MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

The outbreak of the novel coronavirus ("**COVID-19**") continued to impact the cross-border throughput via Gashuunsukhait-Ganqimaodu ("**GS-GM**") checkpoint, affecting the business performance of Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**").

The Group generated a total revenue of approximately United States Dollar ("**USD**") 184.1 million from total sales volume of 1.6 million tonnes ("**Mt**") of coal products during the year ended 31 December 2021, compared to USD417.4 million of the Group's total revenue generated from 4.2 Mt of coal products sold during the year ended 31 December 2020.

The Group's net loss attributable to the equity shareholders of the Company for the year ended 31 December 2021 was USD55.2 million. Major contributing factor of the Group's net loss position was the lower sales volume, as well as higher transportation cost and royalty fees recorded during the reporting year.

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

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of dividend for the year ended 31 December 2021 (dividend for the year ended 31 December 2020: nil).

The Board is announcing the audited annual results of the Group for the year ended 31 December 2021 together with the comparative figures for the corresponding period in 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Note	**2021** **USD'000**	2020 *USD'000*
(Loss)/profit for the year		**(55,438)**	29,605
Other comprehensive income for the year (after reclassification adjustments)			
Item that will not be reclassified to profit or loss:			
Surplus on revaluation of plants, buildings, and machinery and equipment	*10,11*	**62,895**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**184**	(7,556)
Other comprehensive income for the year		**63,079**	(7,556)
Total comprehensive income for the year		**7,641**	22,049
Attributable to:			
Equity shareholders of the Company		**7,841**	21,384
Non-controlling interests		**(200)**	665
Total comprehensive income for the year		**7,641**	22,049

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	**2021** *USD'000*	2020 *USD'000*
Non-current assets			
Property, plant and equipment, net	*10*	**968,681**	883,050
Construction in progress	*11*	**46,828**	43,961
Other right-of-use assets		**50**	51
Intangible assets	*12*	**500,086**	498,954
Interests in associates		**949**	360
Interest in joint venture		**23**	24
Other non-current assets		**55,634**	52,369
Deferred tax assets		**21,767**	17,244
Total non-current assets		**1,594,018**	1,496,013
Current assets			
Inventories		**159,663**	106,268
Trade and other receivables	*13*	**99,520**	94,355
Cash and cash equivalents		**25,937**	38,904
Total current assets		**285,120**	239,527
Current liabilities			
Trade and other payables	*15*	**175,598**	142,981
Contract liabilities		**141,498**	25,911
Senior Notes	*14*	**17,885**	–
Lease liabilities		**72**	71
Current taxation		**65**	3,323
Total current liabilities		**335,118**	172,286
Net current (liabilities)/assets		**(49,998)**	67,241
Total assets less current liabilities		**1,544,020**	1,563,254

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2021

	Note	**2021** **USD'000**	2020 *USD'000*
Non-current liabilities			
Senior Notes	*14*	**434,716**	449,618
Provisions		**30,928**	19,458
Deferred tax liabilities		**181,798**	166,985
Other non-current liabilities		**–**	39,029
Total non-current liabilities		**647,442**	675,090
NET ASSETS		**896,578**	888,164
CAPITAL AND RESERVES			
Share capital	*16(b)*	**103,158**	102,918
Reserves		**726,665**	718,291
Total equity attributable to equity shareholders of the Company		**829,823**	821,209
Perpetual notes	*16(c)*	**66,569**	66,569
Non-controlling interests		**186**	386
TOTAL EQUITY		**896,578**	888,164

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 Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 October 2010. The Group is principally engaged in the mining, processing, transportation and sale of coal.

2 STATEMENT OF COMPLIANCE

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

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

(a) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Group and the Group's interests in two associates and a joint venture.

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

– Investments in debt and equity securities;

– Buildings and plants as well as machinery and equipment (see Note 10); and

– Derivative financial instruments (see Note 3 (a)).

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

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

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

The COVID-19 outbreak has adversely impacted the operating environment and business performance of the Group during the year ended 31 December 2021. The coal sales volume has been impacted by temporary border crossing limitations and volatility caused by COVID-19 outbreak during the year of 2021. As a result, the Group recorded a net loss of USD55,438,000 for the year ended 31 December 2021 and had net current liabilities of USD49,998,000 as at 31 December 2021. The Group has been closely monitoring the impact of the COVID-19 outbreak on its operational and financial performance and has put in place contingency measures for cash conservation and efficiency purposes such as temporary adjustment to levels of production and obtained standby facilities from local banks in Mongolia totalling USD38,700,000 as of the reporting date. In addition, in order to secure export shipments by minimising COVID-19 impact, the Government of Mongolia ("**GoM**") established a custom bonded terminal for containerised shipments at GS-GM border checkpoint ("**GS Terminal**") for coal exports, which has commenced operation in November 2021. The GS Terminal allows truck drivers to unload and pick up the containers with minimal human contact and thus lowering the risk of cross-border infection. Based on the cash flow forecast of the Group for the next twelve months ending 31 December 2022 prepared by the management, the Directors expect to maintain adequate financial resources to cover its operating costs and meet its financing commitments, as and when they fall due for the twelve months period subsequent to 31 December 2021.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**").

The functional currency of the Group's overseas holding entities and main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is Mongolian Togrog ("**MNT**").

The Company and the Group's presentation currency is USD.

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.

(b) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

- Amendment to IFRS 16, *Covid-19-related rent concessions*

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

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

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and equipment and construction in progress were revalued by an external appraiser as at 31 December 2016 and 2021, respectively (see Notes 10 and 11). Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgement is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity.

(ii) Reserves

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

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

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

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

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

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

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

– Asset recoverable amounts may be affected due to changes in estimated future cash flows.

– Depreciation, depletion and amortisation charged to the statement of profit or loss may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change.

– Overburden removal costs recorded on the statement of financial position or charged to the statement of profit or loss may change due to changes in stripping ratios or the units of production basis of depreciation.

