



**MONGOLIAN
MINING
CORPORATION**

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

ANNUAL REPORT 2023

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A large pile of dark coal is being filled by a conveyor belt at a mining site. The conveyor belt is a long, metal structure with a hopper at the end, pouring coal into the pile. The background shows a vast, open-pit mine with terraced levels and a hazy sky. The overall scene is industrial and captures the scale of coal mining operations.

COMPANY PROFILE

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

I. MISSION, VISION AND VALUES

Our mission

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

Our vision

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

We recognise that people are our key asset.

Therefore:

MMC places the safety of our personnel the highest priority

As a responsible employer, MMC provides equal employment opportunities within a meritocratic workplace

We believe that modern and cost-efficient technology will bring sustainable growth and prosperity.

Therefore:

MMC aims to use technology and innovate in the same to produce quality products safely at the lowest cost

MMC continues to contribute to the development of technical standards in the global extractive industry

We are committed to environmental sustainability in our operations.

Therefore:

MMC strives to minimise the impact of our operations on the environment

MMC complies with all required environmental standards, and take further measures to prevent and mitigate potential environmental impact

We are committed to socially responsible mining practices.

Therefore:

MMC strives to build mutually beneficial relationships with local communities and officials

MMC contributes to social development through community development initiatives and other programmes

We are committed to transparent and fair business practices.

Therefore:

MMC fosters mutually beneficial relationships with our suppliers and contractors

MMC develops, maintains and values long-term relationships with our customers

We believe sound corporate governance is a cornerstone of MMC's management and operations.

Therefore:

MMC complies with the best international practices

MMC continues to cultivate a culture of corporate governance as an integral part of its ongoing organisational development

II. CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Od Jambaljamts
Enkhtuvshin Gombo
Myagmarjav Ganbyamba

Independent Non-Executive Directors

Khashchuluun Chuluundorj
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road
Kowloon, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Cheung Yuet Fan

INDEPENDENT AUDITOR

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

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Cheung Yuet Fan

LEGAL ADVISERS

Davis Polk & Wardwell
10th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

COMPANY WEBSITE

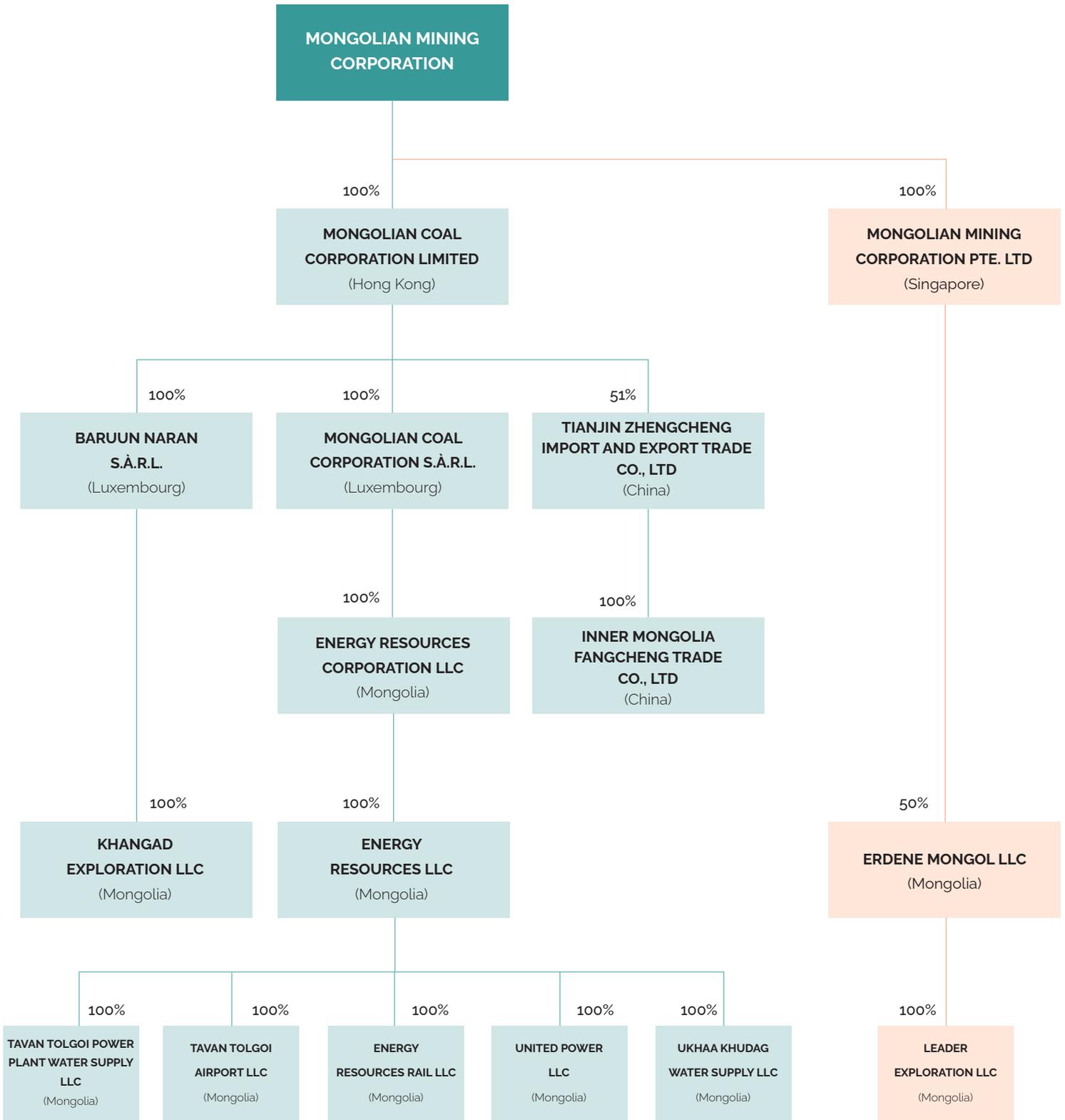
www.mmc.mn

STOCK CODE

975

III. GROUP STRUCTURE

(as at 31 March 2024)



IV. DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

ODJARGAL JAMBALJAMTS, aged 58, is an executive Director and Chairman of the board (the "**Board**") of directors (the "**Directors**") of the Company. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC and was appointed as the Chairman of MCS Mongolia LLC, a controlling shareholder of the Company, in 2017 (together with its subsidiaries, the "**MCS Group**"). Mr. Jambaljamts was a director of Starain Limited from January 2011 to August 2017, MCS Global Limited and MCS (Mongolia) Limited from 2012 to 2017, Novel International Investment Limited from March 2012 to October 2019, Novel Holdings Group Limited from March 2012 to January 2021, and MCS Mining Group Limited from July 2012 to January 2021, respectively. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and a controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts served as an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he served as an economist at Hydropower LLC for the Project of Egjiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

BATTSENGEL GOTOV, aged 51, is an executive Director and Group Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010 and has held various managerial positions within MCS Group since 2004. Dr. Gotov has been the Chief Executive Officer of Energy Resources Corporation LLC since August 2010. He served as the Chief Executive Officer of Energy Resources LLC ("**ER**") from June 2008 to December 2023, and of Khangad Exploration LLC ("**KE**") from December 2012 to December 2023. Dr. Gotov has also been a director of Mongolian Coal Corporation Limited since 11 June 2011. He holds the position of category A Manager for Mongolian Coal Corporation S.à.r.l. and Baruun Naran S.à.r.l. respectively. Dr. Gotov was appointed as a member of the board of directors of Mongolian Mining Corporation Pte. Ltd. in November 2022 and the Chief Executive Officer of Energy Resources Rail LLC in February 2023. Prior to his corporate career, he served as an Assistant Professor at Comenius University in Bratislava from 1996 to 2000. He then pursued research as a fellow sponsored by the Alexander von Humboldt Foundation at the University of Cologne, Germany in September 2000, and further stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov served as chairman and board member of the Mongolian Coal Association from May 2016 to February 2023. Since 2010, he has been a board member of the Mongolian National Mining Association and was appointed as Chairman on 27 April 2022. Dr. Gotov has been a member of the Mineral Resources Policy Council since 7 October 2014. He was appointed as the Chairman of the Energy 3x3 Club in January 2020, and the President and Chairman of the Mongolian Basketball Association NGO on 20 April 2022. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

OD JAMBALJAMTS, aged 59, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Environmental, Social and Governance Committee of the Company. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within MCS Group, and a member of the board of MCS Mongolia LLC, a controlling shareholder of the Company. Mr. Jambaljamts was appointed as the president of Ulaanbaatar Chamber of Commerce in March 2015 and was re-designated as a member of the board of Ulaanbaatar Chamber of Commerce in January 2017. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in diverse field. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts was a director of MCS Global Limited and MCS (Mongolia) Limited from 2012 to 2017, MCS Mining Group Limited from July 2012 to January 2021, and Trimunkh Limited from July 2011 to March 2020, respectively. Mr. Jambaljamts was awarded a bachelor's degree in International Relations by the Institute of International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

ENKHTUVSHIN GOMBO, aged 52, is a non-executive Director of the Company. Ms. Gombo was appointed as a non-executive Director of the Company on 30 September 2017. She is also a member of the Audit Committee of the Company. Ms. Gombo holds the position of vice president and director of the Finance Department of MCS Holding LLC and is a board member of MCS Mongolia LLC, a controlling shareholder of the Company. Ms. Gombo joined MCS Holding LLC in 2003 as a financial analyst, subsequently appointed as the head of the Planning Unit under the Finance Department in 2006. Ms. Gombo was promoted to vice president and director of the Finance Department in 2008. Since her appointment by MCS Holding LLC, she has successfully organised the first international auditing within MCS Group and established a strong financial team, and good relationships with international financial organisations and commercial banks. Ms. Gombo previously served as a non-executive Director and a member of the Audit Committee of the Company from its initial public offering on 13 October 2010 to 12 October 2014. Ms. Gombo was awarded a bachelor's degree in Banking and Finance from the Economics College of Mongolia in 1994. In 1997, she was awarded a master's degree in International Banking and Finance at Birmingham University Business School, Birmingham, United Kingdom.

MYAGMARJAV GANBYAMBA, aged 39, is a non-executive Director of the Company. Mr. Ganbyamba was appointed as a non-executive Director of the Company on 1 January 2022. He is a member of the Environmental, Social and Governance Committee of the Company. Mr. Ganbyamba joined MCS Group in 2005 as a financial analyst at Interpress LLC and Anun LLC. He then served as a financial analyst at MCS Holding LLC from 2007 to 2009, and then at the Company from 2009 to 2010. He was the deputy chief executive officer of Goyo LLC from 2012 to 2013, and was the vice president and chief financial officer of Unitel Group from 2013 to 2020. He served as the chief executive officer of MCS Ventures LLC from July 2020 to November 2023. Mr. Ganbyamba has been serving as the chief executive officer of MCS Investment LLC since May 2020. Mr. Ganbyamba was awarded a bachelor's degree in Financial Management from the Mongolian University of Science and Technology in 2006 and awarded a master's degree in Financial Management by the Keller Graduate School of Management, DeVry University in California, United States in 2012. Mr. Ganbyamba is also a Chartered Financial Analyst.

UNENBAT JIGJID, aged 61, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Environmental, Social and Governance Committee and a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. From 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. He was a director of Resources Investment Capital from October 2010 to November 2013. Mr. Jigjid was appointed as an executive director of the Corporate Governance Development Center in Mongolia since 2009 and was appointed as the Head of the Center on 30 March 2015. He served as a member of the supervisory board of the Bank of Mongolia from January 2004 to January 2019. From March 2011 to present, Mr. Jigjid has been serving as a member of Open Society Forum in Mongolia. Mr. Jigjid was appointed as an independent non-executive director of APU JSC on 26 April 2013, the shares of which are listed on the Mongolian Stock Exchange ("**MSE**"). He was appointed as an independent member of the board of Golomt Bank in October 2010 and has been appointed as a member of the board in 2020, the shares of which are listed on the MSE on 23 November 2022. From April 2015 to April 2019, Mr. Jigjid served as a non-executive director of Mongolia Telecom JSC, a company listed on the MSE. Mr. Jigjid was reappointed and served as an executive director and secretary general of the Mongolian Bankers Association from November 2015 to February 2020. Mr. Jigjid was appointed as a member of the board of the International Bank for Economic Cooperation on 15 October 2022. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

KHASHCHULUUN CHULUUNDORJ, aged 57, is an independent non-executive Director of the Company. Dr. Chuluundorj was appointed as an independent non-executive Director on 8 January 2016. He is the Chairman of the Remuneration Committee and a member of the Audit Committee, Environmental, Social and Governance Committee and Nomination Committee of the Company. Dr. Chuluundorj is a professor at the Department of Economics and a member of the Academic Council of the National University of Mongolia. He serves as an executive director of the Mongolia Oil Shale Association and is engaged in managing a number of non-governmental organisations and research consulting activities. Dr. Chuluundorj contributed as a member of the working group on the Long-term Development Strategy for Mongolia for 2016-2030 and served on the board of directors of the Ulaanbaatar City Development Corporation from 2015 until June 2020. He joined the National University of Mongolia as a lecturer of Political Economy in 1989. From 2011 to 2012, he was a member of the board of directors of Erdenes MGL LLC, a state-owned enterprise for strategic mining deposits. From 2009 to 2012, he served as the chairman of the National Development and Innovation Committee of Mongolia, a government agency in charge of national development strategy and investment policy. From 2010 to 2011, he was appointed as the inaugural chairman of the board of directors to lead the establishment of Development Bank of Mongolia and served as a member of the board of directors of the Central Bank of Mongolia from 2006 to 2012. Dr. Chuluundorj also served as a member of the President's Economic Advisory Council from 2006 to 2008 and the Policy Council of the Ministry of Trade and Industry from 2005 to 2007. He also led government initiatives to introduce the concept of private-public partnership and facilitated the adoption of the Law on Concession, Law on Innovation and Law on Economic Development Planning. Dr. Chuluundorj also managed the revision of the Law on Budget to incorporate development policies, introduced a Regional Development index for fiscal transfers and implemented policies to support private sector. Dr. Chuluundorj was appointed as an independent director of MIK Holding JSC in June 2017, the shares of which are listed on the MSE. From January 2017 to June 2020, he served as an independent director of Ulaanbaatar Development Corporation JSC, the shares of which are listed on the MSE. He also served as the chairman of the board of Practical Insurance LLC from May 2018 to February 2023 and as an independent director of MMFG Group from January 2018 to January 2023. He has been serving as an independent member of the Monetary Policy Council of the Bank of Mongolia since June 2018 and as an independent director of Invescore Financial Group since November 2018. In June 2019, he was also appointed as an independent director of Invescore NBF, the shares of which are listed on the MSE. He was appointed as a member of the board of directors of Mongolian Investment Rating Agency on 1 December 2021. Dr. Chuluundorj was awarded a bachelor's degree in economics by the Moscow State University, Moscow, Russia in 1989, a master's degree in economics from the Graduate School of Economics, Yokohama City University, Yokohama, Japan in 1996 and a doctorate degree in international economics by the Graduate School of Economics, Keio University, Tokyo, Japan in 2003.

CHAN TZE CHING, IGNATIUS, aged 67, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and a member of the Environmental, Social and Governance Committee of the Company. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan served as a member of the board of directors of the Community Chest of Hong Kong from September 1999 to 22 June 2020 and was re-appointed for various terms. From 28 November 2012 to 20 June 2014, Mr. Chan was appointed as an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on the Stock Exchange. From 1 March 2011 to 19 June 2016, Mr. Chan served as a member of the Sponsorship and Development Fund of The Open University of Hong Kong (now known as Hong Kong Metropolitan University). From 19 October 2012 to 18 October 2018, Mr. Chan served as a member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission. From 1 April 2013 to 31 December 2015, Mr. Chan served as Deputy Chairman of the Council of the Hong Kong Polytechnic University and from 1 January 2016 to 31 December 2018, he served as Chairman of the Council. From 1 April 2013 to 31 March 2019, Mr. Chan served as a member of the Hong Kong Tourism Board. He has served as a member of the Council of Hong Kong Red Cross from 1 April 2010 to 31 August 2022, the deputy chief executive of the Bank of China (Hong Kong) Limited in 2008 and has been the senior advisor of CVC Capital Partners Limited from 1 November 2010 to 31 October 2021. Mr. Chan was appointed as the senior advisor of The Bank of East Asia Limited in March 2009, as a member of the Hospital Governing Committee of Hong Kong Red Cross Blood Transfusion Service on 1 April 2022 and its Chairman on 1 April 2023. Mr. Chan has served as Board Adviser of Hong Kong New Territories General Chamber of Commerce since 28 May 2013. He served as an Honorary Advisory Vice President of The Hong Kong Institute of Bankers from 14 February 2011 to 31 December 2018. Mr. Chan served as a member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region from 1 January 2014 to 31 December 2019. Mr. Chan has served as a member of the Financial Reporting Council (FRC) from 1 December 2014 to 30 September 2020 and a member of the Standing Committee on Judicial Salaries and Conditions of Service from 1 January 2017 to 31 December 2022. Mr. Chan served as a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited from 11 December 2009 to 28 April 2021, and an independent non-executive director of Hong Kong Exchanges and Clearing Limited from 23 April 2009 to 28 April 2021, the shares of which are listed on the Stock Exchange. Mr. Chan served as a non-executive director of Rizal Commercial Banking Corporation (RCBC) from 28 November 2011 to 24 June 2019, the shares of which are listed on the Philippines Stock Exchange. From 6 August 2013 to 12 March 2018, he served as a non-independent nonexecutive director of Affin Holdings Berhad, the shares of which are listed on Bursa Malaysia. Affin Holdings Berhad's listing on the Malaysian stock exchange was replaced by Affin Bank Berhad on 2 February 2018. He has served as a non-independent non-executive director of Affin Bank Berhad since 1 December 2017, the shares of which are listed on Bursa Malaysia on 2 February 2018. Mr. Chan has served as an independent non-executive Director of China State Construction International Holdings Limited since 8 June 2023, the shares of which are listed on the Stock Exchange. He served as a chairman of PRASAC Microfinance Institution in Cambodia from 14 March 2017 to 7 April 2020. Mr. Chan was awarded the bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

Senior Management

OYUNBAT LKHAGVATSEND, aged 47, is the President and Chief Executive – Development & Growth of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013. Mr. Lkhagvatsend was appointed as the chairman of the board of directors of Erdene Mongol LLC (“**EM**”) in January 2024. Mr. Lkhagvatsend has over 18 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways LLC and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the Chief Executive Officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning until February 2023. Mr. Lkhagvatsend was awarded a bachelor’s degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

ENKHBAT DORJPALAM, aged 42, is the President and Chief Executive – Coal & Energy of the Company. Mr. Dorjpalam joined the Group as the Deputy Chief Executive Officer in February 2023. He was appointed as the Chief Executive Officer of ER and KE in December 2023. His primary responsibility is to lead and oversee the Group’s coal mining, processing, transportation, sales and marketing operations. Mr. Dorjpalam served as the Chief Executive Officer of United Power LLC, Ukhaa Khudag Water Supply LLC, Tavan Tolgoi Airport LLC and Tavan Tolgoi Power Plant Water Supply LLC from April to December 2023. Since 2004, Mr. Dorjpalam served in various managerial positions within the MCS Group companies, including the Chief Executive Officer of Unitel Group from 2017 to 2022. He was awarded a bachelor’s degree in telecommunication engineering from the Mongolian University of Science and Technology, and holds his master’s degree from the National Academy of Governance, Mongolia.

ULEMJ BASHUU, aged 45, is an Executive Vice President and the Group Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company’s Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor’s degree in business administration from the Mercer University, United States.

UUR TSAIKH DORJGOTOV, aged 60, is an Executive Vice President and the Group Chief Legal Officer of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Programme of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master’s degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

CHEUNG YUET FAN, aged 58, is the Company Secretary of the Company. Ms. Cheung is a director of Corporate Services of Tricor Services Limited (“**Tricor**”), a global professional services provider specialising in integrated business, corporate and investor services. The Company has engaged Tricor as external service provider and appointed Ms. Cheung as the Company Secretary of the Company since 30 October 2017. Ms. Cheung has over 31 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Prior to joining Tricor, Ms. Cheung worked in the corporate secretarial department of Deloitte Touche Tohmatsu in Hong Kong and in various Hong Kong listed companies in the role of company secretary and corporate governance areas. She is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Chartered Governance Institute (formerly “The Hong Kong Institute of Chartered Secretaries”) and The Chartered Governance Institute (formerly “The Institute of Chartered Secretaries and Administrators”). Ms. Cheung obtained a Bachelor of Arts degree in Accountancy from City Polytechnic of Hong Kong (now known as City University of Hong Kong).

V. CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2023, China's steel output once again held above 1 billion tonnes, maintaining this level since first surpassing the mark in 2019. According to the World Steel Association ("**WSA**"), China's crude steel production reached 1,019 million tonnes ("**Mt**") in 2023, preserving the same level reported in the previous year.

Industry sources reported that resilient demand and the absence of a government-imposed cap on output allowed steel mills to boost operating rates. Robust demand from the shipbuilding, solar photovoltaic and automotive sectors partially offset a shortfall in demand from the property sector. Moreover, China's steel exports reached 90.3 Mt in 2023, representing a notable surge of 34.1% from the previous year, and such higher-than-expected steel exports also helped steel mills to maintain a relatively high production output in 2023.

According to the WSA, India's steel output increased by 11.8% in 2023 to 140.2 Mt from 125.4 Mt in the previous year. Japan's output declined by 2.5% to 87.0 Mt from 89.2 Mt in 2022. The USA's steel output saw a slight increase of 0.2% to 80.7 Mt in 2023. Russian and South Korean output rose by 5.6% and 1.3% to 75.8 Mt and 66.7 Mt, respectively.

Coking coal imports to China increased to a record high of 102.5 Mt in 2023, representing 60.7% YoY increase compared to 63.8 Mt imported in 2022 as per data compiled by the General Administration of Customs of China. Coking coal imports from Mongolia increased by 110.9% to reach 54.0 Mt in 2023. Mongolia was the main source for coking coal imported to China with 52.7% market share.

I am pleased to report that the Group's total sales volume was 9.8 Mt of coal products in 2023, representing an increase of 109% from the previous year's 4.7 Mt, driven by strong demand and improved cross border logistics from Mongolia to China.

The Group's revenue and adjusted EBITDA were a record high at USD1.03 billion and USD509.0 million, respectively. The profit attributable to equity shareholders in 2023 amounted to USD240 million, representing an over four-fold increase compared to 2022. As such, the Group was able to report record high revenue and notable gains in our profit, while remaining fully committed to safety, environment, and socially responsible operations.

On 25 January 2024 the Group successfully closed its investments into Erdene Mongol LLC ("**EM**") and became 50% equity owner in EM. The Group will advance Bayan Khundii ("**BKH**") gold project owned by EM and first gold production is expected to start from 2Q 2025. This represents a significant step towards expanding and diversifying our business portfolio and revenue sources.

On behalf of the Board, I would like to express my sincere gratitude for the continuing long-term support of our shareholders. Also, I would like to convey my appreciation of all efforts made by our staff of around 2,500 hard working men and women, fully dedicated in pursuing our joint vision to become a leading mining company in the region.

Odjargal Jambaljamts

Chairman

25 March 2024

VI. MANAGEMENT DISCUSSION AND ANALYSIS



Industry Overview

Chinese Steel, Coke and Coking Coal Sectors' Performance

In 2023, China's steel output once again held above 1,000 Mt, maintaining this level since first surpassing the mark in 2019. According to the WSA, China's crude steel production reached 1,019 Mt in 2023, preserving the same level reported in the previous year (2022: 1,019 Mt).

Industry sources reported that resilient demand and the absence of a government-imposed cap on output allowed steel mills to boost operating rates. Robust demand from the shipbuilding, solar photovoltaic and automotive sectors partially offset a shortfall in demand from the property sector. Moreover, China's steel exports reached 90.3 Mt in 2023, representing a notable surge of 34.1% from the previous year, and such higher-than-expected steel exports also helped steel mills to maintain a relatively high production output in 2023.

According to the WSA, India's steel output increased by 11.8% in 2023 to 140.2 Mt from 125.4 Mt in the previous year. Japan's output declined by 2.5% to 87.0 Mt from 89.2 Mt in 2022. The USA's steel output saw a slight increase of 0.2% to 80.7 Mt in 2023. Russian and South Korean output rose by 5.6% and 1.3% to 75.8 Mt and 66.7 Mt, respectively.

Chinese domestic crude steel consumption decreased by 2.1% year-on-year ("YoY") to 928.3 Mt during the reporting year compared to 948.2 Mt recorded in 2022 based on the estimates made by Fenwei Digital Information Technology Co., Ltd. ("Fenwei"). China Metallurgical Industry Planning and Research Institute forecasts a further decline in steel demand of 1.7% in 2024, following a 3.3% decrease in 2023.

According to the National Bureau of Statistics, coke production reached 492.6 Mt in 2023, marking a 4.1% YoY increase from 473.4 Mt recorded in 2022. Fenwei estimates indicate that coke consumption grew by 2.9% YoY to 470.6 Mt in 2023, compared to 457.2 Mt in 2022. Coke exports from China remained at the same level at 8.9 Mt as the previous year.

According to Fenwei, China's coking coal consumption was 591.5 Mt in 2023, an increase of 6.3% from the previous year, and domestic coking coal production dropped to 491.4 Mt, representing a 0.4% decrease from 2022.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

Coking coal imports to China increased to a record high of 102.5 Mt in 2023, representing 60.7% YoY increase compared to 63.8 Mt imported in 2022 as per data compiled by the General Administration of Customs of China. Coking coal imports from Mongolia increased by 110.9% to reach 54.0 Mt in 2023. Mongolia was the main source for coking coal imported to China with 52.7% market share.

According to data from the National Statistics Office of Mongolia, the country exported 69.6 Mt of coal to China in 2023, representing 118.9% increase compared to 31.8 Mt reported in 2022.

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

| Countries | 2023 | Market Share | 2022 | Change |
|--------------|--------------|---------------|-------------|---------------|
| Mongolia | 54.0 | 52.7% | 25.6 | +110.9% |
| Russia | 26.6 | 26.0% | 21.0 | +26.7% |
| Canada | 7.6 | 7.4% | 7.9 | -3.8% |
| USA | 5.9 | 5.8% | 4.4 | +34.1% |
| Australia | 2.8 | 2.7% | 2.2 | +27.3% |
| Others | 5.6 | 5.5% | 2.8 | +100.0% |
| Total | 102.5 | 100.0% | 63.8 | +60.7% |

Source: Fenwei

Notes:

- (i) Imports from Mongolia include raw unprocessed, dry and wet processed coking coal.
- (ii) Due to rounding, discrepancy may exist between the summary of volumes of individual countries with total volume, YoY percentage changes and market share.

Operating Environment

Legal Framework

Regulations related to taxation

On 21 June 2023, the Government of Mongolia ("GOM") issued Resolution No. 244, extending the period for the complete waiver of excise tax on imported gasoline and diesel fuel to 1 January 2025, which was previously set until 1 July 2023.

On 13 September 2023, the GoM issued Resolution No. 345 and resolved to use trading prices from the Mongolian Stock Exchange JSC ("MSE") for royalty calculations for coal, iron and fluorspar exported and traded through MSE's minerals' exchange platform starting from 1 October 2023.

On 20 December 2023, the GoM issued Resolution No. 453, instructing that minerals can only be exported if the transportation agreement for exported minerals is duly registered with the unified customs and tax management and control system, effective starting from 1 February 2024.

Labor related Law and Regulation

On 7 July 2023, the Parliament of Mongolia revised the General Law on Social Insurance, the Law on Providing Pensions from the Social Insurance Fund, the Law on Providing Allowances from the Social Insurance Fund, and the Law on Providing Pensions, Allowances and Payments for Industrial Accidents and Occupational Diseases from the Social Insurance Fund (together the "Social Insurance Code"), replacing the previous versions adopted in 1994. The Social Insurance Code came into effect on 1 January 2024 and the Group does not expect any material impact on its operational and financial position since its current operational policies and practices duly comply with the regulations.

On 13 October 2023, the National Trilateral Committee of Labor and Social Consensus issued Resolution No. 12, which set the minimum wage rate for 2024 at MNT 660,000, which was previously set at MNT 550,000. As a result, the minimum monthly wage of employees working in the mining sector increased to MNT 1,320,000, doubling the national minimum wage as per the "Collective (Tariff) Agreement of the Geology, Mining and Heavy Industry Sector" for 2023 to 2024. The Group does not expect any material impact on its current remuneration policies and practices.

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 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 requirements of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). The last update stated as at 31 December 2023 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2023 to 31 December 2023 and no further exploration data was incorporated.

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 meters ("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's 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 Chief Operating Officer – Coal & Energy. This peer audit confirmed 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 to the Group's 2022 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 2023 (Notes):

| Total Coal Resource Depth limit from topographic surface | Resource Category (Mt) | | | | Total (M+I) | Total (M+I+I) |
|--|------------------------|-----------|-----------|-------------|-------------|---------------|
| | Measured | Indicated | Inferred | Total (M+I) | | |
| Subcrop to Base Horizon of Weathering Elevation ("BHWE") | 7 | 1 | 3 | 8 | 11 | |
| BHWE to 100m | 59 | 4 | 12 | 63 | 75 | |
| From 100m to 200m | 89 | 9 | 19 | 98 | 117 | |
| From 200m to 300m | 130 | 6 | 13 | 136 | 149 | |
| From 300m to 400m | 88 | 3 | 4 | 91 | 95 | |
| Below 400m | 85 | 7 | 14 | 92 | 106 | |
| Sub-Total above 300m | 285 | 20 | 47 | 305 | 352 | |
| Sub-Total below 300m | 173 | 10 | 18 | 183 | 201 | |
| Total | 458 | 30 | 65 | 488 | 553 | |
| Total (Rounded) | 460 | 30 | 60 | 490 | 550 | |

Notes:

- Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Byambaa Barkhas, employed by the Group as General Manager, Project Management – Mining. Mr. Barkhas is a member of the Australasian Institute of Mining and Metallurgy (the "AusIMM") (Member #318198) 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). Mr. Barkhas consents to the inclusion in the release of the matters based on this information in the form and context in which it appears in this report. The estimates of the Coal Resource set out in Table 2 presented in this report are considered to be a true reflection of the UHG Coal Resource as at 31 December 2023, 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).
- Mr. Lkhagva-Ochir Said is employed by the Group as Chief Operating Officer – Coal & Energy. Mr. Said is a member of the AusIMM (Member #316005) and has over 16 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).
- 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.

In 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 last update stated for BN and Tsaikhar Khudag ("**THG**") as at 31 December 2023 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2023 to 31 December 2023, and no further exploration data was incorporated.

The resource update in 2021 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 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 (83.0mm 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 Chief Operating Officer – Coal & Energy. These peer reviews confirmed the Group's work to update the Coal Resource estimations was in compliance with requirements of the JORC Code (2012).

Summary of the updated Coal Resources statement as at 31 December 2023 for BN and THG mining licenses 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 2023 (Notes):

| Total Coal Resource Depth limit from topographic surface | Resource Category (Mt) | | | | Total (M+I) | Total (M+I+I) |
|--|------------------------|-----------|-----------|-------------|-------------|---------------|
| | Measured | Indicated | Inferred | Total (M+I) | | |
| Subcrop to BHWE | 6 | 1 | 1 | 8 | 9 | |
| BHWE to 100m | 59 | 9 | 5 | 67 | 72 | |
| From 100m to 200m | 87 | 12 | 8 | 99 | 107 | |
| From 200m to 300m | 89 | 13 | 8 | 102 | 110 | |
| From 300m to 400m | 87 | 16 | 9 | 103 | 112 | |
| Sub-Total above 300m | 241 | 35 | 22 | 276 | 298 | |
| Sub-Total below 300m | 87 | 16 | 9 | 103 | 112 | |
| Total | 328 | 51 | 31 | 379 | 410 | |
| 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 2023 (Notes):

| Total Coal Resource Depth limit from topographic surface | Resource Category (Mt) | | | | Total (M+I) | Total (M+I+I) |
|--|------------------------|-----------|-----------|-------------|-------------|---------------|
| | Measured | Indicated | Inferred | Total (M+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, employed by the Group as General Manager, Project Management – Mining. Mr. Barkhas is a member of the AusIMM (Member #318198) 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). Mr. Barkhas consents to the inclusion in the release of the matters based on this information in the form and context in which it appears in this report. The estimates of the Coal Resource set out in Table 3 and Table 4 presented in this report are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2023, 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 Chief Operating Officer – Coal & Energy. Mr. Said is a member of the AusIMM (Member #316005) and has over 16 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 Gas LLC ("**BNG**") was established in 2019 and is jointly owned 66% by Jade Gas LLC ("**Jade**") and 34% by Khangad Exploration LLC ("**KEX**"), BN mining license holder.

On 21 July 2022, BNG has entered into a prospecting contract with the Mineral Resources and Petroleum Authority of Mongolia to conduct coal-bed methane ("**CBM**") prospecting work within the area covered by the BN mining license area.

As part of the prospecting work, BNG drilled three wells with a total depth of 1,903.8m and conducted respective logging and permeability tests in 2023. Within the prospecting work scope, 106 samples were extracted from coal seams, and gas desorption was identified in the N, K, J, I, H, and G coal seams. The average gas content of the gas-bearing coal seams (N, K, J, I, H, and G) was estimated to be in range 9.4-15.2 cubic meters per tonne.

Detailed information about the results of CBM prospecting works conducted by BNG was publicly disclosed by Jade Gas Holdings Limited (Jade's parent company) on the Australian Stock Exchange (ASX) and respective announcements are available at Jade Gas Holdings Limited corporate website under link: <https://jadegas.com.au/investors/asx-announcements/>.

Coal Reserves

Ukhaa Khudag (UHG) deposit

The Group engaged Glogex Consulting LLC ("**Glogex**") to prepare an updated JORC (2012) Coal Reserve statement as at 1 January 2024 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. The last reserve statement was made on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2023 to 1 January 2024.

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. 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 oB and oAU 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 2024 based upon an as-received basis total moisture with 3.64% for coking 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 2023 (Notes):

| ROM Coal Reserve | Reserve Category (Mt) | | |
|------------------|-----------------------|-----------|------------|
| | Proved | Probable | Total |
| Coal Type | | | |
| Coking | 325 | 10 | 335 |
| Thermal | 19 | – | 19 |
| Total | 344 | 10 | 354 |

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 22 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 in the release of the matters based on this information in the form and context in which it appears in this report.
- (ii) Due to rounding, discrepancy may exist between sub-totals and totals.

Baruun Naran (BN) deposit

Coal Reserve statement for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2024. 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 last reserve statement was made on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2023 to 1 January 2024.

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

- limitation of open pit depth to 360m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla of AMC;
- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest Corporation;
- 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 6, with tonnage estimation based on an as-received basis total moisture with 1.8% for coking coal and 2.62% for thermal coal types.

Table 6. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2023 (Notes):

| ROM Coal Reserve | Reserve Category (Mt) | | |
|------------------|-----------------------|-----------|------------|
| | Proved | Probable | Total |
| Coal Type | | | |
| Coking | 243 | 23 | 266 |
| Thermal | 9 | 1 | 10 |
| Total | 252 | 24 | 276 |

Notes:

- (i) The estimate of Coal Reserve presented in Table 6 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report has been compiled by Mr. 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 in 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 22 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 in the release of the matters based on this information in the form and context in which it appears in this report.
- (ii) Due to rounding, discrepancy may exist between sub-totals and totals.

PRODUCTION AND TRANSPORTATION

Coal Mining

The Group's total ROM coal production was 14.6 Mt in 2023, of which 12.1 Mt and 2.5 Mt of ROM coal was produced from the UHG mine and BN mine, respectively.

