of which USD149.5 million and USD43.9 million were from sales of HCC and thermal coal (“**middlings**”), respectively. In addition, the Group generated 39.8% of total revenue from sales under Free-on-Transport (“**FOT**”) terms amounting to USD40.3 million and under Cost-and-Freight (“**C&F**”) terms amounting to USD90.3 million from sales of HCC under its strategy to penetrate to the inland market of the People’s Republic of China (“**China**”). The revenue generated from HCC sales, including inland China sales, was USD280.1 million, representing 85.3% of the total revenue for the year.

The loss attributable to the equity shareholders of the Company for the year ended 31 December 2014 was USD282.8 million, including a non-cash impairment loss of USD190 million recorded on acquired mining rights under intangible assets (loss for the year ended 31 December 2013: USD58.1 million). The basic loss per share attributable to the equity shareholders of the Company amounted to USD5.95 cents for the year ended 31 December 2014, as compared to basic loss per share of USD1.26 cents for the year ended 31 December 2013.

The major contributing factor towards the Group’s net loss position is above mentioned impairment loss and among other things factors such as the decrease of ASP of coking coal products and foreign exchange loss due to depreciation of Mongolian Togrog (“**MNT**”) against the USD.

The Board does not recommend the payment of dividend for the year ended 31 December 2014 (dividend for the year ended 31 December 2013: nil).

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

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is announcing the audited annual results of the Company and the Group for the year ended 31 December 2014 together with the comparative figures for the corresponding period in 2013 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Note | 2014 USD'000 | 2013 USD'000 |
|---|------|---------------------|-----------------|
| Revenue | 4 | 328,307 | 437,339 |
| Cost of revenue | 5 | (335,510) | (361,485) |
| Gross (loss)/profit | | (7,203) | 75,854 |
| Other revenue | | 3,319 | 592 |
| Other net income | | 34,171 | 7,073 |
| Selling and distribution costs | 6(c) | (56,445) | — |
| General and administrative expenses | | (30,916) | (52,410) |
| Impairment loss | 6(c) | (190,000) | — |
| (Loss)/profit from operations | | (247,074) | 31,109 |
| Finance income | | 3,911 | 9,551 |
| Finance costs | | (98,431) | (95,095) |
| Net finance costs | 6(a) | (94,520) | (85,544) |
| Share of losses of associates | | (19) | (1,087) |
| Share of losses of joint venture | | (70) | — |
| Loss before taxation | 6 | (341,683) | (55,522) |
| Income tax | 7 | 58,978 | (2,551) |
| Loss for the year | | (282,705) | (58,073) |
| Attributable to: | | | |
| Equity shareholders of the Company | | (282,837) | (58,073) |
| Non-controlling interests | | 132 | — |
| Loss for the year | | (282,705) | (58,073) |
| Basic loss per share | 8(a) | (5.95) cents | (1.26) cents |
| Diluted loss per share | 8(b) | (5.95) cents | (1.26) cents |
| Loss for the year | | (282,705) | (58,073) |
| Other comprehensive income for the year (after reclassification adjustments) | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on re-translation | | (80,512) | (137,693) |
| Total comprehensive income for the year | | (363,217) | (195,766) |
| Attributable to: | | | |
| Equity shareholders of the Company | | (363,349) | (195,766) |
| Non-controlling interests | | 132 | — |
| Total comprehensive income for the year | | (363,217) | (195,766) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | <i>Note</i> | 2014 USD'000 | 2013 USD'000 |
|--|--------------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment, net | <i>10</i> | 594,926 | 574,467 |
| Construction in progress | <i>11</i> | 58,421 | 148,371 |
| Lease prepayments | | 73 | 85 |
| Intangible assets | <i>12</i> | 511,089 | 696,354 |
| Interest in associates | | 63 | 2,203 |
| Interest in joint venture | | 15 | — |
| Other non-current assets | | 25,823 | 6,590 |
| Deferred tax assets | | 37,968 | 21,781 |
| Total non-current assets | | 1,228,378 | 1,449,851 |
| Current assets | | | |
| Assets held for sale | <i>13</i> | 484 | 56,906 |
| Inventories | | 48,900 | 106,461 |
| Trade and other receivables | <i>14</i> | 152,207 | 209,117 |
| Cash and cash equivalents | | 252,856 | 76,535 |
| Total current assets | | 454,447 | 449,019 |
| Current liabilities | | | |
| Short-term borrowings and current portion of long-term borrowings | <i>15(b)</i> | 114,818 | 141,818 |
| Trade and other payables | <i>16</i> | 298,118 | 287,951 |
| Current taxation | | 68 | 3,426 |
| Obligations under finance leases | | 8 | 81 |
| Total current liabilities | | 413,012 | 433,276 |
| Net current assets | | 41,435 | 15,743 |
| Total assets less current liabilities | | 1,269,813 | 1,465,594 |
| Non-current liabilities | | | |
| Long-term borrowings, less current portion | <i>15(a)</i> | 161,978 | 150,089 |
| Senior notes | <i>17</i> | 595,906 | 594,329 |
| Provisions | | 12,995 | 10,118 |
| Deferred tax liabilities | | 101,640 | 149,627 |
| Obligations under finance leases | | — | 9 |
| Other non-current liabilities | | 456 | 455 |
| Total non-current liabilities | | 872,975 | 904,627 |
| NET ASSETS | | 396,838 | 560,967 |
| CAPITAL AND RESERVES | | | |
| Share capital | <i>19</i> | 92,626 | 37,050 |
| Reserves | | 303,920 | 523,917 |
| Total equity attributable to equity shareholders of the Company | | 396,546 | 560,967 |
| Non-controlling interests | | 292 | — |
| TOTAL EQUITY | | 396,838 | 560,967 |

NOTES

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the mining, processing, transportation and sale of coal.

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

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company and of the Group 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. The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The 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.

As of 31 December 2014, the Group had balance of cash and cash equivalents of USD252,856,000 and aggregate outstanding short-term borrowings and current portion of long-term borrowings of USD114,818,000 together with aggregate payables of USD298,194,000, which are due within the next twelve months. In order to enhance the Group’s liquidity and solvency position, the Directors of the Company have taken measures, including but not limited to (i) banking facilities available from the Group’s bankers; (ii) pursuing discussions to reach long term coal offtake arrangements with its existing and new customers; and (iii) renegotiating contractual arrangements, including payment terms, to elevate the working capital requirements carried by suppliers and contractors. Based on the Group’s business plan and cash flow forecast, and with the ongoing support from its bankers and its shareholders, the Group expects to have sufficient financial resources to cover its operating costs and to meet its financing commitments. Therefore the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 December 2014. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries and the Group’s interest in associates and a joint venture.

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

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

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

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

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

The consolidated financial statements are presented in USD, which is the presentation currency of the Group. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities are USD and Renminbi ("RMB").

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

(i) Reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. Reserve estimates are updated at regular basis and have taken into account recent production and technical information about the relevant coal deposit. In addition, as prices and cost levels change from year to year, the estimate of coal reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated coal reserve quantity (the denominator) and capitalised costs of mining properties (the numerator). The capitalised cost of mining properties are depreciated and amortised based on the units produced.

(ii) Useful lives of property, plants and equipment

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

(iii) Impairment of assets

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

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

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

(iv) Obligation for reclamation

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

(v) Recognition of deferred tax assets

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

(vi) Derivative financial instruments

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

(vii) Exploration and evaluation expenditure

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

(viii) Capitalised stripping costs

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

There are two types of stripping activity:

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

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

- It is probable that future economic benefits associated with the asset will flow to the entity; and

- The costs can be measured reliably.

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

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

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

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

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

(ix) Taxation

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

(b) Sources of estimation uncertainty

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

4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. Revenue during the year ended 31 December 2014 include approximately USD130,602,000 (the year ended 31 December 2013: nil) which arose from sales of HCC to customers through agent sales arrangements for diversifying and expanding the Group's sales channels. The amount of each significant category of revenue recognised in revenue during the year is as follows:

| | 2014 USD'000 | 2013 USD'000 |
|---------------------------------------|-----------------|-----------------|
| Washed HCC | 280,081 | 392,487 |
| Washed semi-soft coking coal ("SSCC") | 4,277 | 2,452 |
| Middlings | 43,925 | 38,530 |
| Raw coal ("ROM coal") | 24 | 3,870 |
| | <u>328,307</u> | <u>437,339</u> |

During the year ended 31 December 2014, the Group had two customers that individually exceeded 10% of the Group's turnover, being USD117,673,000 and USD34,427,000, respectively. During the year ended 31 December 2013, the Group had two customers that individually exceeded 10% of the Group's turnover, being USD196,189,000 and USD108,088,000, respectively.