– Reclamation and mine closure provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

– The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(iii) Useful lives of property, plants and equipment

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

(iv) Impairment of mining related assets

The Group identifies if there is any indication of impairment of mining related assets at each end of the reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would result in increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

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

(v) Obligation for reclamation

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

(vi) Derivative financial instruments

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

(vii) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. Stripping costs (waste removal costs) are incurred during the development and production phases at open-pit mining and they are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan. Judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and production stripping activity. These are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity assets.

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

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

– The costs can be measured reliably.

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

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

– It is probable that the future economic benefit (improved access to ore) will flow to the Group;

– The ore body or component of ore body for which access has been improved can be identified; and

– The costs relating to the stripping activity can be measured reliably.

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

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

(viii) Taxation

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

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to certain Group's accounting policies. Respective information and assumptions and their risk factors are disclosed accordingly in Notes 3(a) (i), (iii), (iv), (v), (vi) and (vii).

4 REVENUE

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

	2021	2020
	USD'000	*USD'000*
Washed hard-coking coal ("**HCC**")	**174,175**	378,594
Washed semi-soft coking coal ("**SSCC**")	**6,357**	30,627
Washed thermal coal	**3,019**	7,892
Raw thermal coal	**518**	311
	184,069	417,424

During the year ended 31 December 2021, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD30,191,000 and USD23,320,000. During the year ended 31 December 2020, the Group had three customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD127,532,000, USD65,333,000 and USD45,432,000.

Revenue during the year ended 31 December 2021 includes approximately USD75,516,000 (2020: USD307,918,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

5 COST OF REVENUE

	2021 *USD'000*	2020 *USD'000*
Mining costs	**42,475**	108,333
Processing costs	**11,950**	35,430
Transportation costs	**43,138**	67,587
Others *(Note (i))*	**43,906**	69,865
Cost of revenue during mine operations	**141,469**	281,215
Cost of revenue during idled mine period *(Note (ii))*	**20,021**	7,633
Cost of revenue	**161,490**	288,848

Notes:

(i) Others include royalty tax on the coal sold.

(ii) For the year ended 31 December 2021, cost of revenue during idled mine period mainly includes depreciation expense related to idled plant and equipment, staff costs and mining contractor costs.

6 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2021 *USD'000*	2020 *USD'000*
Interest income	**(54)**	(110)
Net change in fair value of derivative component of senior notes	**–**	(548)
Foreign exchange gain, net	**–**	(4,395)
Finance income	**(54)**	(5,053)
Interest on liability component of senior notes (Note 14)	**46,170**	45,745
Interest on lease liabilities	**5**	6
Transaction fee	**66**	–
Unwinding interest on		
– Accrued reclamation obligations	**492**	440
Net interest expense	**46,733**	46,191
Net change in fair value of derivative component of senior notes	**608**	–
Foreign exchange loss, net	**1,639**	–
Finance costs	**48,980**	46,191
Net finance costs	**48,926**	41,138

No borrowing costs have been capitalised for the years ended 31 December 2021 and 2020.

(b) Staff costs:

	2021	2020
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**20,353**	26,850
Retirement scheme contributions	**2,894**	3,726
Equity-settled share-based payment expenses	**34**	136
	23,281	30,712

Pursuant to the relevant labour rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the GoM whereby the Group is required to make contributions to the Schemes at a rate of 8.5% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

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

(c) Other items:

	2021	2020
	USD'000	*USD'000*
Selling and distribution costs *(Note (i))*	**9,625**	27,645
Depreciation and amortisation	**49,704**	61,199
Net (gain)/loss on disposals of property, plant and equipment	**(29)**	1
Auditors' remuneration		
– audit services	**639**	608
– tax and other services	**30**	56
	669	664
Cost of inventories *(Note (ii))*	**141,469**	281,215

Notes:

(i) Selling and distribution costs represent fees and charges incurred for importing coal into the People's Republic of China ("**PRC**"), logistics and transportation costs, governmental fees and charges and fixed agent fees associated with sales activities in inland PRC.

(ii) Cost of inventories includes USD48,711,000 (2020: USD82,805,000) relating to personnel expenses, and depreciation and amortisation which are also included in the respective amounts disclosed separately above for each of these types of expenses. Cost of inventories also includes transportation and stockpile losses amounted to USD2,269,000 (2020: USD8,293,000).

7 INCOME TAX

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

	2021	2020
	USD'000	*USD'000*
Current tax		
Provision for the year	**132**	17,004
Deferred tax		
Origination and reversal of temporary difference	**(5,145)**	(6,408)
	(5,013)	10,596

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

	2021	2020
	USD'000	*USD'000*
(Loss)/profit before taxation	**(60,451)**	40,201
Notional tax on (loss)/profit before taxation	**(12,141)**	8,301
Tax effect of non-deductible items *(Note (iii))*	**6,732**	4,052
Tax effect of non-taxable items *(Note (iii))*	**(334)**	(2,040)
Tax losses not recognised	**730**	283
Actual tax expenses	**(5,013)**	10,596

Notes:

(i) Pursuant to the income tax rules and regulations of Mongolia, the subsidiaries of the Group located in Mongolia are liable to Mongolian Corporate Income Tax at a rate of 10% of the first MNT6 billion taxable income, and 25% of the remaining taxable income for the years ended 31 December 2021 and 2020. According to the Corporate Income Tax Law of the PRC, the Company's subsidiaries in the PRC is subject to statutory income tax rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2021 and 2020.

(iii) Non-deductible and non-taxable items mainly include net unrealised exchange gain or loss, other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the years ended 31 December 2021 and 2020.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of USD55,238,000 (profit attributable to ordinary equity shareholders of the Company of 2020: USD28,940,000) and the weighted average of 1,031,576,786 ordinary shares (2020: 1,029,176,786 ordinary shares) in issue during the year.