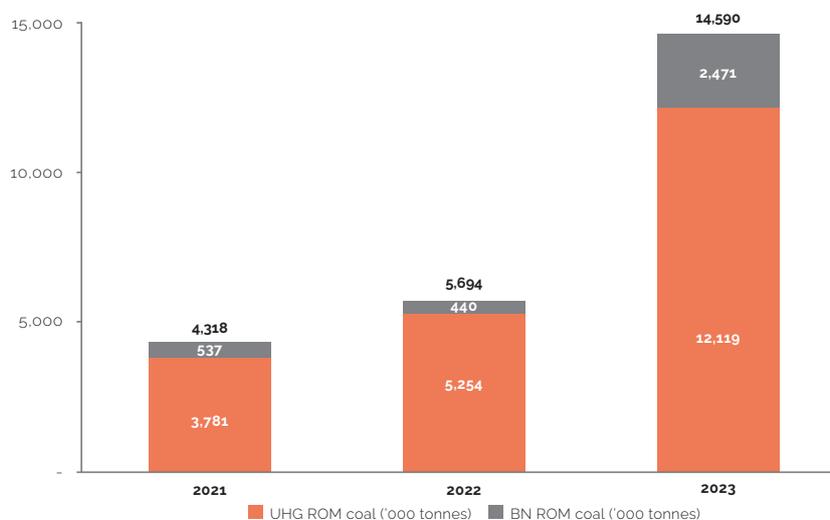
A total of 54.8 million bank cubic metres ("bcm") of prime overburden was removed, resulting in an actual stripping ratio of 4.5 bcm per ROM coal tonne for the reporting year at UHG mine.

At BN mine, a total of 20.2 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 8.2 bcm per ROM coal tonne for the reporting year.

Both mines were fully operational throughout the reporting year following the post-COVID recovery in cross-border logistics situation.

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

Figure 1. The Group's annual ROM coal production volumes (in thousand tonnes) for 2021-2023:

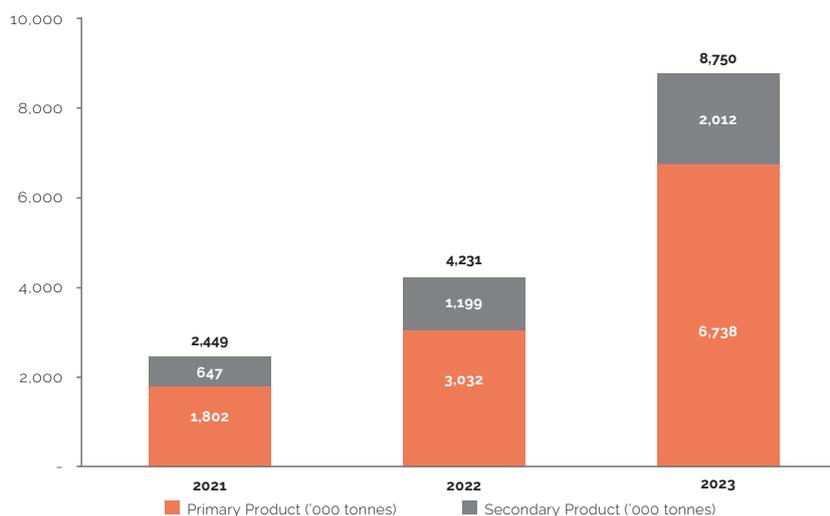


Coal Processing

The Group processed a total of 14.1 Mt ROM coking coal in 2023, of which 11.9 Mt and 2.2 Mt was sourced from the UHG and BN mines, respectively. The coal handling and preparation plant ("CHPP") has produced 6.7 Mt of washed coking coal as a primary product at 48% yield and 2.0 Mt of middlings as a secondary product at 14% yield.

The Group's washed coal production was consistently stable in 2023 and the CHPP was operating at average rates close to 15.0 million tonnes per annum ("Mtpa") installed name-plate capacity. The comparative figures for the Group's processed coal production for the last three years are shown in Figure 2.

Figure 2. The Group's annual processed coal production volumes (in thousand tonnes) for 2021-2023:



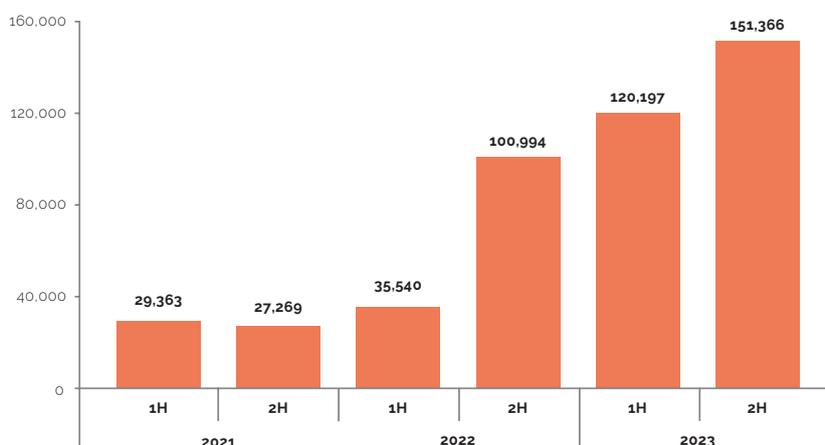
Transportation and Logistics

The Group predominately shipped its coal products for exports to China via Ganqimaodu ("GM") port upon export clearance made by Mongolian Customs by utilising trans-shipping facilities at Tsagaan Khad ("TKH") and GS Terminal ("GST"). Coal was transported from UHG to TKH, UHG to GST exclusively by Group's own trucking fleet, whereas, transport from TKH or GST to GM was mainly performed by third-party contractors' trucking fleet and supplemented by Group's own trucking fleet.

In addition, the Group shipped its coal products by railway from UHG to Khangai ("KHA"). Coal products were unloaded at designated customs bonded yards at KHA for export clearance by Mongolian Customs and further exported to China via Mandula port entirely by third-party contractors sourced by customers.

In 2023, a total of 271,563 coal-loaded trucks passed through Gashuunsukhait ("GS") -GM border crossing from Mongolia to China, representing 98.9% YoY increase as compared to 136,534 coal-loaded trucks reported for 2022. According to the data compiled by the Group and its customers, a total of 60,327 coal-loaded trucks passed through the GS-GM border crossing by carrying the Group's coal products in the reporting year, representing 106.7% YoY increase from 29,189 coal-loaded trucks recorded in 2022.

Figure 3. Total number of coal-loaded trucks crossing via GS-GM border for 2021-2023:



Occupational Health, Safety and Environment

During the reporting year, 12.8 million man-hours were recorded as worked by employees, contractors, and sub-contractors of the Group. In 2023, seven occurrences of Lost Time Injuries ("LTI") was recorded, resulting in a lost time injury frequency rate of 0.80 LTIs per million man-hours worked equivalent being recorded as compared to 0.43 LTIs per million man-hours worked equivalent being recorded during 2022.

The Group is committed to creating and maintaining a culture of "Vision Zero" in which fatalities and incidents shall be fully preventable.

The Group identified and remedied 17 risks that may pose risks classified as class 1, risks that could result in a 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 monitoring heat, noise, lighting, vibration, dust, and toxic gases. During the reporting year, the Group engaged a third party to perform an audit of its Occupational Health Management system.

The Group continued to deliver Occupational Health, Safety and Environment specific training to employees, contractors and sub-contractors, with 20,115 training sessions to individuals, totaling 84,796 man-hours in 2023.

The Group records all types of safety and environmental incidents, conducts incident investigations, and plans and implements corrective actions to prevent the recurrence of incidents.

In 2023, the Group recorded no environmental incidents with "high" or above classifications. Four incidents occurred with "low" and "moderate" classification which were related to oil and fuel 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 (province) at the Group's mine site in November 2023 with the results in the areas of environmental management and legal compliance rated at 93.4% out of 100.0% (2022: 96.5% out of 100.0%). Moreover, in October 2023, the Group engaged an independent third-party for an audit consisting of documentation review and site inspections, whereby our environmental legal compliance of operations was rated at 97.0%.

The Group provides all employees with adequate health and personal accident insurance coverage.

Sales and Marketing

In 2023, the Group sold coal products under the following terms: (i) ex-works ("**EXW**") UHG; (ii) free carrier ("**FCA**") TKH, GST and KHA; (iii) delivery-at-place ("**DAP**") GM; and (iv) FOT GM.

Under EXW UHG term, the Group sold its coal products at the UHG coal stockyard and which was mostly applicable for coal products sold to local customers in Mongolia. FCA TKH, GST and KHA terms refer to exported coal products sold from designated customs bonded yards located in Mongolia. DAP GM terms refers to exported coal products delivered to designated customs bonded yards located at GM. FOT GM terms applies for coal products sold from designated customs bonded yards located at GM after completing import customs clearance and quality inspections by relevant authorities in China.

The Group sold a total of 9.8 Mt of coal products in 2023, which represents a 109.3% YoY increase. Sales split by product type as follows: (i) 6.7 Mt of primary products, including 5.5 Mt of HCC and 0.7 Mt of SSCC; and (ii) 3.1 Mt of secondary products.

In 2023, ER, the Group's main operating subsidiary, supplied free-of-charge 0.4 Mt of middlings under EXW UHG terms to Tavan Tolgoi Tulsh LLC ("**TTT**") as 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.

According to the Law on Mining Commodity Exchange, which became effective from 30 June 2023, state owned entities that undertake export mineral products are required to trade their products through the commodity exchange, whereas private entities are allowed to trade their mineral products through the commodity exchange on a voluntary basis. On 8 February 2023, the GoM issued Resolution No. 59 and assigned to MSE the right to undertake minerals trade activities under the Law on Mining Commodity Exchange.

MSE trading platform is designed to follow market trends by establishing open and transparent pricing mechanism by linking Mongolian exporters with buyers.

The Group supported GoM's initiative by actively trading through auctions via MSE platform, and ER and KEX, its operating subsidiaries, sold 1.8 Mt of coal products under FCA GST and DAP GM terms in 2023.

All key information (including product price and volume) related to minerals traded by MSE during 2023 is publicly available under link: <https://mse.mn/en/content/list/371>.

Outlook and Business Strategies in 2024

The Group 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 Group sold approximately 9.8 Mt of coal products and generated a record high revenue of USD1,034.8 million during the year ended 31 December 2023, compared to a total revenue of USD546.2 million during the year ended 31 December 2022. Total sales volume for 2023 comprised of approximately 6.7 Mt of primary products and 3.1 Mt of secondary products, compared to 3.8 Mt of primary products and 0.9 Mt of secondary products sold during the same period in 2022.

The Group's average selling price ("ASP") for HCC, excluding applicable VAT in China was USD160.2 per tonne during the reporting year, compared to USD147.1 per tonne during the year ended 31 December 2022. During 2023, the Group sold a substantial amount of HCC under FCA TKH term at ASP of USD153.8 per tonne. The Group's ASP of HCC under FOT GM, FCA GST, DAP GM, FCA KHA and EXW UHG terms were USD168.2, USD166.7, USD165.0, USD158.3 and USD118.6 per tonne, respectively, in 2023. The period from signing of sales contracts to delivery and revenue recognition shortened to 109 days in 2023, compared to 150 days in 2022.

Since January 2023, the Group has been selling coal products through the MSE commodities exchange platform. The ASP of HCC sold through the MSE's platform under DAP GM and FCA GST terms were USD198.3 and USD173.1 per tonne, respectively, during 2023.

During the reporting year, the Group derived individually more than 10.0% of its revenue from one customer, with purchase amount of approximately USD194.6 million. For the year ended 31 December 2022, the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD81.2 million and USD79.6 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. During the year ended 31 December 2023, the total cost of revenue was USD593.2 million, compared to USD451.1 million during the year ended 31 December 2022. The increase in cost of revenue was mainly due to higher sales volume.

From the total cost of revenue, USD498.5 million was attributable to coal products produced from the UHG mine and USD94.7 million was attributable to coal products produced from the BN mine.

Table 7. Total and individual costs of revenue:

| | Year ended 31 December | |
|--|------------------------|-------------------|
| | 2023 (USD'000) | 2022 (USD'000) |
| Cost of revenue | 593,180 | 451,131 |
| Idling cost | – | 24,445 |
| Cost of revenue excluding idling cost | 593,180 | 426,686 |
| Mining cost | 250,465 | 147,846 |
| Variable cost | 156,598 | 74,045 |
| Fixed cost | 38,544 | 46,707 |
| Depreciation and amortisation | 55,323 | 27,094 |
| Processing cost | 63,456 | 43,734 |
| Variable cost | 26,202 | 16,182 |
| Fixed cost | 13,962 | 7,172 |
| Depreciation and amortisation | 23,292 | 20,380 |
| Handling cost | 17,095 | 9,960 |
| Transportation cost | 92,291 | 100,942 |
| Logistic cost | 12,626 | 9,589 |
| Variable cost | 6,319 | 5,633 |
| Fixed cost | 4,752 | 2,326 |
| Depreciation and amortisation | 1,555 | 1,630 |
| Site administration cost | 27,203 | 26,373 |
| Transportation and stockpile loss | 11,109 | 479 |
| Royalties and fees | 118,935 | 87,763 |
| Royalty | 113,902 | 84,047 |
| Air pollution fee | 871 | 1,833 |
| Customs fee | 4,162 | 1,883 |

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 ore body in accordance with the mine plan. Accounting of the unit mining cost is based on the accounting stripping ratio applicable to each component of an ore body, which was mined during the respective reporting period. The average accounting stripping ratio for components mined was 4.4 bcm per tonne for the year ended 31 December 2023 (2022: 4.7 bcm per tonne).

Unit mining cost was USD18.1 per ROM tonne during the reporting year, compared to USD17.8 per ROM tonne during the same period in 2022. Increase in unit mining cost is mainly due to increase in plant cost and fuel cost.

Table 8. Unit mining cost per ROM tonne, excluding idling cost:

| | Year ended 31 December | |
|-------------------------------|-------------------------|-------------------------|
| | 2023 (USD/ROM tonne) | 2022 (USD/ROM tonne) |
| Mining cost | 18.1 | 17.8 |
| Blasting | 1.4 | 1.0 |
| Plant cost | 6.1 | 5.0 |
| Fuel | 3.8 | 2.9 |
| National staff cost | 0.9 | 1.3 |
| Expatriate staff cost | 0.2 | 0.3 |
| Contractor fee | 1.6 | 3.9 |
| Ancillary and support cost | 0.1 | 0.1 |
| Depreciation and amortisation | 4.0 | 3.3 |

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

Processing costs primarily include costs associated with operations of the CHPP including power generation and water extraction costs. During the year ended 31 December 2023, the Group's processing costs were approximately USD63.5 million (2022: USD43.7 million), of which approximately USD23.3 million was related to the depreciation and amortisation of the CHPP, USD6.5 million was costs related to power generation and distribution and USD2.8 million was costs incurred for water extraction and distribution related to the washed coal sold during the reporting year.

Unit processing cost, calculated per ROM coal in-feed tonne was USD4.6 per ROM tonne for the year ended 31 December 2023 compared to USD5.2 per ROM tonne during 2022. The decrease in unit processing cost was mainly due to a higher volume of ROM coal in-feed during the reporting year compared to the same period in 2022, which resulted in a lower depreciation and amortisation cost per ROM tonne basis.

Table 9. Unit processing cost per ROM tonne, excluding idling cost:

| | Year ended 31 December | |
|-------------------------------|-------------------------|-------------------------|
| | 2023 (USD/ROM tonne) | 2022 (USD/ROM tonne) |
| Unit processing cost | 4.6 | 5.2 |
| Consumables | 0.5 | 0.4 |
| Maintenance and spares | 0.7 | 0.7 |
| Power | 0.5 | 0.6 |
| Water | 0.2 | 0.2 |
| Staff | 0.3 | 0.3 |
| Ancillary and support | 0.7 | 0.5 |
| Depreciation and amortisation | 1.7 | 2.5 |

Handling costs are associated with feeding ROM coal from ROM coal stockpiles to the CHPP, handling both raw and thermal coal, and the removal of course reject (primarily rock and sediment separated from coal) after coal processing. The Group's handling costs increased to approximately USD17.1 million during the year ended 31 December 2023, compared to USD10.0 million recorded during the same period in 2022, mainly as a result of increased sales volume.

During the year ended 31 December 2023, the Group's transportation costs were USD92.3 million (2022: USD100.9 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 transportation cost on the long-haul section was USD72 per tonne, remaining at the same level as in 2022.

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, for this short-haul section the Group utilised a combination of its own trucking fleet, third party contractors' fleet, as well as the GS container terminal. The average daily border throughput in 2023 surpassed pre-pandemic levels, resulting in lower contractor tariffs. Consequently, the transportation cost on the short-haul section decreased to USD10.6 per tonne in 2023 from USD27.8 per tonne recorded in 2022.

During the reporting year, majority of the coal products were sold on the Mongolian side of the border. As a result, the total unit transportation cost decreased to USD13.8 per tonne in 2023, compared to USD26.9 per tonne in 2022.

For the year ended 31 December 2023, the Group recorded a total transportation loss of around USD1.3 million (2022: USD1.1 million), and net unrealised inventory loss of USD9.8 million for ROM coal and washed coal product stockpiles (2022: net unrealised inventory gain of USD0.6 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 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 2023, the site administration costs were USD27.2 million compared to USD26.4 million during 2022.

Logistics costs are associated with loading and unloading of coal products at UHG, TKH and GST. The Group's logistics costs were USD12.6 million during the reporting year, compared to USD9.6 million in 2022. Main factor for the increase in logistics costs was the higher 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. Effective from 1 October 2023, royalty calculation of coal products traded through the MSE's platform are being based on the corresponding monthly average open trade price as published by the MSE. Historically, the Group's ASP was more closely aligned with the reference prices. However, since July 2021, as a result of prolonged delivery period and the lack of spot trades due to border throughput issues, the reference prices set by the authorities substantially deviated from the contract prices. As a result, the royalties charged to the Group were higher than historical levels since July 2021. With the improvement in border throughput, the gap between reference prices and contract prices started to narrow, and the effective royalty rate was 11.1% in 2023 based on customs clearance documentation (2022: 15.4%).

Gross Profit

The Group's gross profit for the year ended 31 December 2023 was approximately USD441.6 million, representing an increase of 364.4% compared to USD95.1 million of gross profit recorded for the year ended 31 December 2022. The increase in gross profit was mainly driven by higher sales volume and ASP, as well as lower transportation costs and royalty fees 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 2023 was approximately USD509.0 million, compared to the adjusted EBITDA of approximately USD133.8 million recorded for the year ended 31 December 2022.

Selling and Distribution Costs

The Group's selling and distribution costs were USD4.8 million for the year ended 31 December 2023 (2022: USD2.4 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 term for inland China sales activities. The increase in selling and distribution costs was mainly attributable to higher sales volume realised under FOT GM term compared to the prior reporting year.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, consultancy and professional fees, donations, depreciation and amortisation of office equipment and other expenses. For the year ended 31 December 2023, the Group's general and administrative expenses were approximately USD57.3 million (2022: USD24.8 million). Increase of USD24.1 million in general and administrative expenses was attributable to the transfer of mining equipment from the Group's mining contractor. The mining equipment was transferred to the Group at the assets' net book value, with some portion of the consideration was paid in cash and the remaining portion set-off against prepayments recognised in previous reporting periods. Based on the components of the transferred assets' net book value, which includes the assets' cost, related insurance fees and other indirect costs, the Group capitalised the portion that met the asset recognition criteria and the remaining portion was recognised as general and administrative expenses in the statement of profit or loss.

During the reporting year, the Group recorded USD12.4 million of general and administrative expenses in relation to donations of coal, which included 0.4 Mt of middlings supplied free of charge to TTT, 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 (2022: USD7.4 million of expense recorded for coal donations, including, 0.5 Mt of middling supplied).

Net Finance Costs

Net finance costs for the year ended 31 December 2023 were approximately USD40.1 million (2022: USD40.8 million). Net finance costs comprised (i) accrued interest expense of 9.25% per annum on the Senior Notes due 2024; (ii) accrued interest expense of 12.50% per annum on the Senior Notes due 2026 with outstanding principal amount of USD220,000,000; (iii) amortisation of the difference between the fair value and the principal amounts due on the Senior Notes due 2024 and the Senior Notes due 2026 using the effective interest rate method; (iv) foreign exchange net loss; and (v) interest income accrued on cash and cash equivalents. The Group's total interest expense of its senior notes decreased to USD34.7 million in 2023, from USD45.4 million recorded during 2022. Conversely, the Group incurred foreign exchange net loss of USD6.0 million in 2023, compared to foreign exchange net gain of USD3.0 million recorded in 2022.

Breakdown of the net finance costs is set out in note 6 to the consolidated financial statements.

Income Tax Expenses

The Group's income tax expenses for the year ended 31 December 2023 were approximately USD94.8 million, compared to approximately USD4.2 million income tax credit incurred for the year ended 31 December 2022. The increase was mainly attributable to the increase in taxable income due to increased sales revenue.

Profit for the Year

The profit attributable to equity shareholders of the Company for the year ended 31 December 2023 amounted to approximately USD239.7 million, representing an increase of 304.9% compared to the profit attributable to equity shareholders of the Company of approximately USD59.2 million for the year ended 31 December 2022.

Liquidity and Capital Resources

For the year ended 31 December 2023, the Group's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

| | Year ended 31 December | |
|--|------------------------|-------------------|
| | 2023 (USD'000) | 2022 (USD'000) |
| Net cash generated from operating activities | 481,879 | 233,779 |
| Net cash used in investing activities | (172,300) | (87,916) |
| Net cash used in financing activities | (197,583) | (103,874) |
| Net increase in cash and cash equivalents | 111,996 | 41,989 |
| Cash and cash equivalents at the beginning of the year | 64,695 | 25,937 |
| Effect of foreign exchange rate changes | (892) | (3,231) |
| Cash and cash equivalents at the end of the year | 175,799 | 64,695 |

Note: USD172.3 million used for investing activities comprises of (i) USD92.5 million incurred for payments of deferred stripping activity, (ii) USD40.0 million prepayment for acquisition of a subsidiary, (iii) USD41.3 million used for acquisition of property, plant and equipment and other assets, (iv) USD1.3 million generated from interest income, and (v) USD0.2 million dividend receipt from an associate.

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 2023 divided by total assets) of the Group as at 31 December 2023 was 10.7% (31 December 2022: 20.5%). All borrowings are denominated in USD. Cash and cash equivalents are mainly held in USD, RMB and MNT.

Indebtedness

As at 31 December 2023, the Group had USD220.0 million outstanding principal payment of Senior Notes due 2026 (2022: USD376.4 million outstanding principal payment of 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 2023, the Group had approximately USD33.7 million in trade receivables and USD111.5 million in other receivables. As at 31 December 2022, the Group had approximately USD4.4 million in trade receivables and USD87.7 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 USD111.5 million, this amount is mainly related to USD62.6 million of VAT receivables and USD40.0 million payment made to EM. 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 2023 and 31 December 2022 amounted to USD73.3 million and USD21.5 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 2023 and 31 December 2022.

Contingent Liabilities

As at 31 December 2023, 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.), 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

On 16 June 2021, the Company adopted a share option scheme ("**Share Option Scheme**"), in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**" or "**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

On 3 April 2023 (the "**Grant Date**"), the Company granted 10,000,000 and 23,250,000 Share Options to a director and employees, respectively, at the exercise price of HKD3,260 under the Share Option Scheme.

The fair value of services received in return for Share Options granted is measured by reference to the fair value of Share Options granted. The estimate of the fair value of the Share Options granted is measured based on the Binomial model. The variables of the model included risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of Share Options and assumptions:

| | 3 April 2023 |
|--------------------------------|---------------------|
| Fair value at measurement date | HKD1.100 - HKD1.680 |
| Share price | HKD3,260 |
| Exercise price | HKD3,260 |
| Expected life | 5 years |
| Risk-free interest rate | 3.020% |
| Expected volatility | 60% |
| Expected dividends | - |

The risk-free interest rate is based on the market yield of Hong Kong Government Bond corresponding to the expected life of the Options as at the Grant Date. The expected volatility is based on the normalised historical share price movement of the Company prior to the Grant Date for a period over the life of the Options. Expected dividends are based on management's estimates. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share Options were granted under a service condition. The condition has not been taken into account in the Grant Date fair value measurement of the services received. There was no market condition associated with the Share Option grants.

During the year ended 31 December 2023, USD2.2 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions (2022: nil).

Capital Commitments and Capital Expenditures

As at 31 December 2023 and 2022, the capital commitments outstanding were as follows:

Table 11. Capital commitments:

| | As at 31 December 2023 (USD'000) | As at 31 December 2022 (USD'000) |
|-----------------------------------|---|---|
| Contracted for | 21,142 | – |
| Authorised but not contracted for | 192 | – |

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

| | Year ended 31 December | |
|---------------------------------|------------------------|-------------------|
| | 2023 (USD'000) | 2022 (USD'000) |
| CHPP | 313 | 155 |
| Trucks and equipment | 31,444 | – |
| Investment in associate company | – | 6,951 |
| Others | 9,539 | 4,189 |
| Total | 41,296 | 11,295 |

Significant Investments Held

As at 31 December 2023, the Company did not hold any significant investments.

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

For the year ended 31 December 2023, the Company did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures.

Other and Subsequent Events

(i) Completion of the Investment Agreement

All conditions precedent to the closing under an investment agreement entered into by the Company with EM and Erdene Resource Development Corporation on 10 January 2023 (the "**Investment Agreement**") to subscribe for 50% of the share capital of EM have been fulfilled. Accordingly, the closing under the Investment Agreement has taken place in January 2024. As such, the Company (through its wholly-owned subsidiary, Mongolian Mining Corporation Pte. Ltd.) holds a total of 50% equity interest in EM, and EM has become a subsidiary of the Company. Please refer to the announcements of the Company dated 11 January 2023 and 25 January 2024 for further details.

(ii) Disposal of 20% interest in a wholly-owned subsidiary

On 21 February 2024, BNS (an indirect wholly-owned subsidiary of the Company) and the Company (each as the "**Seller**") and Jiayou International Logistics Co., Ltd* (嘉友國際物流股份有限公司) (the "**Purchaser**"), an independent third party, entered into a share purchase agreement, pursuant to which the Seller conditionally agreed to sell, and the Purchaser conditionally agreed to purchase 20% equity interest in KEX for a consideration of USD88.81 million. Upon closing, KEX will be held as to 80% by BNS, and 20% by the Purchaser. Therefore, KEX will continue to be a subsidiary of the Company following such closing and this transaction is not expected to result in a loss of control by the Group over KEX. This transaction is expected to be accounted for as an equity transaction that will not result in the recognition of any gain or loss in profit or loss for the Company. Please refer to the announcement of the Company dated 21 February 2024 for further details.

* For identification purposes only.

(iii) Payment of distribution and partial redemption of the Perpetual Notes

On 15 September 2023, the Company elected to defer the Perpetual Notes' distribution of USD7,126,396 in whole, which was otherwise scheduled to be paid on 1 October 2023 ("**Deferred Distribution**"). On 29 February 2024, the Company gave notice to its holders of the Perpetual Notes in respect of its election to pay the Deferred Distribution, together with the accrued distribution thereon, and the distribution accrued from 1 October 2023 to 1 April 2024 in whole. In the same notice, the Company informed its holders of the Perpetual Notes of its intention to redeem a principal amount of USD20,000,000 of the Perpetual Notes.

Save as disclosed in this annual report, there have been no other events subsequent to 31 December 2023 which require adjustment to or disclosure in this annual report.

Employees

As at 31 December 2023, the number of employees of the Group was 2,372, compared with 1,979 employees as at 31 December 2022.

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 which 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 2023, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2023, a total of 11,835 employees attended different professional trainings, out of which 10,324 employees attended occupational, health, and safety training, 1,005 employees attended professional development training and 506 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 144 mining heavy equipment operators and 35 mining heavy equipment fitters. 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 2023, staff cost was USD46.0 million, compared to USD30.2 million in 2022. The increase in staff cost was mainly due to higher number of employees and man-hours worked following increase in mining, processing, transportation and sales volume.

Non-exempt Continuing Connected Transaction

The Company has entered into the following continuing connected transactions (the "CCTs") in the ordinary course of business with certain of its connected persons. Set out below is a summary of the CCTs entered by the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") recorded for the year ended 31 December 2023 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules.

(1) Service Agreement

Principle Terms

On 22 December 2022, ER entered into a Service Agreement with Uniservice Solution LLC ("USS"), a subsidiary of MCS Holding LLC, pursuant to which USS agreed to provide office and camp supporting services to the Group for a term of three years commencing from 1 January 2023 to 31 December 2025.

Connected Person

As at the date of this annual report, USS is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, USS is a connected person of the Company.

Consideration

The aggregate amount of consideration payable by the Group to USS under this agreement is MNT93,654,218,808 (then equivalent to approximately USD27,260,566) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by USS. The consideration was determined after arm's length negotiation between the Company and USS taking into account the size of the location where services are to be provided and the number of employees utilising the camp site, the temporary ger camp located at the operational sites and the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by USS. Invoices are issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of a valid invoice from USS.

Annual cap for this agreement for the year ended 31 December 2023 is MNT31,218,072,936 (then equivalent to approximately USD9,086,855). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2023 under this agreement was approximately USD7,260,432.

(2) Security Service Agreement

Principle Terms

On 22 December 2022, ER entered into a Security Service Agreement with M-Armor LLC (previously MCS Armor LLC), a wholly-owned subsidiary of MCS Holding LLC, pursuant to which M-Armor LLC agreed to provide security services, safeguarding and services for prevention of unlawful conducts and violations at the Ulaanbaatar office, UHG mine site, BN mine site, TKH site and other premises of the Group and vehicle inspection and safety assurance services for the Ulaanbaatar office of the Company on a day-to-day basis. The agreement is for a term of three years commencing from 1 January 2023 to 31 December 2025.

Connected Person

As at the date of this annual report, M-Armor LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, M-Armor LLC is a connected person of the Company.

Consideration

The aggregate amount of consideration payable by the Group to M-Armor LLC under this agreement is MNT51,904,474,764 (then equivalent to approximately USD15,108,186) inclusive of VAT, other applicable taxes and all other costs undertaken by M-Armor LLC and payable on a monthly basis within 60 days upon receipt of valid invoice from M-Armor LLC. The consideration was determined on an arm's length basis between the Company and M-Armor LLC based on the bid submitted by M-Armor LLC, estimated number of security guards required and labour costs.

Annual cap for this agreement for the year ended 31 December 2023 is MNT17,301,491,588 (then equivalent to approximately USD5,036,062). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2023 under this agreement was approximately USD4,396,928.

(3) Power System Operation and Maintenance Agreement

Principle Terms

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

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

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

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

Annual cap for this agreement for the year ended 31 December 2023 is MNT27,167,196,102 (then equivalent to approximately USD9,533,855).

The actual transactions (excluding VAT) made by the Group under this agreement for the year ended 31 December 2023 was approximately USD7,110,307.

(4) Power Distribution Facilities Operation and Maintenance Agreement

Principle Terms

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

Connected Person

As at the date of this annual report, MCS International LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

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

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

Annual cap for this agreement for the year ended 31 December 2023 is MNT1,604,579,882 (then equivalent to approximately USD563,099). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2023 under this agreement was approximately USD348,966.

(5) Supply and Service Agreement

Principle Terms

On 15 August 2023, ER entered into a Supply and Service Agreement with Top Motors LLC, a wholly-owned subsidiary of MCS Holding LLC, whereby Top Motors LLC agreed to supply (i) light vehicles; (ii) spare parts for light vehicles; and (iii) related maintenance services to the Group for a term of three years commencing from 1 September 2023 to 31 August 2026.

Connected Person

As at the date of this annual report, Top Motors LLC is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC directly holds 100% shareholding interest in MCS Mining Group LLC, which is a controlling shareholder holding approximately 31.03% of the issued share capital of the Company. As such, Top Motors LLC is a connected person of the Company.

Consideration

The total consideration payable by the Group to Top Motors LLC under this agreement, which equals to the sum of the annual caps for the three years ended 31 August 2026, is MNT20,049,564,655 (then equivalent to approximately USD5,777,073) inclusive of VAT, other applicable taxes and all other costs associated with the services to be provided by Top Motors LLC.

The consideration was determined after arm's length negotiation between ER and Top Motors LLC taking into account the proposed unit price of the light vehicles, unit rates of the spare parts for light vehicles and related maintenance services and the location where related maintenance services are to be provided and the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by Top Motors LLC.

Invoices are issued on a monthly basis and ER is required to settle the payment within 45 days upon receipt of a valid invoice from Top Motors LLC.

Annual cap for this agreement for the year ended 31 December 2023 is MNT2,055,000,000 (then equivalent to approximately USD592,127). The actual transactions (excluding VAT) made by the Group for the year ended 31 December 2023 under this agreement was approximately USD384,201.

The independent non-executive Directors reviewed the CCTs of the Group set out in items (1) to (5) above pursuant to Rule 14A.55 of the Listing Rules.

In the opinion of the independent non-executive Directors, the CCTs set out in items (1) to (5) above were entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditor of the Company confirming the matters set out in Rule 14A.56 of the Listing Rules that in respect of the disclosed CCTs as set out in items (1) to (5) above:

- (a) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have not been approved by the Board;
- (b) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (c) with respect to the aggregate amount of each of the CCTs set out in items (1) to (5) above, nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the annual cap as set by the Company in respect of each of the disclosed CCTs.

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

Internal Control Measures

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



VII. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



I. INTRODUCTION

About the report

The report presented here provides an overview of the Environmental, Social and Governance (“ESG”) performance of the Group for the period from 1 January to 31 December 2023. It offers a detailed account of the Group’s efforts and achievements in addressing the ESG concerns during the said period. The report demonstrates the Group’s commitment to sustainability and social responsibility and provides stakeholders with valuable insights into the Group’s operations and future direction.

Reporting Boundaries and scope

When defining our reporting boundaries, we take into account the impacts reflected across all our sustainable development metrics, considering both the results from operations within our subsidiaries and influences from external parties like suppliers, to a specific extent. We exclude from our reports any entities or operations that are neither owned, operated, nor directly managed by us. While our primary goal in reporting is to ensure that the information provided is complete, timely, reliable, and accurate, it is important to acknowledge that achieving absolute accuracy is challenging. This is due to the complexity of compiling extensive data streams throughout the reporting period. As of 20 March 2024, our greenhouse gas (“GHG”) emissions have been verified as meeting the requirements of the WRI/WBCSD Greenhouse Gas (GHG) Protocol, in accordance with ISO 14064-3:2019.

Governance & Strategy

The Board of the Company has a dedicated ESG Committee that is fully committed to the long-term sustainability strategy of the Company. The ESG Committee plays a critical role in ensuring that the Company operates in a socially responsible, environmentally sustainable, and financially viable manner. The committee is responsible for overseeing the integration of ESG considerations into the Company’s overall strategy, decision-making processes, and operations.

The committee’s responsibilities include monitoring and evaluating the Company’s performance against key ESG metrics and targets, identifying emerging ESG risks and opportunities, and recommending actions to mitigate risks.

The ESG Management Committee oversees and manages issues pertaining to environmental, social, and governance concerns and additionally executes the ESG strategy, sustainability initiatives, and practices as directed. The committee’s objective is to recommend, support, and transmit the directives of the ESG Committee of the Board. The Group’s ESG strategy and risk management are directly under the supervision and control of the Board. The ESG Management Committee would supervise the integration of the directions into the Company’s operations while granting insights and to provide information, initiatives, and updates to the Board and the ESG Committee for making the overall direction.

