SouthGobi Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations

December 31, 2021
(Expressed in U.S. dollars)

FORWARD-LOOKING STATEMENTS

Except for statements of fact relating to SouthGobi Resources Ltd. and its subsidiaries (collectively, the "Company"), certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "could", "should", "seek", "likely", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur. Forward-looking statements relate to management's future outlook and anticipated events or results and are based on the opinions and estimates of management at the time the statements are made. Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") include, but are not limited to, statements regarding:

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") convertible debenture (the "Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below), the 2021 July Deferral Agreement (as defined below) and the 2022 May Deferral Agreement (as defined below) as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic and the potential closure of Mongolia's southern border with China on the Company's business, financial condition and operations;
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*");
- completion of the CIC Sale Transaction (as defined below);
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");*
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability of the Company to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the impact of the restrictions on the number of trucks crossing the border at the Ceke Port of Entry and the import coal quality standards established by Chinese authorities on the Company's operations;
- the future demand for coal in China;
- future trends in the Chinese coal industry;

- the impact of the Company's decision to temporarily suspend mining operations (including coal mining) beginning as of early November 2021 in order to control the Company's inventory level and preserve the Company's working capital;
- the delisting of the Common Shares from the TSX and the listing of the Common Shares on the TSX-V pursuant to the Voluntary Delisting Application (as defined below) and the Listing Application (as defined below), respectively;
- the conversion of the Company's listing of Common Shares on the HKEX from a secondary listing to a primary listing pursuant to the Primary Listing Application (as defined below);
- the Company's outlook and objectives for 2022 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2022 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will reopen for coal exports; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued restrictions on the number of trucks crossing the border at the Ceke Port of Entry; the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject for further closure; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk that the CIC Sale Transaction fails to complete; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 5 of this MD&A under the heading entitled "Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill Resources Limited ("Turquoise Hill")"); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Convertible Debenture, the deferral agreement signed on November 19, 2020 (the "2020 November Deferral Agreement"), the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement"), the deferral agreement signed on July 30, 2021 (the "2021 July Deferral Agreement") and the deferral agreement signed on May 13, 2022 (the "2022 May Deferral Agreement"); the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*") and any damages payable by the Company as a result; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 10 of this MD&A under the heading entitled "*Risk Factors*" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

Due to assumptions, risks and uncertainties, including the assumptions, risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company uses forward-looking statements because it believes such statements provide useful information with respect to the currently expected future operations and financial performance of the Company, and cautions readers that the information may not be appropriate for other purposes. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this MD&A; they should not rely upon this information as of any other date.

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INTRODUCTION

This MD&A is dated as of May 30, 2021 and should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2021. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are presented in the U.S. Dollar, which is the functional currency of SouthGobi Resources Ltd. and its controlled subsidiaries, except as subsequently mentioned.

The functional currency of the Company's Chinese subsidiaries (SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd. ("IMSGE"), Inner Mongolia SouthGobi Mining Development Co., Ltd. and Inner Mongolia SouthGobi Enterprise Co., Ltd.) was Renminbi ("RMB") and the functional currency of the Company's Mongolian operations (SouthGobi Sands LLC ("SGS"), Mazaalai Resources LLC and RDCC LLC), was the Mongolian Tugrik ("MNT").

All figures in this MD&A are presented in U.S. dollars unless otherwise stated.

Disclosure of a scientific or technical nature in this MD&A in respect of the Company's material mineral project, the Ovoot Tolgoi Mine, was prepared by or under the supervision of the individuals set out in the table below, each of whom is a "Qualified Person" as that term is defined in National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") of the Canadian Securities Administrators:

Property	Qualified Persons	Field of Expertise	Relationship to Company
Ovoot Tolgoi	Dr. Weiliang Wang	Resources	Independent Consultant
Ovoot Tolgoi	Vincent Li	Reserves	Independent Consultant

Disclosure of a scientific or technical nature relating to the Ovoot Tolgoi Mine contained in this MD&A is derived from a technical report (the "Ovoot Tolgoi Technical Report") prepared in accordance with NI 43-101 on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr. Larry Li of Dragon Mining Consulting Limited ("DMCL"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR at www.sedar.com. DMCL has not reviewed or updated the Ovoot Tolgoi Technical Report since the date of publishing.

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 279 employees as at December 31, 2021. The Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

The Company owns a 100% interest in the Ovoot Tolgoi open pit coal mine (the "Ovoot Tolgoi Mine"), as well as in the following development projects, the Soumber Deposit and the Zag Suuj Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, all of which are located within 150 kilometers ("km") of each other and in close proximity to the Mongolia-China border.

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren-Ceke crossing at the Mongolia-China border ("Shivee Khuren Border Crossing"), is the Company's flagship asset. The Company commenced mining at the Ovoot Tolgoi Mine in 2008. The Company sells a portion of its coal at the mine-gate to Chinese customers, while the remaining coal inventory is transported to China and sold via its Chinese subsidiaries at the stockyards in Ceke (Ceke, on the Chinese side of the Shivee Khuren Border Crossing, which is a major Chinese coal distribution terminal with rail connections to key coal markets in China) or certain designated locations in China as requested by customers.

Saleable products from the Ovoot Tolgoi Mine primarily consist of SouthGobi standard ("Standard") and SouthGobi premium ("Premium") semi-soft coking coal products. Some higher ash content product is washed and sold as semi-soft coking coal product while some of the unwashed product is sold as a thermal coal product, as and when the market allows.

Significant Events and Highlights

The Company's significant events and highlights for the year ended December 31, 2021 and the subsequent period to May 30, 2022 are as follows:

- ***Operating Results*** – In response to the increase in COVID-19 case numbers in Mongolia, the Chinese authorities has been restricting the number of trucks permitted to cross the Ceke Port of Entry, and such restriction has severely impacted the sales volume of the Company in the third and fourth quarters of 2021. As a result, the Company's sales volume decreased from 2.6 million tonnes in 2020 to 0.9 million tonnes in 2021.

  In response to the restrictions on the number of trucks crossing the Mongolian border into China which began as of the second quarter of 2021, the Company temporarily suspended its major mining operations (including coal mining) in the second quarter of 2021 in order to control the inventory level and preserve the Company's working capital. Mining operations (including coal mining) resumed in the third quarter of 2021. However, mining operations were temporarily suspended again by the Company beginning in November 2021 in response to the temporary closure of the Ceke Port of Entry in the fourth quarter of 2021. See *"Impact of the COVID-19 Pandemic*" below.

  The Company experienced an increase in the average selling price of coal from $35.5 per tonne in the fourth quarter of 2020 to $55.4 per tonne in the fourth quarter of 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

- ***Financial Results*** – The Company recorded a $4.4 million profit from operations in 2021 compared to a $15.3 million profit in 2020. The financial results were impacted by the decreased sales resulting from the export volume limitations and temporary closure of the Ceke Port of Entry experienced by the Company during the year.

- ***Impact of the COVID-19 Pandemic*** – Since the second quarter of 2021, additional precautionary measures were imposed by the Chinese authorities at the Ceke Port of Entry in response to the increase of COVID-19 cases in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. The restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in 2021.

  In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region where the custom and border crossing are located, reported in late October 2021, the local government authorities have imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021.

  On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly. Although the export of coal from Mongolia to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the Mongolian-Chinese border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company anticipates that its revenue, liquidity and profitability will continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels.

  The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the full resumption of its mining operation.

  In the event that the Company's ability to export coal into the Chinese market continues to be restricted or limited, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

- ***Convertible Debenture*** – On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of $8.1 million payable to CIC on November 19, 2021; and (ii) $4.0 million worth of payment in kind interest ("PIK Interest") shares (collectively, the "2021 Deferral Amounts") issuable to CIC on November 19, 2021 under the Convertible Debenture.

  The principal terms of the 2021 July Deferral Agreement are as follows:

  - Payment of the 2021 Deferral Amounts will be deferred until August 31, 2023.
  - As consideration for the deferral of the 2021 Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2021 Deferral Amounts payable under the Convertible Debenture, commencing on November 19, 2021.

On May 15, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $7.9 million payable to CIC on May 19, 2022 (the "Deferred Amounts"); and (ii) the management fee which payable to CIC on February 14, 2022 and August 14, 2021 (the "Deferred Management Fee") under the Amended and Restated Cooperation Agreement (collectively, the "2022 Deferral Amounts") under the Convertible Debenture.

The principal terms of the 2022 May Deferral Agreement are as follows:

- Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the Convertible Debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement;
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

- ***Management Cease Trade Order ("MCTO")*** – On March 11, 2022, the Company announced that it was advised by its external auditors that they would not be in a position to render an unmodified opinion on the Company's annual consolidated financial statements for the year ended December 31, 2021 (the "2021 Financial Statements") prior to the filing deadline of March 31, 2022 because they were not able to obtain sufficient evidence to support management's going concern assumptions. As a result, the Company was unable to file: (i) the 2021 Financial Statements, accompanying MD&A and chief executive officer and chief financial officer certificates prior to the filing deadline of March 31, 2022; and (ii) the Annual Information Form for the financial year ended December 31, 2021 prior to the filing deadline of March 31, 2022 (collectively, the "2022 Required Filings"). The Company was also unable to file its 2021 Annual Report prior to the filing deadline of March 31, 2022 as required under applicable HKEX listing rules.

  On March 17, 2022, the Company applied for a management cease trade order with the applicable Canadian securities regulators in connection with the anticipated delayed filing of the 2022 Required Filings. A MCTO was issued by the BCSC, the Company's principal securities regulator in Canada, on April 1, 2022 (the "2022 MCTO").

- ***Application for New Listing on the TSX Venture Exchange (the "TSX-V") and Primary Listing on the Hong Kong Stock Exchange*** – On April 20, 2022, the Company announced that it would be making an application (the "Listing Application") to the TSX-V to list its common shares on the TSX-V. In conjunction with the foregoing, the Company would also apply for voluntary delisting of its common shares from the TSX, subject to the Company receiving approval from the TSX-V of the Listing Application. Pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), the Company announced it intends to submit a written notification to the HKEX stating, among other things, that it will be able to fully comply with the applicable Listing Rules in connection with the approval of the Listing Application and the Listing Application becoming effective, and such that its current secondary listing on the HKEX will be converted to a primary listing.

- ***Sale by CIC of its Interests in the Company*** – On May 27, 2022, the Company announced that as disclosed in the press release issued by CIC on May 26, 2022 (the "CIC Press Release"), CIC has entered into an agreement to sell (the "CIC Sale Transaction") all of its interests in the Company, including its 64,766,591 common shares of the Company and the Convertible Debenture, to JD Zhixing Fund L.P. (the "Buyer"). The Company has been advised that the Buyer is an exempted limited partnership formed under the laws of Cayman Islands. The Buyer's general partner is JD Dingxing Limited, a coporation formed under the laws of the Cayman Islands. The Buyer's limited partner is Inner Mongolia Tianyu Trading Limited, a corporation formed under the laws of Hong Kong. As disclosed in the CIC Press Release, completion of the Sale Transaction is subject to the satisfaction of certain conditions precedent.