5 COST OF REVENUE

| | 2014 USD'000 | 2013 USD'000 |
|---|-----------------|-----------------|
| Mining costs | 126,841 | 137,268 |
| Processing costs | 31,596 | 38,824 |
| Transportation costs | 74,383 | 96,748 |
| Others (<i>Note (i)</i>) | 62,069 | 88,645 |
| | <u>294,889</u> | <u>361,485</u> |
| Cost of revenue during mine operations | 294,889 | 361,485 |
| Cost of revenue during idled mine period (<i>Note (ii)</i>) | 40,621 | — |
| | <u>335,510</u> | <u>361,485</u> |

Note:

- (i) Others include USD13,656,000 (2013: USD26,621,000) relating to the royalty tax on the coals sold.
- (ii) Cost of revenue during idled mine period for the year ended 31 December 2014 includes USD27,954,000 (2013: nil) of mining contractor costs and depreciation expense relates to idled plant and equipment.

6 LOSS BEFORE TAXATION

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

(a) Net finance costs:

| | 2014 USD'000 | 2013 USD'000 |
|--|-----------------|-----------------|
| Interest income | (3,911) | (9,551) |
| Finance income | (3,911) | (9,551) |
| Net change in fair value of derivative component of senior notes | 700 | 11,720 |
| Interest on bank and other borrowings | 22,575 | 21,456 |
| Interest on liability component of convertible bond | — | 1,034 |
| Interest on liability component of senior notes | 54,827 | 54,688 |
| Transaction costs | 3,440 | 2,777 |
| Unwinding interest on | | |
| – Obligations under finance lease | 8 | 35 |
| – Accrued reclamation obligations | 808 | 1,163 |
| Less: Interest expense capitalised* | (8,617) | (16,248) |
| Net interest expense | 73,741 | 76,625 |
| Foreign exchange loss, net | 24,690 | 18,470 |
| Finance costs | 98,431 | 95,095 |
| Net finance costs | 94,520 | 85,544 |

* Borrowing costs have been capitalised at a rate of 8.1% per annum for both years ended 31 December 2014 and 2013.

(b) Staff costs:

| | 2014 USD'000 | 2013 USD'000 |
|---|-----------------|-----------------|
| Salaries, wages, bonuses and benefits | 25,167 | 36,240 |
| Retirement scheme contributions | 3,015 | 4,516 |
| Equity-settled share-based payment expenses | 3,475 | 4,720 |
| | 31,657 | 45,476 |

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the Government of Mongolia (“GoM”) whereby the Group is required to make contributions to the Schemes at a rate of 7% of the eligible employees’ salaries. Contributions to the Schemes vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) **Other items:**

| | 2014 USD'000 | 2013 USD'000 |
|--|-----------------|-----------------|
| Selling and distribution costs (<i>Note(i)</i>) | 56,445 | — |
| Depreciation and amortisation | 46,145 | 65,132 |
| Provision for impairment losses on trade and other receivables (<i>Note 14(b)</i>) | 8,806 | 7,029 |
| Provision for impairment loss on non-financial assets (<i>Note (ii)</i>) | 190,000 | — |
| Impairment losses on trade and other receivables directly written off to profit or loss | — | 10,191 |
| | 198,806 | 17,220 |
| Operating lease charges: | | |
| minimum lease payments | | |
| – hire of plant and machinery | 2,224 | 4,196 |
| – hire of other assets (including property rentals) | 2,006 | 1,184 |
| | 4,230 | 5,380 |
| Net gain on disposal of property, plant and equipment and assets held for sale | (36,881) | (7,270) |
| Auditors' remuneration | | |
| – audit services | 536 | 536 |
| – tax and other services | 272 | 399 |
| | 808 | 935 |
| Cost of inventories (<i>Note (iii)</i>) | 335,510 | 361,485 |

Note:

(i) Selling and distribution costs

Selling and distribution costs during the year ended 31 December 2014 represent fees and charges incurred for importing coal into China, logistics and transportation costs, governmental fees and charges and fixed agent fees associated with the new market penetration strategy to diversify and expand sales channels in inland China.

(ii) Impairment of non-financial assets

In light of a regular portfolio review, inflation pressures on operating costs, different product quality different mine has, also following the latest coal price environment, the management has undertaken a review on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets, according to IAS 36, Impairment of assets, with reference to independent valuation report; accordingly, an impairment loss of USD190,000,000 has been recognised in relation to the mining rights of Baruun Naran ("BN") Mine to reflect significant downward pressure on coking coal prices due to persisting oversupply situation in the coal industry (see Note 12).

- (iii) Cost of inventories includes USD79,333,000 (2013: USD90,637,000), relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also included in cost of inventories was transportation and stockpile losses amounted to USD3,542,000 (2013: USD7,850,000).

7 INCOME TAX

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

| | 2014 USD'000 | 2013 USD'000 |
|--|-----------------|-----------------|
| Current tax | | |
| Provision for the year | 8,492 | 8,477 |
| Deferred tax | | |
| Origination and reversal of temporary difference | (67,470) | (5,926) |
| | <u>(58,978)</u> | <u>2,551</u> |

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

| | 2014 USD'000 | 2013 USD'000 |
|--|------------------|-----------------|
| Loss before income tax | <u>(341,683)</u> | <u>(55,522)</u> |
| Notional tax on (loss)/profit before taxation | (62,580) | 4,357 |
| Tax effect of non-deductible items (<i>Note (iii)</i>) | 3,436 | 4,862 |
| Tax effect of non-taxable items (<i>Note (iv)</i>) | (677) | (5,987) |
| Tax losses not recognised | 843 | 576 |
| Tax losses not recognised in previous years but utilised in current year | — | (1,257) |
| Actual tax expenses | <u>(58,978)</u> | <u>2,551</u> |

Note:

- (i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2014 and 2013. According to the Corporate Income Tax Law of China, the Company's subsidiary in China is subject to statutory income tax rate of 25%.
- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2014 and 2013.
- (iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2014 and 2013.
- (iv) Non-taxable items mainly represent the unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2014 and 2013.

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of USD282,837,000 (2013: USD58,073,000) and the weighted average of 4,751,758,537 ordinary shares (2013: 4,617,054,604 ordinary shares after adjusting for the rights issue in 2014) in issue during the year. In calculating basic loss per share, the weighted average number of shares outstanding during the years ended 31 December 2014 and 2013 were calculated as if the bonus elements without consideration included in the rights issue had been existed from the beginning of the comparative year.

(b) Diluted loss per share

For the years ended 31 December 2014 and 2013, basic and diluted loss per share is the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2014 and 2013.

9 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal. The majority of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sales of coal. Accordingly, no additional business and geographical segment information are presented.

10 PROPERTY, PLANT AND EQUIPMENT

Mining properties at 31 December 2014 include stripping activity assets of USD237,503,000 (2013: USD211,487,000).

During the year ended 31 December 2014, the additions of property, plant and equipment of the Group, representing mainly coal handling and preparation plant ("CHPP") module III and various mining structures, amounted to USD147,877,000 (31 December 2013: USD197,802,000). As at 31 December 2014, certain of the Group's borrowings were secured by the Group's CHPP modules I and II, power plant and water supply infrastructure assets-phase I with net book values of USD105,290,000, USD27,629,000 and USD3,008,000, respectively (31 December 2013: USD123,836,000, USD33,901,000 and USD3,803,000, respectively).