We concluded a number of workstreams in 2023 and addressed future prospects, challenges, and objectives. The physical risk assessment for BKH gold mine, climate-integrated capital planning and strategy, emission reduction targets, plans, and communication, as well as sustainability communication on our website and reporting, were among the other high-priority next obligations that the Company considered.

In 2023, the Investor Relations section was reorganised as “ESG & Investor Relations”, to have a more concentrated effort with regard to various ongoing workstreams. The section reports directly to the Chief Financial Officer of the Company and serves as the secretary body of the ESG Management Committee. The following are focus area topics in 2024: (i) carbon accounting verification commenced in January 2024 and was completed on 20 March 2024; (ii) external verification of Towards Sustainable Mining (“TSM”) to be completed in July 2024; and (iii) transition risk and target setting planned for the rest of 2024. Below is the workblocks for the project:

Workblock 1:

CONTEXT AND IDENTIFICATION

- Review and refresh risk taxonomy and assessment
- Scenario selection
- Value chain development and assessment
- Prepare and collate model inputs

Workblock 2:

RISK ASSESSMENT

- Identification and validation of key risks and opportunities
- Set-up of Business Impact Model
- Simulation of climate stress-test scenarios by quantifying different transitional impacts
- Analysis and presentation of results

Workblock 3:

DECARBONISATION TARGET SETTING

- Refresh peer benchmarking on implementation of decarbonisation targets
- Development of model target structure
- Refinement of targets

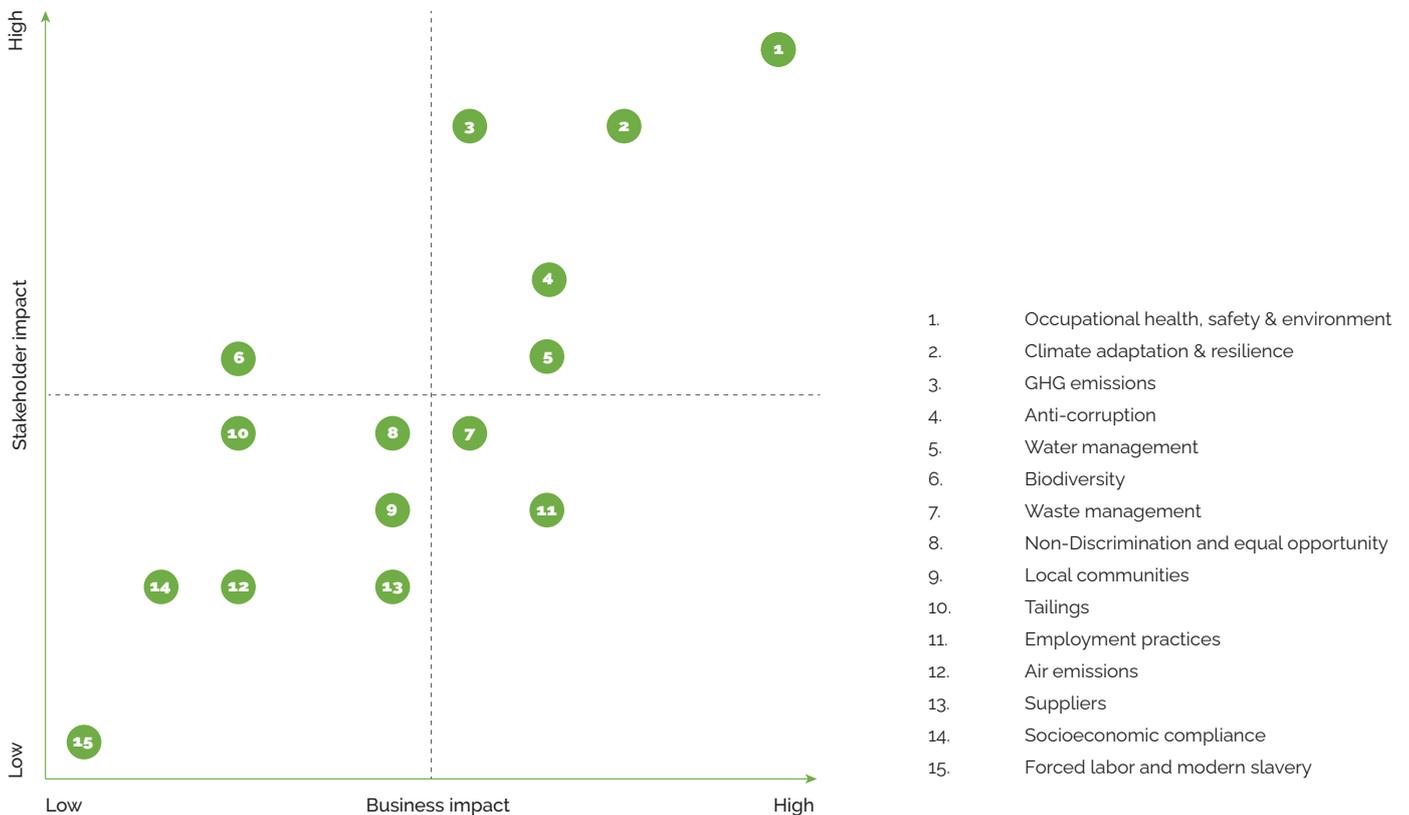
Workblock 4:

OPERATIONALISING

- Development of governance model of targets
- Update of Climate Resilience Roadmap- including an internal carbon price mechanism
- Drafting of relevant disclosure elements

Materiality assessment

An internal materiality assessment has been conducted with our overall policies, strategies, as well as future challenges for the mining sector having been taken into account. This materiality assessment plots our top priorities, mapping them in terms of our environmental, social, and economic impacts, as well as their relevance to our stakeholders



SDG alignment

Our efforts and strategies towards sustainability are based on the United Nations' Sustainable Development Goals ("SDGs"). To ensure that we make a meaningful contribution to the SDGs, we have identified the most relevant and critical SDGs across our sustainability platform and mapped them out. This helps us to determine our impact on each individual SDG.

Moving forward, we plan to redefine all our sustainability targets to align with the SDGs. This will enable us to further integrate the SDGs into our sustainability framework and ensure that we make a significant and positive contribution towards achieving the global goals.

COMMUNITY



ENVIRONMENT



EMPLOYMENT



GOVERNANCE



Performance dashboard

TOTAL GHG EMISSIONS

(tCO₂e) **30,730,018**

In 2023, we refined our calculation methods and conducted a third-party verification exercise, resulting in updated and more accurate GHG emissions data. Consequently, this year's figures will serve as the new base year for future comparisons, and previous years' GHG emissions data will no longer be utilised for baseline purposes.

INTENSITY

(tCO₂e/ROMt) **2.11**

Intensity calculated using total emissions divided by total ROM coal mined.

SCOPE 1 EMISSIONS

(tCO₂e) **1,168,554**

SCOPE 2 EMISSIONS

(tCO₂e) **16,816**

SCOPE 3 EMISSIONS

(tCO₂e) **29,544,648**

INTENSITY

(tCO₂e/ROMt) **0.08**

INTENSITY

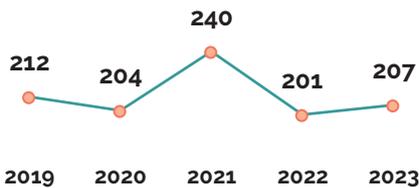
(tCO₂e/ROMt) **0.001**

INTENSITY

(tCO₂e/ROMt) **2.02**

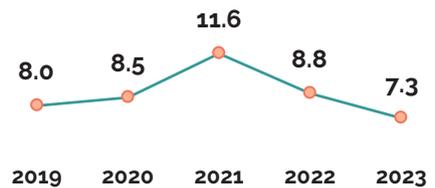
WATER USAGE RATE

(L/ROMt)



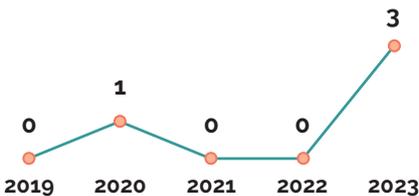
POWER USAGE RATE

(kWh/ROMt)



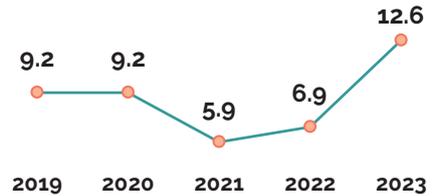
Calculated using total water and power usage divided by total ROM tonne of coal processed.

FATALITIES



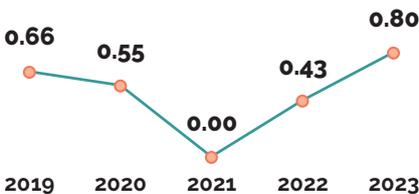
MAN-HOURS WORKED

(per million hours worked)



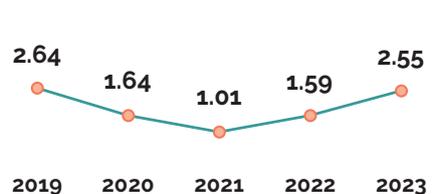
LTIFR

(per million hours worked)



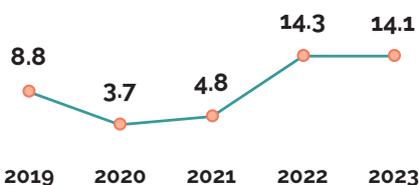
TRIFR

(per million hours worked)



LOCAL PROCUREMENT

(billion tugriks)



TAXES & FEES

(billion tugriks)



II. ENVIRONMENT

Emissions

CLIMATE ADAPTATION AND RESILIENCE

As the global fight against climate change and carbon emissions gains momentum, mining companies are increasingly focused on finding various methods and technologies to reduce such emissions. In consistent with our overarching sustainability policy, we are taking an integrated approach to managing our climate-related risks and utilising site-specific targets to more effectively track our progress in the relevant areas.

We regularly evaluate our emissions and enforce stringent air quality control measures throughout our operations in compliance with Mongolia's regulatory requirements. We conduct routine stationary source monitoring of chimney fumes from our on-site power plant, adhering to the national standard MNS 5919:2008 for permissible levels of air pollutants in exhaust gases. Additionally, we measure other types of air emissions such as sulphur dioxide and nitrogen dioxide in ambient air via mobile equipment in line with the national air quality standard MNS 4585:2016. For gases such as sulphur dioxide, nitrogen dioxide, and carbon monoxide at the UHG power plant, we conduct measurements against the national air quality standard MNS 5919:2008. We also carry out daily checks on stockpile management to prevent air pollution from self-combustion of coal stockpiles, following our internal procedures and applying cooling and separation to heated areas of coal stockpiles, where required.

GHG EMISSIONS

Our efforts to address climate change have focused on refining our carbon accounting procedures to better understand and manage our GHG emissions. Since 2017, we have been tracking and reporting our Scope 1 and Scope 2 emissions, and in 2019 we began tracking six categories of Scope 3 emissions, as defined by the GHG Protocol. In 2023, during the emissions verification process, we calculated nine categories of Scope 3 emissions.

The following is an excerpt taken from our voluntary GHG Emissions Report ("**GHG Report**") which provides detailed Scope 1, Scope 2 and Scope 3 GHG emissions inventory consolidated using operational control boundary for the Group, for the reporting period between 1 January 2023 to 31 December 2023. It is prepared in line with the requirements outlined in the GHG Protocol Corporate Accounting and Reporting Standard.

The GHG Report was made to demonstrate conformity with WBCSD/WRI Greenhouse Gas (GHG) Protocol and to facilitate GHG inventory verification.

The Company has adopted this standard for measuring and reporting on the GHG emissions that arise from its operations in order to transparently disclose its GHG emissions.

We did not use offsets for the 2023 period in relation to our emissions inventory; therefore, the emissions disclosed do not reflect any use of offsets.

We intend for 2023 to be our base year for Scopes 1, 2 and 3 GHG emissions. The reporting period covered under this report was chosen as the base year due to having our GHG emissions verified for the first time, and it is the year with the highest production, processing and sales since the commencement of our operations in 2009. The Company may recalculate its baseline or subsequent year's disclosures including but not limited to mergers, acquisitions, divestitures, or clarifications or changes in reporting boundaries or to methodologies and/or changes to significant threshold of +/-8%. In each instance, the Company will consider recalculation based on significance and will disclose updates made.

The emissions in this report are consolidated using the operational control approach. Under this approach, we reported on entities that account for 100 percent of emissions from operations over which we or one of our subsidiaries has operational control. We did not account for GHG emissions from operations that we own equity in but do not have operational control over.

Emissions data is separately calculated for each scope and emissions included in this GHG Report comprise of carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF₃), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆).

| Carbon Dioxide | Methane | Nitrous Oxide | Hydrofluorocarbons | Nitrogen trifluoride | Perfluorocarbons | Sulphur Hexafluoride |
|-----------------|-----------------|------------------|--------------------|----------------------|------------------|----------------------|
| CO ₂ | CH ₄ | N ₂ O | HFCs | NF ₃ | PFCs | SF ₆ |

The following Scope 3 emissions Categories were excluded:

| Scope 3 Categories: | Reason for Exclusion: | Materiality: |
|--|---|--------------------------|
| Category 2: Capital Goods | Not included due to data uncertainty, and we intend to include this in the next reporting period after refining the data. | Material/Not Included. |
| Category 8: Upstream Leased Assets | Not included as the Company did not lease any assets. | Not applicable/Excluded. |
| Category 10: Processing of Sold Products | Not included as our products are not processed by third parties after sale by us and is used by the ultimate end-user, which we have already calculated in Category 11. | Not applicable/Excluded. |
| Category 13: Downstream Leased Assets | Not included as we don't lease any assets. | Not applicable/Excluded. |
| Category 14: Franchises | Not included as we do not have any franchise operations. | Not applicable/Excluded. |
| Category 15: Investments | Not included as we do not provide any financial services. | Not applicable/Excluded. |

GHG EMISSIONS DATA

Table 13. 2023 GHG Emissions Data

| SCOPE 1 | Emission tCO ₂ e | Intensity - tCO ₂ e/ROMt | % of total |
|-----------------------|-----------------------------|-------------------------------------|--------------|
| Mobile combustion | 237,381.15 | 0.02 | 0.77% |
| Stationary combustion | 257,095.58 | 0.02 | 0.84% |
| Fugitive | 674,077.62 | 0.05 | 2.19% |
| TOTAL | 1,168,554.35 | 0.08 | 3.80% |

| SCOPE 2 | Emission tCO ₂ e | Intensity - tCO ₂ e/ROMt | % of total |
|-----------------------|-----------------------------|-------------------------------------|--------------|
| Purchased electricity | 16,816.24 | 0.001 | 0.05% |
| TOTAL | 16,816.24 | 0.001 | 0.05% |

| SCOPE 3 | Emission tCO ₂ e | Intensity - tCO ₂ e/ROMt | % of total |
|--|-----------------------------|-------------------------------------|---------------|
| C1: Purchased goods and service | 159,409.58 | 0.01 | 0.52% |
| C3: Fuel and energy related | 54,323.91 | 0.004 | 0.18% |
| C4: Upstream Transportation | 6,274.43 | 0.0004 | 0.02% |
| C5: Waste generated in operations | 13,399.40 | 0.001 | 0.04% |
| C6: Business travel | 225.15 | 0.00002 | 0.001% |
| C7: Employee commute | 1,539.89 | 0.0001 | 0.01% |
| C9: Downstream Transportation | 2,758.49 | 0.0002 | 0.01% |
| C11: Use of sold product | 29,306,686.77 | 2.01 | 95.37% |
| C12: End of life treatment of sold product | 30.57 | 0.000002 | 0.0001% |
| TOTAL | 29,544,648.20 | 2.02 | 96.14% |

Figure 4. Total emissions breakdown

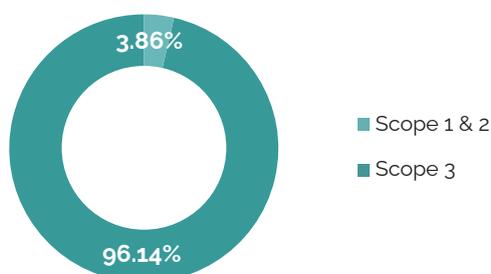
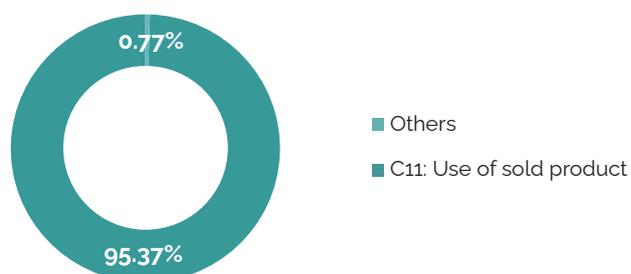


Figure 5. Scope 3 emissions breakdown



As part of our ongoing commitment to environmental stewardship and sustainable operations, our current plans are to focus our efforts on effectively managing and reducing our GHG emissions across various scopes. Our primary objective is to focus on lowering our Scope 1 GHG emissions, which stem directly from sources owned or controlled by our company. Given the direct impact of these emissions, we plan to implement advanced technologies and optimising processes to enhance efficiency and reduce our carbon footprint. Initiatives such as upgrading our equipment to more energy-efficient models, improving operational practices, and investing in cleaner alternative energy sources are at the forefront of our strategy.

Regarding Scope 2 emissions, our impact remains minimal as we operate our own power plant. The electricity we consume is primarily generated in-house, significantly diminishing our dependence on external electricity sources and ensuring greater control over our environmental impact. We will continue to monitor and manage these emissions, but our primary focus will remain on more impactful areas.

DATA QUALITY ASSESSMENT

Evaluating data quality indicators involves a qualitative approach that assigns rating descriptions to each indicator for direct emissions data, activity data, and emission factors. This method incorporates elements of subjectivity in the assessment process.

Table 14. Data reliability scoring methodology

| Score | Very good | Good | Fair | Poor |
|-------------|-------------------------------------|--|--|------------------------|
| Reliability | Verified data based on measurements | Verified data partly based on assumptions or non-verified data based on measurements | Non-verified data partly based on assumptions, or a qualified estimate | Non-qualified estimate |

Table 15. Scorecard

| SCOPE | Categories | Reliability | Description |
|---------|--|-------------|---|
| SCOPE 1 | Mobile combustion | Good | Verified data based on fuel provided to the mobile equipment by the fuel station of the Company. |
| | Stationary combustion | Good | Verified data based on fuel and coal provided to the stationary equipment. |
| | Fugitive – Refrigerant | Good | Verified data based on purchase of refrigerant from suppliers. |
| | Fugitive - Explosives | Very Good | Verified data based on explosives usage. |
| SCOPE 2 | Purchased electricity | Good | Verified data based on electricity purchased from the Central Grid. |
| SCOPE 3 | C1: Purchased goods and service | Good | Financially audited data – calculated on a spent based method. |
| | C3: Fuel and energy related | Fair | Financially verified data based on assumptions of fuel delivered. |
| | C4: Upstream Transportation | Very Good | Verified data based on coal weight measurement and distance travelled. |
| | C5: Waste generated in operations | Fair | Qualified estimate of total waste generated. |
| | C6: Business travel | Poor | Based on assumptions and estimates of travel distance. |
| | C7: Employee commute | Good | Verified data partly based on travel assumptions. |
| | C9: Downstream Transportation | Very Good | Verified data based on coal weight measurement and distance travelled. |
| | C11: Use of sold product | Very Good | Verified data based on total sales amount, backed by coal weight measurement. |
| | C12: End of life treatment of sold product | Good | Non-verified data based on measurements – coal weight measurement is verified, however, full usage is based on partial assumption from end-users. |

Statement SG24/00000018GHG



The inventory of Greenhouse Gas emissions in year 2023 of
MONGOLIAN MINING CORPORATION

16F, Central Tower, Sukhbaatar District Ulaanbaatar 14200, Mongolia

has been verified in accordance with ISO 14064-3:2019 as
meeting the requirements of

**WRI/WBCSD Greenhouse Gas (GHG)
Protocol**

Scope 1 GHG Emissions
1,168,554.35 tonnes of CO₂e
Scope 2 and 3 GHG Emissions
29,561,464.43 tonnes of CO₂e
Scope 1, 2 and 3 GHG Emissions
30,730,018.78 tonnes of CO₂e

Authorized by

Susan Law

SEAP Regional Manager

Date: 20 March 2024

Version 1.0

SGS International Certification Services Singapore Pte Ltd
30, Boon Lay Way
#03-01, Singapore 609957

This Statement is not valid without the full verification scope, objectives, criteria and findings available on pages 2 to 6 of this Statement.

Page 1 of 6

WASTE MANAGEMENT

Implementing effective waste management practices is crucial in minimising the environmental impact of mining operations and mitigating operational liabilities and long-term risks. At our mine sites, we have established a comprehensive waste management system that encompasses the handling and management of both day-to-day and industrial waste streams. We adhere to the Law of Mongolia on Waste, along with relevant regulations and procedures on the disposal and landfill of hazardous wastes, and the requirements on waste containers and disposal sites, which have been approved by the Mongolian Ministry of Environment and Tourism.

By following these guidelines, we ensure that all waste generated at our mine sites is handled in an environmentally responsible manner. Our waste management system is designed to minimise the amount of waste generated and to properly segregate, store, and dispose of waste in accordance with applicable laws and regulations. Through these efforts, we aim to mitigate our impact on the environment and reduce our operational liabilities and long-term risks.

Our Waste Management Policy aims to minimise waste generation and ensure the safe handling, treatment, and disposal of all waste generated. To achieve this goal, we take several steps including waste reduction and avoidance at the source, waste segregation applied from the point of generation, and waste recycling, re-use, storage, treatment, and disposal to international standards. By adopting these measures, we strive to minimise our impact on the environment and protect the health and safety of our employees and the surrounding communities.

Mining operations generated a total of 40,647 m³ of waste in 2023, with the amount of recyclable waste decreasing by 14.3% from the previous year.

Employees' habit of waste segregation at source is gradually forming to a full extent, due to ongoing efforts to encourage such habits, which include convenient ways to separate waste and placement of additional trash bins.

Our goal is to achieve waste reduction through various measures, including implementing purchase restrictions to ensure that waste generated from suppliers is minimised, and converting waste into useful materials. To support this, we collaborate with a small-scale waste recycling facility that uses scrap materials to produce products such as garbage bins, metal fences, sliding doors, wooden benches, and blocks. For instance, we were able to recycle 484 oil filters from our operations and use them to create 120 road poles, which were then put back into use within our mine sites. Our commitment to waste reduction and recycling demonstrates our dedication to responsible and sustainable practices.

Designated presser equipment is used to compress plastic bottles of drinking water before sending them to recycling factories. During the reporting period, we sent a total of 348 m³ of plastic, 36 m³ of plastic bags, 344 m³ of carton paper, and 9 m³ of HDPE plastic for recycling. In addition, 76 m³ of waste iron and 98 m³ of wood were sent for storage. Waste treatment and disposal are carried out at a designated on-site area that is managed by a company specialising in waste handling. During the reporting period, a total of 36,855 m³ of waste were landfilled, fully in compliance with applicable standards.

Table 16. Non-hazardous waste disposal

| | 2023 | 2022 | 2021 |
|---|--------|--------|--------|
| Total non-hazardous waste (m ³) | 37,397 | 9,253 | 9,448 |
| Landfill | 97.3% | 75.1% | 47.9% |
| Recycling | 0.4% | 4.3% | 26.5% |
| Burn | 0.0% | 9.1% | 16.3% |
| Storage | 2.4% | 11.5% | 9.3% |
| Intensity (m ³ /ROMt) | 0.0026 | 0.0016 | 0.0022 |

Note: Intensity calculated as total waste (hazardous and non-hazardous) divided by total ROM coal mined. The 2023 non-hazardous waste figures now include fly ash and bottom ash, which are remnants of coal burned for power generation. These components were not previously included in the waste figures, but the calculations have been streamlined to incorporate all relevant data.

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

HAZARDOUS WASTE

We are committed to implementing a Hazardous Waste Management Policy that aims to identify and evaluate the characteristics and potential risks associated with all forms of hazardous waste. We have implemented a range of preventative measures to manage hazardous materials effectively throughout their lifecycle, from transportation, storage, use, transfer, to disposal. During the reporting period, approximately 21.6% of hazardous waste was recycled, which is increased by 3.5% from the previous year.

Depending on the type of hazardous waste, we work with suppliers to either re-use or dispose of it appropriately. For example, printer cartridges are refilled and re-used, while used oil is collected and sent to a recycling facility to produce fuel and other raw materials. Waste oil filters, printer toners, and accumulators are also handled, stored and re-used in an appropriate manner.

In accordance with relevant procedures and applicable standards, we incinerated about 2,074 m³ of hazardous waste, sent 491 m³ of hazardous waste for recycling, and stored 209 m³ of hazardous waste during the reporting period. Additionally, we sent 478 m³ of hazardous waste to a designated landfill.

Table 17. Hazardous waste disposal

| | 2023 | 2022 | 2021 |
|---|--------|--------|--------|
| Total non-hazardous waste (m ³) | 3,253 | 1,763 | 2,434 |
| Landfill | 14.7% | 33.7% | 18.8% |
| Recycling | 15.1% | 20.2% | 14.6% |
| Burn | 63.8% | 41.4% | 63.3% |
| Storage | 6.4% | 4.7% | 3.3% |
| Intensity (m ³ /ROMt) | 0.0002 | 0.0003 | 0.0006 |

AIR EMISSIONS

We acknowledge the impacts produced by our operations, including noise, dust, and traffic, and we constantly strive to reduce them. Our mining activities generate various noise sources, such as dump trucks, excavators, and coal transport trucks. Additionally, blasting, which is a crucial part of our mining operations, creates ground vibration and overpressure, which can sometimes be noticeable to nearby communities. To manage noise and vibration, we have implemented a Noise Management Plan that involves regular identification and evaluation of noise and vibration sources. For the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the Dust Management Plan of our comprehensive Environmental and Social Management Plan. The measures include:

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

Haulage roads within the mine are a significant source of dust emissions, with the type of road materials used being a key factor in dust production. During the reporting period, 26,197 cubic meters of road materials, previously proven to produce less dust, were utilised for mine haul roads. Additionally, the CAT773D water truck dispersed a total of 285,795 cubic meters of water to mitigate dust generation around the mine haul roads.

Throughout the reporting period, we conducted monitoring and measurement of PM_{2.5} dust levels at 16 different sites points in and around the UHG mine, TKH area, and BN mine. The measurements were carried out over 153 times against the national MNS 4585:2016 standard at specific locations at the UHG mine site, Tsogtsetsii soum, TKH area, and BN mine site. Most of the measuring points showed that the average level of PM_{2.5} throughout the year was below the acceptable value of the national air quality standard (0.05 mg/m³).

Table 18. Air emissions

| tonnes | 2023 | 2022 | 2021 |
|-----------------|---------|------|------|
| NO _x | 2,445.6 | 85.6 | 50.1 |
| SO _x | 1.4 | 1.2 | 0.7 |
| PM | 69.2 | 6.2 | 4.6 |

Note: In previous years, NO_x and PM emissions were calculated using a distance-based method, while SO_x emissions were calculated based on a fuel-based method. This year, all mentioned air emissions have been calculated using the fuel-based method. Any increase from the previous year can be attributed to an increase in the volume of manufactured products and the shift in calculation methodology described above.

USE OF RESOURCES

As a committed leader in the mining industry, the Company recognises the critical importance of responsible resource management. Efficient and responsible use of resources including water, energy and raw materials are guided by the Minerals Law, the Energy Law of Mongolia, the Energy Conservation Law of Mongolia, the Law on Renewable Energy and the Law on Water. Accordingly, the Company has adopted IMS Policy designed to ensure efficient use of energy and natural resources. We also have a Water Resources Management Plan that ensures efficient use of water resources and prevention of water pollution. In line with the Energy Conservation Law of Mongolia adopted in 2015, we have a system in place to manage our efforts on energy efficiency.

Sustainability and Compliance

These policies are integral to our business model and are implemented in compliance with local and international environmental standards. We conduct regular reviews and updates of our resource efficiency policies to adapt to changing environmental conditions and advancements in technology.

Water

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

We recognise the importance of responsible water management in the arid Gobi region where we operate and has implemented a comprehensive Water Management Plan to guide our management, employees, and contractors in the responsible use and re-use of water. We comply with Mongolian regulations such as the Mongolian Law on Water and national standard MNS 4943:2015 to ensure effective management of groundwater while also considering the needs of local herders. Our commitment to responsible water management extends beyond compliance, as we have cooperated with international organisations and signed a Voluntary Code of Practice on Responsible Water Management with other major mining companies operating in the South Gobi region.

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

At our operations, water is sourced from groundwater boreholes and stored in two water reservoirs with a total storage volume of 56,000m³, covered by synthetic membrane to prevent evaporation.

In 2023, the total amount of ground water withdrawal was 2,913 million litres ("ML") and around 1,145 ML of water was recovered by our BFP facility for re-use in coal processing. While continuously supplying the CHPP with recycled water, the BFP facility enables us to experiment various options for optimisation of water saving technologies.

Table 19. Water consumption

| Litres | 2023 | 2022 | 2021 |
|------------------------|-----------|-----------|---------|
| Fresh water extraction | 2,913,508 | 1,338,052 | 883,274 |
| Intensity (L/ROMt) | 207 | 201 | 240 |
| Recycled water usage | 1,145,400 | 663,236 | 410,513 |

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

With a dry-cooling system specifically designed for the arid Gobi climate, our on-site power plant uses at least twice as less water compared to regular power plants in Mongolia;

- Around 73.7 ML of surface run-off water was collected in a designated pond and was used for various purposes at the mine-site;
- Over 180 ML of domestic wastewater was treated out of which 7 ML was used for road and tree watering; and 48.6 ML of condensed water from our on-site power plant was used for mine dust suppression and various purposes; and
- Monitoring of the water level at herder wells and observation of boreholes around the mine and water extraction areas continued on a monthly basis.

Energy

During the reporting period, multiple initiatives were implemented to enhance energy efficiency across our operations.

The CHPP accounts for about 70% of the total electricity consumption in the electricity distribution system. The three modules heavily use electric motors, resulting in a low power factor ($\cos\phi$). This significantly increases the reactive power consumption at the plants and escalates losses in the power transformers of the 110/35/10 kV UHG substation, the transformers at the coal concentration plants, and the 35 kV cable lines of the coal concentration plant distribution network. To reduce power losses in its line transformers, it was necessary to repair and connect 2.5 MVar and 5 MVar automatically controlled compensating devices (power factor) at each coal concentration plant. By installing compensating devices/power factor correction units at the CHPP, the consumption of reactive power was reduced by 2.65 MVar, and 54,376 kWh of electricity was saved.

The engines of the groundwater supply system were directly connected, leading to high inrush currents when the motors were activated. This not only shortened motor lifespan but also increased power losses and resulted in inefficient, high consumption conditions. For these reasons, it was necessary to install a frequency converter in the groundwater supply system. This adjustment helps maintain the large startup currents at normal levels, reduces noise and wear and tear on the engines, saves 20-30% of the electricity, and extends the equipment's lifespan. By installing frequency converters in the 1st, 2nd, and 3rd groundwater systems of Naimant, 27,659 kWh of electricity was saved.

The coal concentration plant is equipped with six power transformers, each with a capacity of 3 MVA and 35/0.4 kV, which are always connected regardless of the plant's operational mode. In 2023, due to the increased load at the coal processing plant, it became challenging to disconnect any power transformers. However, to minimise idle losses, it was necessary to disconnect transformers during scheduled downtimes. By disconnecting the 3 MVA power transformers at the CHPP during planned shutdowns, 2,033 kWh of electricity was saved. This also helped reduce the intensity of loss in the distribution network.

In winter, the heating system significantly impacts the electricity consumption at the CHPP, necessitating improvements, upgrades, and the installation of more efficient heaters. Consequently, there are plans to replace electric heaters with water heaters, which offer several benefits. Water heaters consume less electricity, are energy-efficient, feature temperature self-adjustment, have a longer service life, cause less air drying, and have lower installation costs. The purchase has been made, and installation is currently underway.

At full capacity, the water supply system of UHG consumes up to 1.6 MW of power, increasing losses in the lines and substations that power the system. To mitigate these issues, it is essential to reduce the percentage of power flowing through these lines and lessen the load on the equipment by maintaining a stable and efficient operation of the water supply system. Previously, the system operated at a peak load of 1.6 MW. However, by adjusting it to a fixed load and ceasing operation during peak demand times, the system now runs at a reduced load of 0.88 MW, saving 49,320 kWh of electricity.

Table 20. Energy consumption

| kWh | 2023 | 2022 | 2021 |
|-------------------------------|--------------------|------------|------------|
| Total electricity consumption | 102,142,348 | 58,501,357 | 42,481,932 |
| Direct | 99,636,196 | 58,501,357 | 42,481,932 |
| Indirect | 2,506,152 | 0 | 0 |
| Intensity (kWh/ROMt) | 7.3 | 8.8 | 11.6 |

Biodiversity

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

External large-scale studies found that 121 species of vertebrate animals belonging to three classes of mammals, birds and reptiles are likely to be found within our mine site area. These include 47 mammal species, 64 bird species, and 10 reptiles. The associated field surveys in the area also recorded 126 plant species that belong to 79 genera and 29 families. Out of these, there are 16 species of fauna that can potentially occur in our mining and transportation related areas. Within the Umnugobi province, State Special Protected Areas cover over 3.0 million hectares of total area. These consist of Small Gobi Strictly Protected Areas, Gobi Gurvan Saikhan National Park and Zagiin Us Nature Reserve. The closest one to our operations is Gobi Gurvan Saikhan National Park which was established as a National Park in 1993 for the purpose of conserving the sensitive and unique Gobi ecosystem. The area is located to the west of the UHG mine site over a 100 km in distance.

As mining activities have potential impact on the surrounding flora and fauna throughout the mine life cycle, we find it crucial to understand the biodiversity elements of the region in which we operate and plan our actions accordingly. Our aim is to minimise and manage the potential environmental impacts based on our project Biodiversity Action Plan ("BAP"). It is a regulatory requirement under the relevant Mongolian law to have in place active management plans which are reviewed annually and inclusive of a set of budgets for planned activities. As part of the BAP, we have been conducting regular flora and fauna monitoring on an annual basis, since 2011. Based on the results of monitoring and assessments, we continue to organise targeted wild animal conservation activities on a regular basis. For example, as part of our biodiversity offset program activities, we place salt marsh and hay at designated places in the Gobi Mountains as an extra food support for hooved mountain animals in the region every year.

In 2023, a detailed study of small mammals and birds near Tavan Tolgoi Airport, located west of Tsogttsetsii Soum, was completed. The site is approximately 12 km from the UHG mine. The study recorded three species of small mammals in the vicinity of Tavan Tolgoi Airport. During the study, species were spread across a total area of 281 hectares. More specifically, the area with 3-5 holes per 10 m² was 23 hectares; the area with 6-8 holes covered 80 hectares; the area with 9-10 holes spanned 56 hectares; the area with 11-13 holes included 45 hectares; and the area with more than 14 holes encompassed 77 hectares. On average, 8-10 animals were observed actively emerging from each hole. For the bird research, three observation points were selected, and records were kept along a linear route. When comparing the study of bird species around Tavan Tolgoi Airport with the previous year's data (853 individuals from 18 species), the number of individuals has decreased significantly to about 200 individuals from 21 species in 2023, although the diversity of species has increased.

We launched the Forest Belt project in 2011 to support the vegetable gardening initiatives of local community members and assist them in generating an additional source of income in the water-scarce Gobi region. Over the past 10 years, the project area within the Forest Belt has successfully expanded from 15 to 23 hectares, now hosting over 15,000 trees with a growth success rate of over 85%, and serves as an offset against desertification. In 2023, a study on the composition and population of birds around the Forest Belt was conducted, registering 47 species. Considering the ecological status, 31 species, or 65 percent, were migratory or semi-migratory, and 15 species were resident.

