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**Topic: “UNEXPECTED OPPORTUNITY FOR
MONGOLIAN COAL”**

(0975.HK)



**MONGOLIAN
MINING
CORPORATION**

COAL MONGOLIA 2018

4 SEPTEMBER 2018

Unexpected opportunity for Mongolian coal?



Gobi desert, Mongolia
UHG and BN mines are located in South Gobi province.



Disclaimer

FORWARD-LOOKING STATEMENTS

We have included in this presentation forward-looking statements. All statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

The reliance on any forward-looking statement involves risks and uncertainties, and although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect.

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All numbers in this presentation are approximate rounded values for particular items.



Agenda

MARKET OVERVIEW

COMPANY OVERVIEW

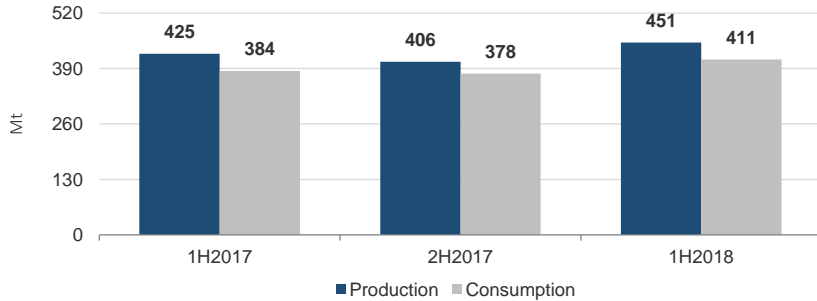
CONCLUSIONS



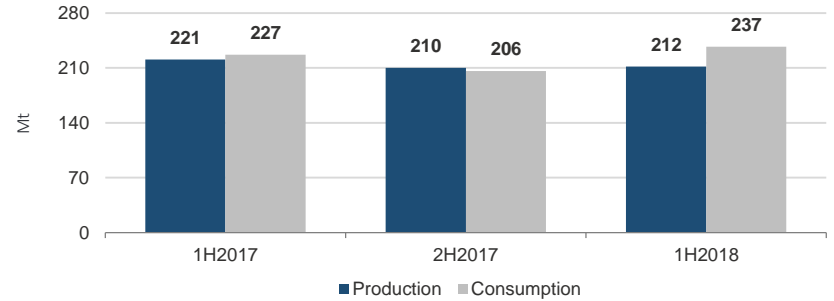
Market overview

Chinese steel industry robust performance

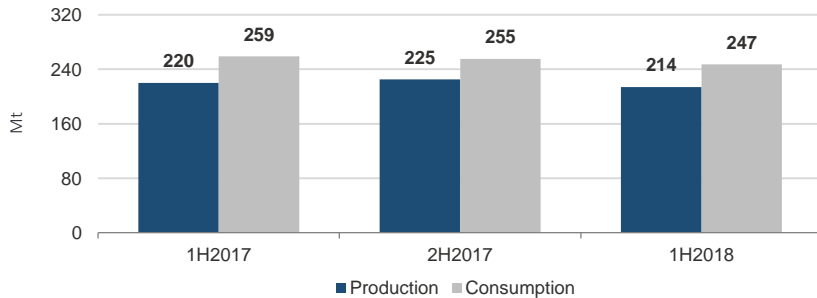
CRUDE STEEL PRODUCTION AND CONSUMPTION



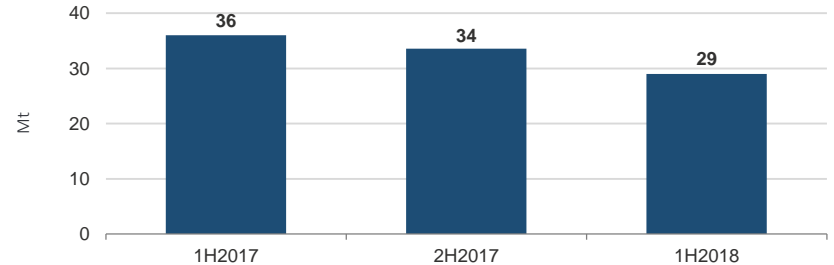
COKE PRODUCTION AND CONSUMPTION



COKING COAL PRODUCTION AND CONSUMPTION



COKING COAL IMPORTS



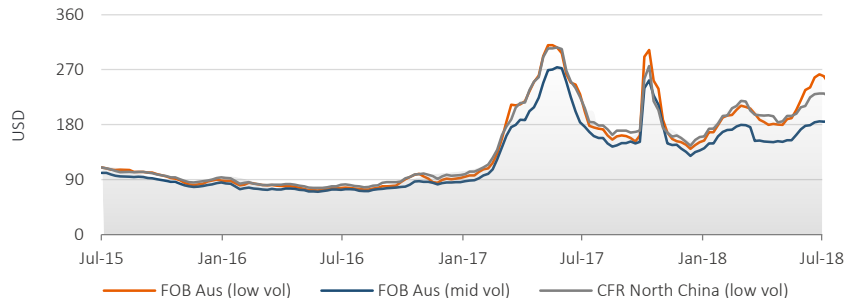
Source: Shanxi Fenwei Energy Information Services Co., Ltd ("Fenwei"), World Steel Association, National Bureau of Statistics of China, General Administration of Customs of China.