  In connection with the CIC Sale Transaction, CIC has agreed to assign (the "Assignment") to the Buyer all of CIC's rights in and obligations under: (i) the Convertible Debenture and related security documents; (ii) the Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement (the "Deferral Agreements"); and (iv) the Securityholders Agreement.

  Subject to completion of the CIC Sale Transaction and related Assignment, the Buyer has agreed, effective as of July 1, 2022, to reduce the service fee payable by the Company under the Amended and Restated Cooperation Agreement from 2.5% to 1.5% of all net revenues realized by the Company and all of its subsidiaries derived from sales into China.

  Upon the completion of the Sale Transaction and related Assignment:

  - while the Convertible Debenture is outstanding, or while the Buyer has a minimum 15% direct or indirect stake in the Company, the Buyer will have the right to nominate one director to the Board pursuant to the board nomination rights contained in the Securityholders Agreement;
  - the buyer also will have the right to nominate two additional directors to the Board if it and its affiliates have a minimum 20% direct or indirect stake in Company, or one additional director to the Board if it and its affiliate have a minimum 10% direct or indirect stake in Company, pursuant to the board nomination rights contained in the Deferral Agreements; and
  - while the Convertible Debenture is outstanding, or while the buyer has a minimum 15% direct or indirect stake in Company, the buyer will have certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by Company. The pre-emption rights do not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

- ***Changes in Management***

  - ***Mr. Weiguo Zhang**:* Mr. Zhang resigned as Chief Financial Officer on February 10, 2021.

  - ***Mr. Alan Ho**:* Mr. Ho was appointed as acting Chief Financial Officer on February 10, 2021.

  - ***Mr. Aiming Guo**:* Mr. Guo resigned as Chief Operating Officer on February 10, 2021.

  - ***Mr. Tao Zhang**:* Mr. Zhang has been re-designated from Vice President to Vice President of Sales on February 10, 2021.

  - ***Mr. Munkhbat Chuluun**:* Mr. Chuluun was appointed as Vice President of Public Relations on February 10, 2021.

- ***Going Concern*** – Several adverse conditions and material uncertainties relating to the Company cast significant doubt upon the going concern assumption which includes the deficiencies in assets and working capital. Refer to Section 6 of this MD&A under the heading entitled "Liquidity and Capital Resources" and Section 14 of this MD&A under the heading entitled "Risk Factors" for details.

2. SELECTED ANNUAL INFORMATION

$ in thousands, except per share and per tonne information	Year ended December 31, 2021	2020	2019
Revenue	**$ 43,398**	$ 85,951	$ 129,712
Profit from operations	**4,377**	15,276	29,832
Net profit/(loss) attributable to equity holders of the Company	**(14,373)**	(20,089)	4,201
Basic and diluted earnings/(loss) per share	**$ (0.05)**	$ (0.07)	$ 0.02
Cash from/(used in) operating activities	**(4,329)**	23,687	20,057
Cash used in investing activities	**(8,637)**	(9,613)	(18,508)
Cash used in financing activities	**(6,010)**	(1,416)	(1,339)
Coal sales volumes *(millions of tonnes)* [(i)]	**0.94**	2.63	3.74
Average realized selling price *(per tonne)*	**$ 46.02**	$ 33.01	$ 34.88

$ in thousands	As at December 31, 2021	2020	2019
Cash and cash equivalents	**$ 723**	$ 20,121	$ 7,164
Total working capital deficiency	**(42,535)**	(217,607)	(114,711)
Total assets	**206,113**	214,632	228,427
Total non-current liabilities	**198,728**	6,869	98,581

(i) Coal sales volumes are from the Ovoot Tolgoi Mine.

The Mongolia-China border closure in response to the increase in COVID-19 case numbers in Mongolia has had an adverse impact on the Company's sales and cash flows for 2020. When combined with the impact of the provision for commercial arbitration of $4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept Industrial Group Limited, the Company recorded a net loss of $20.1 million in 2020.

Despite an increase with the average realized selling price as a result of improved market condition in 2021, the financial results for 2021 were impacted by the decreased sales resulting from the export volume limitations as well as the closure of the Ceke Port of Entry experienced by the Company.

3. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Year ended December 31, 2021	2020
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.60**	1.01
Average realized selling price *(per tonne)*	**$ 51.80**	$ 33.22
Standard semi-soft coking coal/ premium thermal coal		
Coal sales *(millions of tonnes)*	**0.33**	1.43
Average realized selling price *(per tonne)*	**$ 35.01**	$ 31.69
Washed coal		
Coal sales *(millions of tonnes)*	**0.01**	0.19
Average realized selling price *(per tonne)*	**$ 48.53**	$ 41.96
Total		
Coal sales *(millions of tonnes)*	**0.94**	2.63
Average realized selling price *(per tonne)*	**$ 46.02**	$ 33.01
Raw coal production *(millions of tonnes)*	**1.36**	1.49
Cost of sales of product sold *(per tonne)*	**$ 33.30**	$ 22.30
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 17.81**	$ 12.73
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 1.53**	$ 1.33
Total cash costs of product sold *(per tonne)* [(i)]	**$ 19.34**	$ 14.06
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**5.94**	5.34
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**4.36**	3.59
Lost time injury frequency rate [(ii)]	**0.00**	0.03

(i) A non-IFRS financial measure, refer to Section 4. Cash costs of product sold exclude idled mine asset cash costs.
(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Overview of Annual Operational Data

The Company ended 2021 without a lost time injury. In comparison, as at December 31, 2020, the Company had a lost time injury frequency rate of 0.03 per 200,000 man hours based on a rolling 12-month average.

The Company sold 0.9 million tonnes in 2021 as compared to 2.6 million tonnes in 2020. The average selling price increased from $33.0 per tonne for 2020 to $46.0 per tonne for 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

The product mix for 2021 consisted of approximately 64% of premium semi-soft coking coal, 34% of standard semi-soft coking coal/premium thermal coal and 2% of washed coal compared to approximately

39% of premium semi-soft coking coal, 54% of standard semi-soft coking coal/premium thermal coal and 7% of washed coal in 2020.

The Company's production in 2021 was lower than 2020 as a result of the Company's major mining operations (including coal mining) being temporarily suspended for a relatively longer period in 2021 in order to mitigate the financial impact of the border closures and to preserve the Company's working capital, yielding 1.4 million tonnes for 2021 as compared to 1.5 million tonnes for 2020.

The Company's unit cost of sales of product sold increased from $22.3 per tonne in 2020 to $33.3 per tonne in 2021. The increase was mainly driven by the increase in the effective royalty rate.

Summary of Annual Financial Results

$ in thousands, except per share information	Year ended December 31, 2021	Year ended December 31, 2020
Revenue (i)	**$ 43,398**	$ 85,951
Cost of sales (i)	**(31,304)**	(58,657)
Gross profit excluding idled mine asset costs (ii)	**15,011**	32,147
Gross profit	**12,094**	27,294
Other operating expenses, net	**(1,426)**	(4,821)
Administration expenses	**(6,068)**	(6,971)
Evaluation and exploration expenses	**(223)**	(226)
Profit from operations	**4,377**	15,276
Finance costs	**(39,118)**	(31,692)
Finance income	**23,165**	2,613
Share of earnings/(loss) of a joint venture	**(159)**	1,313
Current income tax expenses	**(2,638)**	(7,599)
Net loss attributable to equity holders of the Company	**(14,373)**	(20,089)
Basic and diluted loss per share	**$ (0.05)**	$ (0.07)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.
(ii) A non-IFRS financial measure. Refer to "Non-IFRS Financial Measures" section. Idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

Overview of Annual Financial Results

The Company recorded a $4.4 million profit from operations in 2021 compared to a $15.3 million profit in 2020. The financial results were impacted by (i) the export volume limitations experienced by the Company during the year and (ii) the temporary closure of the China-Mongolia border which resulted in the Company being unable to export its coal products to China during the fourth quarter of 2021.

Revenue was $43.4 million in 2021 compared to $86.0 million in 2020. The Company's effective royalty rate for 2021, based on the Company's average realized selling price of $46.0 per tonne, was 18.7% or $8.6 per tonne, compared to 12.2% or $4.0 per tonne in 2020 (based on the average realized selling price of $33.0 per tonne).

Royalty regime in Mongolia

On June 23, 2021, the Government of Mongolia issued a new resolution in connection with the royalty regime. From July 1, 2021 onwards, the royalty payable is to be calculated based on the reference price as determined by the Government of Mongolia, and the reference to the contract sales price will be removed. Refer to the section entitled "*Risk Factors – Risk Relating to the Company's Projects in Mongolia*" of this MD&A.

Cost of sales was $31.3 million in 2021 compared to $58.7 million in 2020. The decrease in cost of sales in 2021 was mainly due to the effect of decreased sales volume. Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, refer to Section 4 of this MD&A for further analysis) during the year.

	Year ended December 31,	
$ in thousands	**2021**	**2020**
Operating expenses	**$ 18,176**	$ 36,974
Share-based compensation expense	**52**	24
Depreciation and depletion	**2,034**	6,243
Royalties	**8,125**	10,563
Cost of sales from mine operations	**28,387**	53,804
Cost of sales related to idled mine assets	**2,917**	4,853
Cost of sales	**$ 31,304**	$ 58,657

Operating expenses in cost of sales were $18.2 million in 2021 compared to $37.0 million in 2020. The overall decrease in operating expenses was primarily due to the decreased sales volume from 2.6 million tonnes in 2020 to 0.9 million tonnes in 2021.

Cost of sales related to idled mine assets in 2021 included $2.9 million related to depreciation expenses for idled equipment (2020: $4.9 million).

Other operating expenses were $1.4 million in 2021 (2020: $4.8 million), which mainly comprises of the impairment of materials and supplies inventories of $2.4 million in 2021.

	Year ended December 31,	
$ in thousands	**2021**	**2020**
CIC management fee	**$ 967**	$ 2,170
Provision/(reversal of provision) for doubtful trade and other receivables	**191**	(336)
Provision for commercial arbitration	**-**	4,634
Impairment of prepaid expenses	**-**	8
Foreign exchange loss/(gain), net	**325**	(1,586)
Gain on disposal of items of property, plant and equipment, net	**(299)**	(69)
Impairment on materials and supplies inventories	**2,411**	-
Rental income from short term leases	**(587)**	-
Discount on settlement of trade payables	**(891)**	-
Written off of other payables	**(691)**	-
Other operating expenses	**$ 1,426**	$ 4,821

Administration expenses were $6.1 million in 2021 as compared to $7.0 million in 2020, as follows:

$ in thousands	Year ended December 31, 2021	Year ended December 31, 2020
Corporate administration	**$ 1,312**	$ 1,268
Legal and professional fees	**1,098**	1,363
Salaries and benefits	**2,847**	3,518
Share-based compensation expense	**151**	89
Depreciation	**660**	733
Administration expenses	**$ 6,068**	$ 6,971

Administration expenses were lower for 2021 compared to 2020 primarily due to decrease in salaries and benefits incurred during the year.