Naimdai Valley, located over 50 km north of the UHG mine site, is where we installed one of our water supply systems. According to the small mammal survey conducted in 2022 in Naimdai Valley, 22 individuals of 2 species were observed and caught, while 32 animals of 4 species were caught in 2023, indicating a 0.1-point increase in the species diversity index.

Based on the results of our monitoring and assessments, we continue to organise targeted wild animal conservation activities regularly. For example, as part of our biodiversity offset program, we annually place salt marshes and hay in designated areas of the Gobi Mountains, including Khanginakh and TKH as extra food support for hoofed mountain animals in the region. In 2023, we placed 500 bales of hay in designated areas of the Gobi Mountains. Employees of our company voluntarily participated in these wildlife protection activities, which we consider an important way to raise internal awareness about our environmental protection efforts.

In 2020, a solar-powered well equipped with automatic sensors and a surveillance camera was installed southwest of the BN mine and continues to serve as one of our wildlife monitoring tools. In 2023, during a one-month observation period, a fox and an upland buzzard were recorded.

Land and resource rights

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

Topsoil that will be disturbed by the expansion of mine pit excavation and waste dump is stripped and stored fully in accordance with the Mongolian standard (MNS "Stripping and storage of fertile soil during earthworks") MNS 5916:2008. Each topsoil stockpile is numbered and recorded, including the date of stockpiling and soil volume. During the reporting period, 303,000 m³ of topsoil was stripped and stockpiled as per above procedures.

Our 2.5 hectares nursery field continues to serve as a good source of our environmental protection and reclamation activities. By continuously nurturing the field, we determine the most suitable trees and plants for re-vegetation in the Gobi region and use for reclamation and other landscaping projects around the project site and the soum centre. We have around 30,000 shrubs, trees, and perennial plants of over 26 different endemic and non-endemic species growing in the nursery field. In 2023, approximately 10,000 seedlings were harvested from the nursery field for use in various tree planting, landscaping, and gardening projects. Tree planting and collective activities towards development of green areas in Gobi continued to take place and 490 seedlings were donated to local citizens.

In October 2021, Khurelsukh Ukhnaa, the President of Mongolia, launched the "One Billion Trees" national campaign to enhance Mongolia's contribution to the global fight against climate change. He urged businesses, state entities, non-governmental organisations, and citizens to join the tree-planting efforts. The Group committed to planting up to 40 million trees by 2030 at its UHG and BN mine site areas as part of this initiative.

In 2023, 61,000 trees were planted under the "One Billion Trees" campaign. Specifically, 2,500 trees were planted at the BN mine, 29,000 trees near the Gallery camp, apartments of employees, and public areas, 2,500 trees at the mouth of the Bogd Mountain Waterfall, 10,000 Saxaul trees in an area recommended by the Department of Environment and Tourism of Umnogobi Province, and 17,000 trees in the Forest Belt of agricultural fields in Khentii Province's Murun Soum.

CASE STUDY

The technical and biological rehabilitation of the waste dump included in the technical and economic basis of the UHG mine was carried out in stages. The technical rehabilitation work was completed in accordance with Mongolia's relevant standards over an area of 20 hectares.

The first phase of the biological restoration of the sloped and shaped area of the mine tailings pile was conducted by covering a 10-hectare area with topsoil, in cooperation with a subcontractor company.

During technical rehabilitation: Shaping of waste piles.



During technical rehabilitation: Covering topsoil on the shaped waste piles.



From 2020 to 2022, three hectares of waste dump were sloped, shaped, and planted with vegetation. Maintenance and protection of this area were managed by a professional organisation. Replanting work was carried out from July to August 2023, on the sections where vegetation growth was not progressing well.

After revegetation:



III. SOCIAL

As an integral part of our Integrated Management System (IMS), we have established comprehensive environmental management systems and practices that enable us to assess and identify potential environmental risks, conduct routine monitoring, and report performance results to minimise the adverse impact of our operations on the environment. We aim to promote efficient resource use, prevent pollution, and protect biodiversity at every stage of our operations as a responsible mining company. Our environmental performance targets not only comply with but exceed regulatory requirements set by over 30 environmental laws and 200 regulations currently in force in Mongolia. The main applicable laws are the Law on Environmental Protection, the Law on Environmental Impact Assessment, and the Minerals Law. We submit a complete environmental management plan followed by an implementation report to the GoM on an annual basis in accordance with these legislations.

To further streamline our HSE activities and existing systems on environmental protection and management, we adopted the IMS in 2018. The IMS enables us to develop an annual action plan, and its implementation is regularly reviewed to ensure compliance with regulatory requirements and continuous improvement. Internal audit and management review processes are conducted according to the International Standard Environmental Management System ISO 14001:2015. These processes cover all aspects of our environmental management and control system. In 2023, an audit was conducted in accordance with ISO 14001:2015, and no discrepancies were found in the audit results.

Based on the results of our Environmental and Social Impact Assessment, we have developed individual management plans to ensure accountability for our environmental impact. These plans include the Dust Management Plan, Erosion and Sediment Control Plan, Waste Management Plan, Hazardous Waste Management Plan, Tailings Storage Facility Management Plan, Mining Closure and Reclamation Plan, and Monitoring Plan. Each of these plans is reviewed annually against a set of key performance indicators, and any necessary corrective actions are taken to ensure continuous improvement.

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

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

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

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

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

EMPLOYMENT PRACTICES

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

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

In 2023, we spent over USD46 million in employee salary, remuneration, bonus, and benefits. The benefits are offered to all employees irrespective of their position and length of employment with the Company. In total, there are 10-20 different benefits and allowances offered for the employees, which range from performance bonus and incentive schemes to parental and other types of paid leaves and various insurance packages. We also provide all types of one-off allowances in full conformity with the local legislations. Our bonus and incentives plan are tied to the Company's financial performance and individual employee and team performances and is aimed at retaining top performing employees.

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

Lack and shortage of skilled professional workers in the local market, especially in the isolated Gobi region with small population, and demand for more specialised skills pose one of the critical challenges for us and there is a growing concern on keeping the employee turnover rate at minimum. In 2023, the Group-wide employee total turnover rate was 30%, by gender wise 91% of total turnover rate was male employees and 9% was female employees. The turnover rate of employees aged 18-25 years was 6%, 26-35 years was 14%, 36-45 years was 7%, 46 and above was 2%. Location wise, rate for our head office employees was 9%, compared to 8% for Umnugobi (Southgobi) residents. During the reporting period, our commitment to fostering a stable and dedicated workforce was strongly evident in our hiring practices. We prioritised the recruitment of permanent employees and 80% of the individuals hired within the year were offered and accepted permanent positions. As of the year ending 2023, we had 2,372 permanent employees.

Diversity and Equal opportunity

Our Company's commitment to Equal Opportunity is evident in all our policies and documents, including our Code of Conduct, Recruitment Policy, Benefits Policy, Training and Development Policy, promotion and compensation schemes, and other relevant areas. We strictly prohibit discrimination on the grounds of race, gender, nationality, age, religion, social origin, political views, union affiliation, pregnancy, disability, or any other factor, and comply with all relevant labor laws and regulations concerning nondiscrimination.

Furthermore, we endeavor to exceed legal requirements by implementing best practices that promote fairness and equality in all our HR activities. Our internal regulations and guidelines clearly state our commitment to conducting all HR activities without discrimination.

Since 2019, we have been implementing a preferential employment program aimed at providing employment opportunities and flexible work arrangements for individuals with disabilities. This initiative is part of our commitment to promoting diversity and equal employment practices. Through cooperation with the governor's offices of Umnugobi province and Tsogttsetsii soum, we have been able to maintain a workforce in which individuals with physical disabilities make up approximately 1% of our total employees. In addition to advancing our internal diversity and inclusion goals, this program also addresses important social issues in the isolated Gobi region.

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

Table 21. Inclusivity

| | 2023 | 2022 | 2021 |
|---------------------------------------|-------|-------|-------|
| Total employees | 2,372 | 1,979 | 1,880 |
| Ulaanbaatar residents | 29% | 28% | 29% |
| Umnugobi residents | 35% | 39% | 40% |
| Other province residents | 36% | 33% | 31% |
| Employees aged 18-25 | 18% | 17% | 12% |
| Employees aged 26-35 | 40% | 44% | 47% |
| Employees aged 36-45 | 28% | 26% | 27% |
| Employees aged 46 and above | 14% | 12% | 14% |
| Female employees | 13% | 15% | 14% |
| Female employees in management | 30% | 31% | 33% |
| Female representation in Board | 12% | 12% | 12% |
| People with disabilities in workforce | 1% | 4% | 4% |

HEALTH & SAFETY

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

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

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

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

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

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

Our employees are a part of the local communities in which we operate, and any public health issues confronting the community can potentially affect our workforce as well. As the local health authorities often lack the resources to deal with major public health challenges, we work in close partnerships with the local communities, public health authorities and other stakeholders to improve education on, protection from and prevention of public health risks and widespread diseases.

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

Table 22. Safety statistics

| | 2023 | 2022 | 2021 |
|-------------------------------------|-------|-------|-------|
| Total man-hours worked (in million) | 12.6 | 6.9 | 5.9 |
| Fatalities | 3 | 0 | 0 |
| TRIFR | 2.55 | 1.59 | 1.01 |
| LTIFR | 0.80 | 0.43 | 0.00 |
| Legal compliance | 93.4% | 96.5% | 97.0% |

Unfortunately, two fatal traffic accidents involving the Group's staff occurred outside its premises in 2023. The Group has fully cooperated with relevant authorities conducting the investigation process. Applicable insurance coverage and financial assistance were provided to the families in line with applicable law and internal regulations. During operations conducted by our mining contractor at the UHG mine, an unfortunate incident occurred, resulting in one fatality. This incident prompted an immediate and thorough investigation to determine the precise circumstances that led to this tragic outcome and to identify any breaches of safety protocols or operational procedures.

Risk Register and Management

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

Workplace risk assessments are carried out in five steps:

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

All identified hazards and non-conformities must be investigated in order to discover and eliminate root causes. In 2021, 96% of all non-conformities were corrected through immediate corrective actions and 91% of the reported hazards were eliminated. We also have an online-based safety program which enables our on-site teams to register and communicate risk and hazard information on a real-time basis. Within the framework of our IMS and periodic surveillance audits, the update and improvement of safety related procedures continued throughout the reporting period and were subsequently introduced to our employees, contractors and subcontractors.

Audit and legal compliance

Workplace occupational hygiene and safety environment inspections were carried out 327 times at various workplace locations in 2023.

Periodic monitoring of occupational hygiene and safety in the workplace was conducted throughout the year. This included monitoring for factors such as thermal and environmental conditions, noise levels, lighting, vibration, and the presence of general and small particulate airborne dust. Additionally, levels of oxygen and other toxic gases in the atmosphere were monitored, as well as excessive noise and whole-body vibration. In 198 workplaces and 15 similar exposure groups, 650 measurements were taken using 7 indicators. Also, fire prevention inspections were carried out 456 times at various workplace locations.

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

In accordance with the Law on Environmental Protection, an external audit on environmental management was conducted by the Environment and Tourism Department of Umnugobi aimag (province) at the Group's mine site in November 2023 with the results in the areas of environmental management and legal compliance rated at 93.4% out of 100.0% (2022: 96.5% out of 100.0%). Moreover, in October 2023, the Group engaged an independent third-party for an audit consisting of documentation review and site inspections, whereby our environmental legal compliance of operations was rated at 97.0%.

DEVELOPMENT & TRAINING

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

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

We use a combination of in-person and online training methods. Based on individual work performance and assessment on level of skills, training needs matrixes and plans are devised for each employee, to help them have clear prospect on their jobs and potential career opportunities.

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

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

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

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

Due to the nature and needs of the mining industry, safety inductions and related training form a big part of our overall training platform. In the reporting period, a total of 11,835 employees attended different professional trainings, out of which 10,324 employees attended occupational, health, and safety training, 1,005 employees attended professional development training and 506 employees attended general skills development training.

As we operate in the isolated rural region with scarce population and lack of skills, our internal vocational trainings are becoming more and more important in sourcing and building capable workforce from the local communities.

Our heavy machinery training center in Tsogttsetsii soum runs regular training courses for the local community members and individuals who wish to work for mining companies. Based on the demand from the job seekers, one full training course was conducted with the enrollment of 18 participants. All graduates of our heavy machinery repair and maintenance training course were provided with job opportunities upon successful completion of the courses.

In addition, during the reporting period the Group initiated to prepare the workforce for BKH mine operations and a total of 80 trainees selected from residents of Bayankhongor aimag (province) attended mining equipment operator training program at UHG mine. The overwhelming majority of trainees successfully completed the training program and were employed by ER to gain further work experience at UHG mine before being deployed to BKH mine once its operations commence in 2025.

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

As the mining industry is still male dominant, we pay major attention to offering training and career opportunities to women, especially those in Umnugobi province. In the reporting period, we continued to provide refresher trainings for our heavy machinery operators. A total of 184 female operators received refresher training in 2023, representing 11% of all refresher trainings conducted. In addition, 15 female operators were trained during the reporting period, representing 10% of the total new operators.

Table 23. Training statistics

| | 2023 | 2022 | 2021 |
|-------------------------------------|--------|--------|--------|
| Total training hours | 68,160 | 43,897 | 48,584 |
| Male | 91% | 91% | 89% |
| Female | 9% | 9% | 11% |
| Employees | 11,517 | 8,090 | 6,251 |
| Management | 0.10% | 0.20% | 0.20% |
| Average training hours per employee | 30.0 | 23.3 | 27.3 |
| Male | 5.5 | 5.6 | 5.6 |
| Female | 6.0 | 4.8 | 6.0 |
| Employees | 5.6 | 5.4 | 7.7 |
| Management | 2.7 | 6.7 | 5.29 |

LABOUR STANDARDS

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

The Code strictly prohibits engaging in unethical behaviour and contains explicit guidelines on the receipt of gifts, donations, travel offers or hand-outs. MMC discourages the acceptance of gifts or donations on the Company's behalf and all gifts that were received have to be disclosed. It is also the Company's policy to not make any in-kind contributions to political parties or politicians. We avoid all actions that are anti-competitive or otherwise contrary to the laws that govern anti-competitive practices both domestically and internationally. Any individual, regardless of his or her relationship with our Company, can report incidents of unethical behaviour, bribery, corruption, or fraud. Employees' rights to report such incidents are also emphasised in applicable training and induction programmes, together with their responsibility to do so. Violations of the Code are taken seriously and can result in disciplinary actions.

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

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

Human Rights

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

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

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

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

Forced Labour and Child Labour

The Company maintains a strict policy against the use of child or forced labor, and the exploitation of children in its operations and facilities. As per the Recruitment Policy, we only employ individuals who have reached the legal age of employment, which is 18 in Mongolia. We are committed to complying with all relevant legislation, including the Mongolian Law on Child Protection, the Convention on the Rights of the Child, the Minimum Age Convention, and the Worst Forms of Child Labour Convention, which have been ratified by Mongolia. Furthermore, we uphold the rights of our employees to leave the work premises after completing the standard workday and to terminate employment after providing reasonable notice.

Our recruitment officers are trained to ensure that no person under the age of 18 is employed at any of our sites and facilities. During the year, we did not employ any individual below the legal age of employment.

OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

We value high ethical standards in all procurement activities through our procurement policy, procurement contract management procedure and procurement procedure. We have also adopted a Supplier Code of Conduct (the "Supplier Code") in 2023, which was prepared to provide a clear statement of MMC's expectations from its suppliers in all procurement dealings and ensure that internationally recognised procurement standards are followed. Furthermore, this Supplier Code was designed to support the sustainable and responsible management of resources, minimise environmental impacts, and promote human rights and ethical labour practices throughout the supply chain.

This Supplier Code established the minimum standards for conducting business with the Company. Our goal is to work with our suppliers to ensure full compliance. We encourage our suppliers to exceed the requirements wherever possible. We will consider these principles in our selection of suppliers and will actively monitor each supplier's compliance. The Supplier Code included references to already existing relevant policies and procedures to support sustainable and responsible management of resources, minimise environmental impacts and promote human rights and ethical labor practices throughout the supply chain.

Our priority is to support local businesses and to maximise our economic contribution to the country's economy and the communities where we operate. We strive to conduct our procurement practices in a responsible and accountable manner, while also encouraging and developing partnerships with local businesses at all levels of our operations. We give priority to businesses from Mongolia and Umnugobi aimag, and work closely with them to promote economic growth and sustainable development. We uphold ethical business practices in our purchasing and supply management, and we expect our suppliers to comply with our social and business procedures at all levels of operation.

We require our suppliers to acknowledge our Code of Conduct and adhere to safety, environmental, and quality standards, such as the OHSAS 18001:2007 International standards for Occupational Health and Safety. We outline these requirements in our agreements with suppliers and conduct regular audits to ensure that their practices align with our policies and procedures. We also have an internal procedure for monitoring the health, safety, and environmental practices of our contractors and suppliers. They are required to adopt environmentally friendly practices in their production and supply operations. We do not partner with or select suppliers who fail to meet our criteria or engage in unethical or environmentally harmful practices. In 2023, percentage of environment and OHSE criteria in the KPI evaluation has been increased up to 50% in the total KPI criteria of our main contractors and suppliers.

In 2023, we worked with over 570 suppliers, 80% of whom were Mongolian suppliers, Chinese suppliers made up 9%, while the rest were made up of European and Australian suppliers.

PRODUCT RESPONSIBILITY

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

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

We have designated officers who receive and handle customer feedbacks and inquiries via e-mail, telephone, and other means. All inquiries and correspondences are reviewed and acted upon immediately, involving our existing sales channels where necessary. The Company did not receive any significant complaint or inquiry on coal supply and quality over the reporting period, while minor inquiries were handled through mutual discussion and understanding in accordance with our contract terms. We also work to ensure that all our contracts with customers and partners have a "confidentiality and non-disclosure" clause that regulates privacy matters including protection of customer information and data. All such conditions are strictly in accordance with the International Commercial Terms and applicable domestic legislations.

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

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

The Quality Assurance Department effectively implements the "QA.01 Quality Assurance Procedure" protocol across the company. This protocol outlines the primary processes at all stages of product production and includes continuous performance monitoring to ensure ongoing improvements. Operational process planning falls under the management of the Technical Services department, encompassing geology conduct, mine planning, mine feeding, mine dispatch, and the CHPP.

The process engineering team is responsible for managing the coal washing process according to established standards and instructions. Meanwhile, the mining geology team oversees the management of feed coal quality, and the Fleet Management System team handles the blend ratio management. The Quality Assurance department conducts integrated monitoring based on documented information and provides guidelines for product transportation and export to the relevant sections.

The Quality Assurance department ensures that all exported products meet customer quality requirements. This is achieved by conducting internal laboratory tests and validating these results using control samples sent to external laboratories, including the customs central laboratory. Additionally, any customer complaints are addressed in accordance with the "IMS.ER.04 Procedure for Receiving, Resolving Complaints, and Surveying and Recording the Needs of Interested Parties".

ANTI-CORRUPTION

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

The Company has in place the Whistleblower Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Company.

The Company has also in place the Anti-Corruption and Anti-Bribery Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organises anti-corruption training and inspections to ensure the effectiveness of anti-corruption and antibribery.

The Company restricts all and any forms of bribery, corruption, and money laundering under its relevant policies and the Company and its subsidiaries are authorised to refuse any transactions involving funds of unknown origin, associated with terrorist activities, or deemed illegal.

No legal case pertaining to corrupt practices have been brought against the Company or its employees throughout the reporting period.

The Company's Board periodically reviews the Anti-Corruption and Anti-Bribery policy to ensure its effectiveness in meeting the Group's needs and aligning with current regulatory requirements. According to the Anti-Corruption and Anti-Bribery policy, the Company has established procedures to enable its employees to confidentially report concerns regarding potential improprieties in financial reporting, internal controls, fraud, or other matters. Furthermore, the Company's Whistleblower policy delineates the steps for employees and other stakeholders to raise concerns anonymously and confidentially to the Audit Committee, executive management, or their supervisors regarding suspected improprieties.

The Group ensures the dispatch of relevant policies and conducts training sessions for employees on corruption and bribery risks on annual basis, as well as compliance with laws, regulations, and standards of conduct through its human resources department. The Company also clearly informs and requires contractors who has business engagement with the Company of its zero-tolerance position to any form of bribery and corruption irrespective whether such matter may occur within or out of the business relations with the Group.

COMMUNITY

While respecting local cultures and minimising the impact of our mining operations, we strive to build quality relationships with our host communities and create lasting benefits. As one of the largest private sector companies of Mongolia and one of the largest local employers, MMC is proud of the contributions it makes to the host communities as well as the country's socio-economic development.

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

Our corporate social responsibility ("CSR") policy guides our activities in the areas of community engagement and require us to carry out risk assessments to determine both the positive and negative impacts of our operations to the stakeholders. Based on the findings of the assessments, we develop individual plans to mitigate any adverse impacts associated with our activities, and at the same time, initiate programs and investments that support positive impacts to the sustainable development of the communities.

Sponsorship and donation committee

We annually disclose our payments, grants, donations and all other sponsorships and scopes of engagement to the EITI, Mongolia. We also have a dedicated sponsorship and donation committee which reviews all requests from organisations and individuals requesting emergency, project, event donations and/or various monetary supports. In accordance with the sponsorship and donation committee policy, long-term values are preferred over one-off grants and donations and committee meetings are held on a quarterly basis. In the reporting period, the gross amount of our charitable donations and sponsorships totaled MNT 51.5 billion (approximately USD 14.8 million). On top of the long-term community development programs in the areas we operate, we continued with our involvement in certain social projects in 2023, aimed at bringing socio-economic benefits at a broader level.

Long-term support for basketball teams in Mongolia

With its increasing popularity in Mongolia, 3x3 basketball is attracting large number of players and spectators from around the country. As the outreach grows, MMC launched a long-term collaboration program with the 3x3 basketball national teams in 2020, providing them with the resources and opportunities to enhance their practices and trainings, build teams and compete nationally and internationally. The program also helps aspiring young athletes make their way to the professional teams and start their career in team sports. Energy 3x3 club which we officially formed in 2020 currently supports 13 athletes in three professional teams and their supporting staff, providing them with access to professional guidance, facilities, equipment and an opportunity to compete at high-rank 3x3 tournaments internationally. In the reporting period, our club teams successfully competed at over a dozen high-rank international tournaments and a series of national level tournaments. We also support Mongolian 5x5 basketball national teams in maximising their potential and empowering their presence internationally.

Efforts against air pollution

Due to harsh winter season and prevalent use of raw thermal coal for heating, air quality in Mongolia has become a critical issue, especially in the capital city Ulaanbaatar and rural provincial centers. As part of its measures to intensify the fight against air pollution in winter heating months, the GoM imposed a ban on the burning of raw coal in Ulaanbaatar and introduced a usage of refined smokeless fuel/ briquette starting from 2019. Within the framework of this project, the Company continues to provide washed thermal coal free-of-charge to TTT, a state-owned company working in charge of manufacturing and distributing briquettes to the residents of Ulaanbaatar. In the reporting period, we provided over 417,500 tonnes of washed thermal coal worth of approximately MNT 38 billion. By the GoM Resolution in 2021, the Group was exempted from air pollution fee. This exemption is to remain effective as long as we provide 70% of more percentage of the total coal used for manufacturing of the smokeless fuel.

ENGAGEMENT

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

Tsogttsetsii soum of Umnugobi aimag, where our main operations take place, is a small administrative unit home to about 10,000 permanent residents and "mobile" populations of over 20,000. Although several mining companies operate in the soum, herder families still constitute roughly 20% of the officially registered households in Tsogttsetsii and live outside of the soum center. Compared to 2000s, where it had just over 2,000 residents, the soum has experienced substantial development in terms of communications, business, services and overall basic infrastructure, and currently records nearly "0" rate of unemployment. With the UHG project development, the Company has carried out numerous social infrastructure and large-scale community projects in Tsogttsetsii, thereby benefiting the majority of the soum residents with associated social facilities.

To facilitate our ongoing efforts and community relations, MMC pioneered the first public consultation and discussion event in Umnugobi. Since 2008, the events have served as a bridge between the Company and the local community members including herders that live in the mine impact area.

In accordance with Clause 42.1 of the Minerals Law of Mongolia and a standard form of agreement approved by the Resolution 179 of the GoM, we have a long-term community development and cooperation agreement signed with the Umnugobi aimag Governor's office in 2017. The Agreement provides a mechanism through which the benefits of our community investments reach the broader communities and are based on mutual discussion and understandings. According to the terms of the agreement, the performances of our community-related cooperation activities are reviewed every year and suggestions for improvements are reflected where necessary. The focal areas of the agreement include but not limited to environmental protection, infrastructure development, employment/job creation and support for sustainable development of the communities. Accordingly, we submit annual reports on the performance of the agreement and submit it to the Governor's Office of Umnugobi aimag and Geology and mining state authorities.

To better accommodate the needs of the communities, we have a community council run by seven members from the host communities. Together with our Community Relations team, the council meets on a quarterly basis and discusses initiatives and suggestions from the community members. In the reporting period, the council initiated and successfully carried out an ecological awareness program dedicated to the pre-schools in Tsogttsetsii soum.

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

- Regular communications of our dedicated community engagement staff with herder households and community members in the mine impact area;
- Regular meetings and information exchange with the local administration;
- Monthly or quarterly meetings with community councils to provide a better platform for dialogue between the Company and the local communities;
- Public consultation and disclosure activities ("Open ger" events);

- Operation of local information center;
- Independent grievance mechanism;
- Distribution of annual reports and CSR reports;
- News updates and bulletins; and
- Information dissemination through the social media pages of the Company.

At MMC, we are proud that numerous external monitoring and evaluations performed by both international and local experts identified our community engagement practice as one of our strongest assets at UHG.

INVESTMENT

Through community investment, we strive to create opportunities for “shared value” – an outcome that benefits both the Company and the host community. Our contributions range from improving the local infrastructure, access to quality education and creation of training and employment opportunities to capacity building of local small and medium enterprises (“SMEs”). Preferential local procurement, implementation of community targeted programs, such as Sustainable Livelihood Support Program, “Good Neighbor” program, or community health support programs aim to bring sustainable positive impact to the local communities including herdsmen. In 2023, we maintained the scope of our community investment and spent over MNT 23 billion on community investment and related activities.

Table 24. Community investment (MNT billion)

| | 2023 | 2022 | 2021 |
|----------------------------------|-------------|-------------|------------|
| Local procurement | 14.1 | 14.3 | 4.8 |
| Local infrastructure development | 2.3 | 3.3 | 3.2 |
| Grants and donations | 4.8 | 1.7 | 1.3 |
| Community development programs | 1.9 | 2.0 | 0.2 |
| Total | 23.1 | 21.3 | 9.5 |

DEVELOPMENT PROGRAMS

Based on the needs of the local communities identified through consultation and our socio-economic baseline studies, we design and prioritise our community development programs. We implement a wide range of programs in the areas of education, health and well-being, cultural heritage preservation and local business development to build strong and sustainable communities. Since the commencement of our mining operations in 2009, we have implemented around 50 independent projects and programs in the area of community development. Many of the programs are long-term based and are still ongoing.

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

All of them are intended to mitigate any adverse impacts associated with our mining activities and at the same time support any positive impact to contribute to the development of the region in the long run.

Sustainable Livelihood Support Program

The Company has implemented a Sustainable Livelihood Support Program (local SME support program) since 2012 that focuses on providing micro-financial support to the local start-ups and SMEs. As part of our Sustainable Development Policy, we believe that supporting local start-ups and SMEs will create new economic opportunities for the local communities. We have expanded the outreach of the program in certain stages and involve families of our resettled employees as well. Currently, the program provides interest-free loans to local start-ups and small businesses of Umnugobi province, namely in Tsogttsetsii, Khankhongor and Tsogt-Ovoo soums.

In the reporting period, the program granted interest free loans of about MNT 140 million to 13 new applicants, including one herders' cooperative through our project partner XacBank. Some of the SMEs are further supported through procurement of their goods and services by the Company. The participants are also enrolled in start-up business and project development training courses.

Jointly with the Governor's office of Tsogttsetsii soum, we successfully organised a local SME forum in Tsogttsetsii soum of Umnugobi aimag in May 2023. Over 20 participants of our local SME support program attended the forum, shared from their experiences with the local audience and showcased their products and services.

Local education support program

We have been carrying out our local education support program since 2013. Based on the outcomes of our recent baseline studies for the community outreach, we newly established an education center at Tsetsii miners' town in 2023, to provide extra-curricular activities for the local secondary school students and help them improve their academic performances. The education center currently provides supplementary courses in English, Math, Chinese, EQ and Coding to about 160 local students in 4-12th grades. Run by an independent academic training center, the education center has experienced teachers from both the provincial center and Ulaanbaatar, and aims to help address the overload of local secondary schools in Tsogttsetsii.

As part of our long-term employee engagement program and resettlement support policies, we have also provided 520 sq.meters of fully furnished apartment space to the local pre-school and kindergarten use for a duration of 5 years, enabling them to provide pre-school services in a comfortable environment to about 140 local children.

Our summer employment program for local students continued in the reporting period and involved 33 students from Tsogttsetsii, Khankhongor and Tsogt-Ovoo soums of Umnugobi aimag. The program allows the local students to work at the mine-office and supporting facilities for 2 months during their summer vacation, earn additional income and gain valuable work experience under the guidance of our relevant departments.

G.BATSMAA, Governor of Tsogttsetsii soum, Umnugobi aimag:

"Our administrative unit has over 9,000 permanent residents while the mobile population has reached close to 25,000-30,000. With the rapidly increasing number of population and its density, the reach and access of quality education has become one of the pressing local issues. Young families with school-aged children have the utmost desire to provide quality education to their children at local level. We are deeply pleased that ER has established an education center here at Tsogttsetsii to share from the overload of the public secondary schools in the soum and to help address the need and importance of quality secondary education in an isolated region".

Community vegetable gardening project

To support the vegetable gardening initiatives of the local community members and assist them in generating an additional source of income in water-scarce Gobi region, we started the forest belt project in 2011. Over the past 10 years, the project area within the forest belt was successfully expanded from 15 to 23 hectares, has over 15,000 trees with a growth success rate of over 85% and serves as an offset against desertification. In addition to properly managing the land and irrigation system, the Company organises professional training programs on vegetable growing and drip irrigation and provides the community members with seeds and supplies. By facilitating direct engagement with the community members, we are having a continual increase in the number of participants every year. In 2023, 15 new households and 1 entity from Tsogttsetsii soum grew over 20 types of vegetables in the area. Additionally, we organise harvest festival for the program participants every autumn, to help expand their market reach. Over 100 households participated in the annual harvest festival in 2023.

"Good Neighbor" program

Within the scope of our long-term based "Good Neighbor" program, we provide in-kind assistance to the host communities every year and organise various community events. The following were carried out in 2023:

- We continued to provide Tsogttsetsii soum where we operate with 24-hour electricity and filtered drinking water;
- Approximately 35,500 tonnes of thermal coal was provided free-of-charge to Dalanzadgad soum power plant and 11 soums of Umnugobi aimag during the winter heating months;
- Free-of-charge hay and fodder support is provided to Tsogttsetsii soum and other neighboring soums every winter. In 2023, over 430 herders of the nearby communities as well as winter reserve funds of Tsogttsetsii and Tsogt-Ovoo soums were provided with over 9,000 bales of hay and 45 tonnes of fodder;
- As part of the Lunar New Year celebrations, our community relations team paid respect to over 310 elders of the Tsogttsetsii and neighboring two soums and provided food package support to over 140 low-income families and elders in Tsogttsetsii soum.

Local health support program

With a notable increase of population density and household size in Tsogttsetsii soum of Umnugobi aimag where we operate, the Company aims to target the local health support activities towards the sharing of overloads at the local health service providers. In 2023, by bringing experienced doctors and medical specialists from Ulaanbaatar, we organised a free-of-charge pediatric screening specifically dedicated for the local children and preschoolers in Tsogttsetsii soum. Over 900 children were examined by specialised physicians through the health screening.

Local cultural heritage support program

Our annual Ukhaa Khudag Naadam festival is a cultural undertaking through which we endeavor to pay respect to the local traditions and promote the uniqueness of Gobi cultural heritage to the wider community. The 2023 Ukhaa Khudag Naadam was organised on 4-5 August in Tsogttsetsii soum and involved over 100 artists and a wide majority of the soum residents.

VOLUNTARY DISCLOSURES

CDP

CDP is a non-profit organisation that runs a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts. Over the years, CDP has become a key mechanism that encourages organisations around the world to measure, disclose, manage, and share information on their environmental impacts, specifically focusing on climate change, water security, and deforestation.

CDP's climate change program asks companies to disclose their greenhouse gas emissions and energy use, alongside their climate risk assessments, emissions reduction targets, and strategies to mitigate climate change. This information is used to inform investors, customers, and other stakeholders about the environmental performance and risk management strategies of these companies, encouraging transparency and actions towards a more sustainable economy.

TSM

In 2023, we became the first international company to publicly submit the TSM self-assessments through a subscription service independent of a national mining association. The Group has completed its first preliminary self-assessment and intends to conduct external verification of its reporting on TSM in 2024.

The following self-assessment represents the program's foundation. TSM is a globally recognised performance system that assists mining companies in mitigating critical environmental and social hazards. TSM was established in 2004 by the Mining Association of Canada ("MAC") and has since been adopted by national associations in 13 countries and six continents, with over 200 enterprises actively implementing the TSM program internationally. It provides a set of tools and indicators designed to drive performance and ensure that critical mining hazards are properly managed at participating mining and metallurgical plants. An independent Community of Interest (COI) Advisory Panel oversees TSM. As a current member of the program, we have completed high-quality, evidence-based, rigorous self-assessments and seek to improve the industry's performance, foster dialogue, and shape the TSM initiative. In this program, we demonstrate leadership by engaging with communities and driving world-leading environmental practices.

Each TSM protocol is comprised of a set of indicators referred to assess the quality and scope of facility-level management systems. These protocols were intended to provide the public with an overview of the industry's performance in critical environmental and social areas. We have met the following levels for each TSM protocol in the first half year of 2023 based on a self-assessment.

TSM does not have an overall score; primarily self-assessed scores are published on the website of MAC. Visit the MAC website by the following link: <https://mining.ca/companies/mongolian-mining-corporation/> to access our TSM report.

MSCI

MSCI ESG Ratings evaluate a company's exposure to and management of environmental, social, and governance risks using a scale from AAA to CCC, comparing them to industry peers, and are utilised globally by investors to integrate ESG considerations into investment and risk management processes. These ratings provide a standardised and actionable framework that offers insights into potential ESG-related impacts on financial performance and market valuation, making them influential in the investment world.

Our MSCI ESG rating score remained unchanged at 'A' in 2023.

EITI

The Extractive Industries Transparency Initiative (EITI) is a global standard to promote the open and accountable management of oil, gas, and mineral resources. Guided by the belief that transparency and accountability in extractive industries can lead to improved governance, reduced corruption, and the fair distribution of revenues, EITI requires participating countries and companies to disclose information on tax payments, licenses, contracts, production, and other key elements involved in their extractive industries.

This initiative brings together stakeholders from the government, extractive companies, and civil society to collaborate on enhancing transparency and accountability in the extractive sector. By making this information publicly available, EITI aims to provide citizens the tools they need to advocate for a fairer distribution of the natural resource wealth of their country. The initiative currently has a broad membership of countries and continues to influence global norms on resource management.