(b) Diluted (loss)/earnings per share

For the years ended 31 December 2021 and 2020, basic and diluted (loss)/earnings per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted (loss)/earnings per share for the years ended 31 December 2021 and 2020.

9 SEGMENT REPORTING

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

10 PROPERTY, PLANT AND EQUIPMENT, NET

Mining properties as at 31 December 2021 include stripping activity assets with the carrying amount of USD424,554,000 (2020: USD386,376,000) and application fee for the mining rights of USD898,000 (2020: USD858,000) in relation to the Group's mine deposits.

Fair value measurement of property, plant and machinery

(i) Fair value hierarchy

The following table presents the fair value of the Group's property, plant and machinery measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value as at 31 December	**Fair value measurements as at 31 December 2021 categorised into**		
	2021	**Level 1**	**Level 2**	**Level 3**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Recurring fair value measurement				
Buildings and plants	**369,495**	**–**	**–**	**369,495**
Machinery and equipment	**129,696**	**–**	**–**	**129,696**
Buildings and plants, machinery and equipment under construction *(Note 11)*	**46,828**	**–**	**–**	**46,828**
Total	**546,019**	**–**	**–**	**546,019**

	Fair value as at 31 December 2020	Fair value measurements as at 31 December 2020 categorised into		
		Level 1	Level 2	Level 3
	USD'000	*USD'000*	*USD'000*	*USD'000*
Recurring fair value measurement				
Buildings and plants	326,651	–	–	326,651
Machinery and equipment	132,406	–	–	132,406
Buildings and plants, machinery and equipment under construction *(Note 11)*	43,961	–	–	43,961
Total	503,018	–	–	503,018

During the year ended 31 December 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

As at 31 December 2016 and 2021, buildings and plants as well as machinery and equipment were revalued and such valuation was carried out by a firm of external appraisers, Duff and Phelps Corporation, who has among their staff fellows of the American Society of Appraisers, Royal Institute of Charted Surveyors, Chartered Certified Accountant, Chartered Financial Analyst and Financial Risk Manager with recent experience in the mining property valuation worldwide including valuation of coal mines. The Group's property manager and the chief financial officer had discussion with the appraisers on the valuation assumptions and valuation results when the valuation was performed.

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

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

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

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

  - Indices were applied to the historical cost. The indices were obtained from recognised sources such as: FM Global, Unitary Construction costs, etc.;

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

  - No any functional obsolescence was revealed.

– Machinery and equipment:

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

- Engineering and general administrative expenses for several analysed coal mines range between 7-8% of RCN; and

- Interest During Construction estimated to be equal to 7.8% of RCN based on the actual interest paid during CHPP construction.

(ii) Information about Level 3 fair value measurements

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

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

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

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

	2021	2020
	USD'000	*USD'000*
Buildings and plants	**141,397**	119,617
Machinery and equipment	**24,439**	21,941
Buildings and plants, machinery and equipment under construction *(Note 11)*	**20,692**	5,573
	186,528	147,131

Impairment of mining related assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2021, according to IAS 36, *Impairment of assets*, the management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets related to the Ukhaa Khudag ("**UHG**") mine and Baruun Naran ("**BN**") mine operations (collectively referred to as "**UHG and BN Assets**"). For the purpose of this, the UHG and BN Assets are treated as a CGU.

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

– Recoverable reserves and resources

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

– Growth rate

  The growth rate is estimated based on coal product price consensus and life-of-mine ("**LOM**") production plan.

– Coal prices

  The coal price assumptions are management's best estimate of the future price of coal in China. Coal price assumptions for the next five years are built on past experience of the industry and consistent with external sources. These prices are adjusted to arrive at appropriately consistent price assumptions for the different qualities and type of coal.

  Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2021 is consistent with that at the year end of 2020, which was also updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate.

– Sales quantity/production profile

  Sales quantity is in line with production profile. Estimated production volumes are based on detailed LOM plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as the recoverable quantities, the production profile, the cost of the development of the infrastructure necessary to extract the reserves, the production costs, and the contractual duration of mining rights and the selling price of the coal extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves.

– Operating costs

  Operating cost assumptions are based on management's best estimation of the costs to be incurred at the date of impairment testing. Costs are determined after considering current operating costs, future cost expectations, as well as the nature and location of the operation. The estimation also takes future mining contractor arrangements into consideration; and the Directors are of the opinion that such mining contractor arrangements are in line with the Group's business plan.

– Capital expenditure

Future capital expenditure is based on management's best estimate of required future capital requirements. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

– Discount rate

This discount rate is derived from the Group's weighted average cost of capital ("**WACC**"), with appropriate adjustments made to reflect the risks specific to the CGU. The WACC takes into account both debt and equity, weighted based on the Group and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

Post-tax discount rate of 17% and pre-tax discount rate of 22% were applied to the future cash flows projection at the year end of 2021 (2020: post-tax discount rate of 18% and pre-tax discount rate of 23%). The Directors believe that the post-tax discount rate was matching with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2021, and has not resulted in the identification of an impairment loss for the year ended 31 December 2021. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2021 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard.

The Directors believe that the estimates and assumptions incorporated in the impairment assessment are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgements. The Directors consider that a reasonable changes in assumptions will not result in an impairment of mining related assets.

11 CONSTRUCTION IN PROGRESS

	2021	2020
	USD'000	*USD'000*
At 1 January	**43,961**	33,796
Additions	**9**	10,151
Transfer to property, plant and equipment *(Note 10)*	**(1,105)**	–
Revaluation gain	**7,088**	–
Disposal	**(3,126)**	–
Exchange adjustments	**1**	14
At 31 December	**46,828**	43,961

The construction in progress is mainly related to machinery and equipment.

