SouthGobi RESOURCES

TSX: SGQ HKEX: 1878

SouthGobi Resources Ltd.
南戈壁资源有限公司

Annual Report 2023

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SouthGobi Resources Ltd.
Annual Report 2023

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SouthGobi Resources Ltd. (the "Company" or "SouthGobi") is focused on the exploration, development and production of its coal deposits in Mongolia's South Gobi Region. The Company has a 100% shareholding in Southgobi Sands LLC, the Mongolian registered company that holds SouthGobi's mining licenses in Mongolia and operates the flagship Ovoot Tolgoi coal mine. Ovoot Tolgoi produces and sells coal to customers in China.

English text of this Annual Report shall prevail over the Chinese text in case of inconsistencies.


Ulaanbaatar
南戈壁沙洲公司*
Southgobi Sands LLC
Choibalsan
Tsetserleg
Ondorkhaan
Mongolia
Bayankhongor
Arvaikheer
Sainshand
Soumber Deposit
Nariin Sukhait
Mining Area
Ovoot Tolgoi
Mine
Biluut Deposit
Dalanzadgad
Zag Suuj
Deposit
Shiveekhuren Port Station
Jargalant
Coalfields
46KM
Ceke
approximately
12KM
Shiveekhuren-Ceke
Cross-border Railway
(still under construction)
257KM
160KM
Ejinaqi
Swan Lake West-Ceke Line (63.3KM)
Swan Lake West
Ulzii Port
Erenhot
Mandula
Ganqimaodu
内蒙古南戈壁能源有限公司
Inner Mongolia SouthGobi Energy Co. Ltd.*
Linhe-Ceke Line (702KM)
Jiuquan-Ejinaqi Line (242KM)
内蒙古南戈壁贸易有限公司
Inner Mongolia SouthGobi Trading Co., Ltd*
Jinquan
Jinquannan
84KM
55KM
Hohhot
Tsining
Xixiaozhao
Linhe
Baotou
Guchengwan
Wuhai
144KM
Datong
乌海南戈壁矿业资源有限公司
Wuhai SouthGobi Mining Resources Co., Ltd*
Huinong
China

MESSAGE FROM THE CEO

In 2023, the capital structure of SouthGobi underwent major changes. The migration to primary listing on the Hong Kong Stock Exchange and, at the same time, the transfer to TSX Venture Exchange ("TSX-V") in Canada, enabled the Company in maintaining its dual listing status.

During 2023, there were major positive changes to the members of Board of Directors and senior management of Company, strengthening the Company's abilities; China's coal market experienced significant price fluctuations in the first half of the year; and the Mongolian Tax Authority issued a substantial tax penalty notice to our wholly-owned subsidiary Southgobi Sands LLC ("SGS"). Faced with the above developments, the new management team rose to the challenges, forged ahead with determination, and comprehensively optimised the Company's business strategy. With the concerted and dedicated efforts of management and all employees, several operating results improved significantly in 2023, among which the production waste of material moved amounted 25.71 million of bank cubic meters, reaching a record high; while raw coal production and coal sales reached 4.05 million tonnes and 3.59 million tonnes respectively, contributing to one of the Company's best operating results in recent history.

From coal production perspective, the Company adopted a new strategy and engaging sizable third-party partners such as Powerchina International Group Limited and Tangshan Shenzhou Manufacturing Group Co., Ltd. in the Ovoot Tolgoi Mine. At the same time, the Company's mining production department greatly improved the quality of the Company's various coal types and stabilised the coal specifications through management measures and technical means such as refined management, coal subdivision and dry processing. As a result, the Company significantly narrowed the price difference between various coal types in SouthGobi and similar coal types available at the Ceke Port this year, creating a quality product of "New SouthGobi" and generating benefit for the Company under the brand premium of "New SouthGobi".

In terms of coal sales, SouthGobi leveraged the expertise and market channels of its largest shareholder, JD Zhixing Fund LP ("JDZF"), in China's coal market, to assist the Company in opening up coal sales and logistics channels from west to east and from north to south at the Ceke Port. A closed-loop industrial chain for coal production, transportation and sales has been formed, which includes: coal mining and washing in upstream mining area, efficient cross-border clearance in the midstream, and combined road and railway transportation which expedites sales in the downstream.