The Company continued to minimize evaluation and exploration expenditures in 2021 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2021 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $39.1 million and $31.7 million in 2021 and 2020, respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

Summary of Quarterly Operational Data

	2021				2020			
Quarter Ended	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.01**	0.11	0.08	0.40	0.38	0.35	0.21	0.07
Average realized selling price *(per tonne)*	**$ 69.73**	$ 64.25	$ 52.11	$ 47.88	$ 39.34	$ 30.17	$ 28.69	$ 28.46
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.01**	0.06	0.03	0.23	0.50	0.54	0.26	0.13
Average realized selling price *(per tonne)*	**$ 34.84**	$ 33.56	$ 36.71	$ 35.17	$ 31.66	$ 30.80	$ 33.12	$ 32.71
Washed coal								
Coal sales *(millions of tonnes)*	**-**	-	-	0.01	0.07	0.10	0.02	-
Average realized selling price *(per tonne)*	**$ -**	$ -	$ -	$ 49.62	$ 42.51	$ 41.30	$ 43.26	$ -
Total								
Coal sales *(millions of tonnes)*	**0.02**	0.17	0.11	0.64	0.95	0.99	0.49	0.20
Average realized selling price *(per tonne)*	**$ 55.44**	$ 53.52	$ 47.93	$ 43.46	$ 35.53	$ 31.63	$ 31.66	$ 31.18
Raw coal production *(millions of tonnes)*	**0.06**	0.26	-	1.04	0.96	0.52	-	0.01
Cost of sales of product sold *(per tonne)*	**$ 76.95**	$ 40.39	$ 41.38	$ 28.67	$ 23.36	$ 20.23	$ 21.16	$ 30.36
Direct cash costs of product sold *(per tonne)* *(i)*	**$ 17.47**	$ 17.50	$ 16.39	$ 18.15	$ 14.78	$ 12.38	$ 9.90	$ 11.69
Mine administration cash costs of product sold *(per tonne)* *(i)*	**$ 1.23**	$ 1.62	$ 4.26	$ 1.04	$ 1.07	$ 1.15	$ 1.70	$ 2.50
Total cash costs of product sold (*per tonne*) *(i)*	**$ 18.70**	$ 19.12	$ 20.65	$ 19.19	$ 15.85	$ 13.53	$ 11.60	$ 14.19
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**0.31**	0.59	-	5.04	3.10	1.67	-	0.57
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**5.61**	2.23	-	4.83	3.24	3.20	-	85.08
Lost time injury frequency rate *(ii)*	**0.00**	0.00	0.00	0.00	0.00	0.00	0.04	0.09

(i) A non-IFRS financial measure, refer to Section 4. Cash costs of product sold exclude idled mine asset cash costs.
(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Overview of Quarterly Operational Data

The Company ended the fourth quarter of 2021 without a lost time injury.

The Company experienced an increase in the average selling price of coal from $35.5 per tonne in the fourth quarter of 2020 to $55.4 per tonne in the fourth quarter of 2021, as a result of improved market conditions in China and an improvement of the overall product mix. The product mix for the fourth quarter of 2021 consisted of approximately 59% premium semi-soft coking coal and 41% standard semi-soft coking coal/premium thermal coal compared to approximately 40% premium semi-soft coking coal, 53% standard semi-soft coking coal/premium thermal coal and 7% washed coal in the fourth quarter of 2020.

In response to the increase in the number of COVID-19 cases in Ejinaqi, the Ceke Port of Entry was closed in October 2021. Accordingly, the Company's coal exports into China were suspended from November 2020 to May 2022. As a result, the Company's sales volume decreased from 1.0 million tonnes in the fourth quarter of 2020 to less than 0.1 million tonnes in the fourth quarter of 2021.

In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021. See *"Significant Events and Highlights - Impact of the COVID-19 Pandemic*" above.

The Company's unit cost of sales of product sold increased from $23.4 per tonne in the fourth quarter of 2020 to $77.0 per tonne in the fourth quarter of 2021. The increase was mainly driven by the diseconomies of scale due to decreased sales as well as the increase in the effective royalty rate.

Summary of Quarterly Financial Results

The Company's annual financial statements are reported under International Financial Reporting Standards ("IFRS") issued by the IASB. The following table provides highlights, extracted from the Company's annual and interim financial statements, of quarterly results for the past eight quarters:

$ in thousands, except per share information	**2021**				2020			
Quarter Ended	**31-Dec**	**30-Sep**	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue [(i)]	**$ 848**	$ 9,295	$ 5,191	$ 28,064	$ 33,879	$ 30,960	$ 14,975	$ 6,137
Cost of sales [(i)]	**(1,539)**	(6,866)	(4,552)	(18,347)	(22,193)	(20,027)	(10,366)	(6,071)
Gross profit/(loss) excluding idled mine asset costs	**(51)**	3,269	1,565	10,228	12,610	11,789	6,286	1,462
Gross profit/(loss) including idled mine asset costs	**(691)**	2,429	639	9,717	11,686	10,933	4,609	66
Other operating income/(expenses), net	**(1,078)**	100	(113)	(335)	434	(575)	(5,150)	470
Administration expenses	**(1,336)**	(1,467)	(1,484)	(1,781)	(2,120)	(1,789)	(1,291)	(1,771)
Evaluation and exploration expenses	**(75)**	(36)	(47)	(65)	(55)	(63)	(52)	(56)
Profit/(loss) from operations	**(3,180)**	1,026	(1,005)	7,536	9,945	8,506	(1,884)	(1,291)
Finance costs	**(9,702)**	(11,457)	(8,870)	(14,637)	(7,442)	(9,885)	(7,258)	(7,135)
Finance income	**3,178**	2,040	2,494	21,001	13	2,583	2	43
Share of earnings/(loss) of a joint venture	**(137)**	(261)	(35)	274	431	660	268	(46)
Current income tax credit/(expenses)	**(1,579)**	(78)	139	(1,120)	(5,174)	(793)	(900)	(732)
Net profit/(loss)	**(11,420)**	(8,730)	(7,277)	13,054	(2,227)	1,071	(9,772)	(9,161)
Basic earnings/(loss) per share	**$ (0.04)**	$ (0.03)	$ (0.03)	$ 0.05	$ (0.01)	$ -	$ (0.04)	$ (0.03)
Diluted earnings/(loss) per share	**$ (0.04)**	$ (0.03)	$ (0.03)	$ 0.02	$ (0.01)	$ -	$ (0.04)	$ (0.03)

(i) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Quarterly Financial Results

The Company recorded a $3.2 million loss from operations in the fourth quarter of 2021 compared to a $9.9 million profit from operations in the fourth quarter of 2020. The financial results for the fourth quarter of 2021 were impacted by the decreased sales resulting from the export volume limitations as well as the border closure experienced by the Company during the quarter.

Revenue was $0.8 million in the fourth quarter of 2021 compared to $33.9 million in the fourth quarter of 2020. The Company's effective royalty rate for the fourth quarter of 2021, based on the Company's average realized selling price of $55.4 per tonne, was 49.4% or $27.4 per tonne, compared to 12.3% or $4.4 per tonne in the fourth quarter of 2020 (based on the average realized selling price of $35.5 per tonne).

Cost of sales was $1.5 million in the fourth quarter of 2021 compared to $22.2 million in the fourth quarter of 2020. The decrease in cost of sales in the fourth quarter of 2021 was mainly due to the effect of decreased sales volume.

Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, refer to Section 4 of this MD&A for further analysis) during the quarter.

	Three months ended December 31,	
$ in thousands	**2021**	**2020**
Operating expenses	**$ 374**	$ 15,062
Share-based compensation expense	**15**	1
Depreciation and depletion	**91**	2,080
Royalties	**419**	4,126
Cost of sales from mine operations	**899**	21,269
Cost of sales related to idled mine assets	**640**	924
Cost of sales	**$ 1,539**	$ 22,193

Cost of sales related to idled mine assets in the fourth quarter of 2021 included $0.6 million related to depreciation expenses for idled equipment (fourth quarter of 2020: $0.9 million).

Other operating expenses was $1.1 million in the fourth quarter of 2021 (fourth quarter of 2020: other operating income of $0.4 million). The increase was mainly due to the impairment of materials and supplies inventories of $2.4 million during the fourth quarter of 2021.

	Three months ended December 31,	
$ in thousands	**2021**	**2020**
CIC management fee	**$ 35**	$ 771
Reversal of provision for doubtful trade and other receivables	**(13)**	(136)
Foreign exchange loss/(gain), net	**141**	(947)
Impairment of prepaid expenses	**-**	8
Impairment on materials and supplies inventories	**2,435**	-
Discount on settlement of trade payables	**(383)**	-
Gain on disposal of items of property, plant and equipment, net	**(29)**	(130)
Rental income from short term leases	**(587)**	-
Written off of other payables	**(521)**	-
Other operating expenses/(income), net	**$ 1,078**	$ (434)

Administration expenses decreased from $2.1 million in the fourth quarter of 2020 to $1.3 million in the fourth quarter of 2021, primarily due to decrease in salaries and benefits incurred during the quarter.

	Three months ended December 31,	
$ in thousands	**2021**	**2020**
Corporate administration	**$ 176**	$ 427
Legal and professional fees	**246**	418
Salaries and benefits	**765**	1,070
Share-based compensation expense	**18**	5
Depreciation	**131**	200
Administration expenses	**$ 1,336**	$ 2,120

The Company continued to minimize evaluation and exploration expenditures in the fourth quarter of 2021 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2021 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $9.7 million in the fourth quarter of 2021 compared to $7.4 million in the fourth quarter of 2020, which primarily consisted of interest expense on the Convertible Debenture.