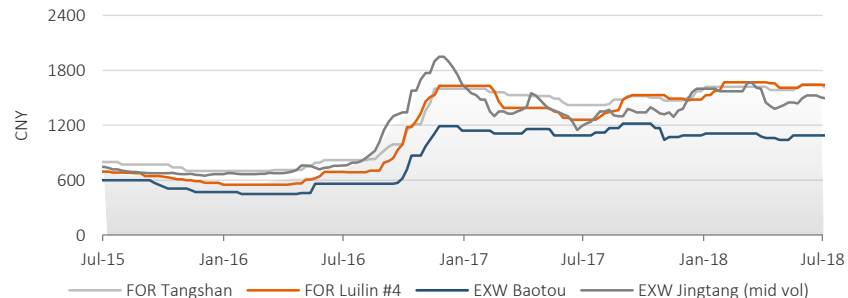
Market overview

Coking coal price remained strong

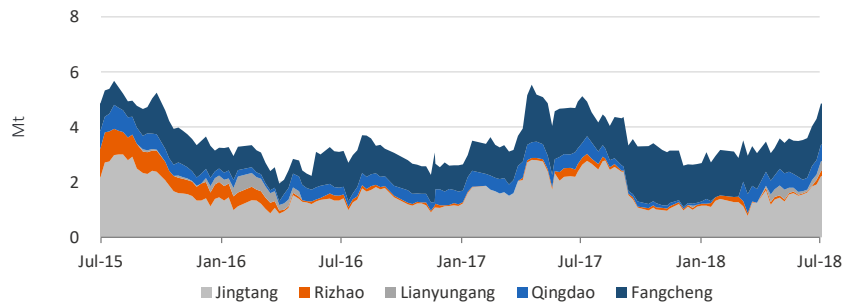
SEABORNE COKING COAL PRICES



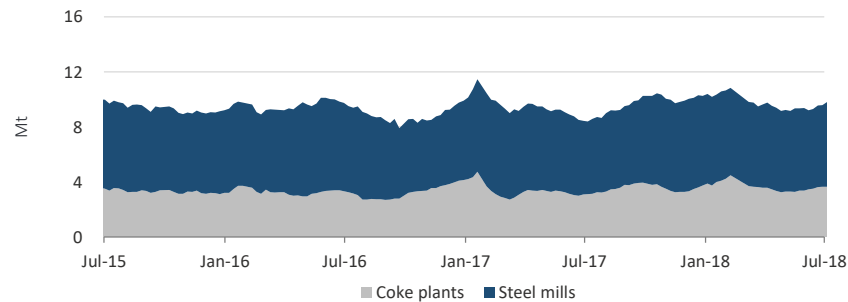
CHINA COKING COAL PRICES¹



COKING COAL STOCKS AT CHINESE PORTS



COKING COAL STOCKS AT CHINESE END-USERS

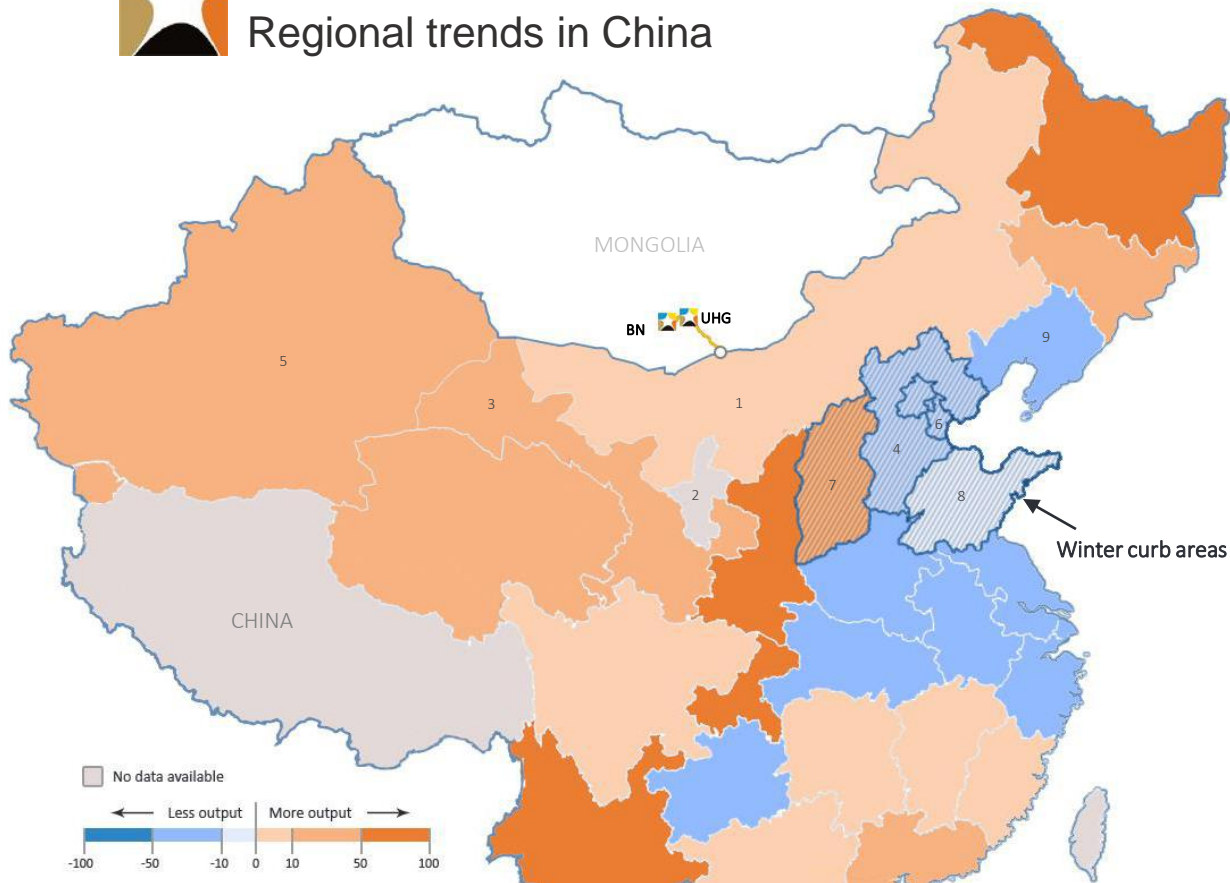


Source: Fenwei, Platts.
Note: ¹ VAT inclusive.



Market overview

Regional trends in China



Mt	Crude steel production			Coke production		
	2016	2017	Change (YoY)	2016	2017	Change (YoY)