11 CONSTRUCTION IN PROGRESS

| | 2014 USD'000 | 2013 USD'000 |
|---|-----------------|-----------------|
| At 1 January | 148,371 | 242,838 |
| Additions | 6,314 | 36,480 |
| Transfer to property, plant and equipment | (86,855) | (52,598) |
| Transfer to intangible assets | (4,909) | — |
| Derecognised upon the termination of Concession Agreement | — | (50,964) |
| Exchange adjustments | (4,500) | (27,385) |
| At 31 December | <u>58,421</u> | <u>148,371</u> |

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

12 INTANGIBLE ASSETS

| | Acquired mining right USD'000 | Operating right paved road USD'000 | Softwares USD'000 | Total USD'000 |
|--|-------------------------------------|---|----------------------|------------------|
| Cost: | | | | |
| At 1 January 2013 | 701,557 | 87,105 | — | 788,662 |
| Addition for the period | — | — | — | — |
| Classified as asset held for sale | — | (73,308) | — | (73,308) |
| Exchange adjustments | — | (13,797) | — | (13,797) |
| At 31 December 2013 | 701,557 | — | — | 701,557 |
| At 1 January 2014 | 701,557 | — | — | 701,557 |
| Addition for the period | — | — | 7 | 7 |
| Transfer from Construction in progress (<i>Note 11</i>) | — | — | 4,909 | 4,909 |
| Exchange adjustments | — | — | (178) | (178) |
| At 31 December 2014 | 701,557 | — | 4,738 | 706,295 |
| Accumulated amortisation and impairment loss: | | | | |
| At 1 January 2013 | 3,110 | 10,779 | — | 13,889 |
| Amortisation charge for the period | 2,093 | 7,960 | — | 10,053 |
| Classified as assets held for sale | — | (16,402) | — | (16,402) |
| Exchange adjustments | — | (2,337) | — | (2,337) |
| At 31 December 2013 | 5,203 | — | — | 5,203 |
| At 1 January 2014 | 5,203 | — | — | 5,203 |
| Amortisation charge for the period | — | — | 3 | 3 |
| Impairment loss (<i>Note 6(c)</i>) | 190,000 | — | — | 190,000 |
| Exchange adjustments | — | — | — | — |
| At 31 December 2014 | 195,203 | — | 3 | 195,206 |
| Carrying amount: | | | | |
| At 31 December 2014 | 506,354 | — | 4,735 | 511,089 |
| At 31 December 2013 | 696,354 | — | — | 696,354 |

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

13 ASSETS HELD FOR SALE

Assets held for sale for the year ended 31 December 2014 is USD484,000. Assets held for sale for the year ended 31 December 2013 is mainly related to the paved road between Ukhaa Khudag (“UHG”) and the Gashuun Sukhait (“GS”) border crossing in Mongolia (the “UHG-GS Road”).

On 8 December 2013, the Group entered into a road transfer agreement with Erdenes MGL LLC (the “Agreement”), a state owned enterprise, which was assigned by the GoM to take control of the UHG-GS Road assets along with all rights and responsibilities in relation to the operation and maintenance of the road. According to the Agreement, the operating right of paved road was transferred to Erdenes MGL LLC with a consideration of MNT157,847,184,615 (equivalent to approximately USD90,323,000 converted at exchange rate on payment receipt date) on 13 February 2014.

Accordingly, the intangible asset related to the operating right of paved road with a carrying amount of MNT94,127,456,758 (equivalent to approximately USD56,906,000) was classified as assets held for sale as at 31 December 2013. The operating right of paved road was not depreciated since it was classified as assets held for sale.

14 TRADE AND OTHER RECEIVABLES

| | 2014 USD'000 | 2013 USD'000 |
|--|-----------------|-----------------|
| Trade receivables (<i>Note (a)</i>) | 36,952 | 17,514 |
| Other receivables (<i>Note (c)</i>) | 125,390 | 196,632 |
| | <hr/> | <hr/> |
| | 162,342 | 214,146 |
| Less: allowance for doubtful debts (<i>Note (b)</i>) | (10,135) | (5,029) |
| | <hr/> | <hr/> |
| | 152,207 | 209,117 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note:

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. As at 31 December 2014 and 2013, all of the trade receivables are aged within one year.

(b) Impairment of trade receivables

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

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

| | 2014 | 2013 |
|---------------------------------|----------------|-------------|
| | USD'000 | USD'000 |
| At 1 January | 5,029 | 5,929 |
| Provision for impairment losses | 8,806 | 7,029 |
| Amounts written off | (3,700) | (7,929) |
| | <hr/> | <hr/> |
| At 31 December | 10,135 | 5,029 |
| | <hr/> <hr/> | <hr/> <hr/> |

As at 31 December 2014, an allowance for doubtful debts amounting to USD10,135,000 (2013: USD5,029,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date, which have been included in "general and administrative expenses" in the consolidated statement of comprehensive income.

During the year ended 31 December 2014, the management assessed that the recoverability of trade receivables due from certain customers is remote, and USD3,700,000 have been written off against allowance for doubtful debts.

(c) Other receivables

| | 2014 | 2013 |
|---|----------------|-------------|
| | USD'000 | USD'000 |
| Amounts due from related parties (<i>Note (i)</i>) | 607 | 522 |
| Prepayments and deposits (<i>Note (ii)</i>) | 31,448 | 63,903 |
| VAT and other tax receivables (<i>Note (iii)</i>) | 35,786 | 68,531 |
| Derivative financial instruments (<i>Note (iv)</i>) | — | 700 |
| Amounts due from the GoM in relation to the termination of the Concession Agreement (<i>Note (v)</i>) | 44,408 | 50,623 |
| Others (<i>Note (vi)</i>) | 13,141 | 12,353 |
| | <hr/> | <hr/> |
| | 125,390 | 196,632 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note:

- (i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms.
- (ii) At 31 December 2014 and 2013, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.
- (iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the GoM Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.
- (iv) It represented the embedded derivative in the senior notes (see Note 17).

- (v) It represented the compensation amount receivable from the GoM upon the termination of Concession Agreement of UHG-GS Railway, after taking into account the liabilities assumed by the GoM. The Group is negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.
- (vi) At 31 December 2014, this item mainly represented the reimbursement receivables due from Erdenes MGL LLC of USD8.4 million (2013: USD3.2 million). The remaining other receivables mainly represent the receivable of USD4.7 million due from other companies.

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

15 BORROWINGS

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

| | 2014 USD'000 | 2013 USD'000 |
|---|-----------------|-----------------|
| Bank loan | | |
| – secured | 241,636 | 255,455 |
| – unsecured | 40,000 | — |
| Less: Current portion of long-term borrowings | (114,818) | (101,818) |
| Less: Unamortised transaction costs | (4,840) | (3,548) |
| | <u>161,978</u> | <u>150,089</u> |

As at 31 December 2014, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH (the “**EBRD, FMO and DEG Loan Agreements**”) of USD81,818,000 (2013: USD92,727,000), USD13,091,000 (2013: USD19,637,000) and USD8,727,000 (2013: USD13,091,000), respectively, bearing interest of 6 months LIBOR + 3.75%~4.25% per annum, were secured by the Group's property, plant and equipment (see Note 10) and cash at bank.

As at 31 December 2014, the Group's long-term interest-bearing borrowings from BNP Paribas of USD138,000,000 (2013: USD130,000,000) bearing interest of 3 months LIBOR + 6.00% per annum, were secured by the Group's cash at bank and inventories. The attributable transaction cost amounts to USD4,195,000 as at 31 December 2014. The BNP Paribas facility was initially contracted with Standard Bank Plc. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interest in (and obligations under) the facility to BNP Paribas, Singapore Branch. On 5 March 2014, the facility was refinanced to a facilities agreement with two international banks as arrangers and original lenders, BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (the “**BNP and ICBC Facility**”). The BNP and ICBC Facility is a coal pre-export loan facility of USD150,000,000 bearing interest of LIBOR + 6.00% per annum, and a greenshoe option of up to USD50,000,000. The greenshoe option will be executed in the condition that the USD150,000,000 facility has been utilised, and the Group could reach respective financial covenants requirements as set out in the BNP and ICBC Facility agreement.

In March 2014, the Group refinanced short-term loans of USD40,000,000 into a revolving credit facility, and extended its maturity date to 20 March 2015 with an interest of 10.00% per annum. On 31 December 2014, the maturity date was extended to 20 March 2016, and interest for the extension period is 11.20% per annum.

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

| | 2014 | 2013 |
|----------------------------------|-----------------------|----------------|
| | USD'000 | USD'000 |
| Within 1 year or on demand | 114,818 | 101,818 |
| After 1 year but within 2 years | 166,818 | 101,818 |
| After 2 years but within 5 years | — | 51,819 |
| | <u>281,636</u> | <u>255,455</u> |

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

| | 2014 | 2013 |
|---|-----------------------|----------------|
| | USD'000 | USD'000 |
| Bank loans | | |
| – Unsecured | — | 40,000 |
| Current portion of long-term borrowings | | |
| – Bank loan | <u>114,818</u> | <u>101,818</u> |
| | <u>114,818</u> | <u>141,818</u> |

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the draw down loan balances would become payable on demand. During the year ended 31 December 2014, the Group negotiated with the banks and was granted with revised covenants requirements from the banks. According to the waivers, the Group did not breach any financial covenants in respect of loans during the year ended 31 December 2014.