12 INTANGIBLE ASSETS

	Acquired mining right *(Note (i))*	**Software**	**GS Terminal *(Note (ii))***	**Total**
	USD'000	*USD'000*	*USD'000*	*USD'000*
Cost:				
At 1 January 2020	701,557	3,676	–	705,233
At 31 December 2020	701,557	3,676	–	705,233
At 1 January 2021	701,557	3,676	–	705,233
Addition	–	–	3,031	3,031
At 31 December 2021	701,557	3,676	3,031	708,264
Accumulated amortisation and impairment loss:				
At 1 January 2020	202,004	1,839	–	203,843
Amortisation charge for the year	2,069	367	–	2,436
At 31 December 2020	204,073	2,206	–	206,279
At 1 January 2021	204,073	2,206	–	206,279
Amortisation charge for the year	1,467	368	64	1,899
At 31 December 2021	205,540	2,574	64	208,178
Carrying amount:				
At 31 December 2021	496,017	1,102	2,967	500,086
At 31 December 2020	497,484	1,470	–	498,954

Notes:

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

(ii) GS Terminal represents the permission to operate at the customs bonded terminal for 3 years.

13 TRADE AND OTHER RECEIVABLES

	2021 *USD'000*	2020 *USD'000*
Trade receivables *(Note (a))*	**14,038**	11,093
Other receivables *(Note (c))*	**85,482**	83,262
	99,520	94,355
Less: allowance for credit losses *(Note (b))*	**–**	–
	99,520	94,355

Notes:

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2021 *USD'000*	2020 *USD'000*
Within 90 days	**14,020**	7,378
90 to 180 days	**–**	3,715
180 to 270 days	**18**	–
	14,038	11,093

(b) Loss allowance for trade receivables

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

As at 31 December 2021, the Group evaluated the loss allowance for ECL and no loss allowance of trade receivables (2020: nil) was made based on the assessment.

(c) Other receivables

	2021 *USD'000*	2020 *USD'000*
Amounts due from related parties *(Note (i))*	**1**	381
Prepayments and deposits *(Note (ii))*	**49,220**	51,095
Value added tax ("**VAT**") and other tax receivables *(Note (iii))*	**24,236**	31,408
Others	**12,025**	378
	85,482	83,262

Notes:

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

(ii) At 31 December 2021 and 2020, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from Mongolian Taxation Authority ("**MTA**"). According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties' payable to MTA against VAT receivable from MTA. The Group verifies the collectability of such funds with MTA on a regular basis, and based on currently available information, the Group anticipates full recoverability.

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

14 SENIOR NOTES

	2021	2020
	USD'000	*USD'000*
Senior Notes due 2022 *(Note (i))*	**17,885**	16,882
Senior Notes due 2024 *(Note (ii))*	**434,716**	432,736
	452,601	449,618

Notes:

(i) The outstanding principal amount of the Senior Notes due 2022 was USD14,912,012 as at 31 December 2021 (31 December 2020: USD14,764,368). The Senior Notes due 2022 bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually, and due on 30 September 2022 ("**Senior Notes due 2022**"). Interest rate of 5% per annum comprises of cash interest rate and paid-in-kind ("**PIK**") interest rate components. During the year ended 31 December 2021, PIK notes of USD147,644 (2020: USD146,182) were issued as PIK interest and added onto the outstanding principal amount of the Senior Notes due 2022.

The Senior Notes due 2022 have been accounted for as a hybrid financial instrument containing derivative components and a liability component. The fair value of the derivative component of interest rate linked to the benchmark coal price index, the derivative component of cash sweep premium and the derivative component of early redemption option as at 31 December 2021 was USD712,000, USD2,456,000 and nil, respectively (31 December 2020: USD114,000, USD2,446,000 and nil, respectively). The liability component was initially recognised at its fair value and is accounted on amortised cost subsequently. As at 31 December 2021, the carrying amount of the liability component was USD14,717,000 (31 December 2020: USD14,322,000).

Fair value of the derivative components of the Senior Notes due 2022 was estimated by the Directors based on the discounted cash flow method.

(ii) On 15 April 2019, the Group issued the Senior Notes due 2024 with a principal amount of USD440,000,000 ("**Senior Notes due 2024**") which were listed on the Singapore Exchange Securities Trading Limited. The Senior Notes due 2024 bear interest at 9.25% per annum fixed rate, payable semi-annually, and due on 15 April 2024.

The Senior Notes due 2024 have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of early redemption option was initially recognised at its fair value of nil. The fair value of the derivative component of early redemption option as at 31 December 2021 was nil (31 December 2020: nil). The liability component was initially recognised at fair value of USD429,795,446, after taking into account attributable transaction costs of USD10,204,554 and is accounted on amortised cost subsequently. As at 31 December 2021, the carrying amount of the liability component was USD434,716,000 (31 December 2020: USD432,736,000).

Fair value of the derivative component was estimated by the Directors based on the Binomial model.

15 TRADE AND OTHER PAYABLES

	2021	2020
	USD'000	*USD'000*
Trade payables *(Note (i))*	**141,395**	95,607
Amounts due to related parties *(Note (ii))*	**3,870**	5,019
Payables for purchase of equipment	**4,504**	4,301
Interest payable *(Note (iii))*	**8,890**	8,777
Other taxes payables	**13,276**	20,734
Others *(Note (iv))*	**3,663**	8,543
	175,598	142,981

Notes:

(i) As of the end of the reporting period, the ageing analysis of trade creditors based on the invoice date is as follows:

	2021	2020
	USD'000	*USD'000*
Within 90 days	**48,505**	47,828
90 to 180 days	**5,812**	8,222
180 to 365 days	**31,323**	9,159
Over 365 days	**55,755**	30,398
	141,395	95,607

(ii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments.

(iii) As at 31 December 2021, interest payables related to Senior Notes due 2022 and Senior Notes due 2024 are amounting to USD298,000 and USD8,592,000, respectively. (31 December 2020: USD185,000 and USD8,592,000, respectively).

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

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

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2021 (dividend in respect of the year ended 31 December 2020: nil).