Responsible Mining Codex of Mongolia

MMC is one of the pioneering eight companies who voluntarily joined the Responsible Mining Codex of Mongolia in 2019, and therefore report on our sustainability performances on an annual basis. In 2023, the Company self-assessment on responsible mining performances were evaluated at 91.6%.

VIII. CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2023.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the principles of code provisions contained in Appendix C1 of the Listing Rules as basis of the Company's corporate governance practices.

In the opinion of the Directors, throughout the year ended 31 December 2023, the Company has complied with all the code provisions as set out in the CG Code applicable for the financial year under review.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2023.

The Company has also established written guidelines (the "**Employees Written Guideline**") on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Written Guideline by the employees was recorded by the Company for the year ended 31 December 2023.

BOARD OF DIRECTORS

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

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

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

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 10 of the annual report for the year ended 31 December 2023 and there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between the Board.

Chairman and Group Chief Executive Officer

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

Independent Non-Executive Directors

During the year ended 31 December 2023, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing the adequate professional qualifications or accounting or related financial management expertise.

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

Board Independence Evaluation

The Company recognises the importance of board independence to corporate governance. In particular, the following mechanisms are in place in order to ensure that there is a strong independent element on the Board which is key to the Board's effectiveness:

In assessing whether a potential candidate is qualified to become an independent director of the Company, the Nomination Committee, Environmental, Social and Governance Committee and the Board will consider, among others, whether the candidate is able to devote sufficient time on performing his/her duties as an independent director of the Company, and the background and qualification of the candidate, in order to assess whether such candidates are able to bring independent views to the Board.

In considering whether an independent director should be proposed for re-election, the Nomination Committee, Environmental, Social and Governance Committee and the Board will assess and evaluate the independent director's contribution to the Board during the term, in particular, whether the independent director was able to bring independent views to the Board.

The Company will ensure that there are channels (in addition to independent directors) where independent views are available, including but not limited to availability of access by directors of the Company to external independent professional advice to assist their performance of duties.

Appointment and Re-election of Directors

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

The Directors have participated in the following trainings during the year ended 31 December 2023:

| | Types of training |
|--|-------------------|
| Executive Directors | |
| Mr. Odjargal Jambaljamts | A, B |
| Dr. Battengel Gotov | A, B |
| Non-executive Directors | |
| Mr. Od Jambaljamts | A, B |
| Ms. Enkhtuvshin Gombo | A, B |
| Mr. Myagmarjav Ganbyamba | A, B |
| Independent Non-executive Directors | |
| Dr. Khashchuluun Chuluundorj | A, B |
| Mr. Unenbat Jigjid | A, B |
| Mr. Chan Tze Ching, Ignatius | A |

Note:

Types of Training

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

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

BOARD COMMITTEES

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

Audit Committee

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

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

The principal duties of the Audit Committee include the following:

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

During the year ended 31 December 2023, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor, engagement of non-audit services and relevant scope of work, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met with the external auditor twice during the year ended 31 December 2023.

Remuneration Committee

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

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

- To determine the remuneration packages of individual executive Directors and senior management;
- To make recommendation on the remuneration policy and structure for all Directors and senior management;
- To assess performance of executive Directors and approve the terms of executive Directors' service contracts;
- To establish transparent procedures for developing the remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; and
- To review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules.

During the year ended 31 December 2023, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters.

The Remuneration Committee also reviewed and made recommendation to the Board on matters relating to the granting of a total of 33,250,000 share options on 3 April 2023. There is no performance target attached to the 33,250,000 share options. The purpose of the Share Option Scheme is to enable the Company to grant share options to eligible participants as incentive or reward for their contribution to the Group to subscribe for the Shares thereby linking their interest with that of the Group. Having considered that (i) the grantees are either Director and/or employees of the Group who contribute directly to the operational performance and business development of the Group; the grant of share options will give the grantees opportunity to share the results of the Group and be incentivised to work towards sustainable growth of the Group and shareholder value creation; and (ii) the grant of share options is a recognition for the past contributions of the grantees and such rewards could increase their loyalty to the Group, the Remuneration Committee of the Company and the Board are of the view that without additional performance target, the grant of the share options could align the interests of the grantees with incentive to the grantees to work towards successes of the Group, and reinforce their commitment to the Group, which is in line with the purpose of the Share Option Scheme.

Table 25. Remuneration by band of the senior management:

| | 2023 |
|------------------------------|-------------|
| HKD1,000,001 to HKD1,500,000 | 2 |
| HKD1,500,001 to HKD2,000,000 | 1 |
| HKD2,000,001 to HKD2,500,000 | - |
| HKD2,500,001 to HKD3,000,000 | - |
| HKD3,500,001 to HKD4,000,000 | 4 |

Details of the remuneration of each of the Directors for the year ended 31 December 2023 are set out in note 10 to the consolidated financial statements.

Nomination Committee

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

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

The principal duties of the Nomination Committee include the following:

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

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

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

During the year ended 31 December 2023, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors to consider the qualifications of the retiring directors standing for re-election at the AGM. The Nomination Committee reviewed and discussed the measurable objectives for implementing diversity of the Board and considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Company has adopted a Board Diversity Policy on 27 August 2013 which was subsequently revised by a Board resolution passed on 17 October 2022 which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

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

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

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

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives. The Board currently has seven male Directors and one female Director. Currently, the Board has not established a specific target number or date by which to achieve a specific number of women on the Board. However, in recognising the particular importance of gender diversity so as to further improve our gender diversity at the Board level and workforce, we will endeavour to ensure there is gender diversity when recruiting staff at a mid to senior level so that we will have a pipeline of female employees (including senior management) and potential successors to our Board and engage more resources in training female staff who have extensive and relevant experience in our business, with the aim of promoting them to the senior management or directorship of our Group. For details of the gender ratio of the Group in the workforce, please refer to the Environmental, Social and Governance Report section on page 54 of this annual report.

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

The Nomination Committee will review the Board Diversity Policy on an annual basis and as appropriate to ensure its effectiveness.

Gender Diversity

The Board will ensure that an appropriate balance of gender diversity is achieved with reference to stakeholders' expectations and international and local recommended best practices with the ultimate goal of bringing the Board to gender parity.

Details on the gender ratio of the Group in the workforce together with relevant data can be found in the Environmental, Social and Governance Report on page 54 of this annual report.

Director Nomination Procedures

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

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

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

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

During the year ended 31 December 2023, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Procedures, as appropriate, to ensure its effectiveness.

Environmental, Social and Governance Committee

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

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

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- To review and monitor the training and continuous professional development of Directors and senior management;

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

During the year ended 31 December 2023, the Environmental, Social and Governance Committee held one meeting to review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guideline, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2023 is set out in the table below:

Table 26. Attendance records:

| Name of Director | Attendance/Number of Meetings | | | | | |
|--------------------------|-------------------------------|----------------------|------------------------|-----------------|--|------------------------|
| | Board | Nomination Committee | Remuneration Committee | Audit Committee | Environmental, Social and Governance Committee | Annual General Meeting |
| Odjargal Jambaljamts | 4/4 | 1/1 | 1/1 | N/A | N/A | 1/1 |
| Battsengel Gotov | 4/4 | N/A | N/A | N/A | N/A | 1/1 |
| Od Jambaljamts | 4/4 | N/A | N/A | N/A | 1/1 | 1/1 |
| Enkhtuvshin Gombo | 4/4 | N/A | N/A | 3/3 | N/A | 1/1 |
| Myagmarjav Ganbyamba | 4/4 | N/A | N/A | N/A | 1/1 | 1/1 |
| Khashchuluun Chuluundorj | 4/4 | 1/1 | 1/1 | 3/3 | 1/1 | 1/1 |
| Unenbat Jigjid | 4/4 | 1/1 | 1/1 | 3/3 | 1/1 | 1/1 |
| Chan Tze Ching, Ignatius | 4/4 | N/A | N/A | 3/3 | 1/1 | 1/1 |

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of other Directors during the year ended 31 December 2023.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee is delegated by the Board in leading the management and overseeing their design, implementation, and monitoring of the risk management and internal control systems.

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

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examines key issues in relation to the connected transactions, inside information handling, material risks and controls and provides its findings and recommendations for improvement to the Management and the Board through the Audit Committee.

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

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

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

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

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

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

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

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

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

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

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

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

As of the end of 2023, the operations are effectively following 5 policies, 156 standard operational procedures, and approximately 400 work instructions. In 2023, 7 procedures and 15 work instructions were newly approved, and 14 procedures and 119 work instructions were updated to enhance risk controls.

The functional departments' reviews and controls constitute the second "line of defense". Beyond these continuous controls, the Compliance unit of the UHG branch annually conducts compliance reviews to identify compliance risks that may potentially impact the business of the Group in various aspects. In 2023, compliance reviews were conducted concerning 20 different areas of the Company's operations using over 2,100 control questions covering Mongolian laws, regulations, technical standards, and rules pertinent to the main operational areas of the Company, including the subcontractors' operations. The compliance rate was assessed as good, indicating a low level of risk.

As the third "line of defense", the Internal Audit Department performs an independent review of the adequacy and effectiveness of the Company's risk management and internal control systems. Throughout 2023, the Internal Audit Department assessed the effectiveness of the risk management and internal control systems by reviewing the risk registers, risk management reports, minutes of meetings, risk mitigation action plan implementation documents, sample-testing of the control measures in place and meeting with the managers and employee representatives.

Further, the Internal Audit Department conducted several audit reviews, including (i) a review of connected transactions for the year 2023; (ii) product quality management procedures and practices; (iii) product stockpile measurement and loss calculations; (iv) product stockpile and trans-shipment operations at TKH and GST; (v) camp and catering management; (vi) measuring instruments' controls and compliances; (vii) corporate document records and archives management; and (viii) corporate social responsibility initiative's implementation and respective recommendations for improvement were made. Reports of all audit reviews and recommendations were submitted to the Audit Committee and the executive management on a quarterly basis and the closing of the identified non-compliances was tracked and reported to the management and the Audit Committee.

The Company underwent 11 external and third-party audits during the reporting period, conducted by regulatory bodies such as the National Emergency Management Agency, the Ministry of Environment and Tourism, the Ministry of Labour and Social Protection, the Department of Labour and Welfare Services of Umnugobi aimag, the Emergency Department of Umnugobi aimag and the Umnugobi Governor's office. These audits covered areas such as fire protection and safety, and open-pit mining operation and surveying. The Company's compliance risk exposure level within these audited areas was assessed as low. The Company implemented follow-up actions over the non-compliances identified by the external audits and reported back to the concerned regulatory bodies.

The management has confirmed to the Board and the Audit Committee the effectiveness of the risk management and internal control systems for the year ended 31 December 2023.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational, and compliance controls, for the year ended 31 December 2023. The review was undertaken (i) based on the ongoing communications and discussions with the management about the Company's principal risks and the management's responses to the risks including the control mechanisms; and (ii) through the internal and external audits' reviews. The Board has considered that risk management and internal control systems within the Group were effective and adequate. The annual review also covered the financial reporting, internal audit functions, and those relating to the Group's ESG performance and reporting, their resources, staff qualifications, experiences, training programs, and budget of these functions and the Board considered them adequate. During the year under review, there was no material weakness in the Group's risk management and internal controls and the Company considers its risk management and internal control systems effective and adequate.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control, fraud, or other matters of the Company. The Company's whistleblower policy sets out the procedures for employees and other stakeholders to raise concerns, in confidence and anonymity, with the Audit Committee, executive management, or the respective direct management about possible improprieties.

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

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

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

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

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

Further, the Company has:

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

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

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

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

The Internal Audit Department conducts periodic reviews of policies, procedures, and their implementation practices, including those concerning the handling of inside information. In 2019, the department reviewed the implementation and effectiveness of various policies and procedures, notably including those for the handling and dissemination of inside information. The review report was submitted to and considered by the Audit Committee of the Board.

In addition, the Internal Audit Department annually reviews the (i) updates made to the policies and procedures related to the handling of inside information, if any; (ii) disclosable events that occurred during the year and the announcements made; (iii) black-out period notices sent to the directors and relevant employees; (iv) directors' and employees' written confirmations about their compliance with the policies and procedures on inside information; and (v) updated list of relevant employees, signed confidentiality agreements, working documents and communications on a sample basis. Any non-conformances, if identified, are reported to the Audit Committee.

Whistleblower Policy and Anti-Corruption and Anti-Bribery Policy

The Company has in place the Whistleblower Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Company.

The Company has also in place the Anti-Corruption and Anti-Bribery Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organises anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 95 to 98.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2023 is set out below:

| Service Category | Fees Paid/Payable |
|---|-------------------|
| Audit Services | USD640,905 |
| Non-audit Services including the fees for tax advisory services | USD352,901 |
| | USD993,806 |

COMPANY SECRETARY

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

During the year ended 31 December 2023, Ms. Cheung Yuet Fan has complied with the professional training requirement of taking no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

Email: contact@mmc.mn

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. With the objective of ensuring that the shareholders and potential investors are provided with timely access to information about the Company, the Company has established several channels to communicate and disseminate information with the shareholders and solicit and understand the views of Shareholders. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. At the AGM, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries. The Company will from time to time conduct briefings to its institutional investors, brokers and analysts. Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website.

The Company's Shareholders' Communication Policy is regularly reviewed to ensure its effectiveness.

The Company reviewed the implementation and effectiveness of the Shareholders' Communication Policy and considered the policy to be effective for the year ended 31 December 2023 after reviewing the shareholder and investor communication activities conducted during the year.

The CG Code provision F.2.2 stipulates that the chairman of the board should attend the AGM. Mr. Odjargal Jambaljamts, the chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2023 AGM of the Company. Mr. Odjargal Jambaljamts joined the 2023 AGM via webcast.

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

POLICIES RELATING TO SHAREHOLDERS

Dividend Policy Summary

The Company has adopted a dividend policy (the "**Dividend Policy**") on payment of dividends pursuant to code provision F.1.1, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to the shareholders of the Company. The Company does not have any pre-determined dividend payout ratio. According to the Dividend Policy, the Board has the discretion to declare and distribute dividends to the shareholders subject to the Articles and all applicable laws and regulations and taking into account the relevant factors of the Company and its subsidiaries, including but not limited to financial results, cash flow situation, business conditions and strategies, interests of shareholders and any other factors that the Board may consider relevant. The Board may propose and/or declare interim, final or special dividends and any distribution of net profits that the Board may deem appropriate, and while doing so, the Board should ensure that the Company maintains adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. Any final dividend for a financial year will be subject to the shareholders' approval. To the best knowledge of our Directors, none of the Shareholders has waived or agreed to waive any dividend.

IX. DIRECTORS' REPORT

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its headquarters and principal place of business in Mongolia is located at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia, and its principal place of business in Hong Kong is located at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining, processing, transportation and sale of coking coal products. The principal activities and other particulars of the subsidiaries and associates are set out in note 18 and note 19 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the consolidated financial statements.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial KPIs is provided in the Management Discussion and Analysis section on pages 12 to 37 and Financial Summary section on pages 160 to 161 of this annual report.

The Group generated a record high revenue of approximately USD1,034.8 million during the year ended 31 December 2023, compared to USD546.2 million of revenue generated during the year ended 31 December 2022.

The Group's adjusted EBITDA for the year ended 31 December 2023 was approximately USD509.0 million, compared to the adjusted EBITDA of approximately USD133.8 million recorded for the year ended 31 December 2022.

The profit attributable to the equity shareholders of the Company for the year ended 31 December 2023 was USD239.7 million, compared to USD59.2 million of profit attributable to the equity shareholders of the Company recorded for the year ended 31 December 2022.

The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD21.95 cents for the year ended 31 December 2023, compared to the basic and diluted earnings per share of USD5.68 cents for the year ended 31 December 2022.

Environmental Policies and Performance

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

We are required to comply with applicable national legislations including the Law on Environmental Protection (1995), Law on Environmental Impact Assessment (2012), Law on Natural Resources Use Fee (2012), Law on Water and Water Pollution Fee (2012), Law on Air (2012) and Law on Air Pollution Fee (2010), Law on Land (2002), Law on Land Fee (1997), Law on Soil Protection and Desertification Prevention (2012) and Law on Toxic and Hazardous Chemicals (2006). In line with these legislations and pursuant to the Law on Environmental Protection and Law on Environmental Impact Assessment, we submit an environmental management plan followed by an implementation report to the Ministry of Environment and Tourism on an annual basis. We get comprehensive inspections on environmental and occupational health activities by local, provincial and state inspection agencies regularly and our compliance rate has been assessed to be satisfactory since the start of our mining operations. The details on our environmental management activities, compliance with relevant legislations and environmental impact mitigation measures can be found in the subsection headed "Environment" set out in the Environmental, Social and Governance Report section on pages 43 to 52 of this annual report.

Compliance with relevant Laws and Regulations

Discussions on compliance with relevant laws and regulations which have a significant impact on the Group are set out in the subsection headed "OPERATING ENVIRONMENT" under the Management Discussion and Analysis section on page 15 of this annual report.

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

Key Relationships with Stakeholders

In relation to the Company's key relationships with its employees, customers and suppliers, discussions on the Company's policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibility are provided in Management Discussion and Analysis section on page 33 and the Environmental, Social and Governance Report section on pages 38 to 63 of this annual report.

Risk Management, Key Risks and Uncertainties

A description of possible risks and uncertainties that the Group may be facing is provided in the Management Discussion and Analysis section on pages 30 to 31 of this annual report.

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

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

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

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

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

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

Prospects

A description of the likely future development in the Company's business is provided in the subsection headed "OUTLOOK AND BUSINESS STRATEGIES IN 2024" under the Management Discussion and Analysis section on page 24 of this annual report.

Subsequent Events

A description of particulars of important events affecting the Company that have occurred since the end of the financial period can be found in the paragraph headed "Other and Subsequent Events" under the Management Discussion and Analysis section on pages 32 to 33 of this annual report. Save as disclosed above, there have been no post balance sheet events subsequent to 31 December 2023 and up to the date of this annual report which require adjustment to or disclosure in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 27.

Table 27. Sales and purchases attributable to the major customers and suppliers:

| | Percentage of the Group's total Revenue from sales of goods and rendering of services | Purchases |
|-------------------------------------|--|------------------|
| The largest customer | 18.8% | |
| Five largest customers in aggregate | 43.6% | |
| The largest supplier | | 25.1% |
| Five largest suppliers in aggregate | | 54.7% |

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

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2023 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 99 to 159.

TRANSFER TO RESERVES

Profit attributable to equity shareholders, before dividend, of USD239.7 million (2022: profit of USD59.2 million) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 102.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2023. The Board does not recommend the payment of a dividend for the year ended 31 December 2023 (dividend for the year ended 31 December 2022: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2023 amounted to USD14,839,000 (2022: USD8,113,923).

PROPERTY, PLANT AND EQUIPMENT

Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

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

BANK LOANS AND OTHER BORROWINGS

There was no outstanding principal amount of borrowing as at 31 December 2023 (2022: nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 161.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Od Jambaljamts
Ms. Enkhtuvshin Gombo
Mr. Myagmarjav Ganbyamba

Independent Non-executive Directors

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

In accordance with the Articles, Dr. Battsengel Gotov, being the executive Director, Mr. Myagmarjav Ganbyamba, being a non-executive Director, and Dr. Khashchuluun Chuluundorj, being an independent non-executive Director will retire from directorship by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 10.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

As at 31 December 2023 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' PERMITTED INDEMNITY PROVISION

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKING

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

Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2023, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition. Each of the Undertakers has given a written confirmation to the Company that he/it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2023.

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

As at 31 December 2023, the interest and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Table 28. Interests in Shares:

| Name of Director | Nature of interest | Ordinary shares of USD0.10 each | |
|-----------------------------------|------------------------------------|---------------------------------|--|
| | | Total number of Shares held | Approximate percentage of total issued share capital |
| Mr. Odjargal Jambaljamts (Note 1) | Beneficial Owner | 46,164,754 (L) | 4.43% |
| | Interest of controlled corporation | 323,492,188 (L) | 31.03% |
| Mr. Od Jambaljamts (Note 2) | Beneficial Owner | 26,576,226 (L) | 2.55% |
| | Interest of controlled corporation | 323,492,188 (L) | 31.03% |
| Mr. Myagmarjav Ganbyamba | Beneficial Owner | 12,000 (L) | 0.0012% |
| Mr. Chan Tze Ching, Ignatius | Beneficial Owner | 249,000 (L) | 0.02% |

(L) – Long position

- (1) Mr. Odjargal Jambaljamts is directly interested in approximately 58.02% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Mining Group LLC which in turn holds 323,492,188 shares in the Company.
- (2) Mr. Od Jambaljamts is directly interested in approximately 30.58% of MCS Mongolia LLC. MCS Mongolia LLC holds the entire interest of MCS Mining Group LLC which in turn holds 323,492,188 shares in the Company.

Table 29. Interest in underlying Shares:

| Name of Director | Nature of interest | Ordinary shares of USD0.10 each | |
|-----------------------|--------------------|--|--|
| | | Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme | Approximate percentage of total issued share capital |
| Dr. Batt sengel Gotov | Beneficial Owner | 10,000,000 (L) | 0.96% |

(L) – Long position

Save as disclosed above, as at 31 December 2023, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register required to be kept; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 16 June 2021 (the "**Adoption Date**") in which the Board is authorised, at its discretion, to grant to eligible participants Share Options of the Company subject to the terms and conditions stipulated therein. Currently, the Share Option Scheme is the only share option scheme of the Company. The previous share option scheme which was adopted by the Company on 17 September 2010 expired on 12 October 2020. The purpose of the Share Option Scheme is to provide incentive and/or reward to eligible persons under the Share Option Scheme for their contribution to, and continuing efforts to promote the interests of the Group. The Share Option Scheme shall be valid for a period of 10 years from the Adoption Date and will expire on 15 June 2031. As at 31 December 2023, the remaining life of the Share Option Scheme was approximately 7 years and 6 months.

Eligibility

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

- a. any employee or proposed employee (whether full time or part-time and including any executive Director), business partners, consultants or advisers of or to the Company or any of its subsidiaries;
- b. any non-executive Directors (including independent non-executive Directors) of the Company or any of its subsidiaries;
- c. any supplier of goods or services to any member of the Group;
- d. any customer of the Group;
- e. any person or entity that provides research, development or other technological support to the Group; and
- f. any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.

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

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

Grant of Options

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

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Directors may determine which shall not exceed 10 years from the date of grant ("**Offer Date**") subject to the provisions of early termination thereof.

The option period of an option within which the Shares must be taken up may not end later than 10 years from the Offer Date, while the Directors may fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the option can be exercised upon the grant of an option to participant. HKD1.00 is payable on acceptance of the option within 28 days from the Offer Date. Save for the above, no other amount is payable on application or acceptance of the option, and there is no period within which payments or calls must or may be made or loans for such purposes must be repaid.

Subscription Price

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

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

Exercise of Options

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

Maximum Number of Shares Available for Subscription

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue as at the adoption date of the Share Option Scheme, i.e. up to 102,918,678 Shares. The total number of Shares available for issue under the Share Option Scheme is 102,918,678 Shares, representing 9.87% of the issued Shares of the Company as at the date of this annual report.

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

As at the date of this annual report, the Company has a total of 32,750,000 outstanding Share Options granted under the Share Option Scheme which shall continue to be valid and exercisable during the prescribed exercisable period in accordance with the Share Option Scheme. The number of Shares that may be issued in respect of the Share Options granted under the Share Option Scheme during the reporting period divided by the weighted average number of the Shares in issue for the reporting period is 3.14%.

Maximum Entitlement of Each Participant

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

On 3 April 2023, the Company granted 10,000,000 and 23,250,000 Share Options to a Director and employees, respectively, at the exercise price of HKD3.260 under the Share Option Scheme. The closing price of the shares of the Company immediately before the grant of Share Options on 3 April 2023 was HKD3.260. There is no performance target attached to the Share Options.

The total number of Share Options available for grant under the Share Option Scheme was 102,918,678 as at 1 January 2023 and 70,168,678 as at 31 December 2023.

Details of the fair value of the Share Options at the Grant Date and the accounting standards and policy adopted are set out in the subsection headed "Financial Instruments" under the Management Discussion and Analysis section on page 31 of this annual report and Note 27(a) to the consolidated financial statements set out in page 146 of this annual report.

Details of the movements in the number of Share Options granted under the Share Option Scheme during the year ended 31 December 2023 were as follows:

Table 30. Director:

| Name of Director | Date of Grant | Exercise period | Exercise price per share | Number of Share Options | | | | | Balance as at 31 December 2023 |
|------------------|---------------|-----------------|--------------------------|------------------------------|--|---|--|--|--------------------------------|
| | | | | Balance as at 1 January 2023 | Granted during the year ended 31 December 2023 | Lapsed during the year ended 31 December 2023 | Cancelled during the year ended 31 December 2023 | Exercised during the year ended 31 December 2023 | |
| | | | | Dr. Battsengel Gotov | 3 April 2023 | Note 1 | HKD3.260 | - | |

Table 31. Employees of the Group other than Directors:

| Date of Grant | Exercise period | Exercise price per share | Number of Share Options | | | | | Balance as at 31 December 2023 |
|---------------|-----------------|--------------------------|------------------------------|--|---|--|--|--------------------------------|
| | | | Balance as at 1 January 2023 | Granted during the year ended 31 December 2023 | Lapsed during the year ended 31 December 2023 | Cancelled during the year ended 31 December 2023 | Exercised during the year ended 31 December 2023 | |
| | | | 3 April 2023 | Note 1 | HKD3.260 | - | 23,250,000 | |

Notes:

- The Share Options are subject to exercising scale in four tranches of 25% each. The exercise periods are as follows:
 - first 25% of the Share Options granted – 3 April 2024 to 3 April 2028
 - second 25% of the Share Options granted – 3 April 2025 to 3 April 2028
 - third 25% of the Share Options granted – 3 April 2026 to 3 April 2028
 - fourth 25% of the Share Options granted – 3 April 2027 to 3 April 2028
- There are no vesting period nor purchase price attached to the Share Options under the Share Option Scheme.
- Save for the aforesaid, there are no other outstanding Share Options under the Share Option Scheme during the reporting period; and there are no other grants of Share Options to (i) any Directors, chief executive or substantial shareholders of the Company or their respective associates; (ii) any participant with options and awards granted and to be granted in excess of the 1% individual limit (as defined in the Listing Rules); and (iii) any related entity participant or service provider.

Treatment of Lapse of the Share Options

Pursuant to the Share Option Scheme, in the event that an employee ceases to be an employee of the Group by reason other than his death, ill-health or retirement in accordance with his contract of employment, the Option (to the extent not already vested) shall lapse on the date of cessation or termination of employment and not be exercisable unless the Directors otherwise determine. The Options that have already been vested but not exercised prior to the date of cessation of employment remain exercisable in accordance of the terms of the offer.

In the event that an employee ceases to be an employee of the Group by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, the employee or, if appropriate his or her lawful personal representative(s) may exercise the Option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment (or such longer period as the Board may determine), failing which it will lapse.

In the event that an employee's employment is terminated for cause before exercising the Option in full, the Option (to the extent not already exercised) shall lapse on the date of termination of employment and not be exercisable unless the Directors otherwise determine.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, for the year ended 31 December 2023, the Company has not entered into any equity-linked agreement.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2023 had the Company or any of its subsidiaries or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

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

As at 31 December 2023, so far as was known to the Directors and chief executive of the Company and based on the information publicly available, the following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 32. Interests in the Shares and underlying Shares:

| Name of substantial shareholder | Nature of interest | Ordinary shares of USD0.10 each | |
|---|------------------------------------|---------------------------------|--|
| | | Total number of Shares held | Approximate percentage of total issued share capital |
| MCS Mining Group LLC (Note 1) | Beneficial Owner | 323,492,188 (L) | 31.03% |
| MCS Mongolia LLC (Note 1) | Interest of controlled corporation | 323,492,188 (L) | 31.03% |
| Ms. Batmunkh Dashdeleg (Note 1) | Interest of spouse | 369,656,942 (L) | 35.46% |
| Ms. Munkhsuren Surenkhoo (Note 1) | Interest of spouse | 350,068,414 (L) | 33.58% |
| Continental General Holdings LLC ("CGH") (Note 2) | Interest of controlled corporation | 74,811,000 (L) | 7.18% |
| Continental Insurance Group, Ltd. ("CIG") (Note 2) | Interest of controlled corporation | 74,811,000 (L) | 7.18% |
| Continental General Insurance Company ("CGIC") (Note 2) | Beneficial Owner | 74,811,000 (L) | 7.18% |
| Percy Rockdale LLC ("Percy") (Note 2) | Beneficial Owner | 477,000 (L) | 0.046% |
| Mr. Michael Gorzynski (Note 2) | Interest of controlled corporation | 75,288,000 (L) | 7.226% |
| Kerry Mining (UHG) Limited ("KMUHG") (Note 3) | Beneficial owner | 75,000,000 (L) | 7.19% |
| Kerry Mining (Mongolia) Limited ("KMM") (Note 3) | Interest of controlled corporation | 75,000,000 (L) | 7.19% |
| Fexos Limited ("Fexos") (Note 3) | Interest of controlled corporation | 75,000,000 (L) | 7.19% |
| Kerry Holdings Limited ("KHL") (Note 3) | Interest of controlled corporation | 75,000,000 (L) | 7.19% |
| Kerry Group Limited ("KGL") (Note 3) | Interest of controlled corporation | 82,821,187 (L) | 7.94% |

(L) – Long position

Notes:

- (1) MCS Mining Group LLC is wholly-owned by MCS Mongolia LLC. MCS Mongolia LLC is owned as to approximately 58.02% by Mr. Odjargal Jambaljamts, and approximately 30.58% by Mr. Od Jambaljamts. MCS Mining Group LLC holds 323,492,188 shares in the Company. Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts directly hold 46,164,754 shares and 26,576,226 shares, respectively, in the Company. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.
- (2)
 - (a) CGIC is a direct wholly-owned subsidiary of CIG which in turn is wholly-owned by CGH. CGH is 100% owned by Mr. Michael Gorzynski. Accordingly, CIG, CGH and Mr. Michael Gorzynski were deemed to be interested in the 74,811,000 shares of the Company that CGIC was interested.
 - (b) Percy is 100% owned by Mr. Michael Gorzynski. Accordingly, Mr. Michael Gorzynski was deemed to be interested in the 477,000 shares of the Company that Percy was interested.
- (3)
 - (a) KMUHG is a direct wholly-owned subsidiary of KMM which in turn is approximately 59.04% owned by Fexos. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL were deemed to be interested in the 75,000,000 shares of the Company that KMUHG was interested.
 - (b) Alpha Model Limited ("**AML**") holds 7,821,187 shares in the Company and AML is a direct wholly-owned subsidiary of KGL. Accordingly, KGL was deemed to be interested in the 7,821,187 shares of the Company that AML was interested.

Save as disclosed above, as at 31 December 2023, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2023, the non-exempt CCTs of the Group were USD19.5 million. The details of non-exempt CCTs for the year ended 31 December 2023 are set out on pages 34 to 37 of this annual report.

CONNECTED TRANSACTIONS

As at 31 December 2023, the Group had not entered into any non-exempt connected transactions.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2023, the Group had no pledge of assets.

EMOLUMENT POLICY

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

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

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

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

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

None of the Directors waived or agreed to waive any emoluments during the year ended 31 December 2023.

RETIREMENT SCHEME

The Group duly contributes to retirement benefit schemes in accordance with the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 8.5% of the eligible employees' salaries, which is applicable for both legal entities and insureds, effective from 1 January 2024. Such rate remains unchanged under the General Law on Social Insurance adopted on 7 July 2023.

Based on Collective (Tariff) Agreement of the Geology, Mining and Heavy Industry Sector for 2023 to 2024, entered into force on 22 June 2023, each employee who retires from the mining industry shall receive payment equal to double of the minimum wage of the industry multiplied by the number of years worked in the mining industry.

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

Pursuant to the Social Security Legislation of Mongolia, retirement scheme contributions are mandatory to be paid to the State Pension Fund and such fund is managed by respective public authorities. Thus, employers have no access nor right to use any contributions that are paid to the State Pension Fund, irrespective of employee's change of employers. As such, during the year ended 31 December 2023, no forfeited contributions had been used by the Company to reduce the existing level of contributions.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

As at the date of this annual report, the Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

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

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

There were no charge of shares of the Company by the controlling shareholder during the year ended 31 December 2023.

CHARGES ON GROUP ASSETS

As at December 31, 2023, the Group did not have any charges over its assets.

ISSUE OF EQUITY SECURITIES

No additional shares were issued during the year ended 31 December 2023.

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

For the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

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

SUFFICIENCY OF PUBLIC FLOAT

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the SEHK) at the time of listing must be at least 25% of the issuer's total issued share capital.

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

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

CHANGES IN DIRECTORS' INFORMATION

Changes of information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2023 Interim Report are set out below:

Dr. Battengel Gotov ceased to be the chief executive officer of Energy Resources LLC and Khangad Exploration LLC on 22 December 2023 and 20 December 2023, respectively. He also ceased to be the chairman and a board member of the Mongolian Coal Association.

Mr. Myagmarjav Ganbyamba ceased to be the chief executive officer of MCS Ventures LLC on 15 November 2023.

Dr. Khashchuluun Chuluundorj ceased to be a visiting professor at the Russian University of Economics, Russia, and an independent director of MMFG Group, respectively. He also ceased to be the chairman of the board of Practical Insurance LLC.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2023. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 19 June 2023.

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

On behalf of the Board

Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 25 March 2024

X. INDEPENDENT AUDITOR'S REPORT



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

Opinion

We have audited the consolidated financial statements of Mongolian Mining Corporation ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 99 to 159, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matter

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

Assessing impairment of mining related assets

Refer to notes 2(g), 2(h), 3(a), 14, 15 and 17 to the consolidated financial statements and the accounting policies.

The Key Audit Matter

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

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

As at 31 December 2023, the carrying amount of net assets of the Group exceeded the Company's market capitalisation. Management considered this indicated that the Group's mining related assets may be impaired and performed an impairment assessment of the mining related assets to determine the recoverable amount.

How the matter was addressed in our audit

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

- evaluating the design and implementation of key internal controls over the estimations of the recoverable amounts of mining related assets;
- assessing the allocation of assets and liabilities by management to the mining CGU and the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards;
- challenging the key assumptions and estimates used in the discounted cash flow forecast as at 31 December 2023, including those relating to future commodity prices, future sales, future operating costs and the discount rates applied, which included involving our internal valuation specialists to assist us in comparing these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and in considering the key assumptions and estimates based on our knowledge of the Group and the industry in which it operates;

Refer to notes 2(g), 2(h), 3(a), 14, 15 and 17 to the consolidated financial statements and the accounting policies.

The Key Audit Matter

Management determines the recoverable amount of mining related assets based on the value in use of the CGU to which the assets have been allocated by using discounted cash flow techniques. The preparation of a discounted cash flow forecast involves the exercise of significant management judgement in the selection of assumptions, in particular in estimating future commodity prices and the discount rate applied as well as in determining internal assumptions relating to future sales and future operating costs.

We identified assessing impairment of mining related assets as a key audit matter because of its significance to the consolidated financial statements and the inherent uncertainty involved in forecasting and discounting future cash flows which involves significant management judgement and could be subject to management bias.