16 TRADE AND OTHER PAYABLES

| | 2014 USD'000 | 2013 USD'000 |
|--|-----------------|-----------------|
| Trade payables (<i>Note (i)</i>) | 125,217 | 93,181 |
| Receipts in advance (<i>Note (ii)</i>) | 16,866 | 20,603 |
| Amounts due to related parties (<i>Note (iii)</i>) | 8,102 | 20,330 |
| Payables for purchase of equipment | 4,858 | 10,316 |
| Security deposit on construction work | 1,340 | 2,755 |
| Interest payable | 18,081 | 18,365 |
| Other taxes payables | 20,782 | 2,558 |
| Promissory notes (<i>Note (iv)</i>) | 66,601 | 105,000 |
| Others (<i>Note (v)</i>) | 36,271 | 14,843 |
| | <u>298,118</u> | <u>287,951</u> |

Note:

- (i) All trade payables are due and payable on presentation or within two months.
- (ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.
- (iii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments.
- (iv) On 27 November 2012, the Company issued two promissory notes to QGX Holdings Ltd., each in the amount of USD52,500,000, and shall bear interest at a rate of 3.0% per annum commencing on the issue date to the maturity date. The original maturity date was 22 November 2013. On 8 February 2013, an amendment agreement was signed by the Company and QGX Holdings Ltd. to extend the maturity date of two promissory notes from 22 November 2013 to 31 March 2014 and 31 December 2014, respectively. During the year ended 31 December 2014, based on the new amendment agreements, the Group offset USD45,174,000 of promissory notes principal and accrued interest with the trade receivables due from affiliated company of QGX Holdings Ltd. On 31 December 2014, the maturity date of two promissory notes was extended to 31 March 2015, with a rate of 8.0% per annum to the maturity date.
- (v) Others represent mainly accrued expenses, payables for staff related costs and other deposits.

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

17 SENIOR NOTES

| | USD'000 |
|---|----------------|
| At 1 January 2014 | 594,329 |
| Interest charged during the year (<i>Note 6(a)</i>) | 54,827 |
| Interest payable | (53,250) |
| | <hr/> |
| At 31 December 2014 | <u>595,906</u> |

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 which were listed on the Singapore Exchange Securities Trading Limited. The senior notes bear interest at 8.875% per annum, payable semi-annually in arrears, and will be due in 2017.

The senior notes may be redeemed at the option of the Company upon giving not less than 30 days or no more than 60 days notice to the holders.

The Company has agreed, for the benefit of the holders of the senior notes, to pledge all of the capital stock of Mongolian Coal Corporation Limited owned by the Company and to cause Mongolian Coal Corporation Limited to pledge all of the capital stock of Mongolian Coal Corporation S.a.r.l. owned by Mongolian Coal Corporation Limited. The senior notes are guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.a.r.l., Energy Resources Corporation LLC, Energy Resources LLC, Energy Resources Mining LLC and Transgobi LLC.

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

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 was charged to profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 31 December 2014 was nil (2013: USD700,000) which was presented as derivative financial instruments (see Note 14(c)(iv)).

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account attributable transaction costs of USD13,213,000.

Fair value of the derivative component was valued by the Directors with the reference to a valuation report issued by an independent business valuer based on the Binomial model.

18 DIVIDENDS

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2014 (dividend in 2013: nil).

19 ISSUANCE OF SHARES UNDER RIGHTS ISSUE

On 29 December 2014, 5,557,554,750 ordinary shares were issued pursuant to the rights issue on the basis of three rights shares for every two existing shares at the subscription price of Hong Kong Dollar ("HKD") 0.28 per rights share ("**Rights Issue**"). Total net consideration amounted to USD195,453,000, of which USD55,576,000 was credited to share capital and the remaining proceeds of USD139,877,000 was credited to the share premium account. The Company's authorised ordinary share capital was increased to USD150,000,000 by the creation of an additional 9,000,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

On 29 December 2014, the Company successfully completed the Rights Issue which raised approximately HKD1,556 million. Pursuant to the Rights Issue, a total number of 5,557,554,750 rights shares were issued at the subscription price of HKD0.28 per rights share on the basis of three rights shares for every two existing shares. The Rights Issue received overwhelming support from its existing shareholders with excess rights subscribed representing approximately 247.1% of the total number of rights shares available for subscription under the Rights Issue. The transaction not only highlights the Group's committed long-term shareholder support but also strengthened the Group's capital base in the current state of the market.

In line with its strategic objectives, the Group has implemented a number of initiatives to penetrate inland markets within China. The Group entered into a joint venture agreement with Risun Mining Co., Ltd ("**Risun**"), a member of Risun Group (the largest independent coke and related coal-derived chemicals producer and supplier in China), to establish Tianjin Zhengcheng Import and Export

Trade Co., Ltd (“TZ JV”), a subsidiary of the Company registered in China, for transportation, sales and distribution of coal products. This is expected to facilitate the increase of geographical market penetration in major steel and coke producing regions in China, namely Hebei and Shandong provinces.

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

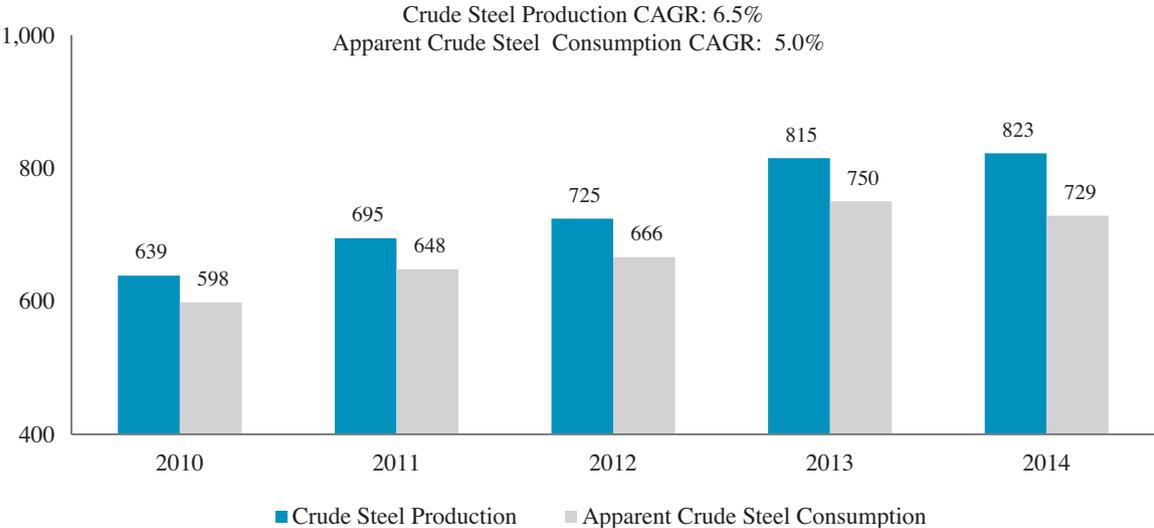
INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors’ Performance