4. NON-IFRS FINANCIAL MEASURES

The Company has included the non-IFRS financial measure "cash costs" and "idled mine asset costs" in this MD&A to supplement its consolidated financial statements, which have been prepared in accordance with IFRS. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company believes that this measure, together with measures determined in accordance with IFRS, provides investors with useful information to evaluate the underlying performance of the Company. Non-IFRS financial measures do not have a standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures employed by other companies. The non-IFRS financial measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Cash Costs

The Company uses cash costs to describe its cash production and associated cash costs incurred in bringing the inventories to their present locations and conditions. Cash costs incorporate all production costs, which include direct and indirect costs of production, with the exception of idled mine asset costs and non-cash expenses which are excluded. Non-cash expenses include share-based compensation expense, impairment of coal stockpile inventories, depreciation and depletion of property, plant and equipment and mineral properties. The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

The following table provides a reconciliation of the cash costs of product sold disclosed for the three months and year ended December 31, 2021 and December 31, 2020. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	**2021**	**2020**	**2021**	**2020**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 1,539**	$ 22,193	**$ 31,304**	$ 58,657
Less royalties	**(419)**	(4,126)	**(8,125)**	(10,563)
Less non-cash expenses	**(106)**	(2,081)	**(2,086)**	(6,267)
Less non-cash idled mine asset costs	**(640)**	(924)	**(2,917)**	(4,853)
Total cash costs	**374**	15,062	**18,176**	36,974
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**374**	15,062	**18,176**	36,974
Coal sales *(millions of tonnes)*	**0.02**	0.95	**0.94**	2.63
Total cash costs of product sold *(per tonne)*	**$ 18.70**	$ 15.85	**$ 19.34**	$ 14.06

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	**2021**	**2020**	**2021**	**2020**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 17.47**	$ 14.78	**$ 17.81**	$ 12.73
Mine administration cash costs of product sold *(per tonne)*	**1.23**	1.07	**1.53**	1.33
Total cash costs of product sold *(per tonne)*	**$ 18.70**	$ 15.85	**$ 19.34**	$ 14.06

The cash cost of product sold per tonne was $19.3 for 2021, which has increased from $14.1 per tonne for 2020. The reason for the increase is primarily related to (i) diseconomies of scale given the decreased sales; and (ii) a higher portion of coal was transported to the Company's Inner Mongolia subsidiary and sold to third party customers within China instead of being sold at the mine gate during the year.

Idle Mine Asset Costs

The Company uses idle mine asset costs to describe the cost incurred during idle mine period. Idle mine asset costs include share-based compensation expense, impairment of coal stockpile inventories, depreciation and depletion of property, plant and equipment and mineral properties. The Company uses this performance measure to monitor its gross profit internally and believes this measure provides investors and analysts with useful information about the Company's underlying gross profit. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. This performance measure is commonly utilized in the mining industry.

The following table provides a reconciliation of the gross profit/(loss) disclosed for the three months and year ended December 31, 2021 and December 31, 2020.

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	**2021**	**2020**	**2021**	**2020**
Idled mine asset costs				
Gross profit/(loss) excluding idled mine asset costs	**$ (51)**	$ 12,610	**$ 15,011**	$ 32,147
Less non-cash idled mine asset costs	**$ (640)**	$ (924)	**$ (2,917)**	$ (4,853)
Gross profit/(loss) including idled mine asset costs	**$ (691)**	$ 11,686	**$ 12,094**	$ 27,294

5. PROPERTIES

The Company currently holds six mining licenses in Mongolia. The mining licenses pertain to the Ovoot Tolgoi Mine (MV-012726), the Soumber Deposit (MV-016869, MV-020436 and MV-020451) and the Zag Suuj Deposit (MV-020676 and MV-020675).

Operating Mine

Ovoot Tolgoi Mine

The Ovoot Tolgoi Mine is located in the southwest corner of the Umnugobi Aimag (South Gobi Province) of Mongolia. The deposit is within the administrative unit of Gurvantes Soum, 320km southwest of the provincial capital of Dalanzadgad and 950km southwest of the nation's capital of Ulaanbaatar. Mining operations at the Ovoot Tolgoi Mine have been carried out in two distinct areas, the Sunset pit to the west and the Sunrise pit to the east.

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. Some higher ash content product is being washed and sold as semi-soft coking coal products while some of the unwashed product is sold as a thermal coal product as and when the market allows. The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in China to complement its existing customer base and to gain best value for the Company's coal in the Chinese market. The Company is committed to further enhancing the quality of its coal products through wet washing and increasing its market penetration in China.

Resources

A resource estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Reserves

A reserve estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Mining Operations

Mining Method

The mining method employed at the Ovoot Tolgoi deposit could be described as open pit terrace mining utilizing large scale hydraulic excavators and shovels and trucks. Terrace mining is utilized where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible, due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used, as needed, to push coal or waste down to the excavator for loading onto trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste is dumped ex-pit, as the steep dips preclude in-pit dumping.

Mining Equipment

The key elements of the currently commissioned mining fleet include: two Liebherr 996 ($33m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators and 19 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at December 31, 2021, SGS employed 242 employees in Mongolia. Of the 242 employees, 27 are employed in the Ulaanbaatar office and 215 at the Ovoot Tolgoi Mine site. Of the 242 employees based in Mongolia, 241 (99%) are Mongolian nationals and of those, 114 (47%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures during 2021 in order to preserve the Company's financial resources. The 2022 exploration program will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining licenses.

6. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

The Company has in place a planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and the Company's expansionary plans.

Bank Loan

On May 15, 2018, SGS obtained a bank loan (the "2018 Bank Loan") in the principal amount of $2.8 million from a Mongolian bank (the "Bank") with the key commercial terms as follows:

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at December 31, 2020, the net carrying amount of the pledged items of property, plant and equipment was $0.1 million.

As at December 31, 2020, the outstanding principal balance of the 2018 Bank Loan was $2.8 million and the accrued interest owed by the Company was negligible.

In February 2021, $2.8 million was repaid to the Bank by the Company in full settlement of the outstanding principal balance of the 2018 Bank Loan and the accrued interest thereon.

Costs reimbursable to Turquoise Hill Resources Limited (“Turquoise Hill”)

Prior to the completion of a private placement with Novel Sunrise Investments Limited (“Novel Sunrise”) on April 23, 2015, Rio Tinto plc (“Rio Tinto”) was the Company’s ultimate parent company. In the past, Rio Tinto sought reimbursement from the Company for the salaries and benefits of certain Rio Tinto employees who were assigned by Rio Tinto to work for the Company, as well as certain legal and professional fees incurred by Rio Tinto in relation to the Company’s prior internal investigation and Rio Tinto’s participation in the tripartite committee. Subsequently Rio Tinto transferred and assigned to Turquoise Hill its right to seek reimbursement for these costs and fees from the Company.

On January 20, 2021, the Company and Turquoise Hill entered into a settlement agreement, whereby Turquoise Hill agreed to a repayment schedule in settlement of certain secondment costs in the amount of $2.8 million (representing a portion of the TRQ Reimbursable Amount) pursuant to which the Company agreed to make monthly payments to Turquoise Hill in the amount of $0.1 million per month from January 2021 to June 2022. The Company is contesting the validity of the remaining balance of the TRQ Reimbursable Amount claimed by Turquoise Hill.

As at December 31, 2021, the amount of reimbursable costs and fees claimed by Turquoise Hill (the “TRQ Reimbursable Amount”) amounted to $6.8 million (such amount is included in the trade and other payables).

Going concern considerations

The Company’s consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2022 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company’s ability to continue as a going concern and the going concern assumption used in the preparation of the Company’s consolidated financial statements. The Company incurred a loss attributable to equity holders of the Company of $14.4 million for the year ended December 31, 2021 (compared to a loss attributable to equity holders of the Company of $20.1 million for the year ended December 31, 2020), and as of that date, had a deficiency in assets of $90.5 million as at December 31, 2021 as compared to a deficiency in assets of $76.2 million as at December 31, 2020 while the working capital deficiency (excess current liabilities over current assets) reached $42.5 million as at December 31, 2021 compared to a working capital deficiency of $217.6 million as at December 31, 2020.

Included in the working capital deficiency as at December 31, 2021 are significant obligations, represented by trade and other payables of $67.3 million, which includes $22.1 million in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at May 30, 2022. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

On May 25, 2022, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit number of trucks was permitted to cross the border during this trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly.

There are significant uncertainties as to the outcomes of the above events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the consolidated financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Company's assets to their realizable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2021. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into three deferral agreements with CIC on November 19, 2020, the 2020 November Deferral Agreement for a deferral of (i) deferred cash interest and deferral fees of $75.2 million which were due and payable to CIC on or before September 14, 2020, under the deferral agreement signed on June 19, 2020 (the "2020 June Deferral Agreement"); (ii) semi-annual cash interest payments in the aggregate amount of $16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4.0 million worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the Convertible Debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts"), on July 30, 2021, the 2021 July Deferral Agreement for a deferral of the 2021 Deferral Amounts and on May 13, 2022, the 2022 May Deferral Agreement for a deferral of the 2022 Deferral Amounts respectively until August 31, 2023; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Group; (d) In light of the uncertainty brought by the pandemic which may impact the openness of the border, management has kept the mining operations temporary suspended despite the above-mentioned re-opening of the Chinese-Mongolian border for coal export since May 25, 2022, in order to preserve the working capital that is required to resume the mining operations. The management expected that the existing inventory level on hand is sufficient to cater the demand for approximately a quarter and this provides flexibility to the Company in managing the timing of resumption of the mining operations and related sales strategy and its liquidity; and (e) obtaining an avenue of financial support from a prospective shareholder for a maximum amount of $73.0 million during the period covered in the cash flow projection. There is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Group, Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2021 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, impact of the COVID-19 pandemic, restrictions on the Company's ability to import its coal products for sale in China, Chinese economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

As at December 31, 2021 and December 31, 2020, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

Since the second quarter of 2021, additional precautionary measures were imposed by the Chinese authorities at the Ceke Port of Entry in response to the increase of COVID-19 cases in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. The restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in 2021.

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities have imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021.

On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly. Although the export of coal from Mongolia to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the Mongolian-Chinese border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company anticipates that its revenue, liquidity and profitability will continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels.

The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the resumption of its mining operation.

Convertible Debenture

In November 2009, the Company entered into a financing agreement with CIC for $500 million in the form of a secured, convertible debenture bearing interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's Common Shares) with a maximum term of 30 years. The Convertible Debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. The financing was used primarily to support the accelerated investment program in Mongolia and for working capital, repayment of debts, general and administrative expenses and other general corporate purposes.

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CAD$11.88). As at June 30, 2021, CIC owned approximately 23.7% of the issued and outstanding Common Shares of the Company.

On November 19, 2020, the Company and CIC entered into the 2020 November Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of the 2020 November Deferral Amounts. The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November Deferral Agreement was approved by shareholders at the Company's annual and special meeting of shareholders.

The principal terms of the 2020 November Deferral Agreement are as follows:

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event of default under the Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its

Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of $8.1 million payable to CIC on November 19, 2021; and (ii) $4.0 million in PIK Interest shares issuable to CIC on November 19, 2021 under the Convertible Debenture.

The principal terms of the 2021 July Deferral Agreement are as follows:

- Payment of the 2021 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the 2021 Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2021 Deferral Amounts payable under the Convertible Debenture, commencing on November 19, 2021.