1 Inner Mongolia	18.1	19.8	9%	28.2	30.5	8%
2 Ningxia	1.6	2.3	44%	7.7	7.5	-2%
3 Gansu	6.3	5.6	-11%	5.1	4.7	-7%
4 Hebei	192.6	191.2	-1%	53.1	48.1	-9%
5 Xinjiang	8.7	11.1	28%	15.7	15.9	1%
6 Tianjin	18.0	18.1	1%	2.0	1.6	-23%
7 Shanxi	39.4	44.3	13%	81.9	83.8	2%
8 Shandong	71.7	71.5	0%	44.2	39.3	-11%
9 Liaoning	60.3	64.2	7%	21.3	22.2	4%
10 Others	391.7	403.6	3%	189.9	177.8	-6%

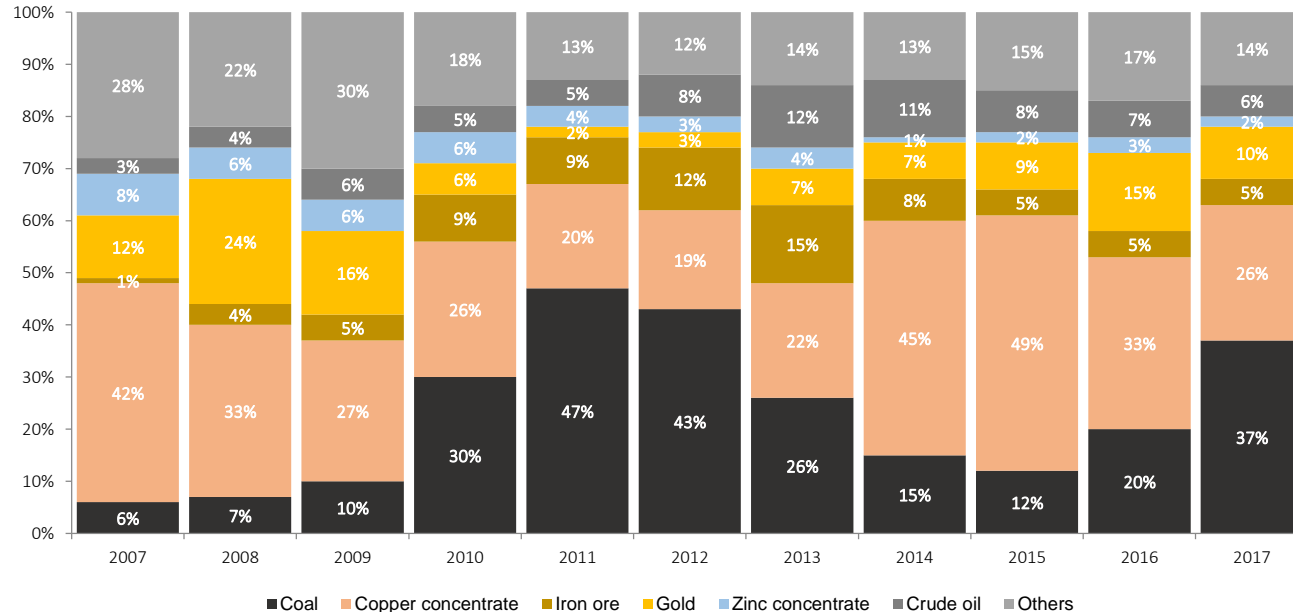
Note: YoY percentage change in crude steel output Jan-Feb 2018.
Sources: NBS, Financial Times.