(b) Share capital

	2021		2020	
	Number of shares'000	***USD'000***	*Number of shares'000*	*USD'000*
Ordinary shares, authorised				
At 1 January and 31 December	**1,500,000**	**150,000**	1,500,000	150,000

	2021		2020	
	Number of shares'000	***USD'000***	*Number of shares'000*	*USD'000*
Ordinary shares, issued and fully paid				
At 1 January	**1,029,177**	**102,918**	1,029,177	102,918
Impact of share option exercise	**2,400**	**240**	–	–
At 31 December	**1,031,577**	**103,158**	1,029,177	102,918

2,400,000 share options were exercised during the year ended 31 December 2021 (2020: nil).

(c) Perpetual notes

The Company issued perpetual notes which were listed on the Singapore Exchange Securities Trading Limited on 4 May 2017, with a principal amount of USD195,000,000 and with a fair value of USD75,897,000. On 15 April 2019, the Company redeemed principal amount of USD23,972,000 with a fair value of USD9,328,000 through debt refinancing. After the debt refinancing, the outstanding principal amount of perpetual notes was USD171,028,000 with a fair value of USD66,569,000. There was no change during the years ended 31 December 2021 and 2020.

The perpetual notes have no fixed maturity and are redeemable at the Company's option. The distribution payments can be deferred at the discretion of the Company. So long as the perpetual notes are outstanding, the Company shall not declare or pay any dividend or make any distribution on or with respect to its capital shares; or redeem, reduce, cancel, buy-back or acquire for any consideration any of its capital shares.

Fair value of the perpetual notes was valued by the management with reference to a valuation report issued by an independent valuer based on the discounted cash flow method.

17 IMPACTS OF THE COVID-19 PANDEMIC

The COVID-19 pandemic since early 2021 has brought certain uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures such as temporary adjustment to levels of production. The Group will keep the contingency measures under review as the situation evolves.

The Group regularly performs assessment on the liquidity risks, where appropriate, to assess the potential impact of business conditions on the Group's capital adequacy and liquidity. The results based on the Group's latest financial position showed that both capital and liquidity levels are sufficient to cope with the impact of the outbreak. Whenever necessary, prompt actions will be undertaken to mitigate potential impacts.

The Group has assessed the accounting estimates and other matters that require the use of forecasted financial information for the impact of the COVID-19 pandemic. The assessment included estimates of the unknown future impacts of the pandemic using information that is reasonably available at this time. Accounting estimates and other matters assessed mainly include the allowance for expected credit losses of receivables from customers, inventory valuation, impairment assessment of mining related assets, valuation of financial assets and liabilities, and the recoverability of tax assets. Based on the current assessment, there was no material impact to these annual financial statements. As additional information becomes available, the future assessment of these estimates, including expectations about the severity, duration and scope of the pandemic, could differ materially in the future reporting periods.

MANAGEMENT DISCUSSION AND ANALYSIS

COVID-19 Pandemic and State Response

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

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

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

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

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

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

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

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

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

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

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

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

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

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

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

Source: Fenwei

Notes:

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

(ii) Due to rounding, discrepancy may exist between summary of volumes of individual countries with total volume, y-o-y percentage changes and market share.

OPERATING ENVIRONMENT

Regulations related to taxation

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

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

Labour related legislation

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

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

Regulations related to the environmental protection

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

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

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

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

The most recent Coal Resource estimate has been made in accordance with the requirement of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014).

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

Exploration activities conducted in the process of preparing the four preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2021, included:

- 1,645 individual boreholes drilled for 208,211m, including 116,709m of HQ-3 (63.1 millimetre ("**mm**") core, 96.0mm hole diameter) and 91,502m of 122mm diameter open hole drilling;

- 43,656 individual analytical samples collected and analysed;

- 71 kilometres ("**km**") of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International Ltd (**"Polaris"**) and analysed by Velseis Processing Pty Ltd (**"Velseis"**); and

- results from large-diameter, bulk-sample drilling samples analysed at the ALS Group laboratories in Ulaanbaatar.

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

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

Appendix I of the Group's 2021 Annual Report can be referred to for the detailed information required to be presented under the JORC Code (2012) upon release of a JORC (2012) Coal Resource estimate.

Table 2. UHG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2021 (Notes):

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

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the AusIMM (Member #318198) and has over 12 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Barkhas consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 2 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2021, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

(ii) Mr. Lkhagva-Ochir Said is employed by the Group as Executive General Manager for Mining and Processing. Mr. Said is a member of the AusIMM (Member #316005) and has over 14 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).

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

Baruun Naran (BN) deposit

The BN deposit is covered by two mining licenses. Mining License MV-014493 ("**BN mining license**") of 4,482 hectares area was obtained through the acquisition of Baruun Naran Limited, formerly known as QGX Coal Limited, on 1 June 2011, and is effective for 30 years from 1 December 2008. Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013, effective for 30 years. Both licenses are extendable twice, by 20-year periods.

During 2021, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 31 December 2021 for the BN and THG mining licenses.

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

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

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

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

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

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

Internal peer review was conducted by Mr. Lkhagva-Ochir Said, the Group's Executive General Manager of Mining and Processing. These peer reviews confirmed compliance of the Group's work to update the Coal Resource estimations in compliance with requirements of the JORC Code (2012).

Summary of the updated Coal Resources statement as at 31 December 2021 for BN and THG mining license areas are shown in Table 3 and Table 4. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 3. BN mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2021 (Notes):

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

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

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

Notes:

(i) *Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas is a member of the AusIMM (Member #318198) and has over 12 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Barkhas consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 3 and Table 4 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2021, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

(ii) *Mr. Lkhagva-Ochir Said is employed by the Group as Executive General Manager for Mining and Processing. Mr. Said is a member of the AusIMM (Member #316005) and has over 14 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).*

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

Coal Reserves

Ukhaa Khudag (UHG) deposit

The Group engaged Glogex Consulting LLC ("**Glogex**") to prepare an updated JORC (2012) Coal Reserve statement and LOM Study as at 1 January 2022 for the UHG deposit. The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods. Updated Coal Resource estimate served as a base to prepare such updated Coal Reserve estimate. It shall be noted that Reserve in Proved and Probable category are derived from Resource in Measured and Indicated category only. As such, increase in Resource estimate under Measured and Indicated category is expected to lead to increase in Reserve estimate.

Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by mining cost or coal price variance. Due to the increase in the measured resource concerning the coal seam structure accuracy improvement and movement of unclassified, inferred, and indicated coal resource to the measured coal resource, the coal reserve increased. The pit algorithms used included for incorporation of:

- geotechnical constraints, including limitation of overall slope angles within the pit by sector, ex-pit dump offset from LOM pit shell crest and maximum pit depth, with updates on basis of research and analyses made since timing of the previous JORC (2012) Coal Reserve estimate, as provided by Mr. John Latilla of AMC Consultants Pty Ltd (**"AMC"**);

- washability curves on seam ply basis, as prepared by the Group's processing team for inclusion in the previous JORC (2012) Coal Reserve estimate, to individual coal seams based upon propensity for processing into coking and/or thermal products, with update made to reassign portion of Seam 0B and 0AU from thermal to coking coal production, based upon results observed during production trials in 2017;

- updated cost input assumptions, derived from recent historical operating performance at UHG mine on the basis of sustainable cost reductions made in response to difficult market conditions, and as forecast based upon negotiated reductions in cost for mining and blasting contractor services; and

- updated revenue input assumptions, derived from an updated market study prepared by Fenwei, which provided for medium to long term forecasting of expected Free-on-Transport ("**FOT**") pricing at UHG mine for hard coking, semi-soft coking and thermal coal products planned for production.

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

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

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

Notes:

(i) The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the AusIMM (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 20 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement.

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

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

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

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

Baruun Naran (BN) deposit

Coal Reserve statement and LOM study for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2022. The LOM mining plan prepared to underpin the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by operating cost and coal revenue variance.

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

- limitation of open pit depth to 360 m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla of AMC;

- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest Corporation ("**Norwest**");

- cost input assumptions based on stripping and blasting estimates derived from the current mining contractors; and

- revenue input assumptions derived from an updated market study of the principal coking and thermal coal markets in China, completed by Fenwei.

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

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

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

Notes:

(i) *The estimate of Coal Reserve presented in Table 7 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the AusIMM (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 20 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined under the JORC Code (2012). Mr. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement.*

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

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

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

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

Production and Transportation

Coal Mining

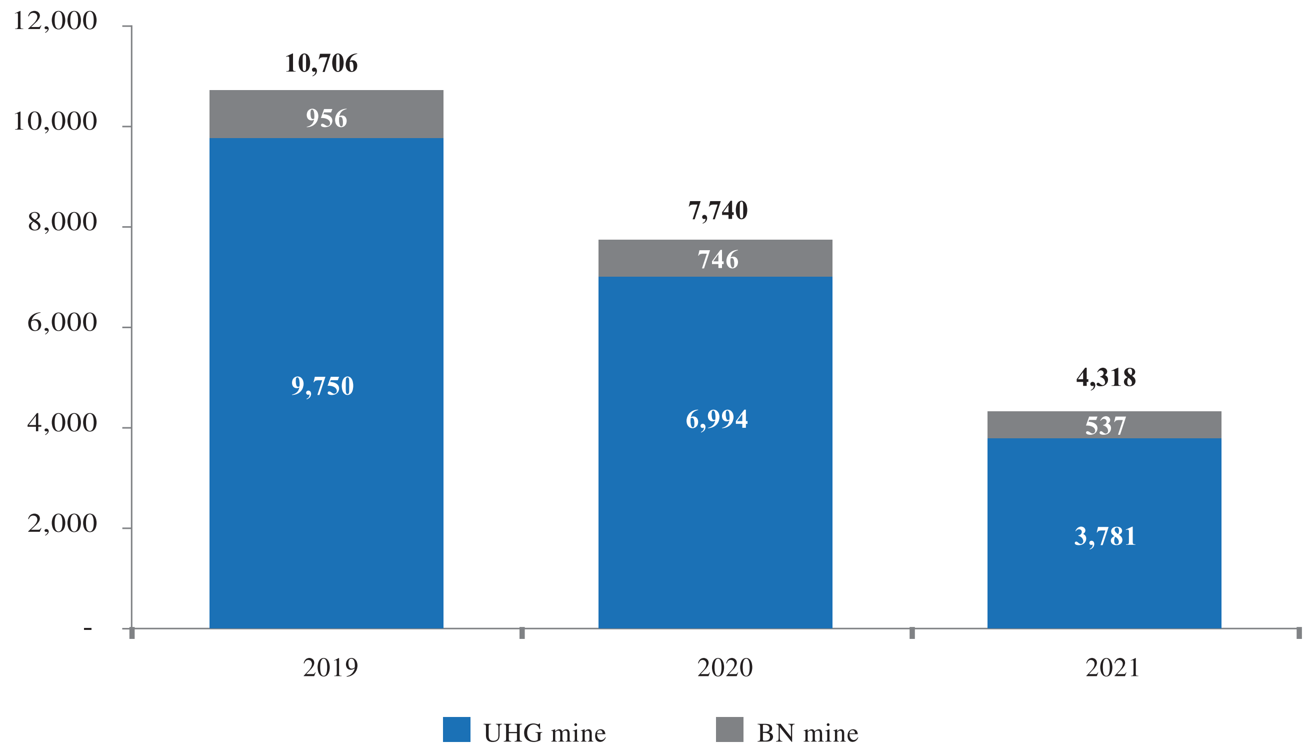
The Group's total ROM coal production was 4.3 Mt in 2021, of which 3.8 Mt and 0.5 Mt of ROM coal was produced from UHG mine and BN mine, respectively.