On May 15, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of (i) the Deferred Amounts; and (ii) the Deferred Management Fee under the Amended and Restated Cooperation Agreement under the Convertible Debenture.

The principal terms of the 2022 May Deferral Agreement are as follows:

- Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the 2022 Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the Convertible Debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

Cash Flow Highlights

$ in thousands	Year ended December 31, 2021	2020
Net cash flows from/(used in) operating activities	$ **(4,329)**	$ 23,687
Cash used in investing activities	**(8,637)**	(9,613)
Cash used in financing activities	**(6,010)**	(1,416)
Effect of foreign exchange rate changes on cash	**(422)**	299
Increase/(decrease) in cash for the year	**(19,398)**	12,957
Cash balance, beginning of year	**20,121**	7,164
Cash balance, end of year	$ **723**	$ 20,121

Cash generated from Operating Activities

The Company used $4.3 million of cash in operating activities in 2021 compared to an inflow of $23.7 million in 2020. The decrease is primarily due to the decrease in revenue generated.

Cash used in Investing Activities

The Company used $8.6 million of cash during 2021 in investing activities compared to $9.6 million during 2020. In 2021, expenditures on property, plant and equipment totaled 10.5 million (2020: $11.9 million).

Cash used in Financing Activities

Cash used in financing activities was $6.0 million in 2021 (2020: $1.4 million), which was principally attributable to the interest payment of convertible debenture of $3.0 million (2020: 0.7 million) and repayment of an interest-bearing loan of $2.8 million (2020: nil).

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at December 31, 2021, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2021				
Capital expenditure commitments	$ -	$ -	$ -	$ -
Operating expenditure commitments	1,642	47	277	1,966
Commitments	$ 1,642	$ 47	$ 277	$ 1,966

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2021. The impairment indicator was the fact that the Company suffered loss for the year.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2021. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $133.1 million as at December 31, 2021.

Key estimates and assumptions incorporated in the valuation model included the following:

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 17% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $14.0/(14.0) million;
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(16.9)/17.9 million;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(7.6)/7.6 million; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(3.3)/3.3 million.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2021. A decline of 15% (2020:15%) in the long-term price estimates, an increase of more than 19% (2020: 20%) in the post-tax discount rate, an increase of 27% (2020: 25%) in the cash mining cost estimates or an increase of 62% (2020: 264%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

Financial Instruments

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments, except for the fair values of trade and other payables, interest bearing borrowings, and provision for commercial arbitration and convertible debenture close to their respective carrying amounts given the current financial condition of the Company as described under Section 6 of this MD&A under the heading entitled "*Liquidity and Capital Management".*

The fair values of the embedded derivatives within the Convertible Debenture are determined using a Monte Carlo simulation. The risks associated with the Convertible Debenture relate to a potential breach of the Company's obligations under the terms of the Convertible Debenture. The Company mitigates these risks by ensuring its corporate activities comply with all of its contractual obligations under the Convertible Debenture.

$ in thousands	As at December 31,	
Financial assets	**2021**	**2020**
Cash	**$ 723**	$ 20,121
Restricted cash	**1,259**	918
Trade and other receivables	**141**	1,305
Total financial assets	**$ 2,123**	$ 22,344

$ in thousands	As at December 31,	
Financial liabilities	**2021**	**2020**
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 53**	$ 152
Other financial liabilities		
Trade and other payables	**67,327**	74,365
Interest-bearing borrowings	**53**	2,826
Lease liabilities	**881**	626
Convertible debenture - debt host and interest payable	**191,573**	181,259
Total financial liabilities	**$ 259,887**	$ 259,228

7. REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

In January 2014, Siskinds LLP, a Canadian law firm, filed a class action (the “Class Action”) against the Company, certain of its former senior officers and directors, and its former auditors (the “Former Auditors”), in the Ontario Court in relation to the Company’s restatement of certain financial statements previously disclosed in the Company’s public fillings (the “Restatement”).

To commence and proceed with the Class Action, the plaintiff was required to seek leave of the Court under the Ontario Securities Act (“Leave Motion”) and certify the action as a class proceeding under the Ontario Class Proceedings Act. The Ontario Court rendered its decision on the Leave Motion on November 5, 2015, dismissing the action against the former senior officers and directors and allowing the action to proceed against the Company in respect of alleged misrepresentation affecting trades in the secondary market for the Company’s securities arising from the Restatement. The action against the Former Auditors was settled by the plaintiff on the eve of the Leave Motion.

Both the plaintiff and the Company appealed the Leave Motion decision to the Ontario Court of Appeal. On September 18, 2017, the Ontario Court of Appeal dismissed the Company’s appeal of the Leave Motion to permit the plaintiff to commence and proceed with the Class Action. Concurrently, the Ontario Court of Appeal granted leave for the plaintiff to proceed with their action against the former senior officers and directors in relation to the Restatement.

The Company filed an application for leave to appeal to the Supreme Court of Canada in November 2017, but the leave to appeal to the Supreme Court of Canada was dismissed in June 2018.

In December 2018, the parties agreed to a consent Certification Order, whereby the action against the former senior officers and directors was withdrawn and the Class Action would only proceed against the Company.

Counsel for the plaintiff and defendants have agreed on and the case management judge has ordered a trial to commence in December 2022 (subject to court availability). To accomplish all steps necessary for trial preparation, counsels have agreed to the following proposed schedule under the case management of the judge: (i) document production and pleading amendments by October 31, 2021; (ii) oral examinations for discovery ending by December 31, 2022; (iii) expert reports of plaintiff complete by April 25, 2022 and expert reports of defendants complete by August 22, 2022; and (iv) pre-trial agreements, filings and motions by August 31, 2022. The Company has urged for a trial to begin as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at December 31, 2021 was not required.

Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd., to toll-wash coal from the Ovoot Tolgoi Mine. The agreement had a duration of five years from the commencement of the contract and provided for an annual washing capacity of approximately 3.5 million tonnes of input coal.

Under the agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18.5 million will be required to be paid. Accordingly, the Company has determined that a provision for this matter as at December 31, 2021 was not required.

Special Needs Territory in Umnugobi

On February 13, 2015, the Soumber mining licenses (MV-016869, MV-020436 and MV-020451) (the "License Areas") were included into a special protected area (to be further referred as Special Needs Territory, the "SNT") newly set up by the Umnugobi Aimag's Civil Representatives Khural (the "CRKh") to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.

On July 8, 2015, SouthGobi Sands LLC, a wholly owned subsidiary of the Company ("SGS"), and the chairman of the CRKh, in his capacity as the respondent's representative, reached an agreement (the "Amicable Resolution Agreement") to exclude the License Areas from the territory of the SNT in full, subject to confirmation of the Amicable Resolution Agreement by the session of the CRKh. The parties formally submitted the Amicable Resolution Agreement to the appointed judge of the Administrative Court for her approval and requested a dismissal of the case in accordance with the Law of Mongolia on Administrative Court Procedure. On July 10, 2015, the judge issued her order approving the Amicable Resolution Agreement and dismissing the case, while reaffirming the obligation of CRKh to take necessary actions at its next session to exclude the License Areas from the SNT and register the new map of the SNT with the relevant authorities. Mining activities at the Soumber property cannot proceed unless and until the Company obtains a court order restoring the Soumber mining licenses and until the License Areas are removed from the SNT.

On July 24, 2021, SGS was notified by the Implementing Agency of Mongolian Government that the license area covered by two mining licenses (MV-016869 and MV-020451) are no longer overlapping with the SNT.

The Company will continue to work with the Mongolian authorities regarding the license area covered by the mining license (MV-020436).

Mongolian royalties

On June 23, 2021, the Government of Mongolia issued a new resolution in connection with the royalty regime. From July 1, 2021 onwards, the royalty payable is to be calculated based on the reference price as determined by the Government of Mongolia, and the reference to the contract sales price will be removed.

Importing F-Grade Coal into China

As a result of import coal quality standards established by Chinese authorities, the Company has not been able to export its F-grade coal products into China since December 15, 2018 because the F-grade coal products do not meet the quality requirement.

8. ENVIRONMENT

The Company is subject to the Environmental Protection Law of Mongolia ("EPL") and has the following duties with respect to environmental protection:

- To comply with the EPL and the decisions of the government, local self-governing organizations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation within the organization;
- To keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- To report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining license holders must also annually develop and implement an environmental management plan (including reclamation measures) in co-operation with the Ministry of Environment, Green Development and Tourism, which should take into account the results of the environmental impact assessment. The Company received approval of its detailed Environmental Impact Assessment and Environmental Management Plan from the Mongolian Ministry of Environment for the mining operation at the Ovoot Tolgoi Mine in 2007 and renewed in 2016.

The Company has implemented a number of internal policies to embrace responsibility for the impact of its business activities on the environment. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Company seeks to minimize the impact of its activities on the environment.

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed. In accordance with new provisions specified in Mongolian laws and regulations, in 2014 the Company developed a protection strategy jointly with professional organization. This strategic plan can serve as a policy document directed to protection of biological diversity, ecosystem balance and its preservation, and support species dwelling nearby the Ovoot Tolgoi mine area.

The Board maintains a Health, Environment, Safety and Social Responsibility Committee (the "HESS Committee"), which is composed of independent, non-executive and executive directors and the Vice President of Public Relations. The primary objective of the HESS Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company. The HESS Committee also reviews any incidents that may occur and provides guidance on how to prevent any recurrences.

9. EMOLUMENT POLICY

The emolument policy of the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. The emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the directors of the Company is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics.

The Company has also adopted an equity incentive plan to incentivize directors and eligible employees. Details of the plan are set out in note 25 of the Company's consolidated financial statements for the year ended December 31, 2021.

10. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at May 30, 2022, approximately 274.1 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 6.2 million unissued Common Shares with exercise prices ranging from CAD$0.11 to CAD$0.39, and HK$1.41. There are no preferred shares outstanding.

As at May 30, 2022, to the best of the Company's knowledge:

- CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.6% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 16.9% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited ("Voyage Wisdom") holds a total of approximately 25.8 million Common Shares representing approximately 9.4% of the issued and outstanding Common Shares.

11. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2021, the Chief Executive Officer and Chief Financial Officer of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings*, are effective to achieve the purpose for which they have been designed.
Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in law or the degree of compliance with the policies may deteriorate.

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2021.

There has been no significant change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

12. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the Company to establish accounting policies and to make estimates and judgments that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses.

A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2021.

The following new IASB standards were adopted by the Company on January 1, 2021. Refer to Note 2.3 of the Company's consolidated financial statement of the year ended December 31, 2021 for details.

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021

Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16,	Interest Rate Benchmark Reform – Phase 2

Refer to Note 3.23 of the Company's consolidated financial statements of the year ended December 31, 2021 for information regarding the accounting judgments and estimates.