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

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

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

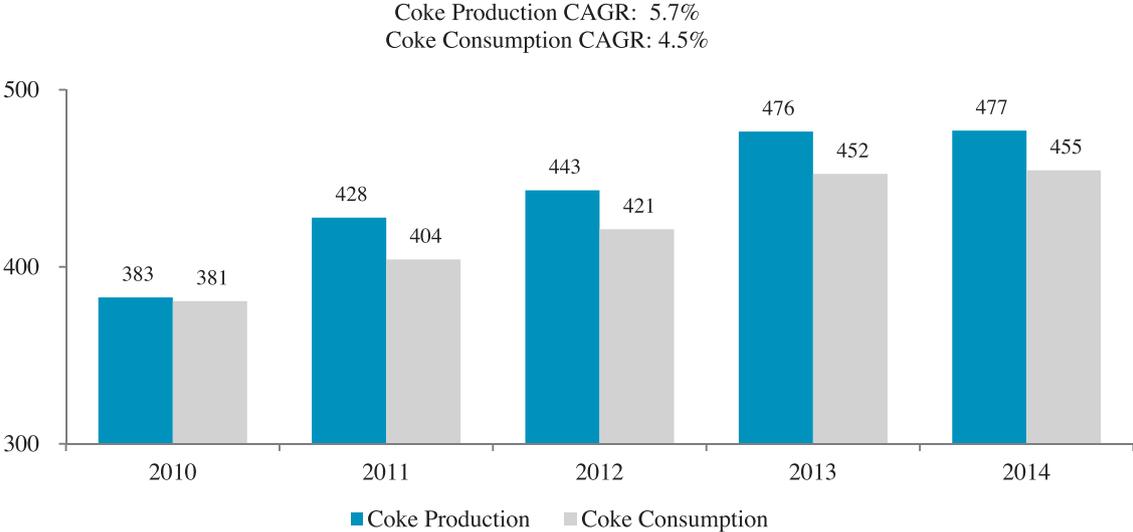


Source: World Steel Association, China Coal Resource

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

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

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



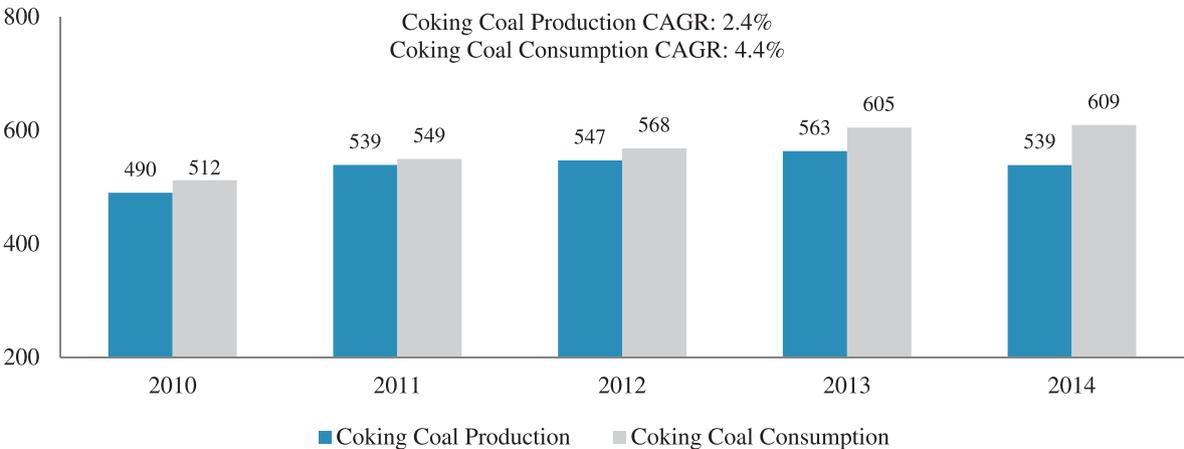
Source: China Coal Resource

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

The fixed asset investment (“FAI”) in China’s coal mining and washing industry dropped to RMB 468.2 billion, representing a 9.5% fall from the year before.

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

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



Source: China Coal Resource

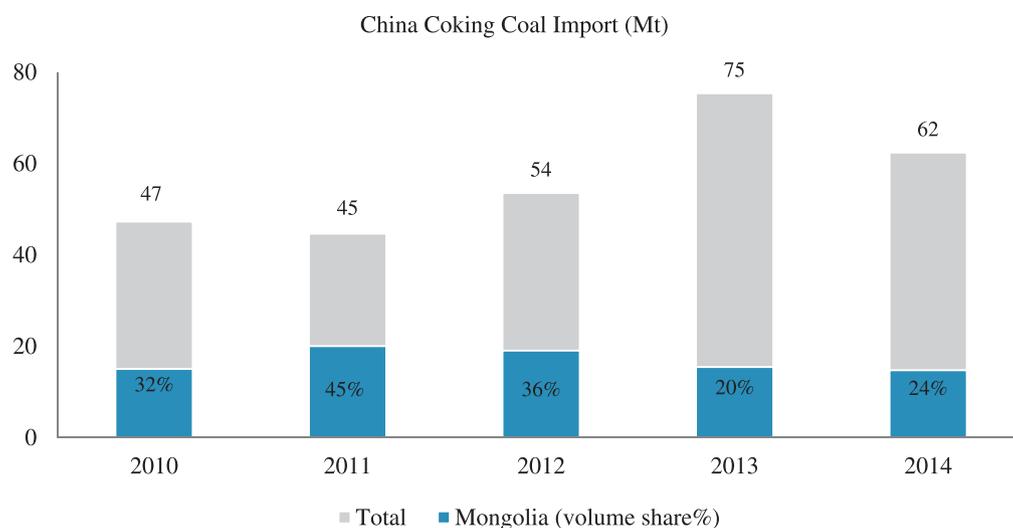
From October 2014, coal import duties were imposed at 5-6% for thermal coal and 3% for anthracite, coking coal and lignite. Moreover, the regulation was introduced in China on coal quality specifications, which limits ash content to 30% for lignite, and 40% for other coals, with sulphur content requirement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

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

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

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

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



Source: China Coal Resource

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

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

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

Source: China Coal Resource

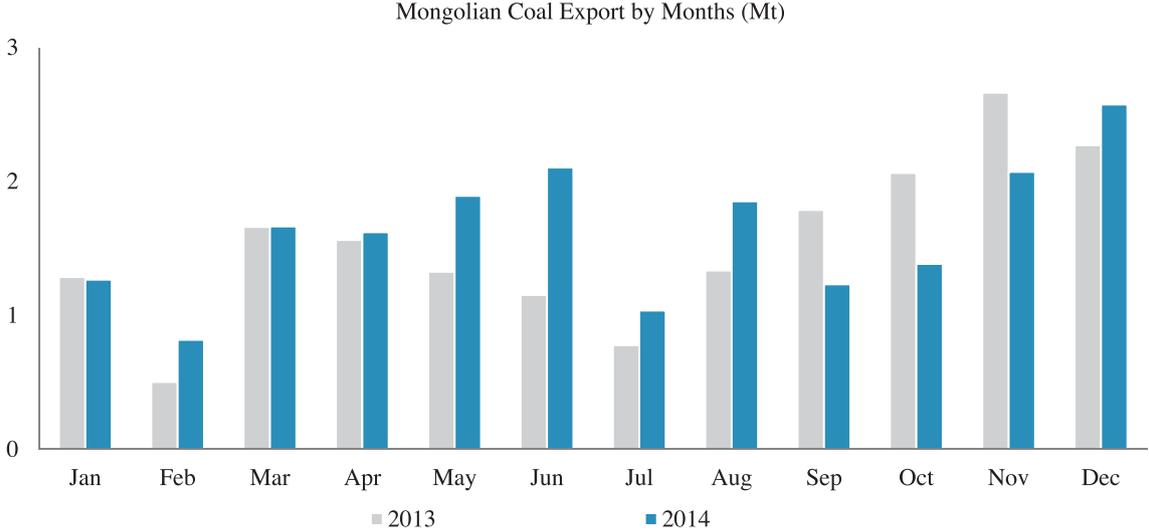
Note:

- (i) Imports from Mongolia include both raw and washed coking coal; MMC remains as the only major producer and exporter of washed coking coal in Mongolia
- (ii) Due to rounding, discrepancy may exist between summary of volumes with total.

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

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

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



Source: National Statistics Office

OPERATING ENVIRONMENT

Legal framework

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

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

The GoM’s decision on 28 January 2014 to reduce the customs tax on imported gasoline and diesel from 3% to 1%, and the reduction in excise duty for imported diesel from MNT109,000 to MNT30,000 per tonne, had positive impact by lowering these cost components within diesel pricing. This rate continued until 19 January 2015, where due to overall decline in imported oil products market pricing, the GoM decided to leave custom tax on imported gasoline and diesel at 1% but increase excise duty for imported gasoline with octane rate up to 90 from MNT30,000 to MNT252,000 per tonne, gasoline with octane above 90 from zero to MNT259,000 per tonne and diesel from MNT30,000 to MNT265,000 per tonne, which are imported through Sukhbaatar, Zamiin Uud, Ereentsav and Altanbulag border ports of Mongolia.