Market overview

Coal is the main commodity in Mongolian exports

MONGOLIAN EXPORTS COMPOSITION



Source: National Statistical Office of Mongolia

In general, Mongolian export income is mostly driven by commodity export revenue generated by the mining sector.

In 2017, **coal, copper concentrate, gold, iron ore and zinc concentrate** were the top-5 exports of Mongolia alongside with crude oil.

Supported by high prices., coal was representing 47% of the total exports at its peak in 2011. Following the downward pricing trends in the international markets, coal revenue declined to 12% of the total exports in 2015, but with recovered prices and record high tonnages exported, it accounted for 37% of the country's total exports in 2017.



Agenda

MARKET OVERVIEW

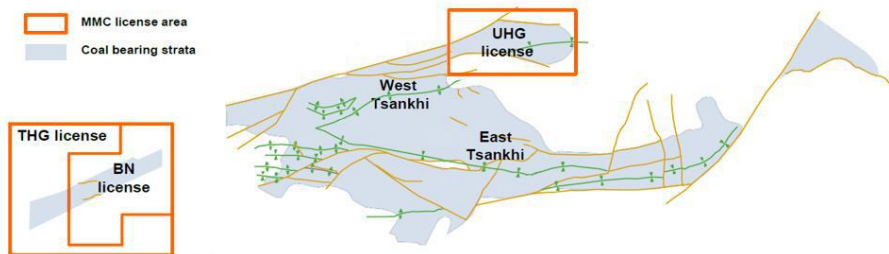
COMPANY OVERVIEW

CONCLUSIONS



Company overview

Sizeable coking coal resources and reserve base



JORC (2012) Statement ¹	UHG	BN	THG	Pro-Forma Total
Total resources² (Mt)	680	330	70	1,080
- Above 300m	462	232	54	748
- Below 300m	222	95	18	335
Total ROM coal reserves³	333	176	-	509
- Coking	320	176	-	496
- Thermal	13	0	-	13
Total marketable reserves³	195	91	-	286
- Coking	156	71	-	227
- Middling	26	20	-	46
- Thermal	13	0	-	13

Notes: ¹ Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 of the JORC Code (2012).

² Includes Measured, Indicated and Inferred Resource category.

³ Includes Proved and Probable Reserve category.

- The Company owns and operates two open-pit coking coal mines, namely Ukhaa Khudag (“**UHG**”) deposit within the Tavan Tolgoi coal formation and the Baruun Naran (“**BN**”) deposit, both located in the South Gobi province of Mongolia.
- UHG mine is located ~540 km south of Ulaanbaatar, the capital city of Mongolia, and ~245 km from the Mongolia-China border crossing Gashuunsukhait-Ganqimaodu (“**GS-GM**”). BN mine is located ~30 km south-west of UHG mine.
- UHG mining license was granted in 2006 and BN mining license was granted in 2008. The Company performed exploration work at Tsaikhar Khudag (“**THG**”) area in 2011-2012 and was granted THG mining license in June 2013. All licenses permit the Company to engage in coal mining activities for an initial period of 30 years, extendable twice by 20 years each.
- The latest UHG Coal Resources estimate was prepared as at 31 December 2016; BN and THG Coal Resources estimates were prepared as at 30 June 2015. Based on the latest estimates, pro-forma total Coal Resources were 1,080 Mt.
- The latest Coal Reserves statements for UHG and BN deposits were prepared as at 1 January 2018. The estimates were prepared based on open cut, multi-seam, truck and excavator mining methods. As a result of the updated statements, pro-forma total run-of-mine (“**ROM**”) Coal Reserves of UHG and BN deposits increased to 509 Mt.



Company overview

The only coal producer in Mongolia with fully integrated operations

Mining



- Open-pit mines with mine-life in excess of 25 years, based on the current production plans.
- Mining operation at UHG commenced in Apr 2009.
- BN mine commercial production started in Feb 2012.

Processing



- CHPP comprises 3 operating modules each with a 5 Mtpa capacity, making the annual total processing capacity 15 Mtpa.
- Construction phases completed:
 - Jun 2011 – module I
 - Feb 2012 – module II
 - Jun 2013 – module III

Site Infrastructure



- 18MW air-cooled power plant in operation since 2011; supplemented by connection to the central grid.
- Water supply facility with 117 l/sec capacity was completed in 2011. It was further expanded in 2014 to make the total water supply capacity up to 200 l/sec.