13. RECENT ACCOUNTING PRONOUNCEMENTS

The standards that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended December 31, 2021, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current, and Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3]
Amendments to IAS 8	Definition of accounting estimates[3]
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction[3]
Amendments to IAS 16	Proceeds before Intended Use[1]
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[1]
IFRS 17	Insurance Contracts[4]
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRSs 2018-2020[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]

1 Effective for annual periods beginning on or after 1 January 2022.
2 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after 1 January 2024.
5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The Company is not yet in a position to state whether these new pronouncements will result in substantial changes to the Company's accounting policies and financial statements.

14. RISK FACTORS

There are certain risks involved in the Company’s operations, some of which are beyond its control. These risks can be broadly categorized into: (i) risks relating to the Company’s ability to continue as a going concern; (ii) risks relating to the Common Shares; (iii) risks relating to the economic operation of the Company's Ovoot Tolgoi Mine; (iv) risks relating to the Company's other projects in Mongolia; and (v) risks relating to its business and industry. The risk factors identified below could have a material adverse impact on the Company’s business, operations, results of operations, financial condition and future prospects and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. Additional risks and uncertainties not presently known, or not expressed or implied below, or that are presently deemed immaterial, could also harm the Company’s business, operations, results of operations, financial condition and future prospects. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements. Refer to “Forward-Looking Statements”.

Risks Relating to the Company’s Ability to Continue as a Going Concern

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened

The Company’s consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, certain adverse conditions and material uncertainties cast doubt upon the ability of the Company to continue as a going concern. These include:

- the Company has a working capital deficiency (excess current liabilities over current assets) of $42.5 million as at December 31, 2021;
- the Company has an obligation to pay CIC under the 2021 July Deferral Agreement and 2022 May Deferral Agreement;
- the trade and other payables of the Company remain high due to liquidity constraints. Refer to the Company’s aging profile of the trade and other payables as at December 31, 2021 in Section 6 of this MD&A under the heading entitled “*Liquidity and Capital Resources – Liquidity and Capital Management – Going Concern Considerations*”;
- the Company has other current liabilities which require settlement in the short-term, including the $22.1 million of unpaid taxes payable by SGS to MTA; and
- the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan.

This could result in adjustments to the amounts and classifications of assets and liabilities in the Company’s consolidated financial statements and such adjustments could be material. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

If the Company seeks relief under applicable bankruptcy and insolvency legislation, its business and operations will be subject to certain risks, including but not limited to, the following:

- An insolvency filing by or against the Company will cause an event of default under the CIC Convertible Debenture;

- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;

- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;

- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and

- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of any potential losses, if any.

The Company is subject to litigation risks. In the normal course of the Company's business, it may come involved in, named as a party to, or be the subject of, various legal proceedings, including, without limitations, mining laws, environmental laws, labour laws, and anti-corruption and anti-bribery laws in the jurisdictions in which the Company operates. Defense and settlement costs associated with legal claims can be substantial, even with respect to claims that are frivolous or have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company is or may become subject could have a material adverse impact on its business, operations, results of operations, financial condition and future prospects.

The Company is currently a defendant in the Class Action (as more particularly described in Section 7 "*Regulatory Issues and Contingencies*" of this MD&A). The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any.

In the event the Company incurs any liability in connection with the Class Action, it maintains insurance with respect thereto. While the Company believes that such insurance coverage is in an amount that would be sufficient to cover any amounts the Company may be required or determines to pay with respect thereto, there can be no assurance that such coverage will be adequate to do so, and, if so, any amounts not so covered would be required to be paid by the Company. The Company's ability to continue as a going concern will be impacted to the extent it is required to pay any amounts in connection with the Class Action, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

<u>Risks Relating to the Common Shares</u>

Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of Common Shares in the public market could materially and adversely affect the prevailing market price of the Common Shares and the Company's ability to raise capital in the future.

The market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares or other securities relating to the Common Shares in the public market, including sales by its substantial Shareholders, or the issuance of new Common Shares, or the perception that such sales or issuances may occur. Future sales, or perceived possible sales, of substantial amounts of the Common Shares could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price favorable to it, and Shareholders may experience dilution in their holdings upon issuance or sale of additional Common Shares or other securities in the future.

Future stock market conditions may change.

There are risks involved with any equity investment. The market price of the Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the TSX and the HKEX, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

<u>Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project</u>

There can be no assurance that the mine plan developed for the Ovoot Tolgoi Mine will ultimately be viable or profitable due to the inherent operational risks.

As a result of work performed by DMCL, the Company increased its estimate of total resources at the Ovoot Tolgoi deposit from those described in the 2016 Technical Report, has declared reserves for the Ovoot Tolgoi deposit and prepared a new mine plan. There are no assurances, however, that the Company will execute its mine plan and realize on the estimates for the Ovoot Tolgoi deposit. It is not unusual in the mining industry for mining operations to experience unexpected problems during commercial production, resulting in delays and requiring more capital than anticipated. Actual costs and economic returns may differ materially from the Company's estimates. Risks associated with the operation of mines include, but are not limited to, the following:

- Unusual or unexpected geological formations;
- Unstable ground conditions that could result in cave-ins or landslides;
- Floods;
- Power outages;
- Restrictions or interruptions in supply of key materials;
- Restrictions or interruptions to coal exports into China;
- Labour disruptions or shortages;
- Social unrest in adjacent areas;
- Equipment failure;
- Fires and explosions;
- Changes to applicable law; and
- Inability to obtain suitable or adequate machinery, equipment, or labour.

In addition, risks particular to the Company's mine plan include:

- Transition to contract mining and if the Company is able to negotiate a contract with applicable contractors at rates that justify the transition;
- Ability to generate sufficient sales volumes at economical realized prices;
- Maintaining an adequate water supply to the mine site to permit the continued operations of the wash plant as planned;
- Achieving satisfactory yields from wet washing operations;
- Successful conversion of resources into reserves during the life of mine;
- Continued delays in the custom clearance process at the Ceke border;
- Continued ban on the import of F-grade coal products into China;
- Impact of the COVID-19 pandemic on the Company's ability to export coal into China; and
- Success in enhancing the operational efficiency and the output throughput of the of the wet wash plant.

Any of the risks noted above could have a material adverse impact on the Company's financial performance, cash flow and results of operations, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

Risks Relating to the Company's Projects in Mongolia

Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business.

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law or regulation. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be challenged resulting in their invalidation.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of the Company's assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect its business and results of operations.

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.

The 2006 Minerals Law (as defined under the heading "DEFINITIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Company's most recently filed Annual Information Form), which preserves to a limited extent some of the substance of the former 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law has been subsequently amended and the potential for political interference has increased and the rights and security of title holders of mineral tenures in Mongolia has been weakened. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance (as defined under the heading "DEFINITIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Company's most recently filed Annual Information Form). Refer to the risk factor entitled "*The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance*" below.

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition in Specified Areas Law (the "Specified Areas Law") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Law of Forests of Mongolia of May 17, 2012, as amended, and areas adjacent to rivers and lakes as defined in the Law of Mongolia on Water enacted on May 17, 2012, as amended.

Pursuant to the Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licences has been prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

Portions of the mining licence in respect of the Ovoot Tolgoi Mine and the exploration licence pertaining to the Zag Suuj Deposit are included on the list of specified areas described in the Specified Areas Law.

In regard to the Ovoot Tolgoi Mining Licence, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining licence and does not contain any reserves or resources or immovable assets. Accordingly, the loss of the potentially affected area would not materially and adversely affect the existing operations.

Activities historically carried out on the other licences referred to above include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas of these licences and the loss of any or all of these potentially affected properties would not materially and adversely affect the existing operations.

The Mining Prohibition in Specified Areas Law has not been adequately enforced to date mainly due to compensation issues due to the licence holders.

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to MRAM to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 and hasn't yet received any communication from MRAM on the status of its application.

Pursuant to the Mongolian Law "To prohibit mineral exploration and mining operations at headwaters of rivers, water protection zones and forested areas", the Government administrative agency has notified the Company that special license area 12726A is partly overlapping with a water reservoir. The Company has inspected the area together with the Cadastral Division of the Mineral Resource Authority as well as through the cadastral registration system of the Ministry of Environment, it is determined that 29 hectares of Sukhait Bulag is partly overlapping with a water reservoir, of which has been partly handed over. (Resolution No.6/7522 issued on September 29, 2015 by the Head of Cadastral Division of the Mineral Resource Authority).

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, which was converted to mining license MV-0125436 in January 2016, is overlapping with a protected area boundary. The overlapping area has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority) In connection with the nullification of Annex 2 of the Government order No.194 "On determining boundary" issued on June 5, 2012, area around the water reservoir located at MV-016869 license area was annulled from the Specified Area Law.

Therefore, mining license 12726A was removed from the list of licenses that overlaps with the prohibited areas described in the law.

There has been limited development of the law during 2016 while two exploration licenses of the Company (13779X and 5267X) were converted to mining licenses (MV-020676 and MV-020675) in November 2016. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect the Company's ability to undertake exploration and development activities in the manner currently contemplated. Any restrictions imposed or charges levied or raised (including royalty fees) under Mongolian law for the export of coal could harm the Company's competitiveness.

The impact of the COVID-19 pandemic could have a material adverse impact on the Company's business, results of operations, or financial condition.

On March 12, 2020, the World Health Organization declared the COVID-19 outbreak as a global pandemic.

Due to the recent increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, the local government authorities imposed stringent preventive measures throughout the region beginning as of the second quarter of 2021, including the temporary closure of the Ceke Port of Entry located at the borders of Mongolia and China. As a result, the Company's coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company's working capital, the Company decided to temporarily suspend mining operations (including coal mining), beginning as of early November 2021. On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period. The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the full resumption of its mining operation. In the event that the Company's ability to export coal into the Chinese market continues to be restricted or limited, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

The Company believes the COVID-19 pandemic in China has negatively affected its business. Furthermore, the economic slowdown and negative business sentiment in the PRC could potentially have a negative impact on the demand for coal generally and our business operations and financial condition may be adversely affected as a result. Given the difficulty involved in determining with any degree of certainty as to how long the COVID-19 pandemic will last, the Company cannot predict if the adverse impact on the Company's business, financial condition and operations will be short-lived or long-lasting at this time. If the negative impact of the COVID-19 pandemic continues and becomes long-lasting, the Company's business, financial condition and operations may be materially and adversely affected as a result of any slowdown in economic growth in China, reduce demand for coal or other factors that the Company cannot foresee.

The Company's ability to carry on business in Mongolia is subject to political risk.

The Company's ability to efficiently conduct its exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond the Company's control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There is no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of the Company's original investment.

In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, which could materially and adversely affect the Company's business and results of operations.

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance if it meets legal requirements.