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

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

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

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

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

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

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

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

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

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

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

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

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag deposit

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

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

Previously, the Group collaborated with Velseis Processing Pty Ltd. to interpret data collected from 71 kilometres (“**km**”) of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International. The data collected was used to identify continuity and structure of coal seams, as well as to obtain valuable information on the potential of the deposit’s underground resource. Large-diameter, bulk-sample drilling was also completed prior to June 2012, with analysis of these samples collected conducted at the ALS Group laboratory in Ulaanbaatar. Information resulting from both of these programs of work has been used in the development of the new Coal Resource estimate.

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

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

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

Note:

- (i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 7 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2012 Edition). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimate of the Coal Resource set out in Table 2 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2014, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The JORC Code (2012 Edition).
- (ii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 JORC Code (2012 Edition).
- (iii) Mr. Gary Ballantine is employed by the Group as Executive General Manager for Exploration and Geology. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 24 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012 Edition).

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

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

In addition to the material increase reported, comparison of the expected error results of the two models indicates that the confidence level of the Measured category estimate improved by 1%, and the Indicated category estimate improved by 6%. Increases in tonnage and grade are advantageous; however, improvement in the confidence level of estimation of tonnage and grade stated can be more advantageous.

Baruun Naran deposit

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

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

The Group’s geological team completed exploration work at BN during 2011 and 2012 under the Exploration License 4326X covering the Tsaikhar Khudag (“**THG**”) area. A total of 9,963 metres of drilling was conducted during this period, with 32 boreholes completed and geophysically logged. Analytical laboratory test work was also performed on a total of 2,307 coal samples collected.

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

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

| Total Coal Resource | Resource Category (Mt) | | | Total (M+I) | Total (M+I+I) |
|--------------------------------------|------------------------|-----------|----------|----------------|------------------|
| | Measured | Indicated | Inferred | | |
| Depth limit from topographic surface | Measured | Indicated | Inferred | Total (M+I) | Total (M+I+I) |
| Subcrop to 100m | 45 | 9 | — | 54 | 54 |
| From 100m to 200m | 66 | 15 | — | 81 | 81 |
| From 200m to 300m | 58 | 19 | — | 77 | 77 |
| From 300m to 400m | 40 | 30 | — | 70 | 70 |
| Below 400m | — | — | — | — | — |
| Sub-Total above 300m | 168 | 43 | — | 212 | 212 |
| Sub-Total below 300m | 40 | 30 | — | 70 | 70 |
| Total | 207 | 73 | — | 281 | 281 |
| Total (Rounded) | 210 | 70 | — | 280 | 280 |

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

| Total Coal Resource | Resource Category (Mt) | | | Total (M+I) | Total (M+I+I) |
|--------------------------------------|------------------------|-----------|-----------|----------------|------------------|
| | Measured | Indicated | Inferred | | |
| Depth limit from topographic surface | Measured | Indicated | Inferred | Total (M+I) | Total (M+I+I) |
| Subcrop to 100m | — | — | 13 | — | 13 |
| From 100m to 200m | — | — | 20 | — | 20 |
| From 200m to 300m | — | — | 15 | — | 15 |
| From 300m to 400m | — | — | 7 | — | 7 |
| Below 400m | — | — | — | — | — |
| Sub-Total above 300m | — | — | 48 | — | 48 |
| Sub-Total below 300m | — | — | 7 | — | 7 |
| Total | — | — | 55 | — | 55 |
| Total (Rounded) | — | — | 50 | — | 50 |

Note:

- (i) *Technical information in the BN Coal Resource estimation reports has been compiled by Mr. Paul Harrison, Senior Geologist, McElroy Bryan Geological Services Pty Ltd. For THG, Mr. Harrison reviewed the data and data handling methods used by the Group's geological team. Mr. Harrison is a member of the Australasian Institute of Mining and Metallurgy (Member #110251) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2004 Edition). Mr. Harrison consents to the inclusion in the release of the matters based on this technical information in the form and context in which it appears.*
- (ii) *The Coal Resource estimates presented in these reports are considered to be a true reflection of the BN Coal Resource in Table 3 as at 30 June 2012 and THG Coal Resource in Table 4 as at 30 April 2013, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2004 Edition).*
- (iii) *The JORC Code requires rounding to appropriate significant figures, to reflect the degree of uncertainty in the estimate and relative confidence in the resource classification category. The application of rounding to appropriate significant figures, as applied in the Coal Resource originally stated for BN mining license as at 30 June 2012, and THG mining license as at 30 April 2013, was reviewed in 2014 resulting in reported Coal Resource totals being re-rounded to more fully comply with the requirements of the JORC Code. Following this review, previously reported Inferred Resources within the BN mining license have been discounted as this very small tonnage of Inferred Resources was at a depth of greater than 350m and is considered to be too far removed from the data to be of Indicated status. The Inferred Coal Resource total for THG mining license area first reported as at 30 April 2013, has been rounded to one significant figure, which is more appropriate for this Inferred Coal Resource, due to uncertainty resulting from the THG coal deposit's complex geological setting.*
- (iv) *Due to rounding, discrepancy may exist between sub-totals and totals.*

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

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

Open-cut Coal Reserves

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

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

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

The pit optimization algorithms used were limited to a vertical depth of 300 metres from the natural surface at UHG and 350 metres from the natural surface at BN respectively. These were based upon geotechnical recommendations regarding slope stability controls applicable at each deposit, which were provided by Mr. John Latilla of AMC Consultants Pty Ltd. Through application of estimated mining and metallurgical factors, mineable in situ coal within the pit shell was converted to run-of-mine (“ROM”) and product coal quantities. From this, mine schedules were sequenced to maximize value derived.

The open-cut ROM Coal Reserve for the UHG coal deposit was estimated as at 31 December 2012, based on an as-received basis with 5% total moisture (Table 5). Based upon mine survey measurement, production activity since 1 January 2013 until 31 December 2014 has depleted the stated UHG ROM Coal Reserve by approximately 14 Mt.

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

| ROM Coal Reserve Coal Type | Reserve Category (Mt) | | |
|-------------------------------|-----------------------|-----------|------------|
| | Proved | Probable | Total |
| Coking | 155 | 81 | 236 |
| Thermal | 64 | 16 | 80 |
| Total | <u>218</u> | <u>97</u> | <u>315</u> |

With the most recent Coal Resource update provided for the UHG mining license area as at 31 December 2014, sufficient time has not yet been available to prepare updated Coal Reserve estimate. The timing of the next Coal Reserve update will now be considered in conjunction with the outcomes of negotiations with the GoM regarding the East Tsankhi and West Tsankhi operations. If the Consortium were to succeed and conclude definite agreements with the GoM, the management expects to start the preparation of integrated LOM planning and Coal Reserve estimates incorporating these deposits, as well as UHG and BN, which shall be prepared to derive maximum advantage through operating cost and coal blending synergies can be achieved, subject to availability of Coal Resource estimates under JORC (2012) and if needed additional exploration work required to prepare such Coal Resource estimates under JORC (2012). The open-cut ROM Coal Reserve for the BN coal deposit was estimated as at 31 December 2012, based on an as-received basis with 6% total moisture (Table 6). Based upon mine survey measurement, production activity since 1 January 2013 until 31 December 2014 has depleted the BN ROM Coal Reserve by less than 1 Mt, and is considered to impart no material change.