Transportation & Logistics



- Access to GS-GM border crossing for exports to China using ~245 km heavy haul paved road.
- BN and UHG mines are connected by ~30 km heavy haul paved road.
- In-house fleet of around 450 double trailer trucks with ship-load of 130 tonnes.



Company overview

Washed coking coal quality

10.5% ash HCC product

9.5% ash SSCC product

Seam
1.40 Float Ash
1.40 Float Yield
1.45 Float Ash
1.45 Float Yield
Volatiles (ad)
Volatiles (daf)
Inherent Moisture
Phosphorus (ad)
Total Sulphur (ad)
CSN
Fluidity ddpm
Sapozhnikov Y mm
Sapozhnikov X mm
G Index
Reactives Vitrinite %
Reflectance %
CSR measured
CRI measured

0C	3A	4A	4C
12.1	9.4	9.0	7.9
41.0	65.8	66.9	71.7
13.6	10.5	9.8	8.5
54.9	78.7	75.5	78.3
21.3	22.4	22.9	23.9
24.2	24.9	25.4	26.4
0.9	0.7	0.8	0.7
0.075	0.117	0.089	0.134
0.4	0.6	0.4	0.7
8 ½	8 ½	8	8
26	168	435	564
12	13.5	13.5	15
14	18.5	21.0	20.5
80	85	87	88
64.1	63.9	55.8	58.2
1.29	1.25	1.23	1.28
69.5	64.8	69.4	66.3
21.3	28.4	24.1	25.3

8	9
8.2	7.2
67.9	66.3
9.1	7.7
75.5	69.6
29.6	31.2
32.8	34.1
1.1	1.6
0.102	0.126
0.8	0.4
6	5
364	1560
16	15.5
27	30.5
92	90
65.5	60.7
1.01	1.09
39.5	40.4
40.0	40.0

Source: ITR Norwest 2010, the Company data.



Company overview

Expanding cooperation with end-user customers

COOPERATION WITH BAOTOU STEEL



- During the visit of the Prime Minister of Mongolia to the People's Republic of China in May 2017, the Group signed a long-term Cooperation agreement with Baotou Iron and Steel Co. Ltd ("**Baotou Steel**") and broadened its relations with the largest steel producer in Inner Mongolia, which is located in close proximity to the Group's UHG and BN mines.

COOPERATION WITH SHENHUA INNER MONGOLIA



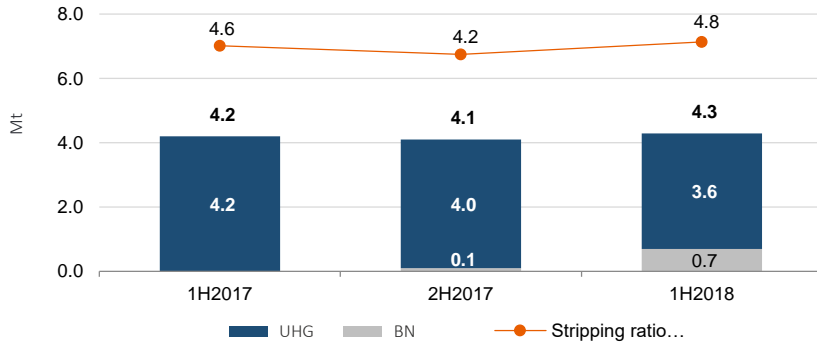
- The Group signed a 10-year General cooperation agreement on coal sales with Shenhua Inner Mongolia Coal and Coking Co., Ltd ("**Shenhua Inner Mongolia**") in May 2018, which was an important milestone to further strengthen its relations with one of the largest coke producers in Inner Mongolia.



Company overview

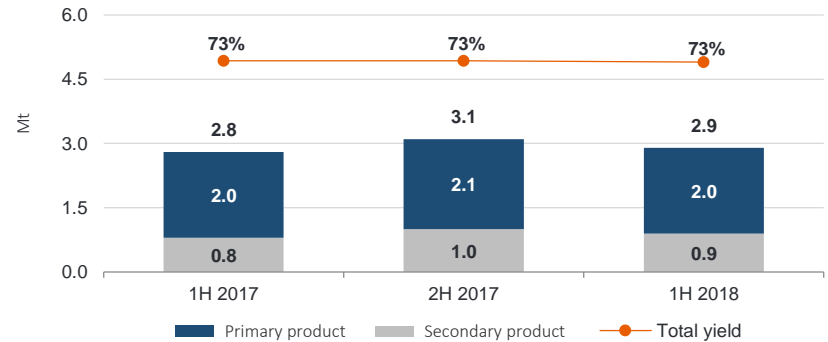
Production output remains “strangled” by logistics constraints

ROM COAL PRODUCTION



- In 1H 2018, prime overburden movement at UHG and BN mines were 15.0 million bank cubic metres (“bcm”) and 5.6 million bcm, respectively.
- BN mine production resumed in 4Q 2017.
- Combined ROM coal production at UHG and BN mines for 1Q 2018 and 2Q 2018 were 1.8 Mt and 2.5 Mt, respectively.