Under the 2006 Minerals Law, the State Great Khural of Mongolia (the "Parliament of Mongolia") has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is empowered to participate on an equity basis with the licence holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such licence holder. Details of any minerals reserves must be filed by the relevant licence holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament of Mongolia may at any time designate other deposits not yet currently on such Lists to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant licence holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit. While the Government of Mongolia is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral Deposit of Strategic Importance or to accurately determine whether or not any given licence area is within, or overlaps, a Mineral Deposit of Strategic Importance. In July 2014, the Mongolian Parliament made an amendment to the Minerals Law and redefined the term of "Mineral Deposit of Strategic Importance". According to the Minerals Law, the Mineral Deposit of Strategic Importance means "a deposit which can affect national security, national economic and social development or a deposit that can produce more than five percent of Mongolian GDP in a year".

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the licence holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the licence holder. In 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for the possibility for the Government to collect a special royalty on Mineral Deposits of Strategic Importance in lieu of holding an equity stake in such deposit. It stipulates that the parties can agree to transfer to the licence holder the state's share in the Mineral Deposit of Strategic Importance upon the approval of an authorized Government body, with the licence holder agreeing to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice.

In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia.

None of the deposits covered by the Company's existing mining licences or exploration licences are currently designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that any one or more of these deposits will not be so designated in the future, in which case the Company's business and results of operations may be materially and adversely affected.

Risks relating to the Company's business and industry

Some of the Company's projects may not be completed as planned; costs may exceed original budgets and may not achieve the intended economic results or commercial viability.

The Company's business strategy depends largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection.

The Company's projects are subject to both (i) technical risk in that they may not perform as designed, or (ii) operational redesign or modification as a result of on-going evaluation of the projects. Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

The Company's coal reserves and resources are estimates based on a number of assumptions, and the Company may produce less coal than its current estimates.

The coal reserve and resource estimates are based on a number of assumptions that have been made by the QPs in accordance with NI 43-101. Reserve and resource estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including quality of the results of exploration drilling and analysis of coal samples, as well as the procedures adopted by and the experience of the person making the estimates.

The Company notes that, in general, mineral resource and reserve estimates are always subject to change based on new information. Specifically, should the Company encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and/or reserve estimates may have to be adjusted downward. In addition, the rank of coal ultimately mined may differ from that indicated by drilling results. There can be no assurance that coal recovered in laboratory tests will be duplicated under on-site conditions or in production-scale operations. In the event that the actual level of impurities is higher than expected or the coal mined is of a lower quality than expected, the demand for, and realizable price of, the Company's coal may decrease. Short term factors relating to reserves, such as the need for orderly development of coal seams or the processing of new or different quality coals, may also materially and adversely affect the Company's business and results of operations.

The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can be economically exploited and nothing contained herein (including, without limitation, the estimates of mine lives) should be interpreted as assurance of the economic lives of the Company's coal reserves and resources or the profitability of its future operations.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to inferred mineral resources, there is no assurance that mineral resources will be upgraded to proven and probable ore reserves. Inferred mineral resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves.

The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in China.

The Company expects that a majority if not all of the coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy.

For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations. More recently, the COVID-19 pandemic has resulted in reduced industrial activity in China, with temporary closures of factories and other facilities, as described in the risk factor entitled "*The impact of the COVID-19 pandemic in China could have a material adverse impact on the Company's business, results of operations, or financial condition*".

As a result of import restrictions established by the PRC authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company, together with other Mongolian coal companies, have been in discussions with the PRC authorities regarding a potential amendment or withdrawal of these import restrictions to allow for the importation of F-grade coal into China; however, there can be no assurance that a favorable outcome will be reached. A protracted or indefinite ban on the import of the Company's F-grade coal products into China may have a material adverse impact on the Company's financial performance, cash flow and results of operations, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

The interests of the Company's principal stakeholders, CIC, Novel Sunrise and Voyage Wisdom, may differ from those of the other stakeholders.

As at May 30, 2021, to the best of the Company's knowledge:

- CIC holds a total of 64.8 million Common Shares representing approximately 23.6% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 16.9% of the issued and outstanding Common Shares; and
- Voyage Wisdom holds a total of approximately 25.8 million Common Shares representing approximately 9.4% of the issued and outstanding Common Shares.

Accordingly, the Company's principal stakeholders may have the ability to substantially affect the outcome of matters submitted to Shareholders of the Company for approval, including, without limitation, the election and removal of directors, amendments to our articles of incorporation and bylaws and the approval of any business combination. This may delay or prevent an acquisition of the Company or cause the market price of the Common Shares to decline. The interests of each of these principal stakeholders may conflict with the interests of other Shareholders and there is no assurance that any of these principal stakeholders will vote its Common Shares in a way that benefits minority Shareholders. While no Shareholder has the ability to elect a majority of the Board unilaterally, both Novel Sunrise and CIC have been granted contractual director appointment rights. In addition, the Company's principal stakeholders may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of management, could enhance its equity or debt investment, even though such transactions might involve risks to other Shareholders and may negatively affect prevailing market prices of the Common Shares.

Subject to compliance with applicable securities laws, the principal stakeholders may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on market prices of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our principal stakeholders, or the perception that such sales could occur, could adversely affect prevailing market prices of the Common Shares.

Tax and royalty legislation in Mongolia is subject to varying interpretations and changes which may have a significant impact on the Company's financial position.

Mongolian tax, currency, customs and royalty legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation by the Company's management of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties, interest or royalties may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as value-added tax, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity in question.

The royalty regime in Mongolia is evolving and has been subject to change since 2012. On June 23, 2021, the Government of Mongolia issued a new resolution in connection with the royalty regime. From July 1, 2021 onwards, the royalty payable is to be calculated based on the reference price as determined by the Government of Mongolia, and the reference to the contract sales price will be removed.

There can be no assurance, however, that the Government of Mongolia will not disagree with the methodology employed by the Company in determining the calculated sales price and require that the royalty payable be calculated based on the Mongolian government's reference, which could have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax, royalty and other legislation will be sustained. Management believes that tax, royalty and legal risks are remote at present. Management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims.

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

Exploration, development and production operations on mineral properties involve numerous risks, including environmental risks, such as unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. The Company does not maintain insurance against any environmental or political risks. Should any liabilities arise for which it is not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time.

The Company's activities are subject to extensive licensing and permitting requirements. The Company strives to obtain all required licenses and permits on a timely basis and to comply with all such licenses and permits at all times. However, there can be no assurance that the Company will obtain and maintain all required licenses and permits or that it will not face delays in obtaining all required licenses and permits, renewals of existing licenses and permits, additional licenses and permits required for existing or future operations or activities, or additional licenses and permits required by new legislation. The Company notes the following with respect to its ability to obtain and maintain applicable licenses and permits:

- Certain provisions of the Law on Land of Mongolia enacted on June 7, 2002, as amended (the "Land Law of Mongolia") and the 2006 Minerals Law provide for the revocation of previously granted land use rights, MELs or mining licences on the grounds that the affected area of land has been designated as SNT. The Land Law of Mongolia grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate within one year the licence holder whose rights or licence status are affected. The failure to pay the compensation within the one year period would allow the licence holder to resume its operations. If any of the Company's land use rights or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.
- On February 13, 2015, the License Areas were included into a special protected area (referred to as a Special Needs Territory or "SNT") newly set up by the Umnugobi Aimag's CRKh to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.
- On July 8, 2015, SGS and the Chairman of the CRKh, in his capacity as the respondent's representative, reached an agreement (the "Amicable Resolution Agreement") to exclude the License Areas from the territory of the SNT in full, subject to confirmation of the Amicable Resolution Agreement by the session of the CRKh. The parties formally submitted the Amicable Resolution Agreement to the appointed judge of the Administrative Court for her approval and requested a dismissal of the case in accordance with the Law of Mongolia on Administrative Court Procedure. On July 10, 2015, the judge issued her order approving the Amicable Resolution Agreement and dismissing the case, while reaffirming the obligation of CRKh to take necessary actions at its next session to exclude the License Areas from the SNT and register the new map of the SNT with the relevant authorities. Mining activities at the Soumber property cannot proceed until the License Areas are removed from the SNT.
- On July 24, 2021, SGS was notified by the Implementing Agency of Mongolian Government that the license area covered by two mining licenses (MV-016869 and MV-020451) are no longer overlapping with the SNT. The Company will continue to work with the Mongolian authorities regarding the license area covered by the mining license (MV-020436). There is no assurance that

the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

The inability to obtain or maintain licenses and permits with respect to its mining operations, of any delay with respect to the obtaining of licenses and permits, could have a material adverse impact on the Company's financial performance, cash flow and results of operations.

Prolonged periods of severe weather conditions could materially and adversely affect the Company's business and results of operations.

Severe weather conditions may require the Company to evacuate personnel or curtail operations and may cause damages to the project site, equipment or facilities, which could result in the temporary suspension of operations or generally reduce the Company's productivity. Severe weather conditions have not caused any delay or damages to the Company's operations to date. However, there can be no assurance that severe weather will not occur. Any damages to the Company's projects or delays in its operations caused by prolonged periods of severe weather could materially and adversely affect its business and results of operations.

The Company's business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.

The Company expects to derive substantially all of its revenue and cash flow from the sale of coal. Therefore, the market price of the Common Shares, the Company's ability to raise additional financing and maintain ongoing operations and its financial condition and results of operations will be directly related to the demand for, and price of, coal and coal-related products. Coal demand and price are determined by numerous factors beyond the Company's control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, China and elsewhere in the world, milder or more severe than normal weather conditions, production costs in major coal producing regions and, most recently, the impact of the COVID-19 pandemic. The Chinese and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. There has been significant price volatility on the coal spot market. An oversupply of coal in China or a general downturn in the economies of any significant markets for the Company's coal and coal-related products could materially and adversely affect its business and results of operations. In addition, the Company's dependence on Asian markets may result in instability in its operations due to political and economic factors in those Asian jurisdictions which are beyond the Company's control. The combined effects of any or all of these factors on coal prices or volumes are impossible for the Company to predict.

If realized coal prices are below the full cost of production of any of the Company's future mining operations and remain at such a level for any sustained period, the Company could experience increased losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in further reduced revenues.

The Company's coal mining activities are subject to operational risks, including equipment breakdown.

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

The Company's future financial performance depends, in part, on the successful operation of the wash plant at the Ovoot Tolgoi Mine, which is subject to various risks

Because the Company's current mine plan is predicated, in part, on incorporating a coal washing and process systems, the Company's future financial performance will depend on the successful operation of the wash plant at the Ovoot Tolgoi mine. The operating performance of the wash plant, and the related cost of operation and maintenance, may be adversely affected by a variety of risk factors, including, but not limited to, the following:

- Maintaining an adequate water supply and power supply to the mine site to permit the continued operations of the wash plant as planned;
- Achieving satisfactory yields from wet washing operations;
- The Company successfully enhancing the operational efficiency and the output throughput of the wet wash plant;
- The Company successfully negotiating an agreement with the wash plant operator regarding the operation of the wash plant;
- Unexpected maintenance and replacement expenditures;
- Shutdowns due to the breakdown or failure of the wash plant's equipment;
- Labour disputes; and
- Catastrophic events such as fires, explosions, severe storms or similar occurrence affecting the wash plant facility or third parties providing services to the wash plant.