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

| ROM Coal Reserve Coal Type | Reserve Category (Mt) | | |
|-------------------------------|-----------------------|-----------|------------|
| | Proved | Probable | Total |
| Coking | 118 | 22 | 140 |
| Thermal | 23 | 2 | 25 |
| Total | <u>141</u> | <u>24</u> | <u>165</u> |

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

Note:

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

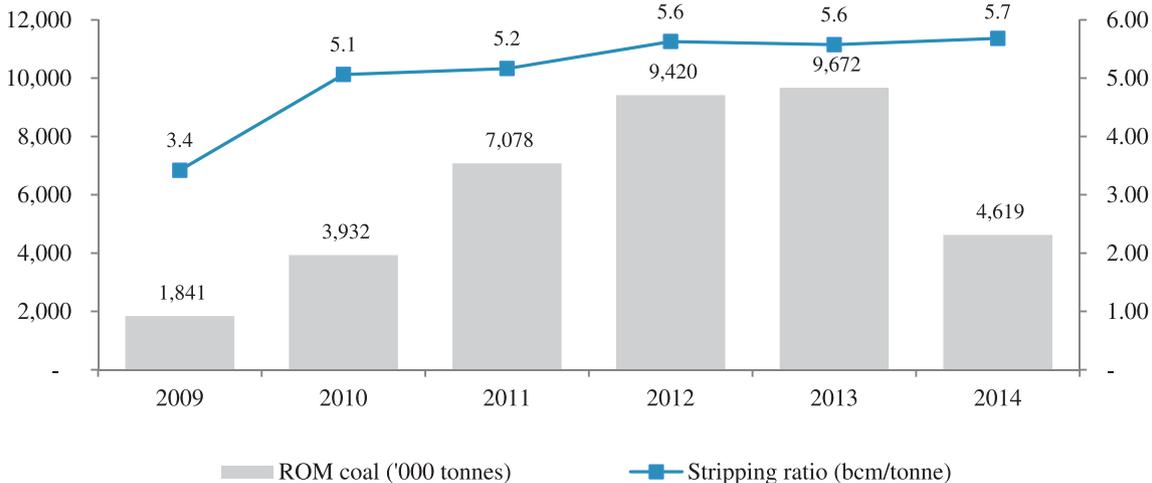
Production and Transportation

Coal Mining

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

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

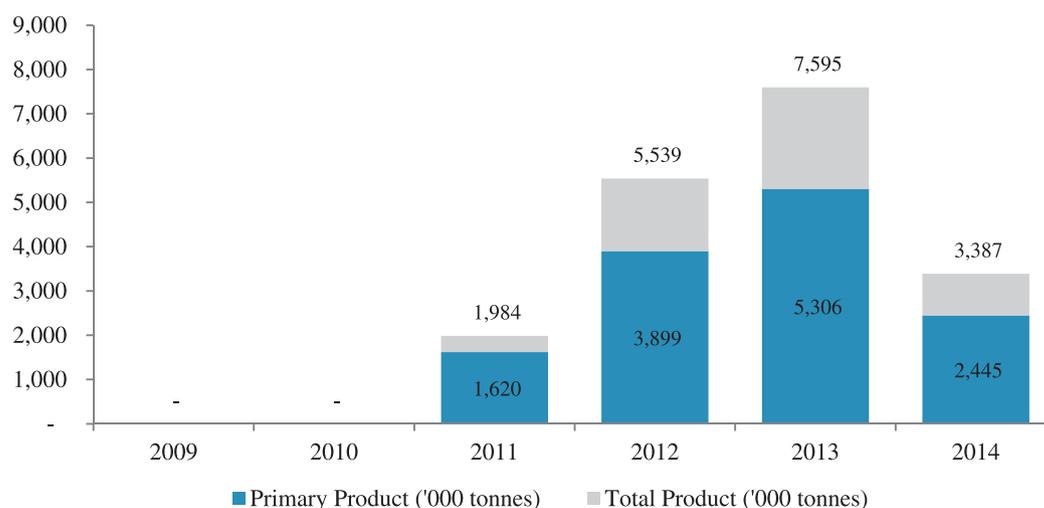
Figure 6. The Group’s historical annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bcm per ROM coal tonne):



Coal Processing

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

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



Transportation and Logistics

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

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

Occupational Health, Safety and Environment

Across the operations under control of the Group, approximately 5.6 million man-hours were worked by employees and contractors during 2014. Within this period, a total of 7 Lost Time Injuries (“LTIs”) were recorded, resulting in an overall Lost Time Injury Frequency Rate (“LTIFR”) of 1.2 LTIs per million man-hours worked.

The Group’s achievement of annual LTIFR of 1.2 is consistent with its performance in 2013, when an annual LTIFR of 1.2 was also recorded. On this basis, the Group’s LTIFR performance continues to trend favourably when benchmarked against publicly reported figures published by the main Australian coal producing states of Queensland and New South Wales.

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

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

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

Marketing and Sales

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

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

Table 7. Sales volumes in 2014 (Note):

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

Note:

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

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

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

Table 8. HCC sales and volume by terms:

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

Note:

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

Transportation Infrastructure

Cross Border Railway

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

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

UHG-GS Paved Road

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

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

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

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

OUTLOOK AND BUSINESS STRATEGIES IN 2015

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

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

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

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

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

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

Cost of Revenue

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

The following tables present, for the periods indicated, the Group's total and individual costs of revenue in terms of amount and also unit costs of revenue calculated on a per total product sold basis (Table 10 and Table 11):

Table 10. Cost of revenue by source:

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

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

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

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

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

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

For calculation of mining costs, new accounting standard IFRIC 20 was adopted effective from 1 January 2013, for accounting of the stripping activity in the production phase of a surface mine. IFRIC 20 requires that the costs of stripping activity which provides a benefit in the form of improved access to ore is recognized as a non-current 'stripping activity asset' where the following criteria are met:

- i) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- ii) the entity can identify the component of the ore body for which access has been improved; and
- iii) the costs relating to the stripping activity associated with that component can be measured reliably.

Therefore, with the adoption of IFRIC 20, the Group identified components of the mine in accordance with the mine plan, and accounting of mining unit costs is based on the strip ratio applicable to each component of the mine. Average accounting strip ratio for components mined during the year ended 31 December 2014 was 2.7 bcm per tonne, whilst for 2013 it was 2.5 bcm per tonne.

The mining cost is not only recorded in the income statement, but also the costs of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average strip ratio, which is capitalized in the balance sheet as mining structure.

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

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

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

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

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

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

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

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

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

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

The site administration cost during mine operations is primarily related to the site support facilities such as the airstrip operations, and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations at UHG and BN mines, both located in the South Gobi desert. For the year ended 31 December 2014, the Group's site administration cost was approximately USD13.0 million (2013: USD12.4 million). The Group is implementing policies to shift the employees' work place and to promote relocation to the site base for the purpose of increasing operational efficiency at site.

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

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

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

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

Gross Profit/Loss and Gross Profit/Loss Margin

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

Selling and Distribution Costs

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

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

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortization of office equipment and other expenses. The following table presents, for the periods indicated, individual general and administrative expenses in terms of amount and as a percentage of the Group's total administrative expenses (Table 14):

Table 14. General and Administrative expenses:

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

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

Impairment Loss

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

Net Finance Cost

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

Income Tax Expenses

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

Loss/Profit for the Year

As a result of the costs listed above, losses attributable to equity shareholders of the Company for the year ended 31 December 2014 amounted to approximately USD282.8 million (2013: USD58.1 million). Major contributing factors of the Group's net loss position are (i) a decrease of ASP of coking coal products, (ii) foreign exchange loss due to depreciating MNT against the USD and (iii) impairment of assets.

Liquidity and Capital Resources

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

The Company's cash resources were funded mainly by proceeds of USD90.3 million from sale of the UHG-GS Road and an additional fund of USD20 million from the BNP and ICBC Facility.

The Group took strict approach on cash management and took several measures to enhance the Group's liquidity position. During the first half of 2014, the Group refinanced and extended the maturity of the outstanding BNP and ICBC Facility of USD130 million and increased the size by additional USD20 million to USD150 million. The Group also refinanced and extended maturity of short-term loans of USD40 million into a revolving credit facility. Moreover, The Company issued new shares on 29 December 2014 by way of rights issue on the basis of three rights shares for every two existing shares held at the subscription price of HKD0.28 per rights share. A total of 5,557,554,750 rights shares were issued and the Company raised approximately HKD1,556 million from the issuance of the rights shares, net proceeds of which will be used to strengthen the capital base and provide greater financial flexibility for the Group, repay some of the existing indebtedness, and provide general working capital for the development of the Group's existing and future business and investment opportunities.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 31 December 2014 was 46.6% (31 December 2013: 46.7%). All borrowings are denominated in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro and HKD. The Company's policy is to monitor regularly current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Indebtedness

As of 31 December 2014, the Company had USD872.7 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Senior Notes, (ii) USD150 million BNP and ICBC Facility, (iii) USD180 million EBRD, FMO and DEG Agreements, and (iv) USD40 million revolving credit line from Trade and Development Bank of Mongolia.