WASHED COAL PRODUCTION



- In 1H 2018, total CHPP ROM coal feed was 4.0 Mt, of which 3.5 Mt and 0.5 Mt were sourced from UHG and BN mines, respectively.
- The Company produced 0.8 Mt and 1.2 Mt of primary products in 1Q 2018 and 2Q 2018, respectively.
- The primary products include washed hard coking coal (“HCC”) and washed semi-soft coking coal (“SSCC”).
- The secondary product is washed thermal coal (“middling”) with high calorific value $\geq 6,000$ kcal/kg.

Note: ¹ Combined stripping ratio of UHG and BN mines.

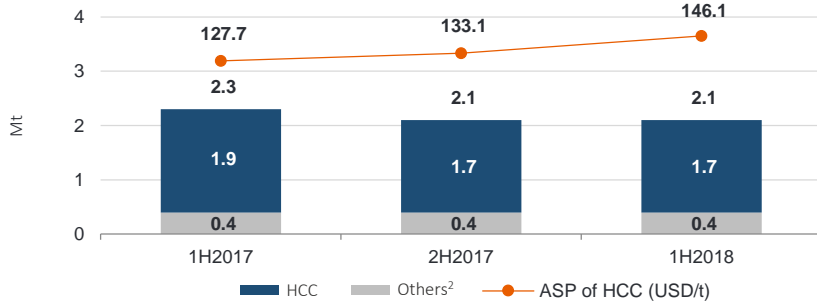
² Combined washing yield and product output of UHG and BN mines.



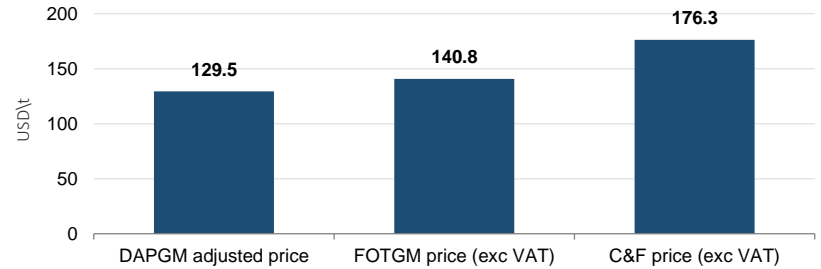
Company overview

Increasing revenue stream

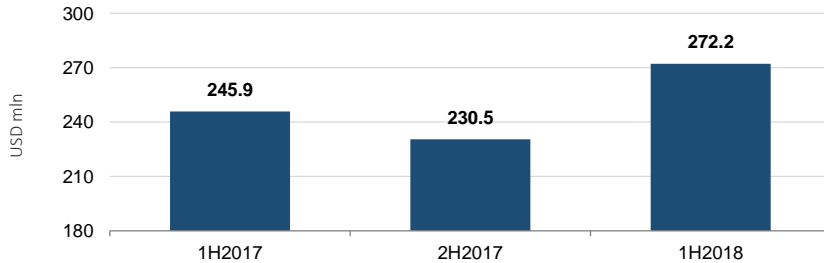
SALES VOLUME AND ASP¹



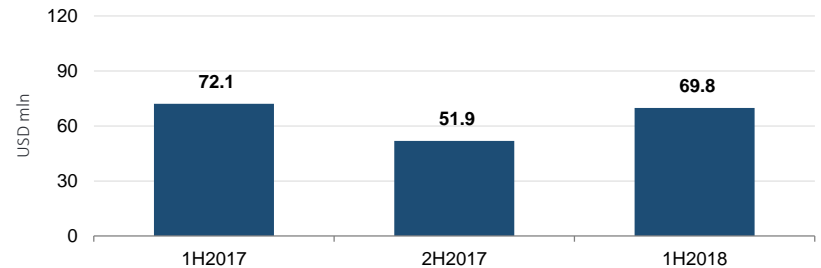
HCC ASP BY SALES TERMS (1H 2018)



REVENUE



PROFIT FROM OPERATIONS



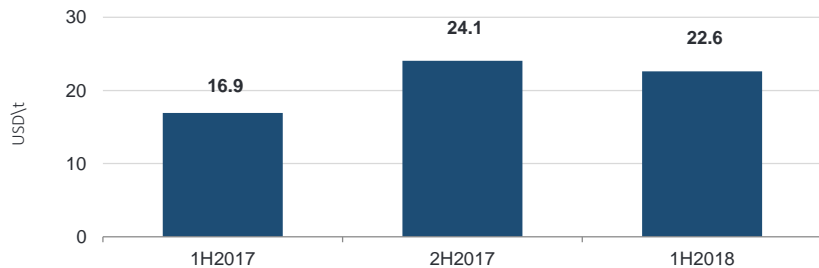
Note: ¹ ASP is a blended average of HCC.
² Includes mainly SSCC and middleings.