Any of the risks noted above could have a material adverse impact on the operational performance or cost of operations of the wash plant, which in turn could have a material adverse effect on the Company's financial performance, cash flow and results of operations.

The unavailability or shortage of reliable and sufficient coal transportation capacity that meets Mongolian authority regulations will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers.

The Company anticipates that the majority of its coal production from the projects in Mongolia will be exported to China. Inadequate transportation infrastructure, or restrictions on or delays in coal exports to China, is likely to affect the pricing terms on which it can sell the coal to customers and the willingness and ability of such customers to purchase coal from it. Customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the Company's coal. Therefore, its mining operations are anticipated to be highly dependent on road and rail services in Mongolia and China.

The opening hours of the Shivee Khuren Border Crossing also affect the Company's ability to expedite the movement of its coal shipments. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in China. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

Although the Company's coal exports to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the border crossings would not be the subject of additional closures as a result of COVID-19 in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company.

In China, rail and road infrastructure and capacity has in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the COVID-19 pandemic, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the Company's coal, which may lead to delays in payment, or refusal to pay, for the Company's coal and, as a result, the Company's business and results of operations could be materially and adversely affected.

The Company's prospects depend on its ability to attract, retain and train key personnel.

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

In addition, the Company's ability to train operating and maintenance personnel is a key factor for the success of its business activities. If the Company is not successful in recruiting, training and retaining such personnel, its business and results of operations could be materially and adversely affected.

Competition in the coal industry may hinder development plans and adversely affect the Company's coal sales if it is not able to compete effectively.

Continued growth in mining and mineral exploration activities in Mongolia could create an increasing demand for mining equipment and related services. Shortages of, or higher costs for, equipment and services could restrict the Company's ability to carry out the exploration, development and production activities, increase its costs of operations and adversely affect its future plans.

The Company intends to sell a majority of the coal it produces in China. Competition in the Chinese coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in China with other large Chinese and international coal mining companies. Due to location, some of the Company's Chinese competitors may have lower transportation costs than the Company does. The Chinese coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance. Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

There are a number of risks associated with the Company's operation plan, dependence on a limited number of customers and inability to attract additional customers.

The current operation plan contemplates significant operational funding in the Company's mining operations as well as equipment maintenance in order to achieve the Company's revenue and cash flow targets. Such expenditures and other working capital requirements may require the Company to seek additional financing. There is no guarantee that the Company will be able to secure other sources of financing. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

The Company has been selling its coal products since 2008. The Company had 22 active customers with the largest customer representing approximately 35%, the second largest customer representing approximately 17%, the third largest customer representing approximately 10% and the remaining customers accounting for 38% of the Company's total sales for the year ended December 31, 2021. In order to mitigate this risk, the Company is attempting to modify its sales strategy in order to expand its existing customer base. With certain of its customers, the Company has accepted payment for coal deliveries in the form of bank instruments, in lieu of cash. There can be no assurance, however, that the Company will be able to satisfy or comply with the funding conditions of such instruments following completion of the coal delivery or the bank that issues the instrument will be capable of paying all or any portion of the proceeds to the Company, which could have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares.

The Company still expects to sell the majority of the coal from its Mongolian mining operations to customers in China. Chinese law requires specific authorization to be obtained by entities responsible for the import of coal into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

There are significant uncertainties as to the outcomes of the above events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the consolidated financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Company's assets to their realizable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

Failure to maintain an effective system of internal controls may result in material misstatements of the Company's financial statements or cause the Company to fail to meet its reporting obligations or fail to prevent fraud.

Effective internal controls are necessary for the Company to provide reliable financial reports and prevent fraud. If the Company fails to maintain an effective system of internal controls, the Company may not be able to report its financial results accurately or prevent fraud; and in that case, Shareholders and investors could lose confidence in the Company's financial reporting, which would harm the Company's business and could negatively impact the price of the Common Shares.

If the Company suffers any future material weaknesses in its internal controls and procedures or fails to maintain the adequacy of its internal controls and procedures, the Company could be the subject of regulatory scrutiny, penalties or litigation, all of which would harm the Company's business and could negatively impact the price of the Common Shares.

The Company cannot provide assurances that the Company will not experience potential material weaknesses in its internal controls. Even if the Company concludes that its internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS, because of their inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause the Company to fail to meet its future reporting obligations.

The Company's operations are exposed to risks in relation to environmental protection and rehabilitation.

The operations of coal mines involve substantial environmental risks and hazards and the Company's operations are subject to laws and regulations relating to the environment, health and safety and other regulatory matters in Mongolia and China.

The risk of environmental liability is inherent in the operation of the Company's business. Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure, or otherwise. Claims may be asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use, safety, health and environmental matters. The Company is not insured against environmental liabilities and there can be no assurance that environmental liabilities would not materially and adversely affect its business and results of operations.

In addition, the Company is subject to reclamation requirements. The Company's mine will eventually close. The key tasks in relation to the closure of the mines involves (i) long-term management of permanent engineered structures (for example, spillways, roads, waste dumps); (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the Company's ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect the Company's business and results of operations.

The Company currently does not own a coal storage facility at the Ceke border. As a result of potential stricter requirements for coal storage facilities which may be adopted by the local government in the future, the Company may not be able to secure enough storage space at the Ceke border, which could have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares. As part of its focus on capital preservation, the Company has decided to suspend indefinitely all further development activities relating to the previously announced Ceke Logistics Park Project until further notice. The Company may be at risk of becoming subject to litigation proceedings initiated by its investment partner in the Ceke Logistics Park Project for failing to comply with the underlying agreements governing project development. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company may become subject could have a material adverse impact on its business, operations, results of operations, financial condition and future prospects.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company may experience increased costs of production arising from compliance with environmental laws and regulations. Should the Company fail to comply with current or future environmental laws and regulations, the Company may be required to pay penalties or take corrective actions, any of which may have a material adverse effect on its results of operations and financial condition.

Foreign currency fluctuations could affect expenses and any future earnings.

The Company is exposed to foreign exchange fluctuations with respect to the MNT, Chinese Renminbi, Hong Kong, and Canadian dollars. The Company's financial results are reported in United States dollars. The salaries for local laborers in Mongolia are paid in local currency. Sales of coal into China have been and may continue to be settled in United States dollars and Renminbi. The Company has a subsidiary in Hong Kong where some expenses are incurred in Hong Kong dollars. Since the Company's headquarters is in Canada, a minor portion of its expenses are in Canadian dollars and the Company holds a portion of its cash in Canadian dollars. As a result, its financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the United States dollar.

Information in this MD&A regarding future plans reflects current intentions and is subject to change.

Whether the Company ultimately implements the business strategies described in this MD&A will depend on a number of factors including, but not limited to: the political situation in Mongolia and China; the availability and cost of capital; current and projected coal prices; coal markets; costs and availability of drilling services, costs and availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which the Company's projects are situated; and changes in estimates of project completion costs. The Company will continue to gather information about its projects, and it is possible that additional information will cause it to alter its schedule or determine that a project should not be pursued at all. Accordingly, the Company's plans and objectives may change from those described in this MD&A.

15. OUTLOOK

The COVID-19 pandemic has caused unprecedented challenges around the world and adversely impacted the global economy. The Company has adopted, and will continue to implement, strict COVID-19 precautionary measures at the mine site as well as in all of its offices in order to maintain operations in the normal course, while also complying with the advice or orders of local public health authorities.

As a result of the restrictions on truck volume crossing the Mongolian border into China imposed by Chinese Authorities at the Ceke Port of Entry, the Company anticipates that it will continue to be negatively impacted by the COVID-19 pandemic for the foreseeable future until restrictions on trucking volume crossing are lifted, which will have an adverse effect on the Company's sales, production, logistics and financials. In particular, the restriction of the number of trucks crossing the Mongolian border into China implemented will limit the Company's ability to increase revenue despite the improved market conditions in China.

Following the recent temporary closure of the Ceke border, there will be a material adverse impact on the Company's sales and cash flow until such time as coal exports into China are allowed to resume. In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021. The Company will continue to closely monitor the COVID-19 pandemic and the impact it has on coal exports to China, and will continue to react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

The Company remains cautiously optimistic regarding the Chinese coal market, as coal is still considered to be the primary energy source which China will continue to rely on in the foreseeable future. Coal supply and coal import in China are expected to be limited due to increasingly stringent requirements relating to environmental protection and safety production, which may result in volatile coal prices in China. The Company will continue to monitor and react proactively to the dynamic market.

In the medium term, the Company will continue to adopt various strategies to enhance its product mix in order to maximize revenue, expand its customer base and sales network, improve logistics, optimize its operational cost structure and, most importantly, operate in a safe and socially responsible manner.

The Company's objectives for the medium term are as follows:

- **Enhance product mix** – The Company will focus on improving the product mix and increasing the production of higher quality coal by: (i) improving mining operations; (ii) washing lower quality coal in the Company's coal wash plant and partnering with other nearby coal wash plant(s); (iii) resuming the construction and operation of the Company's dry coal processing plant; and (iv) trading and blending different types of coal to produce blended coal products that are economical to the Company.

- **Expand customer base** – The Company will endeavour to increase sales volume and sales price by: (i) expanding its sales network and diversifying its customer base; (ii) increasing its coal logistics capacity to resolve the bottleneck in the distribution channel; and (iii) setting and adjusting the sales price based on a more market-oriented approach in order to maximize profit while maintaining sustainable long-term business relationships with customers.

- **Optimize cost structure** – The Company will aim to reduce its production costs and optimize its cost structure through engaging third party contract mining companies to enhance its operation efficiency, strengthening procurement management, ongoing training and productivity enhancement.

- **Operate in a safe and socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance and operate in a corporate socially responsible manner, and continue to strictly implement its COVID-19 precautionary measures at the mine site and across all offices.

In the long term, the Company will continue to focus on creating and maximizing shareholders value by leveraging its key competitive strengths, including:

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.

- **A large reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of more than 100 million tonnes. The Company also has several development options in its Zag Suuj coal deposit and Soumber coal deposit.

- **Bridge between Mongolia and China** – The Company is well-positioned to capture the resulting business opportunities between China and Mongolia under the Belt and Road Initiative. The Company will seek potential strategic support from its two largest shareholders, which are both state-owned-enterprises in China, and its strong operational record for the past decade in Mongolia, being one of the largest enterprises and taxpayers in Mongolia.

May 30, 2022