How the matter was addressed in our audit

- assessing the reliability of management's forecasting process and whether there is any indication of management bias by comparing the key assumptions and estimates included in the discounted cash flow forecast prepared in the prior year with the current year's performance and those adopted in current year's forecast, and making enquiries of management as to the reasons for any significant variances or changes identified;
- performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions and estimates and whether there were any indication of management bias; and
- assessing the reasonableness of disclosures in the consolidated financial statements in respect of the impairment of mining related assets with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

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

25 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2023

(Expressed in United States dollars)

| | Note | 2023 USD'000 | 2022 USD'000 |
|--|------|--------------------|-----------------|
| Revenue | 4 | 1,034,821 | 546,248 |
| Cost of revenue | 5 | (593,180) | (451,131) |
| Gross profit | | 441,641 | 95,117 |
| Other net income | | 7,414 | 4,181 |
| Selling and distribution costs | 6(c) | (4,779) | (2,434) |
| General and administrative expenses | | (57,272) | (24,775) |
| Profit from operations | | 387,004 | 72,089 |
| Finance income | 6(a) | 1,855 | 6,286 |
| Finance costs | 6(a) | (41,958) | (47,081) |
| Net finance costs | 6(a) | (40,103) | (40,795) |
| (Loss)/gain from repurchase, refinancing and redemption of Senior Notes due 2024 | 7 | (12,975) | 23,144 |
| Share of profits of associates | | 996 | 286 |
| Share of losses of joint ventures | | - | (16) |
| Profit before taxation | 6 | 334,922 | 54,708 |
| Income tax | 8 | (94,820) | 4,183 |
| Profit for the year | | 240,102 | 58,891 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 239,686 | 59,177 |
| Non-controlling interests | | 416 | (286) |
| Profit for the year | | 240,102 | 58,891 |
| Basic earnings per share | 9 | 21.95 cents | 5.68 cents |
| Diluted earnings per share | 9 | 21.95 cents | 5.68 cents |

The notes on pages 104 to 159 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 29(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2023

(Expressed in United States dollars)

| | Note | 2023 USD'000 | 2022 USD'000 |
|---|------|-----------------|-----------------|
| Profit for the year | | 240,102 | 58,891 |
| Other comprehensive income for the year (after tax and reclassification adjustments) | 12 | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on re-translation | | 525 | (21,726) |
| Other comprehensive income for the year | | 525 | (21,726) |
| Total comprehensive income for the year | | 240,627 | 37,165 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 240,119 | 38,306 |
| Non-controlling interests | | 508 | (1,141) |
| Total comprehensive income for the year | | 240,627 | 37,165 |

The notes on pages 104 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2023

(Expressed in United States dollars)

| | Note | 2023 USD'000 | 2022 USD'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment, net | 14 | 1,066,555 | 919,688 |
| Construction in progress | 15 | 7,236 | 47,387 |
| Other right-of-use assets | 16 | 48 | 49 |
| Intangible assets | 17 | 492,317 | 498,035 |
| Interests in associates | 19 | 8,258 | 7,657 |
| Interest in joint ventures | | 6 | 4 |
| Other non-current assets | 20 | 6,544 | 59,537 |
| Deferred tax assets | 26(b) | 7,574 | 28,505 |
| Total non-current assets | | 1,588,538 | 1,560,862 |
| Current assets | | | |
| Inventories | 21 | 98,952 | 102,794 |
| Trade and other receivables | 22 | 145,152 | 92,157 |
| Cash and cash equivalents | 23 | 175,799 | 64,695 |
| Total current assets | | 419,903 | 259,646 |
| Current liabilities | | | |
| Trade and other payables | 25 | 126,736 | 136,369 |
| Contract liabilities | | 237,447 | 182,246 |
| Lease liabilities | | - | 56 |
| Current taxation | 26(a) | 69,249 | 9,617 |
| Total current liabilities | | 433,432 | 328,288 |
| Net current liabilities | | (13,529) | (68,642) |
| Total assets less current liabilities | | 1,575,009 | 1,492,220 |
| Non-current liabilities | | | |
| Senior Notes | 24 | 213,993 | 373,756 |
| Provisions | 28 | 24,959 | 16,737 |
| Deferred tax liabilities | 26(b) | 166,191 | 174,650 |
| Total non-current liabilities | | 405,143 | 565,143 |
| NET ASSETS | | 1,169,866 | 927,077 |
| CAPITAL AND RESERVES | | | |
| Share capital | 29(c) | 104,248 | 104,248 |
| Reserves | | 1,010,589 | 768,308 |
| Total equity attributable to equity shareholders of the Company | | 1,114,837 | 872,556 |
| Perpetual notes | 29(e) | 55,476 | 55,476 |
| Non-controlling interests | | (447) | (955) |
| TOTAL EQUITY | | 1,169,866 | 927,077 |

Approved and authorised for issue by the board of directors on 25 March 2024.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 104 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

(Expressed in United States dollars)

| | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|--|---------------|-----------------|-------------------|------------------------------|------------------|----------|-----------------|---------------------------|--------------|---------|
| | Share capital | Share premium | Other reserve | Exchange reserve | Property revaluation reserve | Retained profits | Total | Perpetual notes | Non-controlling interests | Total equity | |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | |
| | Note | (Note 29(c)) | (Note 29(d)(i)) | (Note 29(d)(iii)) | (Note 29(d)(iii)) | (Note 29(d)(iv)) | | (Note 29(e)) | | | |
| At 1 January 2022 | 103,158 | 769,326 | 36,327 | (499,069) | 370,827 | 49,254 | 829,823 | 66,569 | 186 | 896,578 | |
| Profit for the year | - | - | - | - | - | 59,177 | 59,177 | - | (286) | 58,891 | |
| Other comprehensive income | 12 | - | - | (20,871) | - | - | (20,871) | - | (855) | (21,726) | |
| Total comprehensive income | | - | - | (20,871) | - | 59,177 | 38,306 | - | (1,141) | 37,165 | |
| Repurchase of perpetual notes | 29(e) | - | - | - | - | 1,102 | 1,102 | (11,093) | - | (9,991) | |
| Equity-settled share-based transactions | 27 | 1,090 | 3,688 | (1,453) | - | - | 3,325 | - | - | 3,325 | |
| Reclassification of property revaluation reserve to retained profits upon disposals of assets concerned | | - | - | - | (511) | 511 | - | - | - | - | |
| At 31 December 2022 | | 104,248 | 773,014 | 34,874 | (519,940) | 370,316 | 110,044 | 872,556 | 55,476 | (955) | 927,077 |

| | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|--|---------------|-----------------|-------------------|------------------------------|------------------|---------|-----------------|---------------------------|--------------|-----------|
| | Share capital | Share premium | Other reserve | Exchange reserve | Property revaluation reserve | Retained profits | Total | Perpetual notes | Non-controlling interests | Total equity | |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | |
| | Note | (Note 29(c)) | (Note 29(d)(i)) | (Note 29(d)(iii)) | (Note 29(d)(iii)) | (Note 29(d)(iv)) | | (Note 29(e)) | | | |
| At 1 January 2023 | 104,248 | 773,014 | 34,874 | (519,940) | 370,316 | 110,044 | 872,556 | 55,476 | (955) | 927,077 | |
| Profit for the year | - | - | - | - | - | 239,686 | 239,686 | - | 416 | 240,102 | |
| Other comprehensive income | 12 | - | - | 433 | - | - | 433 | - | 92 | 525 | |
| Total comprehensive income | | - | - | 433 | - | 239,686 | 240,119 | - | 508 | 240,627 | |
| Repurchase of perpetual notes | 29(e) | - | - | - | - | - | - | - | - | - | |
| Equity-settled share-based transactions | 27 | - | - | 2,162 | - | - | 2,162 | - | - | 2,162 | |
| Reclassification of property revaluation reserve to retained profits upon disposals of assets concerned | | - | - | - | (1,426) | 1,426 | - | - | - | - | |
| At 31 December 2023 | | 104,248 | 773,014 | 37,036 | (519,507) | 368,890 | 351,156 | 1,114,837 | 55,476 | (447) | 1,169,866 |

The notes on pages 104 to 159 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2023

(Expressed in United States dollars)

| | Note | 2023 USD'000 | 2022 USD'000 |
|--|-------|------------------|------------------|
| Operating activities | | | |
| Profit before taxation | | 334,922 | 54,708 |
| Adjustments for: | | | |
| Depreciation and amortisation | 6(c) | 94,119 | 61,708 |
| Share of profits of associate and joint venture | | (996) | (270) |
| Loss/(gain) on disposals of property, plant and equipment | 6(c) | 1,635 | (6) |
| Loss on mining equipments transferred from mining contractor | | 24,057 | - |
| Net finance costs | 6(a) | 40,103 | 40,795 |
| Loss/(gain) from repurchase, refinancing and redemption of Senior Notes due 2024 | 7 | 12,975 | (23,144) |
| Equity-settled share-based payment expenses | 6(b) | 2,162 | - |
| Changes in working capital: | | | |
| Decrease in inventories | | 3,842 | 56,869 |
| (Increase)/decrease in trade and other receivables | | (52,995) | 7,363 |
| Increase in trade and other payables and contract liabilities | | 15,862 | 40,353 |
| Decrease/(increase) in other non-current assets | | 28,936 | (3,903) |
| Cash generated from operations | | 504,622 | 234,473 |
| Income tax paid | 26(a) | (22,743) | (694) |
| Net cash generated from operating activities | | 481,879 | 233,779 |
| Investing activities | | | |
| Payments for acquisition of property, plant and equipment and construction in progress | | (133,798) | (80,379) |
| Proceeds from disposals of property, plant and equipment | | 8 | 6 |
| Payments for acquisition of intangible asset | | (6) | (715) |
| Prepayments for acquisition of a subsidiary | | (40,000) | - |
| Payments for acquisition of an associate | | - | (6,951) |
| Interest received | | 1,328 | 123 |
| Dividends received from an associate | | 168 | - |
| Net cash used in investing activities | | (172,300) | (87,916) |
| Financing activities | | | |
| Capital element of lease rentals paid | | (220) | (130) |
| Repayment of Senior Notes due 2022 | | - | (14,912) |
| Repurchase of Senior Notes due 2024 | 23(b) | (36,227) | (39,671) |
| Payment for refinancing of Senior Notes due 2024 | 23(b) | (174,035) | - |
| Proceeds from new issue of Senior Notes due 2026 | 23(b) | 44,222 | - |
| Repurchase of perpetual notes | 29 | - | (9,991) |
| Interest element of lease rentals paid | | (7) | (6) |
| Proceeds from shares issued under share option scheme | | - | 3,325 |
| Interest paid | | (31,316) | (42,489) |
| Net cash used in financing activities | | (197,583) | (103,874) |
| Net increase in cash and cash equivalents | | 111,996 | 41,989 |
| Cash and cash equivalents at beginning of the year | | 64,695 | 25,937 |
| Effect of foreign exchange rate changes | | (892) | (3,231) |
| Cash and cash equivalents at end of the year | 23 | 175,799 | 64,695 |

The notes on pages 104 to 159 form part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Mongolian Mining Corporation (the "**Company**") was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 October 2010. The Company and its subsidiaries (together referred to as the "**Group**") are principally engaged in the mining, processing, transportation and sale of coal.

2 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all IFRS Accounting Standards as issued by the International Accounting Standards Board ("**IASB**"). 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**"). Material accounting policies adopted by the Group is set out below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2023 comprise the Group and the Group's interests in associates and joint ventures.

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

- Investments in debt and equity securities (see Note 2(f));
- Buildings and plants as well as machinery and equipment (see Note 2(g)); and
- Derivative financial instruments (see Note 2(n)).

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

The preparation of financial statements in conformity with IFRS Accounting Standards 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 Group had net current liabilities of USD13,529,000 as at 31 December 2023. The Group has standby facilities from local banks in Mongolia totalling USD50,000,000 as of the reporting date. Based on the cash flow forecast of the Group for the next twelve months ending 31 December 2024 prepared by the management, the directors of the Company (the "**Directors**") expect to maintain adequate financial resources to cover its operating costs and meet its financing commitments, as and when they fall due for the twelve months period subsequent to 31 December 2023.

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**").

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

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

The functional currency of the Group's main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is Mongolian Togrog ("MNT"). The functional currency of subsidiaries located in People's Republic of China ("China") is Renminbi ("RMB"), the functional currency of Baruun Naran Sà.r.l ("BNS") is Euro ("EUR") and the functional currency of remaining overseas holding entities is USD.

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

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

(c) Changes in accounting policies

The IASB has issued the following new and amended IFRS Accounting Standards that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

For each business combination, the Group can elect to measure any non-controlling interests ("NCI") either at fair value or at the NCI's proportionate share of the subsidiary's net identifiable assets. NCI are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. NCI in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income ("OCI") as an allocation of the total profit or loss and total comprehensive income for the year between NCI and the equity shareholders of the Company. Loans from holders of NCI and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(m) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

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

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group or the Company has joint control, whereby the Group or the Company has the rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

An interest in an associate or a joint venture is accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group classified as held for sale) (see Note 2(y)). They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of the profit or loss and OCI of those investees, until the date on which significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture, after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see Note 2(j)(i)).

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

In the Company's statement of financial position, an investment in an associate or a joint venture is stated at cost less impairment losses (see Note 2(j)), unless it is classified as held for sale (or included in a disposal group classified as held for sale) (see Note 2(y)).

(f) Other investments in securities

The Group's policies for investments in securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Non-equity investments

Non-equity investments are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. ECLs, interest income calculated using the effective interest method (see Note 2(v)), foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. ECLs, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognised in profit or loss and computed in the same manner as if the financial asset was measured at amortised cost. The difference between the fair value and the amortised cost is recognised in OCI. When the investment is derecognised, the amount accumulated in OCI is recycled from equity to profit or loss.
- FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in securities (continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL, unless the investment is not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in OCI. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. If such election is made for a particular investment, at the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings and not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(g) Property, plant and equipment

The following properties held for own use are stated at their revalued amount, being their fair values at the date of the revaluation less any subsequent accumulated depreciation:

- buildings and plants (under the Property, plant and equipment and Construction in progress); and
- machinery and equipment.

Revaluations are performed with sufficient regularity to ensure that the carrying amounts of these assets do not differ materially from that which would be determined using fair values at the end of reporting period.

The following items of property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses (see Note 2(j)):

- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest;
- motor vehicles;
- office equipment; and
- mining properties.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Construction in progress represents property, plant and equipment under construction and equipment pending installation. Except for those stated at their revalued amount as aforementioned, other construction in progress items are initially recognised at cost less impairment losses (Note 2(j)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see Note 2(x)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment less their estimated residual values, if any, using the straight line method over their estimated useful lives, and is generally recognised in profit or loss.

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

| | Depreciable life |
|--|-------------------------|
| - Buildings and plants | 10 – 40 years |
| - Machinery and equipment | 10 years |
| - Motor vehicles | 5 – 10 years |
| - Office equipment | 3 – 10 years |
| - Right of use assets are depreciated over the unexpired term of lease | |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

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

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

(h) Intangible assets

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

Acquired mining rights are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Amortisation of other intangible assets with finite useful lives is recognised in profit or loss on a straight-line basis over the expected useful lives. The software are amortised over 10 years from the date they are available for use, and GS Terminal is amortised for 3 years from the date it is available for use.

Both the period and method of amortisation are reviewed annually.

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Leased assets (continued)

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for leases that have a short lease term of 12 months or less, and leases of low-value items such as laptops and office furniture. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is recognised using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability, and are charged to profit or loss as incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(j)(ii)).

Refundable rental deposits are accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in non-equity securities carried at amortised cost (see Notes 2(f)(i), 2(v)(ii) and 2(j)(i)). Any excess of the nominal value over the initial fair value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for ECLs on:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, including those loans to associates and joint ventures that are held for the collection of contractual cash flows which represent solely payments of principal and interest);
- contract assets (see Note 2(p));
- non-equity securities measured at FVOCI (recycling) (see Note 2(f)(i));
- lease receivables; and
- loan commitments issued, which are not measured at FVPL.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following rates if the effect is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances are measured at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial instruments that are determined to have low credit risk at the reporting date; and
- other financial instruments (including loan commitments issued) for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

When determining whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in non-equity securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in OCI and accumulated in the fair value reserve (recycling) does not reduce the carrying amount of the financial asset in the statement of financial position.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than property carried at revalued amounts, investment property, inventories and other contract costs, contract assets and deferred tax assets) to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(j) Credit losses and impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

(k) Inventories

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

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

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

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

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

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost (see Note 2(j)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 2(t).

(m) Interest-bearing borrowings

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

(n) Senior notes

At initial recognition the derivative component is measured at fair value and presented as part of derivative financial instruments. Derivatives are initially measured at fair value. Subsequently, they are measured at fair value with changes therein recognised in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host liability component. The host liability component is subsequently carried at amortised cost using effective interest method. Interest related to the host liability component is recognised in profit or loss.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(p) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(v)) before being unconditionally entitled to the consideration under the terms in the contract. Contract assets are assessed for ECLs (see Note 2(j)(i)) and are reclassified to receivables when the right to the consideration becomes unconditional (see Note 2(l)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(v)). A contract liability is also recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such latter cases, a corresponding receivable is also recognised (see Note 2(l)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(v)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL (see Note 2(j)(i)).

(r) Employee benefits

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

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

(ii) Share-based payments

The grant-date fair value of equity-settled share-based payments granted to employees is measured using the binomial lattice model. The amount is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service conditions at the vesting date.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

(s) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;
- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill; and
- those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(t) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see Note 2(j)).

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(u) Obligations for reclamation

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

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

The Group is the principal for its revenue transactions and recognises revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax ("**VAT**") or other sales taxes.

(a) Sale of goods

Revenue associated with the sale of coal is recognised when the control over the goods is transferred to the customer. Revenue excludes VAT or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) Revenue from other sources and other income

(a) Interest income

Interest income is recognised using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(w) Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(w) Translation of foreign currencies (continued)

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

The assets and liabilities of foreign operations using the functional currency other than USD, including goodwill and fair value adjustments arising on acquisition, are translated into USD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into USD at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the NCI shall be derecognised, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(x) Borrowing costs

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

(y) Non-current assets held for sale

Non-current assets, or disposal group comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to deferred tax assets, employee benefits assets, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

(z) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent, if any.

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

(bb) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and equipment and construction in progress were revalued by an external appraiser as at 31 December 2016 and 2021, respectively (see Notes 14 and 15). 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(ii) Reserves (continued)

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

- Asset recoverable amounts may be affected due to changes in estimated future cash flows.
- Depreciation, depletion and amortisation charged 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(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 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Sources of estimation uncertainty

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

4 REVENUE

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

| | 2023 | 2022 |
|--------------------------------------|------------------|---------|
| | USD'000 | USD'000 |
| Washed hard coking coal | 883,140 | 508,355 |
| Washed semi-soft coking coal | 85,047 | 27,342 |
| Middlings | 36,471 | 9,922 |
| Washed mid-ash semi-hard coking coal | 28,387 | – |
| Raw thermal coal | 1,776 | 629 |
| | 1,034,821 | 546,248 |

During the year ended 31 December 2023, the Group had one customer that individually exceeded 10% of the Group's revenue from sales of goods and rendering of services, being USD194,602,000. During the year ended 31 December 2022, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and rendering of services, being USD81,177,000 and USD79,645,000, respectively.

Revenue during the year ended 31 December 2023 includes approximately USD120,811,000 (2022: USD43,535,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

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

5 COST OF REVENUE

| | 2023 | 2022 |
|--|----------------|---------|
| | USD'000 | USD'000 |
| Mining costs | 250,465 | 147,846 |
| Processing costs | 63,456 | 43,734 |
| Transportation costs | 92,291 | 100,942 |
| Others (Note (i)) | 186,968 | 134,164 |
| Cost of revenue during mine operations | 593,180 | 426,686 |
| Cost of revenue during idled mine period (Note (ii)) | – | 24,445 |
| Cost of revenue | 593,180 | 451,131 |

Notes:

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

(ii) For the year ended 31 December 2022, cost of revenue during idled mine period mainly includes depreciation expense related to idled plant and equipment, staff costs and mining contractor costs.

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs:

| | 2023 USD'000 | 2022 USD'000 |
|--|-----------------|-----------------|
| Interest income | (1,855) | (145) |
| Net change in fair value of derivative component of senior notes | - | (2,661) |
| Gain on derecognition of derivative component of Senior Notes due 2022 | - | (507) |
| Foreign exchange gain, net | - | (2,973) |
| Finance income | (1,855) | (6,286) |
| Interest on liability component of senior notes (Note 23) | 34,675 | 45,430 |
| Interest on lease liabilities | 6 | 6 |
| Transaction cost | 11 | 52 |
| Unwinding interest on accrued reclamation obligations (Note 28) | 1,313 | 1,593 |
| Net interest expense | 36,005 | 47,081 |
| Foreign exchange loss, net | 5,953 | - |
| Finance costs | 41,958 | 47,081 |
| Net finance costs | 40,103 | 40,795 |

No borrowing costs have been capitalised for the years ended 31 December 2023 and 2022.

(b) Staff costs:

| | 2023 USD'000 | 2022 USD'000 |
|---|-----------------|-----------------|
| Salaries, wages, bonuses and benefits | 38,903 | 26,494 |
| Retirement scheme contributions | 4,889 | 3,722 |
| Equity-settled share-based payment expenses (Note 27) | 2,162 | - |
| | 45,954 | 30,216 |

Pursuant to the relevant labour rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the Government of Mongolia 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.

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items:

| | 2023 | 2022 |
|---|---------|---------|
| | USD'000 | USD'000 |
| Selling and distribution costs (Note (i)) | 4,779 | 2,434 |
| Depreciation and amortisation | 94,119 | 61,708 |
| Net loss/(gain) on disposals of property, plant and equipment | 1,635 | (6) |
| Auditors' remuneration | | |
| – audit and review services | 641 | 639 |
| – tax and other services | 353 | 7 |
| | 994 | 646 |
| Cost of inventories (Note (iii)) | 593,180 | 426,686 |

Notes:

- (i) Selling and distribution costs represent fees and charges incurred for importing coal into China, logistics and transportation costs, governmental fees and charges and fixed agent fees associated with sales activities in inland China.
- (iii) Cost of inventories includes USD136,876,000 (2022: USD106,300,000) 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 USD11,109,000 (2022: USD479,000).

7 (LOSS)/GAIN FROM REPURCHASE, REFINANCING AND REDEMPTION OF SENIOR NOTES DUE 2024

| | 2023 | 2022 |
|--|----------|---------|
| | USD'000 | USD'000 |
| Gain on repurchase of Senior Notes due 2024 (Note (i)) | 4,691 | 23,144 |
| Loss on refinancing and redemption of Senior Notes due 2024 (Note (iii)) | (17,666) | – |
| | (12,975) | 23,144 |

Notes:

- (i) The Group repurchased a total of USD41,160,000 principal amount from senior notes (2022: USD63,591,000 principal amount) with initial principal amount of USD440,000,000 maturing on 15 April 2024 ("Senior Notes due 2024") through open market during the year ended 31 December 2023. The excess of derecognised carrying amount of the Senior Notes due 2024 over the consideration to settle the financial liabilities, amounting to approximately USD4,691,000 (2022: USD23,144,000), has been recognised as a gain from repurchase of Senior Notes due 2024 and credited to profit or loss during the year ended 31 December 2023.
- (ii) On 28 August 2023, the Company announced an invitation to exchange any and all of the outstanding Senior Notes due 2024 and potential issuance of new senior notes. As at the offer expiration date on 5 September 2023, an aggregate principal amount of USD251,029,000 of the Senior Notes due 2024 has been validly tendered for exchange and accepted in the exchange offer and USD175,713,000 principal amount of new senior notes due 2026 was issued pursuant to the exchange offer (the "Exchange Offer"). Pursuant to the Company's announcement dated 7 September 2023, the Company and Energy Resources LLC ("ER"), an indirect wholly-owned subsidiary of the Company, issued additional USD4,287,000 principal amount of senior notes due 2026 ("New Money Issuance"). As a result of the Exchange Offer and New Money Issuance, the outstanding principal amount of the Senior Notes due 2024 and senior notes due 2026 was USD84,220,000 and USD180,000,000, respectively. The senior notes due 2026, issued on 13 September 2023, is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") and bears interest at 12.50% per annum fixed rate, payable semi-annually, and due on 13 September 2026 ("Senior Notes due 2026").

On 8 November 2023, the Company and ER redeemed the outstanding USD84,220,000 principal amount of Senior Notes due 2024 in full at redemption price of 102.313% ("Optional Redemption").

On 14 December 2023, the Company and ER issued additional USD40,000,000 of senior notes, which is consolidated and formed single series with the Senior Notes due 2026 ("Additional Issuance").

As a result of the Exchange Offer, New Money Issuance, Optional Redemption and Additional Issuance, a loss amounting to approximately USD17,666,000 has been recognised in profit or loss during the year ended 31 December 2023.

8 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

| | 2023 | 2022 |
|---|---------------|----------|
| | USD'000 | USD'000 |
| Current tax | | |
| Provision for the year (Note 26(a)) | 81,493 | 11,194 |
| Over-provision in respect of prior years | (114) | (115) |
| Deferred tax | | |
| Origination and reversal of temporary difference (Note 26(b)) | 13,441 | (15,262) |
| | 94,820 | (4,183) |

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

| | 2023 | 2022 |
|---|----------------|----------|
| | USD'000 | USD'000 |
| Profit before taxation | 334,922 | 54,708 |
| Notional tax on profit before taxation | 85,142 | 14,335 |
| Tax effect of non-deductible items (Note (iii)) | 11,441 | 1,743 |
| Tax effect of non-taxable items (Note (iii)) | (1,908) | (20,678) |
| Prior year tax loss utilised | - | (163) |
| Tax losses not recognised | 259 | 695 |
| Over-provision in respect of prior years | (114) | (115) |
| Actual tax expenses | 94,820 | (4,183) |

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 2023 and 2022. According to the Corporate Income Tax Law of China, the Company's subsidiaries in China are 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, Luxembourg, and Singapore profits tax as it has no assessable income arising in or derived from Hong Kong, Luxembourg and Singapore during the years ended 31 December 2023 and 2022.
- (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 2023 and 2022.

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the adjusted profit attributable to ordinary equity shareholders of the Company of USD228,818,000 (loss attributable to ordinary equity shareholders of the Company of 2022: USD59,177,000) and the weighted average of 1,042,476,786 ordinary shares (2022: 1,042,476,786 ordinary shares) in issue during the year.

The adjusted profit/(loss) attributable to ordinary equity shareholders of the Company is calculated as follows:

| | 2023 USD'000 | 2022 USD'000 |
|--|-----------------|-----------------|
| Profit/(Loss) attributable to ordinary equity shareholders | 239,686 | (59,177) |
| Allocation of profit of the year attributable to holders of perpetual notes (Note 29(e)) | (10,868) | - |
| Adjusted profit/(loss) attributable to ordinary equity shareholders | 228,818 | (59,177) |

(b) Diluted earnings/(loss) per share

For the years ended 31 December 2023 and 2022, basic and diluted earnings/(loss) per share are the same.

No potential dilutive shares existed as at 31 December 2023. The equity-settled share-based payment transactions (see Note 27) are anti-dilutive and therefore not included in calculating diluted earnings/(loss) per share for the years ended 31 December 2023 and 2022.

10 DIRECTORS' REMUNERATION AND INTEREST OF DIRECTORS

Directors' remuneration was disclosed according to the requirement of Section 383 – *Notes to financial statements to contain information on directors' emoluments* of Companies Ordinance (Cap. 622) and Companies Regulation (Cap. 622G). Details of the Directors' remuneration disclosed are as follows:

| | Year ended 31 December 2023 | | | | | Total USD'000 |
|--|-----------------------------|--|--------------------------|---------------------------------------|--|------------------|
| | Directors' fee | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Equity-settled share-based payment expenses | |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | |
| Executive directors | | | | | | |
| Odjargal Jambaljamts (Chairman) | 19 | 1,139 | 75 | 99 | - | 1,332 |
| Battsengel Gotov | 19 | 919 | 75 | 81 | 641 | 1,735 |
| Non-executive directors | | | | | | |
| Enkhtuvshin Gombo | 19 | - | - | - | - | 19 |
| Od Jambaljamts | 19 | - | - | - | - | 19 |
| Myagmarjav Ganbyamba | 19 | - | - | - | - | 19 |
| Independent non-executive directors | | | | | | |
| Khashchuluun Chuluundorj | 19 | - | - | - | - | 19 |
| Unenbat Jigjid | 19 | - | - | - | - | 19 |
| Chan Tze Ching, Ignatius | 58 | - | - | - | - | 58 |
| Total | 191 | 2,058 | 150 | 180 | 641 | 3,220 |

10 DIRECTORS' REMUNERATION AND INTEREST OF DIRECTORS (CONTINUED)

| | Year ended 31 December 2022 | | | | | Total USD'000 |
|--|-----------------------------|--|--------------------------|---------------------------------------|--|------------------|
| | Directors' fee | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Equity-settled share-based payment expenses | |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | |
| Executive directors | | | | | | |
| Odjargal Jambaljamts (Chairman) | 19 | 1,134 | 75 | 99 | - | 1,327 |
| Battsengel Gotov | 19 | 729 | 75 | 66 | - | 889 |
| Non-executive directors | | | | | | |
| Enkhtuvshin Gombo | 19 | - | - | - | - | 19 |
| Myagmarjav Ganbyamba (appointed on 1 January 2022) | 19 | - | - | - | - | 19 |
| Od Jambaljamts | 19 | - | - | - | - | 19 |
| Enkhtuvshin Dashtseren (resigned on 1 January 2022) | - | - | - | - | - | - |
| Independent non-executive directors | | | | | | |
| Khashchuluun Chuluundorj | 19 | - | - | - | - | 19 |
| Unenbat Jigjid | 19 | - | - | - | - | 19 |
| Chan Tze Ching, Ignatius | 58 | - | - | - | - | 58 |
| Total | 191 | 1,863 | 150 | 165 | - | 2,369 |

Notes:

- (i) No emoluments have been paid to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2023 and 2022.
- (ii) There are no loans, quasi-loans or other dealings in favour of the Directors, their controlled bodies corporate and connected entities existed at the end of the year or at any time during the years ended 31 December 2023 and 2022.
- (iii) No transactions, arrangements and contracts in relation to Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the years ended 31 December 2023 and 2022.
- (iv) No consideration was provided to or receivable by third parties for making available Directors' services during the years ended 31 December 2023 and 2022.
- (v) These represent the estimated value of share options granted to the directors under the Company's share option schemes. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(r)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 27.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

| | 2023 | 2022 |
|---------------|-----------------------|-----------------------|
| | Number of individuals | Number of individuals |
| Directors | 2 | 2 |
| Non-directors | 3 | 3 |
| | 5 | 5 |

The emoluments of the Directors are disclosed in Note 10. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

| | 2023 | 2022 |
|---|---------|---------|
| | USD'000 | USD'000 |
| Basic salaries, allowances and benefits in kind | 765 | 744 |
| Discretionary bonuses | 226 | 225 |
| Retirement scheme contributions | 81 | 79 |
| Equity-settled share-based payment expenses | 401 | - |
| | 1,473 | 1,048 |

The emoluments of the remaining individuals with the highest emoluments are within the following band:

| | 2023 | 2022 |
|------------------------------|-----------------------|-----------------------|
| | Number of individuals | Number of individuals |
| HKD2,500,001 to HKD3,000,000 | - | 3 |
| HKD3,500,001 to HKD4,000,000 | 3 | - |

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2023 and 2022.

12 OTHER COMPREHENSIVE INCOME

| | 2023 | 2022 |
|--|---------|----------|
| | USD'000 | USD'000 |
| Exchange differences on re-translation of the financial statements of certain subsidiaries | 525 | (21,726) |

Note:

Exchange differences on re-translation mainly resulted from the fluctuation of MNT and RMB exchange rate against USD during the respective reporting periods.

13 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.

14 PROPERTY, PLANT AND EQUIPMENT, NET

| | Buildings and plants | Machinery and equipment | Motor vehicles | Office equipment | Mining properties | Total |
|---|---------------------------------|------------------------------------|---------------------------|-----------------------------|------------------------------|------------------|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Cost or valuation: | | | | | | |
| At 1 January 2022 | 511,719 | 330,448 | 43,683 | 4,745 | 583,177 | 1,473,772 |
| Additions | 437 | 1,145 | 1,667 | 790 | 44,699 | 48,738 |
| Disposals | (929) | (201) | (454) | (220) | - | (1,804) |
| Transfer from construction in progress | 51 | - | - | - | - | 51 |
| Adjustment on mining rehabilitation | - | - | - | - | (15,784) | (15,784) |
| Exchange adjustments | (26,107) | (11,560) | (19) | (128) | - | (37,814) |
| At 31 December 2022 | 485,171 | 319,832 | 44,877 | 5,187 | 612,092 | 1,467,159 |
| Representing: | | | | | | |
| Cost | 616 | - | 44,877 | 5,187 | 612,092 | 662,772 |
| Valuation | 484,555 | 319,832 | - | - | - | 804,387 |
| | 485,171 | 319,832 | 44,877 | 5,187 | 612,092 | 1,467,159 |
| At 1 January 2023 | 485,171 | 319,832 | 44,877 | 5,187 | 612,092 | 1,467,159 |
| Additions | 1,947 | 2,750 | 101,594 | 713 | 83,411 | 190,415 |
| Disposals | (2,706) | (1,761) | (1,731) | (543) | - | (6,741) |
| Transfer from construction in progress | 23,791 | 15,159 | - | - | - | 38,950 |
| Adjustment on mining rehabilitation | - | - | - | - | 6,909 | 6,909 |
| Exchange adjustments | 1,246 | 562 | (2) | 6 | - | 1,812 |
| At 31 December 2023 | 509,449 | 336,542 | 144,738 | 5,363 | 702,412 | 1,698,504 |
| Representing: | | | | | | |
| Cost | 760 | - | 144,738 | 5,363 | 702,412 | 853,273 |
| Valuation | 508,689 | 336,542 | - | - | - | 845,231 |
| | 509,449 | 336,542 | 144,738 | 5,363 | 702,412 | 1,698,504 |
| Accumulated amortisation and depreciation: | | | | | | |
| At 1 January 2022 | 142,154 | 200,752 | 37,422 | 4,124 | 120,639 | 505,091 |
| Charge for the year | 14,666 | 18,350 | 4,463 | 330 | 21,704 | 59,513 |
| Written back on disposals | (4) | (191) | (454) | (215) | - | (864) |
| Exchange adjustments | (9,339) | (6,810) | (16) | (104) | - | (16,269) |
| At 31 December 2022 | 147,477 | 212,101 | 41,415 | 4,135 | 142,343 | 547,471 |
| At 1 January 2023 | 147,477 | 212,101 | 41,415 | 4,135 | 142,343 | 547,471 |
| Charge for the year | 14,537 | 17,286 | 8,078 | 306 | 48,193 | 88,400 |
| Written back on disposals | (877) | (1,730) | (1,727) | (519) | - | (4,853) |
| Exchange adjustments | 550 | 378 | (1) | 4 | - | 931 |
| At 31 December 2023 | 161,687 | 228,035 | 47,765 | 3,926 | 190,536 | 631,949 |
| Carrying amount: | | | | | | |
| At 31 December 2023 | 347,762 | 108,507 | 96,973 | 1,437 | 511,876 | 1,066,555 |
| At 31 December 2022 | 337,694 | 107,731 | 3,462 | 1,052 | 469,749 | 919,688 |

14 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes:

- (a) Majority part of the Group's property, plant and equipment are located in Mongolia.
- (b) Mining properties as at 31 December 2023 include stripping activity assets with the carrying amount of USD483,446,000 (2022: USD447,797,000).
- (c) As at 31 December 2023, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2023 is approximately USD6,618,000 (2022: USD8,446,000). The Directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.
- (d) 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 2023 USD'000 | Fair value measurements as at 31 December 2023 categorised into | | |
|--|---|--|--------------------|--------------------|
| | | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 |
| Recurring fair value measurement | | | | |
| Buildings and plants | 347,762 | - | - | 347,762 |
| Machinery and equipment | 108,507 | - | - | 108,507 |
| Buildings and plants, machinery and equipment under construction (Note 15) | 7,236 | - | - | 7,236 |
| Total | 463,505 | - | - | 463,505 |

| | Fair value as at 31 December 2022 USD'000 | Fair value measurements as at 31 December 2022 categorised into | | |
|--|---|--|--------------------|--------------------|
| | | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 |
| Recurring fair value measurement | | | | |
| Buildings and plants | 337,637 | - | - | 337,637 |
| Machinery and equipment | 107,731 | - | - | 107,731 |
| Buildings and plants, machinery and equipment under construction (Note 15) | 47,387 | - | - | 47,387 |
| Total | 492,755 | - | - | 492,755 |

14 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(d) Fair value measurement of property, plant and machinery (continued)

(i) Fair value hierarchy (continued)

During the year ended 31 December 2023, 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 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 Chartered 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. At each following interim and annual reporting date, the management reviewed the key indicators adopted in the revaluation assessment as at 31 December 2021 and concluded there was no significant change.