Company overview

Transportation costs impacted by border crossing inefficiencies

TRANSPORTATION COST¹

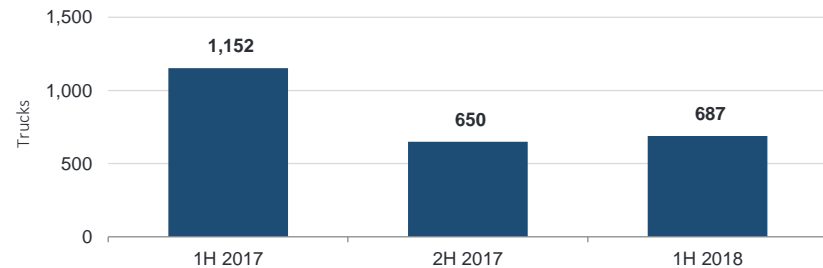


- In 1H 2018, the Company shipped 2.4 Mt of coal products for export from Mongolia to PRC utilizing trans-shipment facility located at Tsagaan Khad (“TKH”), in compliance with the GoM Resolution No. 320 (dated 29 November 2017) which temporarily suspended customs clearance at mine sites in Tavan Tolgoi area and requiring exporters to utilize customs bonded yards located at TKH.
- On 20 June 2018, the GoM issued Resolution No. 185 and lifted the ban imposed on coal customs clearance from the mine sites in Tavan Tolgoi area.
- Starting from July 2018, the Company is performing coal exports transportation using both direct UHG-GM route and UHG-TKH and TKH-GM two-step route.

Note: ¹ Combined weighted average transportation cost from UHG to GM, including third party contractors.

² Combined average throughput of all coal trucks crossing GM border per operating day.

GM BORDER CROSSING DAILY AVERAGE THROUGHPUT²



- Inefficiencies at GS-GM border crossing continues to impact daily export throughput, limiting the number of trucks crossing the border. 1Q 2018 GM border crossing average throughput was the lowest in the last two years. While the situation has improved since May 2018, it remains uncertain whether the improvement can be sustainable.
- In July and August 2018, coal transportation was disrupted from time to time due temporary closure of roads from the mine area to GM caused by heavy rains and flooding.
- The Company increased its’ transportation capacity by 150 double trailer trucks bringing the total capacity to around 450. The first 100 trucks were delivered towards the end of 2017, while the remaining 50 trucks were delivered during 1H 2018.



Agenda

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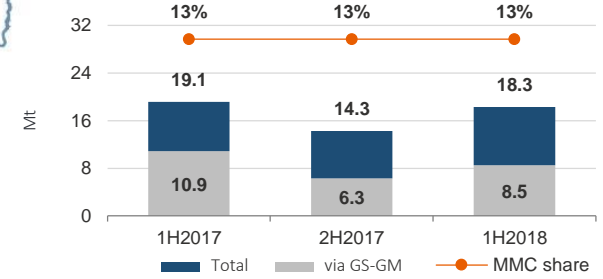
Conclusions

Target market region

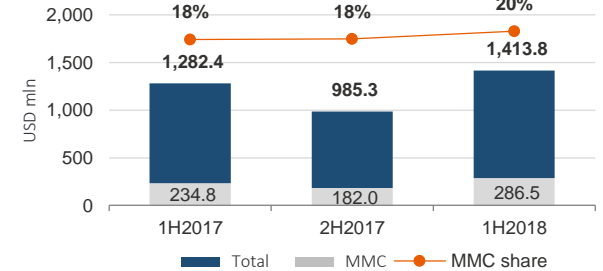


MONGOLIAN COAL EXPORTS

By declared volume at custom clearance¹:



By declared value at custom clearance¹:



Source: National Statistical Office of Mongolia, the Company data

Note: ¹ Total declared export volume and value at all Mongolian border points are sourced from National Statistical Office of Mongolia.