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

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

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

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

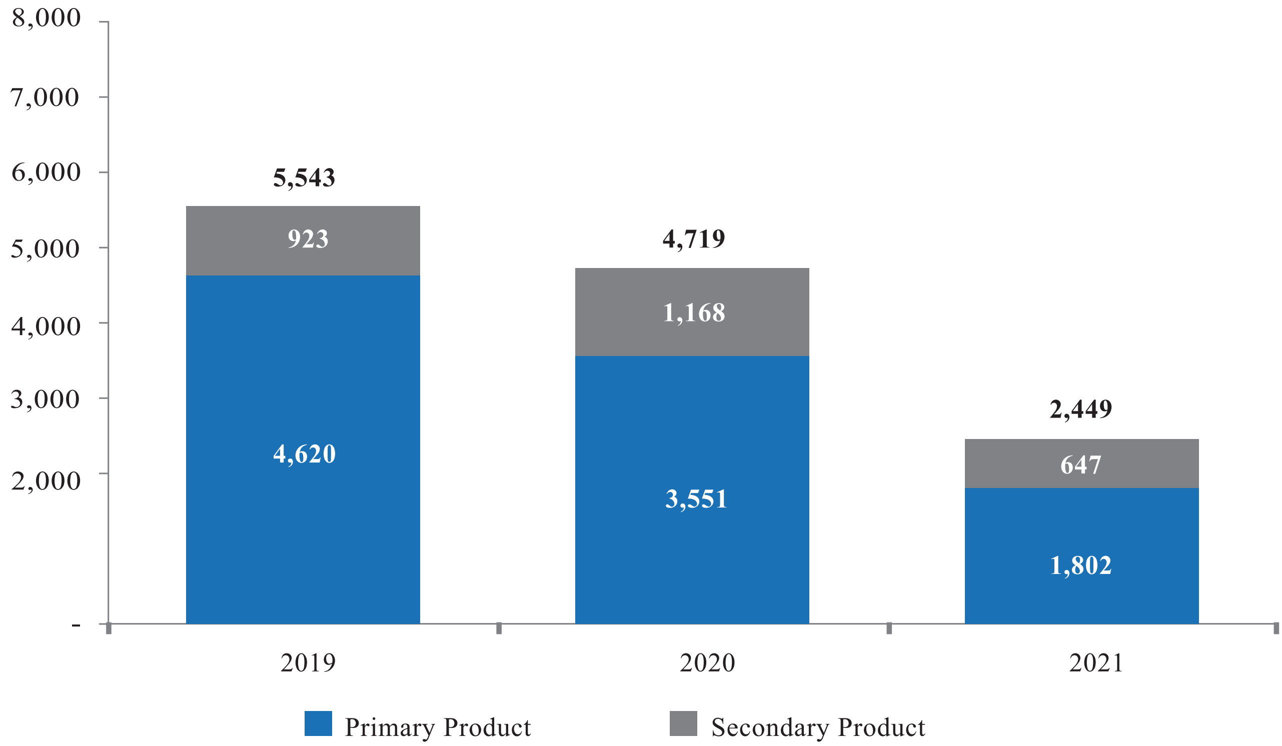


Coal Processing

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

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

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



Logistics Infrastructure

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

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

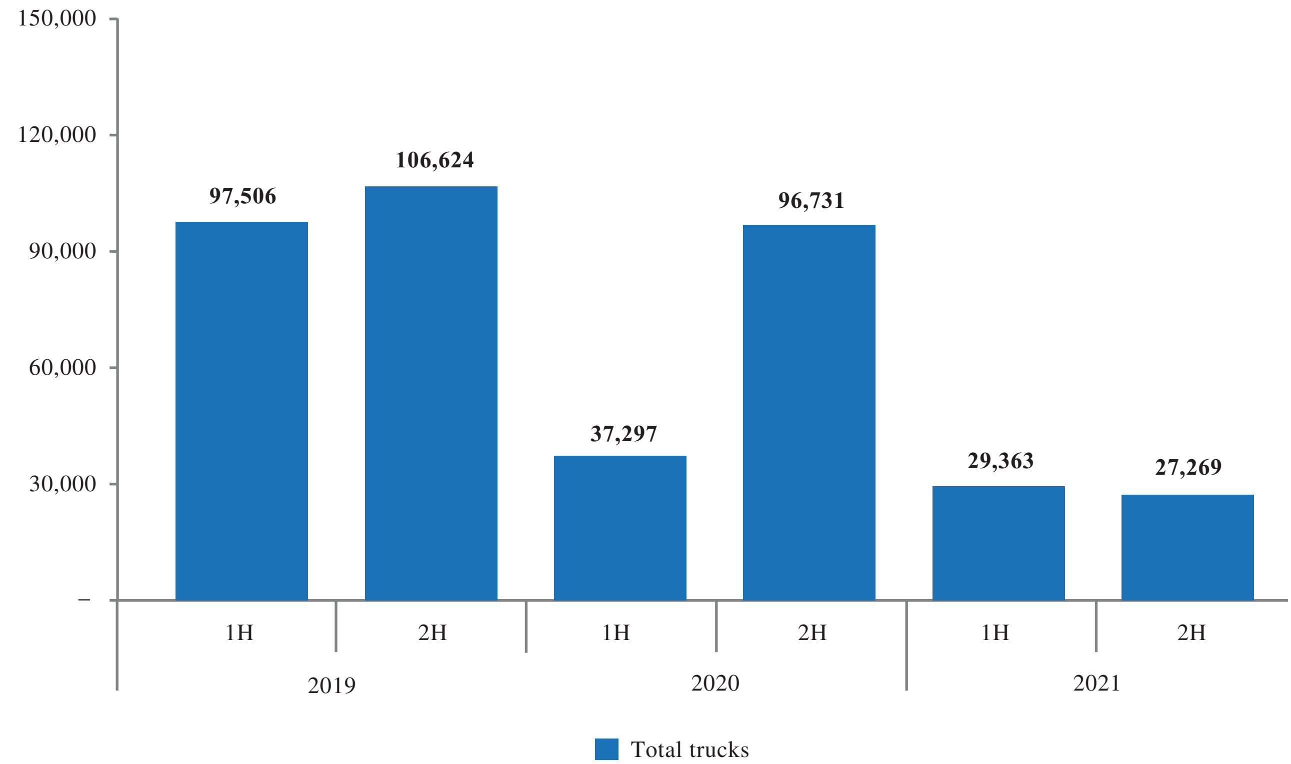
ER was assigned with the task to manage this project, with the construction successfully completed in September 2021 and subsequently the GS Terminal was commissioned by the relevant authorities on 7 October 2021. This project was 60%, 15% and 25% jointly financed by Erdenes Tavantolgoi JSC, Tavantolgoi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