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/tonne of processing capacity) is in the middle of the range of recently constructed coal processing plants;
 - Engineering and general administrative expenses for several analysed coal mines range between 7-8% of RCN; and
 - Interest During Construction estimated to be equal to 7.8% of RCN based on the actual interest paid during CHPP construction.

14 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(d) Fair value measurement of property, plant and machinery (continued)

(ii) Information about Level 3 fair value measurements

IVS requires that for a private sector entity with specialised assets, a valuation assessed by depreciated replacement cost must be subject to a test of profitability in relation to the whole of the assets held by the entity or the 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:

| | 2023 USD'000 | 2022 USD'000 |
|--|-----------------|-----------------|
| Buildings and plants | 116,481 | 119,085 |
| Machinery and equipment | 25,952 | 13,236 |
| Buildings and plants, machinery and equipment under construction | 3,715 | 23,670 |
| | 146,148 | 155,991 |

(e) 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 2023, 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 Ukhuaa 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 2023 is consistent with that at the year end of 2022, 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.

14 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Notes: (continued)

(e) Impairment of mining related assets (continued)

- 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 23% were applied to the future cash flows projection at the year end of 2023 (2022: post-tax discount rate of 17% and pre-tax discount rate of 23%). The Directors believe that the discount rates were 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 2023, and has not resulted in the identification of an impairment loss for the year ended 31 December 2023. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2023 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.

15 CONSTRUCTION IN PROGRESS

| | 2023 USD'000 | 2022 USD'000 |
|---|-----------------|-----------------|
| At 1 January | 47,387 | 46,828 |
| Additions | 163 | 2,052 |
| Transfer to property, plant and equipment (Note 14) | (38,950) | (51) |
| Transfer to materials and supplies | (1,433) | - |
| Exchange adjustments | 69 | (1,442) |
| At 31 December | 7,236 | 47,387 |

Note:

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

16 OTHER RIGHT-OF-USE ASSETS

| | 2023 USD'000 | 2022 USD'000 |
|----------------------------------|-----------------|-----------------|
| Cost: | | |
| At 1 January | 65 | 65 |
| At 31 December | 65 | 65 |
| Accumulated depreciation: | | |
| At 1 January | 16 | 15 |
| Charge for the year | 1 | 1 |
| At 31 December | 17 | 16 |
| Net carrying amount: | 48 | 49 |

Note: Right-of-use assets comprise interests in leasehold land held for own use located in Mongolia, with original lease period from 15 years to 60 years.

17 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 2022 | 701,557 | 3,676 | 3,031 | 708,264 |
| Addition | - | - | 143 | 143 |
| At 31 December 2022 | 701,557 | 3,676 | 3,174 | 708,407 |
| Addition | - | - | - | - |
| At 31 December 2023 | 701,557 | 3,676 | 3,174 | 708,407 |
| Accumulated amortisation and impairment loss: | | | | |
| At 1 January 2022 | 205,540 | 2,574 | 64 | 208,178 |
| Amortisation charge for the year | 765 | 368 | 1,061 | 2,194 |
| At 31 December 2022 | 206,305 | 2,942 | 1,125 | 210,372 |
| Amortisation charge for the year | 4,292 | 367 | 1,059 | 5,718 |
| At 31 December 2023 | 210,597 | 3,309 | 2,184 | 216,090 |
| Carrying amount: | | | | |
| At 31 December 2023 | 490,960 | 367 | 990 | 492,317 |
| At 31 December 2022 | 495,252 | 734 | 2,049 | 498,035 |

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.

18 INTERESTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place of incorporation and business | Particulars of issued and paid up capital | Equity attributable to the Company | | Principal activities |
|---|-------------------------------------|---|------------------------------------|----------|--|
| | | | Direct | Indirect | |
| Mongolian Coal Corporation Limited | Hong Kong | 1 share | 100% | - | Investment holding |
| Mongolian Mining Corporation Pte. Ltd. ⁽ⁱ⁾ | Singapore | 1 share of USD1 each | 100% | - | Investment holding |
| Mongolian Coal Corporation S.à.r.l. | Luxembourg | 1,712,669 shares of USD10 each | - | 100% | Investment holding |
| Energy Resources Corporation LLC | Mongolia | 19,800,000 shares of USD1 each | - | 100% | Investment holding |
| Energy Resources LLC | Mongolia | 117,473,410 shares of USD2 each | - | 100% | Mining and trading of coal |
| Energy Resources Rail LLC | Mongolia | 15,300,000 shares of MNT1,000 each | - | 100% | Railway project management |
| Tavan Tolgoi Airport LLC | Mongolia | 5,795,521 shares of MNT1,000 each | - | 100% | Airport operation and management |
| Ukhaa Khudag Water Supply LLC | Mongolia | 96,016,551 shares of MNT1,000 each | - | 100% | Water exploration and supply management |
| United Power LLC | Mongolia | 100,807,646 shares of MNT1,000 each | - | 100% | Power supply project management |
| Tavan Tolgoi Power Plant Water Supply LLC | Mongolia | 6,554,000 shares of MNT 1,000 each | - | 100% | Power supply and water exploration project |
| Khangad Exploration LLC ("KEX") | Mongolia | 34,532,399 shares of USD1 each | - | 100% | Exploration and development of coal mine |
| Baruun Naran S.à.r.l. | Luxembourg | 24,918,394 shares of EUR1 each | - | 100% | Investment holding |
| Tianjin Zhengcheng Import and Export Trade Co., Ltd. ("TZJV") ⁽ⁱⁱ⁾ | China | RMB2,035,998 | - | 51% | Trading of coals and machinery equipment |
| Inner Mongolia Fangcheng Trade Co., Ltd. ⁽ⁱⁱⁱ⁾ | China | RMB1,000,000 | - | 51% | Trading of coals and machinery equipment |

Notes:

- (i) Incorporated as Private Company under the laws of Singapore.
- (ii) Registered as Sino-Foreign Cooperative Equity Joint Ventures under China law.
- (iii) Registered as Private Enterprise under China law.

19 INTERESTS IN ASSOCIATES

The following table presents the particulars of the associates, which are unlisted corporate entities whose quoted market prices are not available:

| Name of associate | Form of business structure | Place of incorporation and business | Particulars of issued and paid up capital | Equity attributable to the Company | | Principal activity |
|--|----------------------------|-------------------------------------|---|------------------------------------|----------------------|--|
| | | | | Group's effective interest | Held by a subsidiary | |
| Gashuun Sukhait Road LLC | Incorporated | Mongolia | 100,000 shares of MNT1,000 each | 40.00% | 40.00% | Paved road maintenance service (Note (i)) |
| Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd. | Incorporated | People's Republic of China | RMB500,000,000 | 10.00% | 10.00% | Operate warehouse for coal storage (Note (ii)) |

Notes:

- (i) The principal activities of Gashuun Sukhait Road LLC are supplying safety, readiness, protection, repair and maintenance service for paved road operations from UHG to Gashuun Sukhait ("GS"). The investment in Gashuun Sukhait Road LLC enables the Group to monitor the usage situation of the aforementioned paved road.
- (ii) The principal activities of Guoneng Inner Mongolia Ganqimaodu International Energy Co., Ltd. ("Guoneng Ganqimaodu") are provision of customs-supervised warehousing services, road cargo transportation, general cargo warehousing services, domestic freight forwarding and loading service.

Pursuant to ER's rights stated on the articles of association of Guoneng Ganqimaodu, the directors of the Company considered that the Group has significant influence on Guoneng Ganqimaodu through its participation in the board of directors of Guoneng Ganqimaodu.

All of above associates are accounted for using the equity method in the consolidated financial statements.

19 INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

| | Gashuun Sukhait Road LLC | |
|--|-------------------------------------|---------|
| | 2023 | 2022 |
| | USD'000 | USD'000 |
| Gross amounts of the associate: | | |
| Current assets | 2,265 | 1,639 |
| Non-current assets | 692 | 627 |
| Current liabilities | 2,363 | 1,763 |
| Equity | 594 | 503 |
| Revenue | 4,486 | 1,565 |
| Profit from continuing operations | 86 | 180 |
| Other comprehensive income | 5 | (86) |
| Total comprehensive income | 91 | 94 |
| Reconciled to the Group's interests in associate: | | |
| Gross amounts of net assets of the associate | 594 | 503 |
| Group's effective interest | 40% | 40% |
| Group's share of net assets of the associate | 237 | 201 |
| Carrying amount in the consolidated financial statements | 237 | 201 |

19 INTERESTS IN ASSOCIATES (CONTINUED)
**Guoneng Inner Mongolia
Ganqimaodu International
Energy Co., Ltd**

| | 2023 | 2022 |
|--|----------------|---------|
| | USD'000 | USD'000 |
| Gross amounts of the associate: | | |
| Current assets | 21,981 | 20,745 |
| Non-current assets | 73,304 | 77,057 |
| Current liabilities | 10,855 | 11,649 |
| Non-current liabilities | 4,225 | 11,597 |
| Equity | 80,205 | 74,556 |
| Revenue | 23,595 | 12,211 |
| Profit from continuing operations | 9,615 | 2,139 |
| Other comprehensive income | (2,191) | (6,381) |
| Total comprehensive income | 7,424 | (4,242) |
| Dividend received from the associate | 168 | - |
| Reconciled to the Group's interests in associate: | | |
| Gross amounts of net assets of the associate | 80,205 | 74,556 |
| Group's effective interest | 10% | 10% |
| Group's share of net assets of the associate | 8,021 | 7,456 |
| Carrying amount in the consolidated financial statements | 8,021 | 7,456 |

20 OTHER NON-CURRENT ASSETS

| | 2023 | 2022 |
|--|--------------|---------|
| | USD'000 | USD'000 |
| Prepayments in connection with construction work, equipment purchases and others (Note 22(c)(ii)) | 5,930 | 58,923 |
| Other financial asset (Note) | 614 | 614 |
| | 6,544 | 59,537 |

Note:

The Group has an investment of 2.25% equity interest in International Medical Center LLC.

21 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

| | 2023 USD'000 | 2022 USD'000 |
|-------------------------------------|-----------------|-----------------|
| Coal | 85,986 | 96,945 |
| Materials and supplies | 23,403 | 16,286 |
| | 109,389 | 113,231 |
| Less: Provision on coal inventories | (10,437) | (10,437) |
| | 98,952 | 102,794 |

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | 2023 USD'000 | 2022 USD'000 |
|-------------------------------------|-----------------|-----------------|
| Carrying amount of inventories sold | 593,180 | 426,686 |

22 TRADE AND OTHER RECEIVABLES

| | 2023 USD'000 | 2022 USD'000 |
|--|-----------------|-----------------|
| Trade receivables (Note (a)) | 33,700 | 4,432 |
| Other receivables (Note (c)) | 111,452 | 87,725 |
| | 145,152 | 92,157 |
| Less: allowance for credit losses (Note (b)) | - | - |
| | 145,152 | 92,157 |

22 TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes:

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of loss allowance, is as follows:

| | 2023 | 2022 |
|-----------------|----------------|---------|
| | USD'000 | USD'000 |
| Within 90 days | 28,847 | 4,245 |
| 90 to 180 days | 4,853 | 187 |
| 180 to 270 days | - | - |
| | 33,700 | 4,432 |

(b) Loss allowance for trade receivables

Credit losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the credit losses are written off against trade receivables directly (Note 2(j)(i)).

As at 31 December 2023, the Group evaluated the loss allowance for ECL and no loss allowance of trade receivables (2022: nil) was made based on the assessment. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in Note 30(b).

(c) Other receivables

| | 2023 | 2022 |
|---|----------------|---------|
| | USD'000 | USD'000 |
| Amounts due from related parties (Note (i)) | 22 | 3 |
| Prepayments and deposits (Note (ii)) | 7,232 | 53,809 |
| VAT and other tax receivables (Note (iii)) | 62,732 | 33,150 |
| Others (Note (iv)) | 41,466 | 763 |
| | 111,452 | 87,725 |

Notes:

- (i) Amounts due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 32(a)).
- (ii) At 31 December 2022, 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 Tax 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.
- (iv) At 31 December 2023, others mainly represent the prepayments made in relation to the acquisition of Erdene Mongol LLC ("EM") (see Note 34).

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

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

| | 2023 USD'000 | 2022 USD'000 |
|---|-----------------|-----------------|
| Cash on hand | 2 | 2 |
| Cash at bank | 175,797 | 64,693 |
| Cash and cash equivalents in the consolidated cash flow statement | 175,799 | 64,695 |

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

| | Senior Notes due 2026 (Note) USD'000 (Note 24) | Senior Notes due 2024 (Note) USD'000 (Note 24) | Total USD'000 |
|---|--|--|------------------|
| At 1 January 2023 | - | 381,106 | 381,106 |
| Changes from financing cash flows: | | | |
| Interest paid | - | (31,316) | (31,316) |
| Repurchase of Senior Notes due 2024 | - | (36,227) | (36,227) |
| Payment for refinancing and redemption of Senior Notes due 2024 | - | (174,035) | (174,035) |
| Proceeds from new issue of Senior Notes due 2026 | 44,222 | - | 44,222 |
| Total changes from financing cash flows | 44,222 | (241,578) | (197,356) |
| Other changes: | | | |
| Interest expenses (Note 6(a)) | 8,087 | 26,588 | 34,675 |
| Refinancing of Senior Notes due 2024 | 170,442 | (160,258) | 10,184 |
| Gain on repurchase of Senior Notes due 2024 | - | (4,691) | (4,691) |
| Others | (508) | (1,167) | (1,675) |
| Total other changes | 178,021 | (139,528) | 38,493 |
| At 31 December 2023 | 222,243 | - | 222,243 |

Note:

Liabilities include accrued interest as disclosed in Note 25.

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

| | Senior Notes due 2022 (Note) USD'000 (Note 24) | Senior Notes due 2024 (Note) USD'000 (Note 24) | Total USD'000 |
|---|--|--|------------------|
| At 1 January 2022 | 18,183 | 443,308 | 461,491 |
| Changes from financing cash flows: | | | |
| Interest paid | (1,190) | (41,299) | (42,489) |
| Repayment of Senior Notes due 2022 | (14,912) | - | (14,912) |
| Repurchase of Senior Notes due 2024 | - | (39,671) | (39,671) |
| Total changes from financing cash flows | (16,102) | (80,970) | (97,072) |
| Changes in fair value | (3,168) | - | (3,168) |
| Other changes: | | | |
| Interest expenses (Note 6(a)) | 1,153 | 44,277 | 45,430 |
| Excess of derecognised carrying amount over the consideration | - | (23,144) | (23,144) |
| Others | (66) | (2,365) | (2,431) |
| Total other changes | 1,087 | 18,768 | 19,855 |
| At 31 December 2022 | - | 381,106 | 381,106 |

Note:

Liabilities include accrued interest as disclosed in Note 25.

24 SENIOR NOTES

| | 2023 USD'000 | 2022 USD'000 |
|-----------------------------------|-----------------|-----------------|
| Senior Notes due 2024 (Note (i)) | - | 373,756 |
| Senior Notes due 2026 (Note (ii)) | 213,993 | - |
| | 213,993 | 373,756 |

Notes:

- (i) On 15 April 2019, the Group issued the Senior Notes due 2024 with a principal amount of USD440,000,000 which was listed on the SGX-ST. The Senior Notes due 2024 bore interest at 9.25% per annum fixed rate, payable semi-annually, and was due on 15 April 2024. During the year ended 31 December 2023, all the outstanding Senior Notes due 2024 were repurchased, redeemed or exchanged to Senior Notes due 2026 (See Note 7). As at 31 December 2023, the outstanding principal amount of Senior Notes due 2024 was nil.
- (ii) On 13 September 2023, upon the completion of the Exchange Offer and the New Money Issuance, the Group issued Senior Notes due 2026 with a principal amount of USD180,000,000. Further on 14 December 2023, the Group issued additional Senior Notes due 2026 with a principal amount of USD40,000,000. The Senior Notes due 2026 bear interest at 12.50% per annum fixed rate, payable semi-annually, and is due on 13 September 2026 (See Note 7).

The Senior Notes due 2026 is 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 2023 was nil. The liability component was initially recognised at its fair value, taking into account attributable issuance discount, and will be accounted on amortised cost subsequently.

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

25 TRADE AND OTHER PAYABLES

| | 2023 USD'000 | 2022 USD'000 |
|--|-----------------|-----------------|
| Trade payables (Note (i)) | 68,856 | 103,987 |
| Amounts due to related parties (Note (ii)) | 5,249 | 3,986 |
| Payables for purchase of equipment | 1,282 | 2,013 |
| Interest payable (Note (iii)) | 8,250 | 7,350 |
| Other taxes payables | 34,020 | 11,015 |
| Others (Note (iv)) | 9,079 | 8,018 |
| | 126,736 | 136,369 |

Notes:

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

| | 2023 USD'000 | 2022 USD'000 |
|-----------------|-----------------|-----------------|
| Within 90 days | 68,326 | 71,264 |
| 90 to 180 days | 254 | - |
| 180 to 365 days | 4 | - |
| Over 365 days | 272 | 32,723 |
| | 68,856 | 103,987 |

(ii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 32(a)).

(iii) As at 31 December 2023, interest payables for Senior Notes due 2026 was amounting to USD8,250,000. As at 31 December 2022, interest payables for Senior Notes due 2024 was amounting to USD7,350,000.

(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.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax payable in the consolidated statement of financial position represents:

| | 2023 USD'000 | 2022 USD'000 |
|------------------------------------|-----------------|-----------------|
| At 1 January | 9,617 | 65 |
| Provision for the year (Note 8(a)) | 81,493 | 11,194 |
| Income tax paid | (22,743) | (694) |
| Exchange adjustments | 882 | (948) |
| At 31 December | 69,249 | 9,617 |

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | Revaluation of other properties USD'000 | Tax losses USD'000 | Unrealised profits on intra-group transactions USD'000 | Depreciation and amortisation USD'000 | Unrealised foreign exchange differences on Senior Notes USD'000 | Fair value adjustments in relation to the acquisition USD'000 | Fair value of financial instrument USD'000 | Total USD'000 |
|---|--|-----------------------|--|--|--|--|---|------------------|
| Deferred tax arising from: | | | | | | | | |
| At 1 January 2022 | (75,344) | 7,104 | (1,044) | (2,430) | 10,675 | (99,150) | 158 | (160,031) |
| Credited/(charged) to profit or loss (Note 8(a)) | 4,458 | (4,835) | 714 | (1,246) | 16,054 | 275 | (158) | 15,262 |
| Credited/(charged) to reserves | 2,010 | (801) | 131 | 533 | (3,249) | - | - | (1,376) |
| At 31 December 2022 | (68,876) | 1,468 | (199) | (3,143) | 23,480 | (98,875) | - | (146,145) |
| At 1 January 2023 | (68,876) | 1,468 | (199) | (3,143) | 23,480 | (98,875) | - | (146,145) |
| Credited/(charged) to profit or loss (Note 8(a)) | 4,152 | (251) | 146 | 4,121 | (24,063) | 800 | 1,654 | (13,441) |
| Credited/(charged) to reserves | 1,063 | 10 | 1 | 21 | (172) | - | 46 | 969 |
| At 31 December 2023 | (63,661) | 1,227 | (52) | 999 | (755) | (98,075) | 1,700 | (158,617) |

| | 2023 USD'000 | 2022 USD'000 |
|---|------------------|------------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 7,574 | 28,505 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (166,191) | (174,650) |
| | (158,617) | (146,145) |

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD406,257,000 as at 31 December 2023 (2022: USD406,173,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated. Expiry of unrecognised tax losses of Group entities located in China will expire in five years under the Chinese tax regulations.

Expiry of unrecognised tax losses of Group entities located in Mongolia and China:

| | 2023 | 2022 |
|----------------|----------------|---------|
| | USD'000 | USD'000 |
| Year of expiry | | |
| 2023 | - | 96 |
| 2024 | - | - |
| 2025 | 9 | 9 |
| 2026 | 347 | 347 |
| 2027 | 1,020 | 1,020 |
| 2028 | 54 | - |
| | 1,430 | 1,472 |

In relation to group entities located in the jurisdictions other than Mongolia and China, the tax losses do not expire under current tax legislations.

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On 16 June 2021, the Company adopted share option scheme ("**Share Option Scheme**"), in which the board of Directors of the Company is authorised, at its discretion, to grant to eligible participants options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

On 3 April 2023, 33,250,000 share options were granted to a director and the employees of the Company under the Share Option Scheme (no share options were granted during the year ended 31 December 2022). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 3 April 2024, 3 April 2025, 3 April 2026 and 3 April 2027 separately of 25% each, and then be exercisable until 3 April 2028. The exercise price is HKD3.26, being the closing price as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited on the date of grant.

No options were exercised during the year ended 31 December 2023.

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(a) The terms and conditions of the grants as at 31 December 2023 are as follows:

| Grant Date | Number of options | | Vesting conditions | Contractual life of options |
|---------------------|-------------------|------|------------------------------|------------------------------|
| | (Note (b)) | '000 | | |
| 3 April 2023 | 8,312 | | 3 April 2023 to 3 April 2024 | 3 April 2023 to 3 April 2028 |
| 3 April 2023 | 8,312 | | 3 April 2023 to 3 April 2025 | 3 April 2023 to 3 April 2028 |
| 3 April 2023 | 8,312 | | 3 April 2023 to 3 April 2026 | 3 April 2023 to 3 April 2028 |
| 3 April 2023 | 8,314 | | 3 April 2023 to 3 April 2027 | 3 April 2023 to 3 April 2028 |
| Total share options | 33,250 | | | |

(b) The movement of the number and weighted average exercise prices of share options are as follows:

| | 2023 | | 2022 | |
|----------------------------|---------------------------------|-------------------|---------------------------------|-------------------|
| | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| | HKD | '000 | HKD | '000 |
| Outstanding at 1 January | - | - | 2.39 | 10,900 |
| Granted during the year | 3.26 | 33,250 | - | - |
| Forfeited during the year | 3.26 | (500) | - | - |
| Exercised during the year | - | - | 2.39 | (10,900) |
| Outstanding at 31 December | 3.26 | 32,750 | - | - |
| Exercisable at 31 December | - | - | - | - |

The options outstanding at 31 December 2023 had a remaining contractual life of 4.26 years (2022: nil).

27 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of share options and assumptions:

| | 3 April 2023 |
|--------------------------------|-------------------|
| Fair value at measurement date | HKD1.100-HKD1.680 |
| Share Price | HKD3.260 |
| Exercise price | HKD3.260 |
| Option life | 5 years |
| Risk-free interest rate | 3.020% |
| Expected volatility | 60.0% |
| Expected dividends | - |

The expected volatility is based on the normalised historical share price movement of the Company prior to the option grant date for a period over the option life. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Government Bond corresponding to the options life at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

28 PROVISIONS

| | 2023 USD'000 | 2022 USD'000 |
|---------------------------------|-----------------|-----------------|
| Accrued reclamation obligations | 24,959 | 16,737 |

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the end of each reporting period, the Group reassesses the estimated costs and adjusts the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2023 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

| | 2023 USD'000 | 2022 USD'000 |
|---|-----------------|-----------------|
| At 1 January | 16,737 | 30,928 |
| Increase/(decrease) for reassessment of estimated costs | 6,909 | (15,784) |
| Accretion expense (Note 6(a)) | 1,313 | 1,593 |
| At 31 December | 24,959 | 16,737 |

Accrued reclamation costs change during the years ended 31 December 2023 and 2022 resulted from the reassessment of estimated costs.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | | Share capital | Share premium | Other reserve | Accumulated losses | Perpetual notes | Total equity |
|---|------|------------------|------------------|-------------------|-----------------------|--------------------|----------------|
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| | Note | (Note 29(c)) | (Note 29(d)(i)) | (Note 29(d)(iii)) | | (Note 29(e)) | |
| At 1 January 2022 | | 103,158 | 769,326 | 22,622 | (134,810) | 66,569 | 826,865 |
| Changes in equity for 2022: | | | | | | | |
| Total comprehensive income | | - | - | - | 1,629 | - | 1,629 |
| Repurchase of perpetual notes | | - | - | - | 1,102 | (11,093) | (9,991) |
| Equity-settled share-based transactions | 27 | 1,090 | 3,688 | (1,453) | - | - | 3,325 |
| At 31 December 2022 | | 104,248 | 773,014 | 21,169 | (132,079) | 55,476 | 821,828 |
| At 1 January 2023 | | 104,248 | 773,014 | 21,169 | (132,079) | 55,476 | 821,828 |
| Changes in equity for 2023: | | | | | | | |
| Total comprehensive income | | - | - | - | (5,650) | - | (5,650) |
| Equity-settled share-based transactions | 27 | - | - | 2,162 | - | - | 2,162 |
| At 31 December 2023 | | 104,248 | 773,014 | 23,331 | (137,729) | 55,476 | 818,340 |

(b) Dividends

The board of Directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2023 (dividend in respect of the year ended 31 December 2022: nil).

(c) Share capital

| | 2023 | | 2022 | |
|---|-------------------------|----------------|-------------------------|---------|
| | 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 |
| | | | | |
| | 2023 | | 2022 | |
| | Number of shares'000 | USD'000 | Number of shares'000 | USD'000 |
| Ordinary shares, issued and fully paid | | | | |
| At 1 January | 1,042,477 | 104,248 | 1,031,577 | 103,158 |
| Impact of share option exercise | - | - | 10,900 | 1,090 |
| At 31 December | 1,042,477 | 104,248 | 1,042,477 | 104,248 |

No share option was exercised during the year ended 31 December 2023 (2022: 10,900,000).

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Other reserve

The other reserve comprises the following:

- the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and
- the portion of the grant date fair value of unexercised share options granted to Directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's entities to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(w).

(iv) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in Note 2(g).

(e) Perpetual notes

The Company issued perpetual notes which were listed on the SGX-ST on 4 May 2017, with a principal amount of USD195,000,000 ("**Perpetual Notes**") and with a fair value of USD75,897,000. 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. On 15 April 2019, the Company redeemed a principal amount of USD23,972,000 with a carrying amount of USD9,328,000 through debt refinancing. After the debt refinancing, the outstanding principal amount of Perpetual Notes was USD171,028,000 with a carrying amount of USD66,569,000. Pursuant to the Company's announcements dated 12 July 2022 and 23 November 2022, the Company repurchased a principal amount of USD22,120,000 and USD6,380,000, respectively, with a carrying amount of USD8,610,000 and USD2,483,000. As at 31 December 2023, the outstanding principal amount of the Perpetual Notes was USD142,528,000 with a carrying amount of USD55,476,000.

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.

Pursuant to the Perpetual Notes' indenture, it began to accrue distribution from 1 April 2023.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2023 was 10.7% (2022: 20.5%).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

- (i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and
- (ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

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

Trade receivables are presented net of loss allowance. In order to minimise the credit risk, the credit committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes a loss allowance for trade receivables that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures. At the end of the reporting period, the Group believes loss allowance for trade receivables is required in the consolidated financial statements is immaterial. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as three debtors accounted for 100% (2022: two debtors accounted for 100%) of the total trade receivables as at 31 December 2023.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 22.

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's overseas holding entities and main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is MNT. The currencies giving rise to this risk are primarily MNT and RMB.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year-end date.

| Exposure to foreign currencies (expressed in United States Dollars) | | | | | |
|---|--------------------------------|------------------|---------------------|--------------------------------|--|
| 2023 | | | | | |
| | Mongolian Togrog USD'000 | Euros USD'000 | Renminbi USD'000 | Hong Kong Dollar USD'000 | United States Dollars USD'000 |
| Trade and other receivables | 36 | - | 33,726 | - | - |
| Cash and cash equivalents | 22,700 | 1 | 50,571 | 20 | 4 |
| Trade and other payables | (60,619) | (34) | (10,358) | (228) | - |
| Net exposure arising from recognised assets and liabilities | (37,883) | (33) | 73,939 | (208) | 4 |

| Exposure to foreign currencies | | | | | |
|--|--------------------------------|------------------|---------------------|--------------------------------|--|
| (expressed in United States Dollars) | | | | | |
| 2022 | | | | | |
| | Mongolian Togrog USD'000 | Euros USD'000 | Renminbi USD'000 | Hong Kong Dollar USD'000 | United States Dollars USD'000 |
| Trade and other receivables | 55 | - | 4,467 | - | - |
| Cash and cash equivalents | 3,005 | 1 | 18,600 | 4 | 3 |
| Trade and other payables | (58,249) | (14) | (10,562) | (179) | (272) |
| Net exposure arising from recognised assets and liabilities | (55,189) | (13) | 12,505 | (175) | (269) |

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Currency risk (continued)

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(w) as at the respective end of the reporting periods would (decrease)/increase profit after taxation (2022: (increase)/decrease loss after taxation) by the amount shown below. This analysis assumes that all other risk variables remained constant.

| Profit/loss for the year | 2023 | 2022 |
|--------------------------|---------|---------|
| | USD'000 | USD'000 |
| 5% increase in MNT | (2,138) | (2,070) |
| 5% decrease in MNT | 2,138 | 2,070 |
| 5% increase in RMB | 2,631 | 470 |
| 5% decrease in RMB | (2,631) | (470) |
| 5% increase in EUR | (3) | (1) |
| 5% decrease in EUR | 3 | 1 |
| 5% increase in USD | - | (12) |
| 5% decrease in USD | - | 12 |
| 5% increase in HKD | (8) | (9) |
| 5% decrease in HKD | 8 | 9 |

(d) Interest rate risk

The Group's interest rate risk arises primarily from senior notes. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk.

The following table details the profile of the Group's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the end of the reporting period. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 24.

| | 2023 | 2022 |
|--------------------------------------|------------------|----------|
| | USD'000 | USD'000 |
| Net fixed rate borrowings: | | |
| Senior Notes due 2026 | 213,993 | - |
| Senior Notes due 2024 | - | 373,756 |
| | 213,993 | 373,756 |
| Net floating rate borrowings: | | |
| Less: Bank deposits | (175,797) | (64,693) |
| | (175,797) | (64,693) |
| Total net borrowings: | 38,196 | 309,063 |

As at 31 December 2023, the interest rate risk of the Group was immaterial.

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle or manage its obligations associated with financial liabilities. In 2023 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due. The Directors have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2023. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The Group's objective is to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

| | 2023 | | | | |
|------------------------------------|---------------------------------------|-----------------------|-----------------------|--|--------------------------------------|
| | Contractual undiscounted cash outflow | | | | |
| | | After 1 year | After 2 years | Total | |
| | Within 1 year | but within 2 years | but within 5 years | contractual undiscounted cash flow | Carrying amount at 31 December |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Senior Notes due 2026 (Note 24) | 27,500 | 27,500 | 247,500 | 302,500 | 213,993 |
| Trade and other payables (Note 25) | 126,736 | - | - | 126,736 | 126,736 |
| | 154,236 | 27,500 | 247,500 | 429,236 | 340,729 |
| | 2022 | | | | |
| | Contractual undiscounted cash outflow | | | | |
| | | After 1 year | After 2 years | Total | |
| | Within 1 year | but within 2 years | but within 5 years | contractual undiscounted cash flow | Carrying amount at 31 December |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Senior Notes due 2024 (Note 24) | 27,467 | 393,818 | - | 421,285 | 373,756 |
| Trade and other payables (Note 25) | 136,369 | - | - | 136,369 | 136,369 |
| Lease liabilities | 56 | - | - | 56 | 56 |
| | 163,892 | 393,818 | - | 557,710 | 510,181 |

(f) Fair value measurement

(i) Fair value hierarchy

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

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

The Group has a team headed by the finance manager performing valuations for the financial instruments, including the redemption option embedded in the senior notes. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

The fair value of redemption options embedded in Senior Notes due 2026 and Senior Notes due 2024 were measured at Level 3 and were nil as at 31 December 2023 and 2022.

During the year ended 31 December 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2022: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

| | Valuation techniques | Significant unobservable inputs | Weighted average |
|---|----------------------|---------------------------------|---------------------------------|
| Redemption option embedded in Senior Notes due 2026 | Binomial model | Expected volatility | 6.20% (2022: Not applicable) |
| Redemption option embedded in Senior Notes due 2024 | Binomial model | Expected volatility | Not applicable (2022: 12.8%) |

The fair value of redemption option embedded in Senior Notes due 2026 is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2023, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's net finance costs by nil.

The redemption option embedded in Senior Notes due 2026 was nil as at the years ended 31 December 2023.

The net gains or losses resulting from the remeasurement of the redemption option embedded in the Senior Notes due 2026 are recognised in net finance costs in the consolidated statement of profit or loss.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value measurement (continued)

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2023 and 31 December 2022 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

| | At 31 December 2023 | | At 31 December 2022 | |
|--|---------------------|------------|---------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| Liability component of Senior Notes due 2026 | 213,993 | 252,408 | - | - |
| Liability component of Senior Notes due 2024 | - | - | 373,756 | 352,414 |

31 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at respective end of the reporting periods not provided for in the financial statements were as follows:

| | 2023 | 2022 |
|----------------|---------|---------|
| | USD'000 | USD'000 |
| Contracted for | 21,142 | - |

(b) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 28 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the Directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the year, the Group entered into transactions with the following related parties.

| Name of party | Relationship |
|----------------------------------|--------------------|
| MCS Mongolia LLC ("MCS") | Shareholder of MMC |
| MCS International LLC | Subsidiary of MCS |
| MCS Holding LLC | Subsidiary of MCS |
| International Medical Center LLC | Subsidiary of MCS |
| Uniservice Solution LLC | Subsidiary of MCS |
| M Armor LLC | Subsidiary of MCS |
| Shangri-La Ulaanbaatar LLC | Subsidiary of MCS |
| Shangri-La Ulaanbaatar Hotel LLC | Subsidiary of MCS |
| Unitel LLC | Subsidiary of MCS |
| Univision LLC | Subsidiary of MCS |
| Skynetworks LLC | Subsidiary of MCS |
| Top Motors LLC | Subsidiary of MCS |
| Tengerleg Ekh Oron LLC | Subsidiary of MCS |
| M Agro LLC | Subsidiary of MCS |

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2023 are as follows:

| | 2023 USD'000 | 2022 USD'000 |
|--|-----------------|-----------------|
| Ancillary services (Note (i)) | 19,734 | 14,379 |
| Lease of property, plant and equipment (Note (ii)) | 293 | 215 |
| Purchase of property and goods (Note (iii)) | 607 | 283 |
| Sales of property (Note (iv)) | - | (6) |
| Sales of goods (Note (v)) | - | (6,107) |
| Other | (131) | - |

Notes:

- (i) Ancillary services represent expenditures for support services such as security service and vehicle inspection fees, cleaning and canteen expense, power and heat generation, and distribution and management fees paid to M Armor LLC, Uniservice Solution LLC, MCS International LLC, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, where applicable.
- (ii) Lease of property, plant and equipment represents rental charges paid for properties leased from Shangri-La Ulaanbaatar LLC and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.
- (iii) Purchase of property and goods mainly represents purchase of motor vehicles from MCS and its affiliates. The purchasing charges are based on comparable or prevailing market rates, where applicable.
- (iv) Sales of property represents sale of motor vehicle to International Medical Center LLC in 2022.
- (v) Sales of goods represent the coal sales to Risun Supply Management Co., Ltd. The sales are carried out at comparable or prevailing market rates, where applicable.