Conclusions

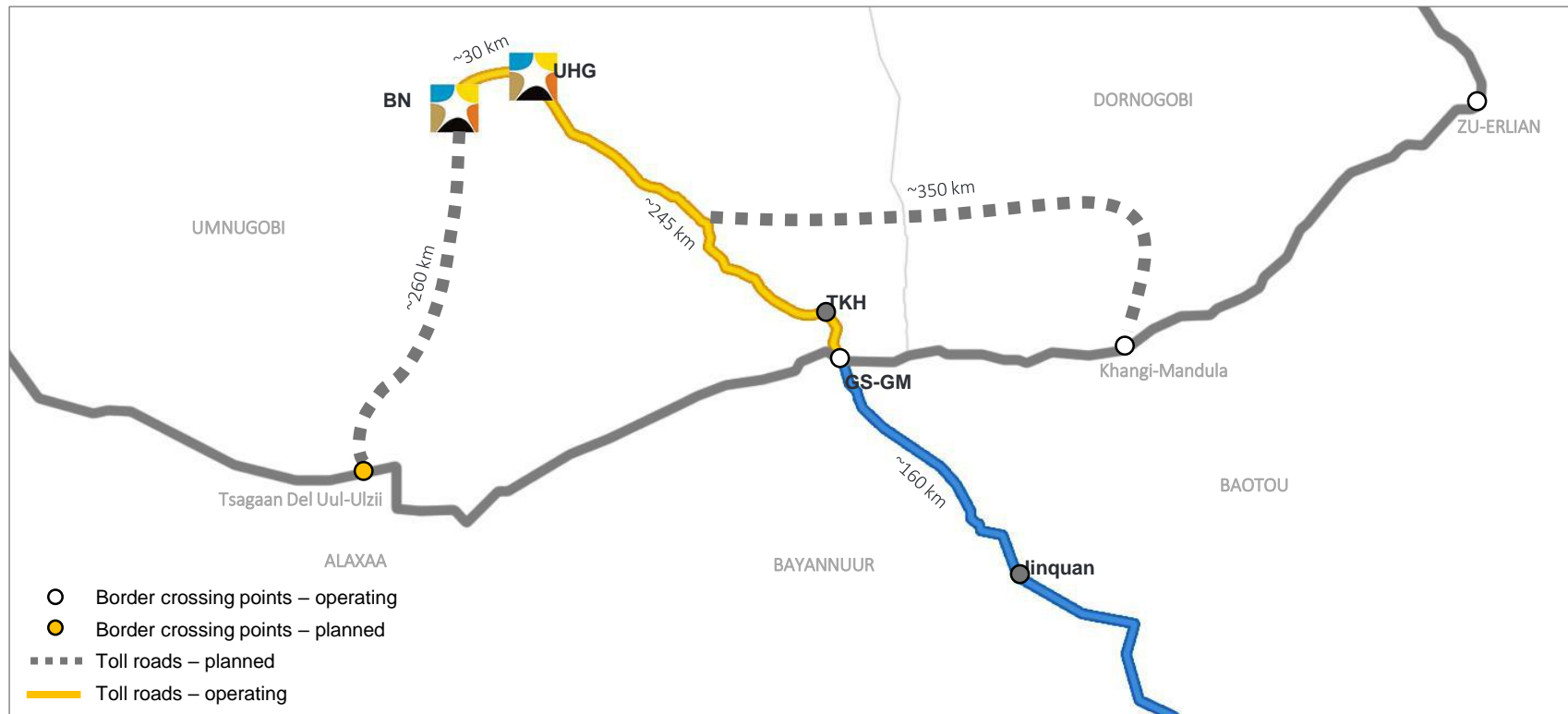
Summary of key points

- China is the world's largest producer and consumer of coal and steel, therefore policies adopted by the Chinese authorities have far-reaching impact on the global markets for steel making ingredients including coking coal.
- Chinese regulators have continued to enforce strong pollution control guidelines while undertaking supply-side reforms by closing excess capacity in industrial sectors, including coal and steel industry. These have positively impacted the supply and demand balance, resulting in improved market environment for steel making raw materials such as coking coal.
- International coking coal markets demonstrated strong performance since the end of 2016, driven by a lift in global steel production, along with supply-chain disruptions both within China and in sea-borne markets caused by extreme weather conditions.
- Although Chinese coking coal prices are having similar patterns with sea-borne coking coal prices in the long-run, short term volatility with large price spikes caused by supply disruptions makes Chinese buyers simply retreat from the markets and rely on land-borne supplies from domestic sources (mostly from Shanxi) or Mongolia.
- The market is also facing regulatory disturbances such as UN embargo on North Korea restricting coal imports to China; Recent international trade tensions resulted in 25% tariff imposition on coal imported from USA to China.
- Traditionally, steel production in China was concentrated in Bohai-Rim area - provinces like Hebei, Tangshan, Liaoning, Shandong and Jiangsu. However these areas are strongly impacted by the policies targeting pollution and overcapacity curbs.
- Major infrastructure projects undertaken within China's "One Belt-One Road" will continue to support increasing steel production in northern and western regions of China which are in close proximity to Mongolia.
- According to the data from Mongolian National Statistics Office, Mongolia's coal exports to China in 2017 reached a record-high volume of 33.4 Mt, representing 29.4% increase compared to 25.8 Mt reported in the previous year. However, the cross-border logistic bottlenecks remain as the main factor limiting further increase of coal exports volumes, particularly via GS-GM border crossing point.



Conclusions

Coal exports infrastructure



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