Transportation and Logistics

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

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

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



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

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

Occupational Health, Safety and Environment

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

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

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

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

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

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

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

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

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

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

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

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

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

Sales and Marketing

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

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

The Group sold a total of 1.6 Mt of coal products in 2021, split by coal product type as follows: (i) 1.2 Mt of HCC; (ii) 66.0 Kt of SSCC; and (iii) 0.4 Mt of thermal coal.

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

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

OUTLOOK AND BUSINESS STRATEGIES IN 2022

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

Cost of Revenue

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

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

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

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

Table 9. Total and individual costs of revenue:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross Profit

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

Non-IFRS Measure

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

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

Selling and Distribution Costs

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

General and Administrative Expenses

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

Net Finance Costs

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

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

Income Tax Expenses

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

Loss for the Year

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

Liquidity and Capital Resources

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

Table 12. Combined cash flows:

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

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

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

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

Fixed Assets Revaluation

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

As a result of the fixed assets revaluation as at 31 December 2021, the carrying amount of the revaluated assets was increased and other comprehensive income of USD62.9 million was recognised as a revaluation surplus in equity side of the balance sheet for the year ended 31 December 2021. The asset revaluation surplus is an accounting related adjustment and a non-cash item and therefore, does not have any impact on the cash flow of the Group. In addition, going forward annual depreciation amount will increase as result of asset revaluation surplus.

Indebtedness

As at 31 December 2021, the Group had USD454.9 million outstanding principal payments consisting of (i) USD14.9 million Senior Notes due 2022 and (ii) USD440.0 million Senior Notes due 2024.

Credit Risk

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

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

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

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

Foreign Exchange Risk

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

Pledge of Assets of the Group

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

Contingent Liabilities

As at 31 December 2021, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd. and Kerry Mining (Mongolia) Limited on 31 May 2011 in relation to the acquisition of the entire share capital of Baruun Naran Limited (formerly known as QGX Coal Ltd.) (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December, in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves.

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

Financial Instruments

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

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

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

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the year ended 31 December 2021, USD0.03 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

Capital Commitments and Capital Expenditures

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

Table 13. Capital commitments:

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

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

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

Significant Investments Held

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

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

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

Other and Subsequent Events

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

Employees

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

The Group's employees are remunerated with reference to the individual performance, experience, qualification and the prevailing salary trends in the local market, which is subject to review from time to time. With reference to the Group's financial and operational performance, employees may also enjoy other benefits such as discretionary bonus and Share Options pursuant to the Company's Share Option Scheme. The share option scheme adopted by the Company on 17 September 2010 and became effective on 13 October 2010 expired on 12 October 2020. On 16 June 2021, at the 2021 Annual General Meeting of the Company, the shareholders approved the resolution to adopt a new share option scheme effective for a period of 10 years.

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice and share the newly gained experience with co-workers. The immediate management shall be responsible for the support and supervision of the process. During the year ended 31 December 2021, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2021, a total of 10,859 employees attended different professional trainings, out of which 7,850 employees attended occupational, health, and safety training, 2,167 employees attended professional development training and 842 employees attended general skills development training.

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

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

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

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

Dividend

The Board does not recommend the payment of a dividend for the year ended 31 December 2021 (dividend for the year ended 31 December 2020: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

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 Guideline**") 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 year.

Corporate Governance

In December 2021, the Stock Exchange has announced amendments to the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules. The requirements under the new CG Code will apply to corporate governance reports of listed issuers for financial year commencing on or after 1 January 2022. Throughout the year ended 31 December 2021, the Company has adopted the principles and practices as set out in the CG Code applicable for the financial year under review (the "**then CG Code**"). The CG Code provision F.2.2 (code provision E.1.2 of the then CG Code) stipulates that the chairman of the board should attend the annual general meeting ("**AGM**") of the Company. Mr. Chan Tze Ching, Ignatius, independent non-executive Director, attended as Chairman of the 2021 AGM of the Company held on 16 June 2021, as Mr. Odjargal Jambaljamts, Chairman of the Board, was unable to attend the 2021 AGM physically due to international travel restrictions imposed caused by the COVID-19 pandemic. Mr. Odjargal Jambaljamts joined the 2021 AGM via webcast.

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

Review of Annual Results

The financial figures in respect of the Group's consolidated statement of financial position as at 31 December 2021, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income for the year then ended and the related notes thereto as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Closure of the Register of Members

The register of members of the Company will be closed from Wednesday, 15 June 2022 to Monday, 20 June 2022, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the forthcoming AGM of the Company to be held on Monday, 20 June 2022, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 14 June 2022.

Review by the Audit Committee

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

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2021.

Publication of Annual Results and Annual Report

The annual results announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2021 will be despatched to shareholders of the Company and published on the above-mentioned websites in due course.

For and behalf of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 21 March 2022

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo and Mr. Myagmarjav Ganbyamba, being the non-executive Directors, and Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius being the independent non-executive Directors.