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

Amounts due from/(to) related parties

| | 2023 | 2022 |
|---------------------------------------|----------------|---------|
| | USD'000 | USD'000 |
| Other receivables (Note 22(c)) | 22 | 3 |
| Other accruals and payables (Note 25) | (5,249) | (3,986) |

(b) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors.

Remuneration for key management personnel, including amounts paid to the Directors as disclosed in Note 10, and certain of the highest paid employees as disclosed in Note 11, is as follows:

| | 2023 | 2022 |
|---|----------------|---------|
| | USD'000 | USD'000 |
| Salaries and other emoluments | 3,466 | 3,040 |
| Discretionary bonus | 504 | 442 |
| Retirement scheme contributions | 309 | 269 |
| Equity-settled share-based payment expenses | 1,377 | - |
| | 5,656 | 3,751 |

(c) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Directors' Report.

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 2023 USD'000 | 2022 USD'000 |
|--|-------|-----------------|-----------------|
| Non-current assets | | | |
| Interests in subsidiaries | 18 | 743,815 | 820,999 |
| Total non-current assets | | 743,815 | 820,999 |
| Current assets | | | |
| Trade and other receivables | | 40,159 | 83 |
| Cash and cash equivalents | | 75,591 | 1,278 |
| Total current assets | | 115,750 | 1,361 |
| Current liabilities | | | |
| Trade and other payables | | 2,317 | 314 |
| Total current liabilities | | 2,317 | 314 |
| Net current assets | | 113,433 | 1,047 |
| Total assets less current liabilities | | 857,248 | 822,046 |
| Non-current liabilities | | | |
| Senior Notes | | 38,908 | 218 |
| Total non-current liabilities | | 38,908 | 218 |
| NET ASSETS | | 818,340 | 821,828 |
| CAPITAL AND RESERVES | 29(a) | | |
| Share capital | | 104,248 | 104,248 |
| Reserves | | 714,092 | 717,580 |
| TOTAL EQUITY | | 818,340 | 821,828 |

Approved and authorised for issue by the board of directors on 25 March 2024.

Odjargal Jambaljamts

Chairman

Battsengel Gotov

Chief Executive Officer

34 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(i) Acquisition of a subsidiary

The Company entered into an investment agreement with EM and Erdene Resource Development Corporation to subscribe for 50% of the share capital of EM, a company engaged in the exploration of gold and other precious metals for a total consideration of USD40.0 million ("**Investment Agreement**"). Pursuant to the Investment Agreement, the Company has paid USD40.0 million to EM in 2023. The completion of the Investment Agreement took place on 25 January 2024, and accordingly EM has become a subsidiary of the Company.

(ii) Disposal of 20% interest in a wholly-owned subsidiary

Pursuant to the Company's announcement dated 21 February 2024, the Company and BNS entered into an agreement with Jiayou International Logistics Co., Ltd. (the "**Purchaser**") to sell 20% equity interest in KEX for a total consideration of USD88,810,000, subject to fulfilment of certain conditions precedent (the "**Share Disposal**"). Upon completion of the Share Disposal, KEX will continue to be a subsidiary of the Company. As the effect of the Share Disposal is not expected to cause a loss of the Company's control over KEX, the disposal is expected to be accounted for as an equity transaction, without resulting in any gain or loss being recognised in the consolidated statement of profit or loss.

(iii) Payment of distribution and partial redemption of the Perpetual Notes

Pursuant to the Company's announcement dated 15 September 2023, the Company elected to defer the Perpetual Notes' distribution of USD7,126,396 in whole, which was otherwise scheduled to be paid on 1 October 2023 ("**Deferred Distribution**"). On 29 February 2024, the Company gave a notice to its holders of the Perpetual Notes in respect of its election to pay the Deferred Distribution, together with the accrued distribution thereon, and the distribution accrued from 1 October 2023 to 1 April 2024 in whole. In the same notice, the Company informed its holders of the Perpetual Notes of its intention to redeem a principal amount of USD20,000,000 from the Perpetual Notes.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|--|--|
| Amendments to IAS 1, <i>Presentation of financial statements: Classification of liabilities as current or non-current</i> | 1 January 2024 |
| Amendments to IAS 1, <i>Presentation of financial statements: Non-current liabilities with covenants</i> | 1 January 2024 |
| Amendments to IFRS 16, <i>Leases: Lease liability in a sale and leaseback</i> | 1 January 2024 |
| Amendments to IAS 7, <i>Statement of cash flows</i> and IFRS 7, <i>Financial Instruments: Disclosures: Supplier finance arrangements</i> | 1 January 2024 |
| Amendments to IAS 21, <i>The effects of changes in foreign exchange rates: Lack of exchangeability</i> | 1 January 2025 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

XI. FINANCIAL SUMMARY

FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|--------------------|------------|--------------|------------|------------|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Revenue | 1,034,821 | 546,248 | 184,069 | 417,424 | 626,596 |
| Cost of revenue | (593,180) | (451,131) | (161,490) | (288,848) | (374,534) |
| Gross profit | 441,641 | 95,117 | 22,579 | 128,576 | 252,062 |
| Other net income/(loss) | 7,414 | 4,181 | (40) | 263 | (16,038) |
| Selling and distribution expenses | (4,779) | (2,434) | (9,625) | (27,645) | (54,271) |
| Administrative expenses | (57,272) | (24,775) | (24,242) | (19,773) | (21,849) |
| Profit/(loss) from operations | 387,004 | 72,089 | (11,328) | 81,421 | 159,904 |
| Finance income | 1,855 | 6,286 | 54 | 5,053 | 1,120 |
| Finance costs | (41,958) | (47,081) | (48,980) | (46,191) | (46,783) |
| (Loss)/gain from repurchase, refinancing and redemption of Senior Notes due 2024 | (12,975) | 23,144 | - | - | - |
| Gain from the debt refinancing | - | - | - | - | 21,101 |
| Share of profits/(losses) of associates | 996 | 286 | (196) | (77) | 140 |
| Share of losses of joint venture | - | (16) | (1) | (5) | (16) |
| Profit/(loss) before taxation | 334,922 | 54,708 | (60,451) | 40,201 | 135,466 |
| Income tax | (94,820) | 4,183 | 5,013 | (10,596) | (38,746) |
| Profit/(loss) for the year | 240,102 | 58,891 | (55,438) | 29,605 | 96,720 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 239,686 | 59,177 | (55,238) | 28,940 | 96,527 |
| Non-controlling interests | 416 | (286) | (200) | 665 | 193 |
| Basic earnings/(loss) per share | 21.95 cents | 5.68 cents | (5.35) cents | 2.81 cents | 9.38 cents |
| Diluted earnings/(loss) per share | 21.95 cents | 5.68 cents | (5.35) cents | 2.81 cents | 9.38 cents |

SUMMARY DATA OF CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|------------------|-----------|-----------|-----------|-----------|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Total assets | 2,008,441 | 1,820,508 | 1,879,138 | 1,735,540 | 1,732,172 |
| Total liabilities | 838,575 | 893,431 | 982,560 | 847,376 | 866,193 |
| Net assets | 1,169,866 | 927,077 | 896,578 | 888,164 | 865,979 |
| Total equity | 1,169,866 | 927,077 | 896,578 | 888,164 | 865,979 |
| Equity attributable to equity shareholders of the Company | 1,114,837 | 872,556 | 829,823 | 821,209 | 799,689 |
| Perpetual notes | 55,476 | 55,476 | 66,569 | 66,569 | 66,569 |
| Non-controlling interests | (447) | (955) | 186 | 386 | (279) |

XII. GLOSSARY AND TECHNICAL TERMS

| | |
|--|--|
| "Adoption Date" | 16 June 2021, the date the Share Option Scheme became unconditional and effective |
| "AGM" | Annual general meeting |
| "AML" | Alpha Model Limited |
| "ASP" | Average selling price |
| "AusIMM" | The Australasian Institute of Mining and Metallurgy |
| "BAP" | Biodiversity Action Plan |
| "bcm" | Bank cubic metres |
| "BFP" | Belt Filter Press |
| "BHWE" | Base Horizon of Weathering Elevation |
| "BN" | Baruun Naran |
| "BN deposit" | BN coal deposit located in the Tavan Tolgoi formation |
| "BN mine" | The area of the BN deposit that can be mined by open-pit mining methods |
| "Board" | The Board of Directors of the Company |
| "CG Code" | The Corporate Governance Code contained in Appendix C1 to the Listing Rules |
| "CGH" | Continental General Holdings LLC |
| "CGIC" | Continental General Insurance Company |
| "China" or "PRC" | The People's Republic of China |
| "CHPP" | Coal handling and preparation plant |
| "CIG" | Continental Insurance Group, Ltd. |
| "coke" | Bituminous coal from which the volatile components have been removed |
| "coking coal" | Coal used in the process of manufacturing steel. It is also known as metallurgical coal |
| "Company", "our Company", "we", "us", "our", "Mongolian Mining Corporation" or "MMC" | Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010, the shares of which are listed on the Main Board of the Stock Exchange |
| "CSR" | Corporate Social Responsibility |
| "DAP" | Delivery-at-Place |

| | |
|--------------------------|--|
| "Director(s)" | Director(s) of the Company |
| "EBITDA" | Earnings before interest, tax, depreciation and amortisation |
| "EITI" | Extractive Industry Transparency Initiative |
| "EXW" | Ex-works |
| "FCA" | Free-carrier |
| "Fexos" | Fexos Limited |
| "FOT" | Free-on-Transport |
| "Ganqimaodu" or "GM" | The China side of the China-Mongolia border crossing |
| "Gashuunsukhait" or "GS" | The Mongolia side of the China-Mongolia border crossing |
| "GoM" | Government of Mongolia |
| "Group" or "our Group" | The Company together with its subsidiaries |
| "GST" | GS Terminal |
| "HCC" | Hard coking coal |
| "HKD" | Hong Kong Dollar |
| "HR" | Human resources |
| "HSE" | Health, Safety and Environment |
| "IASs" | International Accounting Standards |
| "IASB" | International Accounting Standards Board |
| "JORC" | Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia |
| "KGL" | Kerry Group Limited |
| "KHA" | Khangji |
| "KHL" | Kerry Holdings Limited |
| "km" | Kilometres |

| | |
|--------------------|--|
| "KMM" | Kerry Mining (Mongolia) Limited |
| "KMUHG" | Kerry Mining (UHG) Limited |
| "KPI" | Key performance indicator |
| "kt" | Thousand tonnes |
| "kV" | Kilovolt |
| "kWh" | Kilowatt hour |
| "Listing Date" | 13 October 2010, the date the shares were listed on the Stock Exchange |
| "Listing Rules" | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "LOM" | Life-of-Mine |
| "LTIFR" | Lost Time Injury Frequency Rate |
| "LTIs" | Lost Time Injuries |
| "middlings" | by-product of washed coking coal production |
| "mineral resource" | A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories |
| "mining rights" | The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed |
| "MNT" | Togrog or tugrik, the lawful currency of Mongolia |
| "Model Code" | The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules |
| "MSE" | Mongolian Stock Exchange |
| "Mt" | Million tonnes |
| "Mtpa" | Million tonnes per annum |
| "MVA" | Megavolt-ampere |
| "MVar" | Megavolt-ampere reactive |
| "NBS" | National Bureau of Statistics of China |
| "Norwest" | Norwest Corporation |
| "Offer Date" | 3 April 2023, the date of offer of a total of 33,250,000 Share Options to its Director and certain employees under the Share Option Scheme adopted by the Company |

| | |
|------------------------------------|---|
| "open-pit" | The main type of mine designed to extract minerals close to the surface; also known as "open cut" |
| "ore" | A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably |
| "Parliament" | Parliament of Mongolia |
| "Percy" | Percy Rockdale LLC |
| "probable reserve" | The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified |
| "raw coal" | Generally means coal that has not been washed and processed |
| "RMB" | Renminbi |
| "ROM" | Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauconite ore and out-of-seam dilution material) |
| "seam" | A stratum or bed of coal or other mineral; generally applied to large deposits of coal |
| "SEHK" or "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "share(s)" | Ordinary share(s) of USD0.10 each in the share capital of the Company |
| "Share Options" or "Options" | The share options which were granted or to be granted under the Share Option Scheme to eligible participants to subscribe for Shares of the Company |
| "Share Option Scheme" | A share option scheme which was adopted by the Company on 16 June 2021 |
| "Share Purchase Agreement" | Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd |
| "soum" | The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province) |
| "SSCC" | Semi-soft coking coal |
| "strip ratio" or "stripping ratio" | The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods |

| | |
|--|--|
| "Tavan Tolgoi" | The coal formation located in South Gobi, Mongolia which includes our UHG and BN deposits |
| "the Schemes" | Defined contribution retirement benefit schemes in which the Group participates |
| "thermal coal" | Also referred to as "steam coal" or "steaming coal", thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal |
| "THG" | Tsaikhar Khudag |
| "TKH" | Tsagaan Khad |
| "tonne" | Metric tonne, being equal to 1,000 kilograms |
| "TRIFR" | Total Recordable Injury Frequency Rate |
| "Tsogttsetsii" or "Tsogttsetsii soum" | Tsogttsetsii soum is the location where Tavan Tolgoi sits |
| "UHG" | Ukhaa Khudag |
| "UHG deposit" | Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits |
| "UHG mine" | The aboveground (<300m) portion of our UHG deposit |
| "USD" | United States Dollar |
| "VAT" | Value added tax |
| "washed coal" | Coals that have been washed and processed to reduce its ash contents |

XIII. APPENDIX I

Appendix I

Technical details of the UHG Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4. Similar technical details relevant to the underlying UHG Coal Resource estimate were previously published in the form of 'JORC Table 1' Sections 1, 2 and 3 in the MMC Annual Report 2014.

JORC (2012) TABLE 1

Section 4: Estimation and Reporting of Ore Reserves

| Criteria | Commentary |
|--|---|
| Mineral Resource estimate for conversion to Ore Reserves | <ul style="list-style-type: none"> • Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve. • Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves. • The Mineral Resource estimate used as the basis for this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation UHG mine (Licence MV-11952)", prepared by MMC, Energy Resources LLC, Geology Department, January 2022. • The Competent Person for the Mineral Resource estimate was Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas graduated in 2008 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#318198). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves. |
| Site visits | <ul style="list-style-type: none"> • Comment on any site visits undertaken by the Competent Person and the outcome of those visits. • If no site visits have been undertaken indicate why this is the case. • The Competent Person for the Coal Reserves Statement made consecutive site visits since 2017. His last visit was in November 2021. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the UHG Life of Mine (LOM) plan update study April 2022. • The competent person believes a further site visit was warranted in 2022 to review changes in the mining progress as well as mining conditions. |

| Criteria | Commentary |
|-------------------------------|---|
| Study status | <ul style="list-style-type: none"> • The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves. • The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically. • A LOM study update, equivalent to a Feasibility Study update was completed in January 2018 by GLOGEX. • GLOGEX is completing preparation of an updated scenario of the Life of Mine ("LOM") Study for the UHG deposit. UHG design, mine planning has been completed and economic analysis will be completed in April 2022. |
| Cut-off parameters | <ul style="list-style-type: none"> • The basis of the cut-off grade(s) or quality parameters applied. • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves. |
| Mining factors or assumptions | <ul style="list-style-type: none"> • The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design). • The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc. • The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling. • The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate). • The mining dilution factors used. • The mining recovery factors used. • Any minimum mining widths used. • The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion. • The infrastructure requirements of the selected mining methods. • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and hydraulic excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste. |

| Criteria | Commentary |
|----------|---|
| | <ul style="list-style-type: none"> • Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants ("AMC"). • The mining factors used were: <ul style="list-style-type: none"> - Minimum coal mining thickness of 0.5m. - Minimum parting mining thickness of 0.5m. - Mineable coal section roof and floor loss of 100mm. - Mineable coal section roof and floor dilution of 100mm. - Global mining and geological loss 1%. - The quality of diluting material is relative density of 2.46t/m³, and ash of 92%. - Relative density data in the geological model is based on an average in-situ moisture of 3.58% (ar). ROM moisture is assumed to be 3.64% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar) and thermal product coal moisture 2.68% (ar). • The application of "Affected Zones" with higher global losses, as per the 2013 LOM Study, were discontinued on the basis of actual mining coal recovery reconciliation results supplied by MMC for an 18-month period of sampling undertaken by MMC from January 2014 to June 2015. • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the BN mine. The infrastructure will be expanded as UHG production expands. |

| Criteria | Commentary |
|--|---|
| <p>Metallurgical factors or assumptions</p> | <ul style="list-style-type: none"> • The metallurgical process proposed and the appropriateness of that process to the style of mineralisation. • Whether the metallurgical process is well-tested technology or novel in nature. • The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied. • Any assumptions or allowances made for deleterious elements. • The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole. • For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications? • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. Coking coal seams 0C, 3A and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed. • The process generates primary coking coal product from a low cut point that will produce a 11.0% (dry) ash HCC and 9.5% (dry) ash SSCC product, and a secondary middlings product of varied ash per customer request is produced from a variable high cut. • International coal processing consultant Norwest Corporation has generated ash-yield curves for major coking coal seams. MMC recently modified ash yield curves of extracted coal seams in the mine based on in pit bulk sampling. • Thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use. |

| Criteria | Commentary |
|------------------------------|---|
| <p>Environmental</p> | <ul style="list-style-type: none"> • The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported. • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals. |
| <p>Infrastructure</p> | <ul style="list-style-type: none"> • The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed. • All necessary infrastructure to support the UHG mine is in place at either the mine site or at the UHG mine industrial area. Power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities. |

| Criteria | Commentary |
|----------|---|
| Costs | <ul style="list-style-type: none"> • The derivation of, or assumptions made, regarding projected capital costs in the study. • The methodology used to estimate operating costs. • Allowances made for the content of deleterious elements. • The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products. • The source of exchange rates used in the study. • Derivation of transportation charges. • The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc. • The allowances made for royalties payable, both Government and private. • Project capital cost estimates for mining plant and equipment have been provided by MMC. • The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at UHG provided by MMC year to date 1 January 2022 based on 2,850 MNT/USD exchange rate. GLOGEX reviewed key cost inputs and adjusted actual costs to reflect the key factors of the project to increase the accuracy of pit optimisation results. • Operating cost estimates have been provided from MMC's assessment of existing operating costs incurred in the operation and also from MMC's mining contractor. <ul style="list-style-type: none"> - Actual mining contractor coal mining costs were provided and applied in the study in USD/bcm; however for presentation in Table 5.7 Glogex converted to USD/t ROM using the weight average relative density of coal in the pit shells. • Coal processing costs are based on those actually being incurred in the existing CHPP operation. • Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of UHG product coal. There are no private royalties payable. |

| Criteria | Commentary |
|---------------------------------|--|
| <p>Revenue factors</p> | <ul style="list-style-type: none"> • The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc. • The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products. • Shanxi Fenwei Energy Consulting Co Ltd (“Shanxi Fenwei”) completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China. • The coal selling prices for Hard Coking Coal were estimated based on 6 years average of 2020-2021 historical prices and price forecast 2022-2025, as provided by MMC’s actual coal selling prices as well as price forecast of Shanxi Fenwei product value at the DAP Ganqimaodu port of China. The coal selling prices for Semi-soft coking coal, Middlings and Thermal coal were estimated based on 6 years average of price forecast 2020-2025, as provided by MMC’s actual coal selling prices as well as price forecast of Shanxi Fenwei product value at the DAP Ganqimaodu port of China. • The coal selling prices assigned to each product, were: <ul style="list-style-type: none"> • HCC < 11% ash (dry): USD134.7/t product (ar), • SSCC < 9.5% ash (dry): USD95.9/t product (ar), • Middlings ~ benchmark CV 6,000 kcal/kg (gar): USD48.8/t product (ar), • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD30.7/t product (ar). |
| <p>Market assessment</p> | <ul style="list-style-type: none"> • The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future. • A customer and competitor analysis along with the identification of likely market windows for the product. • Price and volume forecasts and the basis for these forecasts. • For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract. • Shanxi Fenwei completed an independent market study for UHG and identified principal coking and thermal coal markets in Mongolia and China in April 2021. |

| Criteria | Commentary |
|----------|---|
| Economic | <ul style="list-style-type: none"> • The inputs to the economic analysis to produce the net present value (“NPV”) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc. • NPV ranges and sensitivity to variations in the significant assumptions and inputs. • No economic analysis. |
| Social | <ul style="list-style-type: none"> • The status of agreements with key stakeholders and matters leading to social licence to operate. • All key stakeholder agreements are in place providing a social licence to operate. |
| Other | <ul style="list-style-type: none"> • To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves: • Any identified material naturally occurring risks. • The status of material legal agreements and marketing arrangements. • The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent. • All material legal agreements, marketing agreements and government agreements are in place to allow the UHG mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner. |

| Criteria | Commentary |
|---------------------------------|---|
| <p>Classification</p> | <ul style="list-style-type: none"> • The basis for the classification of the Ore Reserves into varying confidence categories. • Whether the result appropriately reflects the Competent Person's view of the deposit. • The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any). • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit. |
| <p>Audits or reviews</p> | <ul style="list-style-type: none"> • The results of any audits or reviews of the Ore Reserve estimates. • Internal peer review by GLOGEX CONSULTING LLC of the Reserves estimate has been completed. • Technical information in this UHG Coal Reserve estimation has been peer reviewed by Independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 29 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). |

| Criteria | Commentary |
|--|---|
| <p>Discussion of relative accuracy/ confidence</p> | <ul style="list-style-type: none"> <li data-bbox="552 211 1428 441">• Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate. <li data-bbox="552 485 1428 614">• The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. <li data-bbox="552 657 1428 786">• Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage. <li data-bbox="552 830 1428 937">• It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available. <li data-bbox="552 970 1428 1067">• Coal production at UHG commenced in April 2009. Run-of-Mine ("ROM") coal production of 79.2 Mt was reported by mine survey measurement from April 2009 until end of 2021. <li data-bbox="552 1110 1428 1282">• Since the preparation of Reserves estimate effective as of 1 January 2022 the UHG mine has completed reconciliations of actual coal mined against the geological model for the period from January 2021 to January 2022. Last Coal Reserves Statement for UHG was prepared as at 1 January 2022 by GLOGEX and reported as 371Mt (ROM) and the total Marketable reserve is 230 Mt. <li data-bbox="552 1315 1428 1519">• As a result of the coal recovery reconciliations that have been undertaken by MMC and the observations made associated with the mining activities over this period of time, the mining modifying factors in this Reserves estimate have been adjusted to be less conservative particularly with respect to assumed losses incurred in the "affected zones", and in the assumed reassignment of thermal to coking coal and semisoft coal to hard coking coal. |

XIV. Appendix II

Technical details of the BN Coal Reserve estimate provided in accordance with the JORC Code (2012) in the form of 'JORC Table 1' detailed in Section 4.

JORC (2012) TABLE 1

Section 4: Estimation and Reporting of Ore Reserves

| Criteria | Commentary |
|--|---|
| <p>Mineral Resource estimate for conversion to Ore Reserves</p> | <ul style="list-style-type: none"> • Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve. • Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves. • The Mineral Resource estimate used as the basis of this Coal Reserves Statement is "JORC (2012) Standard Resource Estimation Baruunnaran and Tsaikharkhudag coal mine (Licence MV-14493 and MV-017336)", prepared by Mongolian Mining Corporation, Energy Resources LLC, Geology Department, January 2021. • The Competent Person for the Mineral Resource estimate was Mr. Byambaa Barkhas, the Group's Chief Geologist of Geology and Geotechnical sub-section. Mr. Barkhas graduated in 2008 with a "Bachelor of Geology" from the "School of Geology and Petroleum Engineering, Mongolian University of Science and Technology", and is a Member of the Australasian Institute of Mining and Metallurgy (#318198). • The Coal Resources are reported inclusive of those Coal Resources modified to produce the Coal Reserves. |
| <p>Site visits</p> | <ul style="list-style-type: none"> • Comment on any site visits undertaken by the Competent Person and the outcome of those visits. • If no site visits have been undertaken indicate why this is the case. • The Competent Person for the Coal Reserves Statement made consecutive site visits since 2017. His last visit was in November 2021. The outcome of these site visits was observation of site and mining conditions and discussion with site operating personnel that contributed to the determination of project parameters used in the BN Life of Mine (LOM) plan update study April 2022. • The competent person believes a further site visit was warranted in 2022 to review changes in the mining progress as well as mining conditions. |

| Criteria | Commentary |
|---|---|
| <p>Study status</p> | <ul style="list-style-type: none"> • The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves. • The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered. • A LOM study update, equivalent to a Feasibility Study update, was completed in January 2018 by GLOGEX. • GLOGEX is completing preparation of an updated scenario of the LOM Study for the BN deposit. BN design, mine planning has been completed and economic analysis has been completed in March 2022. |
| <p>Cut-off parameters</p> | <ul style="list-style-type: none"> • The basis of the cut-off grade(s) or quality parameters applied. • There are no coal quality cut-off parameters used to eliminate the conversion of Coal Resources to Coal Reserves. Coal Resources have already been determined with an ash cut off of 50% (DRY basis). Pit optimisation and LOM planning has been used to determine whether Coal Resources will convert to Coal Reserves. |
| <p>Mining factors or assumptions</p> | <ul style="list-style-type: none"> • The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by pre-liminary or detailed design). • The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as prestrip, access, etc. • The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling. • The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate). • The mining dilution factors used. • The mining recovery factors used. |

| Criteria | Commentary |
|----------|--|
| | <ul style="list-style-type: none"> • Any minimum mining widths used. • The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion. • The infrastructure requirements of the selected mining methods. • Pit optimisation and LOM planning has been used as the basis of converting Coal Resources to Coal Reserves. • The selected mining method is that in use in the operating mine, i.e. open cut truck and hydraulic excavator mining for both waste mining and coal mining, with out of pit and in pit dumping of waste. • Geotechnical parameters for the design of stable slopes have been provided by Australian Mining Consultants. • The mining factors used were: <ul style="list-style-type: none"> - Minimum coal mining thickness of 0.5m. - Minimum parting mining thickness of 0.5m. - Mineable coal section roof and floor loss of 100mm. - Mineable coal section roof and floor dilution of 100mm. - Global mining and geological loss 1%. - The quality of diluting material is relative density of 2.81g/cc (ar), and ash of 93.86% (ar). - Relative density data in the geological model is based on an average in-situ moisture of 4.55% (ar). ROM model moisture is 2.26% (ar), coking coal product moisture 8% (ar), middlings product moisture 9% (ar), and thermal product coal moisture 2.62% (ar). |

| Criteria | Commentary |
|---|--|
| | <ul style="list-style-type: none"> • Inferred Coal Resources are assigned revenue in the LOM study pit optimiser and included in the LOM production schedule as mineable coal, but are not converted to Coal Reserves. • The infrastructure requirements are in place at the operating mine comprising offices, workshops, service station and shared CHPP facilities with the UHG mine. The infrastructure will be expanded as BN production expands. |
| Metallurgical factors or assumptions | <ul style="list-style-type: none"> • The metallurgical process proposed and the appropriateness of that process to the style of mineralisation. • Whether the metallurgical process is well-tested technology or novel in nature. • The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied. • Any assumptions or allowances made for deleterious elements. • The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole. • For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications? • The metallurgical process for washing the coking coal seams is already in place and being used. It is a low cut high cut dense media processing plant at the UHG mine site. The process is well tested and robust. UHG Coking coal seams 0C, 3A, and 4 have been mined and processed through this plant and the ash-yield curves for these seams have been reconciled and adjusted with the laboratory generated curves from the back analysis of results when these seams were washed. |

| Criteria | Commentary |
|-----------------------|---|
| | <ul style="list-style-type: none"> • The process generates primary coking coal product from a low cut point that will produce a 11.5% (ad) ash SHCC and 9.5% (ad) ash SSCC product, and a secondary middlings product of varied ash per customer request produced from a variable high cut point. • International coal processing consultant Norwest Corporation has generated ash-yield curves for major coking coal seams. MMC recently modified ash yield curves of extracted coal seams in the mine based on in pit bulk sampling. • Thermal coal seams to produce a relatively high ash low energy thermal coal product suitable for export or domestic use. |
| Environmental | <ul style="list-style-type: none"> • The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported. • An Environmental Impact Statement has been prepared and all environmental approvals obtained. • Waste rock characterisation results do not require special placement requirements or procedures in the dumps. • Coal processing plant reject is stored appropriately in the waste dumps or storage cells in accordance with the environmental approvals. |
| Infrastructure | <ul style="list-style-type: none"> • The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed. • All necessary infrastructure to support the BN mine is in place at either the mine site or at the UHG mine industrial area. UHG power is supplied from an onsite coal fired power station, and also from the transmission line connected to the Mongolian power grid. Water is supplied from a nearby bore field. The workforce is accommodated in a purpose built camp or in housing provided in the nearby communities. |

| Criteria | Commentary |
|----------|---|
| Costs | <ul style="list-style-type: none"> <li data-bbox="555 211 1423 269">• The derivation of, or assumptions made, regarding projected capital costs in the study. <li data-bbox="555 312 1161 340">• The methodology used to estimate operating costs. <li data-bbox="555 383 1230 411">• Allowances made for the content of deleterious elements. <li data-bbox="555 454 1423 513">• The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co-products. <li data-bbox="555 556 1121 584">• The source of exchange rates used in the study. <li data-bbox="555 627 1007 655">• Derivation of transportation charges. <li data-bbox="555 698 1423 756">• The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc. <li data-bbox="555 799 1393 827">• The allowances made for royalties payable, both Government and private. <li data-bbox="555 871 1423 929">• Project capital cost estimates for mining plant and equipment have been provided by MMC. <li data-bbox="555 972 1423 1138">• The mining, hauling, processing, handling, administration, transportation, air pollution, logistic and import duty charges costs were adjusted from an actual costs incurred at BN provided by MMC year to date 1 January 2022 based on 2,850 MNT/USD exchange rate. GLOGEX reviewed key cost inputs and accepted for pit optimisation. <li data-bbox="555 1181 1423 1239">• Operating cost estimates have been provided from MMC's assessment of actual costs incurring in the operation and as provided by MMC's mining contractor. <li data-bbox="555 1282 1423 1384">• Actual mining contractor coal mining costs were provided and applied in the study in USD/bcm; however, for presentation in Table 5.5 GLOGEX converted to USD/t ROM using the weight average relative density of coal in the pit shells. <li data-bbox="555 1427 1423 1485">• Coal processing costs are based on contract price between Energy Resources and Khangad exploration. <li data-bbox="555 1528 1423 1629">• Government royalty costs are based on currently legislated rates applicable to the forecast sales prices of BN product coal. There are no private royalties payable. |

| Criteria | Commentary |
|-------------------|--|
| Revenue factors | <ul style="list-style-type: none"> • The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc. • The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products. • Shanxi Fenwei Energy Consulting Co Ltd ("Shanxi Fenwei") completed an independent market study for UHG products and identified principal coking and thermal coal markets in Mongolia and China. • The coal selling prices for semi-soft coking coal were estimated based on 5 years average price forecast of 2022-2025, as provided to MMC by Shanxi Fenwei product value at the DAP Ganqimaodu port of China. The coal selling prices for semi-soft coking coal were estimated based on actual coal price provided by MMC from 2020 to 2021 and 5 years average price forecast of 2022-2025 by Shanxi Fenwei. The selling prices of Middlings and Thermal coal were estimated based on 5 years average price forecast of 2022-2025 as provided to MMC by Shanxi Fenwei product value at the DAP Ganqimaodu port of China. • The coal selling prices assigned to each product, were: <ul style="list-style-type: none"> • SHCC < 11.5% ash (dry): USD128.8/t product (ar), • SSCC < 9.5% ash (dry): USD95.9/t product (ar), • Middlings - benchmark CV 6,000 kcal/kg (gar): USD48.8/t product (ar), • Thermal coal ~ benchmark CV 5,000 kcal/kg (gar): USD30.7/t product (ar). |
| Market assessment | <ul style="list-style-type: none"> • The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future. • A customer and competitor analysis along with the identification of likely market windows for the product. • Price and volume forecasts and the basis for these forecasts. • For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract. • Shanxi Fenwei completed an independent market study for MMC and identified principal coking and thermal coal markets in Mongolia and China in April 2021. |

| Criteria | Commentary |
|----------|--|
| Economic | <ul style="list-style-type: none"> • The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc. • NPV ranges and sensitivity to variations in the significant assumptions and inputs. • No economic analysis. |
| Social | <ul style="list-style-type: none"> • The status of agreements with key stakeholders and matters leading to social licence to operate. • All key stakeholder agreements are in place providing a social licence to operate. |
| Other | <ul style="list-style-type: none"> • To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves. • Any identified material naturally occurring risks. • The status of material legal agreements and marketing arrangements. • The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent. • All material legal agreements, marketing agreements and government agreements are in place to allow the BN mine to successfully operate. As expansion proceeds it is reasonably expected any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner. |

| Criteria | Commentary |
|---------------------------------|---|
| <p>Classification</p> | <ul style="list-style-type: none"> • The basis for the classification of the Ore Reserves into varying confidence categories. • Whether the result appropriately reflects the Competent Person's view of the deposit. • The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any). • Measured Resources have been classified as Proved Reserves, Indicated Resources have been classified as Probable Reserves. No Probable Reserves have been derived from Measured Resources. • No Inferred Resources have been converted to Reserves (although Inferred Resource was assigned revenue in the pit optimiser and reported as mineable ROM coal in the LOM schedule). • The result reflects the Competent Persons view of the deposit. |
| <p>Audits or reviews</p> | <ul style="list-style-type: none"> • The results of any audits or reviews of the Ore Reserve estimates. • Internal peer by Glogex of the Reserves estimate has been completed. Technical information in this BN Coal Reserve estimation has been peer reviewed by independent consultant Mr. Gary Ballantine. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 32 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). |

| Criteria | Commentary |
|--|--|
| <p>Discussion of relative accuracy/ confidence</p> | <ul style="list-style-type: none"> <li data-bbox="552 206 1426 439">• Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate. <li data-bbox="552 487 1426 612">• The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. <li data-bbox="552 659 1426 784">• Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage. <li data-bbox="552 832 1426 927">• It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available. <li data-bbox="552 974 1426 1095">• Coal production at BN commenced in 2011 and since that time some 34 Mbcm of waste and 4.9 Mt of ROM coal has been mined until 1st January 2018. ROM coal production of 4.9 Mt was reported by mine survey measurement from 2011 until end of 2021. <li data-bbox="552 1142 1426 1306">• Since the preparation of Reserves estimate effective as of 1 January 2018 the BN mine has completed reconciliations of actual coal mined against the geological model for the period January 2017 to January 2018. Last Coal Reserves Statement for BN was prepared as at 1st January 2018 by GLOGEX and reported as 176Mt (ROM). <li data-bbox="552 1353 1426 1517">• As a result of the coal recovery reconciliations that have been undertaken by MMC and the observations made associated with the mining activities over this period. The mining modifying factors in this Reserves estimate have been adjusted to accommodate size of the equipment being used in the mine (i.e., excavator) and the reassignment of hard coking coal to semihard coking coal. |