The Senior Notes, rated at Caa2 by Moody's Investors Service, Inc. and CCC+ by Standard and Poor's Ratings Services, bear a fixed interest rate of 8.875% per annum payable semi-annually. The Senior Notes will mature in March 2017, unless earlier redemption. As of 31 December 2014, the outstanding principal amount was USD600 million. Upon the sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions of all or substantially all of the properties or assets of the Company to any person other than one or more of the beneficial owners of less than 30% of the total voting power of the Company, the Company must make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

On 5 March 2014, the Company as a borrower entered into the BNP and ICBC Facility Agreement for a coal pre-export loan facility of USD150 million with a greenshoe option of up to USD50 million to the Company and fully refinanced the previous BNP Paribas facility of USD200 million. The loan bears an interest rate of LIBOR plus 6.00% per annum, and is repayable in 10 quarterly installments starting from September 2014 and ending in December 2016. As of 31 December 2014, the outstanding principal amount of such BNP and ICBC Facility was USD138 million. Under the BNP and ICBC Facility, the Company shall not issue any shares if such issue results in (i) the creation of a new share class of the issued share capital of the Company, and (ii) a change of control by controlling shareholder of the Company ceasing to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

The EBRD, FMO and DEG Loan Agreements bear interest on a semi-annual basis at the rate of six-month LIBOR plus 3.75%-4.25% per annum. The USD120 million principal amount of the loan is repayable in 11 semi-annual installments ending on 15 May 2016, and the USD60 million principal amount of the loan is repayable in two equal installments on 15 May 2015 and 15 May 2016, respectively.

As at 31 December 2014, the outstanding principal amount was USD103.6 million. Under the EBRD, FMO and DEG Loan Agreements, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the Company than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Company, or the Company may not cease to be directly majority owned by entities domiciled in Mongolia.

The Trade and Development Bank of Mongolia loan was originally a short term loan matured in March 2014. Such loan was refinanced into a revolving credit facility and maturity was extended by one year until March 2015 with an interest of 10.0% per annum. On 31 December 2014, the maturity date was extended to 20 March 2016, and interest for the extension period is 11.20% per annum. As of 31 December 2014, the outstanding principal amount was USD40 million.

Credit Risk

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

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

According to the Group's internal credit policy (the "**Credit Policy**"), the Company holds quarterly Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit based on quantitative and qualitative analysis. The purpose of the Credit Policy is to set limits for and monitor the unsecured credit provided to customers at an aggregated Group level and to single customer, and the maximum contractual term for unsecured limit. As of 31 December 2014, in accordance with the Credit Policy and based on the Credit Committee's assessment, certain debts in the amount of approximately USD3.7 million, recoverability of which was assessed as doubtful, were written off against the existing allowance for doubtful debts and provision of additional USD8.8 million was made for allowance for doubtful debts, in line with the overall increase of trade receivables balance and the assessment of aging of trade receivables balance in accordance with the Credit Policy as at 31 December 2014. The increase in trade receivables balance is due to sales revenue to be collected from end-users from inland China sales, where the most commonly used payment method is bank acceptance bills with average maturity of 3 to 6 months, which is a secured payment method and which can be converted earlier into cash at discounted price by Chinese local banks. Bank acceptance bills are issued under the title of the sales agent appointed by the Group, and can be discounted by the agent upon receipt of the Company's instruction, and if no such instruction is issued, the acceptance bill is held to maturity. As at 31 December 2014, the Company holds around RMB21.1 million acceptance bills under the agent's title. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to the current ability to pay, and takes into account information specific to the customers and pertaining to the economic environment in which the customers operate, on an ongoing basis.

With regard to other receivables of USD125.4 million, this amount is mainly related to USD35.8 million VAT and other tax receivables, USD44.4 million from the GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax Authority audit and approval of the VAT tax refund, the Group offset USD37.1 million against its other tax payments and payables to certain suppliers. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

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

Foreign Exchange Risk

For the two years ended 31 December 2014 and 2013, 100% and 99% of the revenue and 87.6% and 45.6% of the purchases in each respective year were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

For the year ended 31 December 2014, 19.8% and 80.2% of the revenues were denominated in USD and RMB respectively. For the year ended 31 December 2013, 43.3% and 56.6% of the revenues were denominated in USD and RMB respectively, with the remaining revenue denominated in MNT.

For the year ended 31 December 2014, 99.9%, 27.1% and 34.8% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD; while 20.2% and 0.3% of the operating expenditures and capital expenditures, respectively, were denominated in RMB; 0.3% and 5.7% of the operating expenditures and capital expenditures, respectively were denominated in other currencies than the USD, RMB and MNT; and the remainder was denominated in MNT. For the year ended 31 December 2013, 3.0%, 14.2% and 81.7% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD, with the remainder denominated in MNT.

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

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2014 and 2013 amounted to USD245.8 million and USD72.7 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2014 and 2013 amounted to USD143.6 million and USD165.5 million, respectively.

The Group has not entered into any derivative instruments to manage foreign exchange fluctuations. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Pledge of Assets of the Group

As at 31 December 2014, the Company pledged Energy Resources LLC's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, its Debt Reserve Account for loan repayment, cooperation contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC; engineering, procurement and construction management contract for the CHPP constructed at the UHG site with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; and water facilities for the EBRD, FMO and DEG Loan Agreements.

The Company pledged its Collection and Cash Collateral accounts with BNP Paribas, coal sales contracts with Inner Mongolia Risun Coal Industry Co., Ltd, Shenhua Bayannaer Energy Co., Ltd, and Inner Mongolia Qinghua Group of China, and coal stockpile of ER for the BNP and ICBC Facility.

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

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

The total amount of indebtedness covered the above pledges is USD832.7 million as at 31 December 2014.

Contingent Liabilities

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

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

- b) With respect to a claim brought by Enrestechnology LLC, wholly owned subsidiary of the Company, to the Capital Administrative Court of Mongolia against two decisions No.101/12 and 102/12 both dated 26 December 2012, of the customs officers of General Customs Office of Mongolia, please refer to page 46 of the interim results announcement of the Company for the six months ended 30 June 2014 for the background and development of the claim.

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

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

- c) With respect to a claim on 28 March 2013, filed in a district court of Ulaanbaatar by the Lawyer's Association for Environment ("LAE") regarding allegations against the Group in relation to possible damages to the environment due to its coal hauling operation, please refer to page 47 of the interim results announcement of the Company for the six months ended 30 June 2014 for the background and development of the claim. On 30 June 2014, the rehearing of the first instance court was held and the court ruled to dismiss court proceedings and close the case since the claimant LAE did not appear at the court hearing to support its claim, and failed to pay stamp duty.

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

Financial Instruments

The Company has a share option scheme, adopted on 17 September 2010 (“**Share Option Scheme**”), in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares (“**Share Options**”) subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

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

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the year ended 31 December 2014, USD3.5 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

The USD600 million Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD4.9 million, and the attributable transactions costs of USD0.1 million were charged to the profit or loss for the year ended 31 December 2012.

The fair value of the derivative component of the Senior Notes as at 31 December 2014 was nil. The liability component was initially recognised at an amortised cost of USD591.7 million after taking into account USD13.2 million as attributable costs.

Capital Commitments and Capital Expenditures

As at 31 December 2014, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 15. Capital commitments:

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

Table 16. The Group's historical capital expenditures for the years indicated:

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

Operating Lease Commitments

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

Significant Investments Held

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

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

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

Other and Subsequent Events

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

Employees

As at 31 December 2014, the number of employees of the Group was 1,950 compared with 2,272 employees as at 31 December 2013.

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.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

Dividend

The Board does not recommend the payment of a dividend for the year ended 31 December 2014 (dividend for the year ended 31 December 2013: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2014.

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

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting (“**AGM**”) of the Company. Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director to attend and answer questions on his behalf at the 2014 AGM which was held on 14 May 2014 due to important business engagement. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG code.

Review of Annual Results

The auditor of the Company, KPMG, has agreed that the figures in respect of the Group’s annual results for the year ended 31 December 2014 contained in this announcement are consistent with the amounts set out in the Group’s audited consolidated financial statements for the year in accordance with its engagement under Hong Kong Standard on Related Services 4400 “Engagements to perform agreed-upon procedures regarding financial information” and with reference to Practice Note 730 “Guidance for auditors regarding preliminary announcements of annual results” issued by the Hong Kong Institute of Certified Public Accountants.

Closure of the Register of Members

The register of members of the Company will be closed from Tuesday, 26 May 2015 to Friday, 29 May 2015, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members’ entitlement to the attendance of the forthcoming AGM of the Company to be held on Friday, 29 May 2015, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 22 May 2015.

Review by Audit Committee

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

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2014.

Publication of Information on the Stock Exchange's Website and the Company's Website

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2014 will be despatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 23 March 2015

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