In terms of investment opportunities, the Company invested 40% interest through SGS in Shiveekhuren-Ceke cross-border railway project, which will be the first railway in Mongolia built with international standard gauge (1,435mm). The commencement of the project was personally attended by Mongolian Prime Minister Luvsannamsrai Oyun-Erdene on May 27, 2023 to announce the start of construction. It is expected that the export capacity of Shiveekhuren-Ceke Port will be increased by 10-13 million tonnes annually after the official launch of such railway.

MESSAGE FROM THE CEO

Currently, SouthGobi has 554 employees, including 466 Mongolian employees, accounting for 84% of all employees of the Company. For decades, SouthGobi has created hundreds of stable employment opportunities for Mongolia and the South Gobi Province. The Company will continue to place safety as a top priority with comprehensive controls in place.

Looking ahead, while adhering to concepts of environmental protection and sustainable development in Mongolia, SouthGobi will fully implement its business strategy of "**optimise coal production, streamline sales process, improve product quality**" to achieve economies of scale through capacity expansion, cost optimisation and profit maximisation. At the same time, the Company will prioritise its cashflow strategically by maintaining a low inventory level, speeding up inventory and cash turnover, and strengthening its prepayment sales strategy continuously, so as to mitigate the risk of price fluctuations in the coal market.

The Company's management will strive to establish SouthGobi as a world-renowned leading energy and mining enterprise.

Ruibin Xu
CEO and Executive Director

March 28, 2024

BRIDGE BETWEEN CHINA AND MONGOLIA

The Company is well-positioned to capture the resulting business opportunities between China and Mongolia. The Company will seek potential strategic opportunities to collaborate with its two largest shareholders, which are both experienced coal mining enterprises in China, and have a strong operational record for the past decade in Mongolia.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Ruibin Xu

Executive Director and Chief Executive Officer

Mr. Ruibin Xu, 52, was appointed as the Company's Chief Executive Officer on May 15, 2023 and he joined the Board as an Executive Director on June 20, 2023. Mr. Xu is also a Director of the Company's subsidiary.

Mr. Xu has over 15 years' of experience in the energy and coal logistics industry, as well as financial investment. Mr. Xu served as a director and board secretary of Inner Mongolia Dajiang Runye Industrial Group Co. Ltd. ("Dajiang Group") from 2021 to 2023, where he was responsible for strategy development, energy investment, and capital operation affairs of the Dajiang Group. He also held the position of general manager in a subsidiary of Dajiang Group between 2018 and 2021. Before joining Dajiang Group, Mr. Xu served as the deputy general manager and board secretary of Inner Mongolia Zheng Tang Co. Ltd. from 2016 to 2018. Prior to that, he held the position of director in an investment company located in Inner Mongolia, China and worked for several companies in the financial investment industry. Mr. Xu has extensive experience in corporate governance, corporate financing and enterprise management.

Mr. Xu obtained his Master's degree in Business Administration from Inner Mongolia University in 2007. In 2010, Mr. Xu obtained the qualification as a lawyer and an intermediate economist in China. In 2015, he completed an Executive Master of Business Administration ("EMBA") program at Inner Mongolia University. He is a member of the Canadian Institute of Corporate Directors.

Chonglin Zhu

Executive Director and Chief Financial Officer

Ms. Chonglin Zhu, 37, was appointed as an Executive Director on September 8, 2022 and the Company's Chief Financial Officer on February 2, 2024. She was the Company's Senior Vice President of Finance from September 8, 2022 to February 2, 2024. Ms. Zhu is also a Director of the Company's subsidiary.

Ms. Zhu was the Chief Financial Officer of Inner Mongolia Tianyu Innovation Investment Group Co., Ltd. (内蒙古天宇创新投资集团有限公司) ("Tianyu Group") from March 2015 to September 2022. Tianyu Group is an investment company based in Inner Mongolia, China with a variety of businesses including coal mining and processing. Ms. Zhu was responsible for managing the financial operations and investments of Tianyu Group. She joined Tianyu Group in 2011 and served as a business manager in the finance department of Tianyu Group between 2012 and 2015.

Ms. Zhu studied Japanese language and literature at Guangdong University of Foreign Studies in 2009 and obtained a Bachelor's Degree in Accounting from Harbin University of Science and Technology in 2016. She is a member of the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Chen Shen

Executive Director and Vice President of Legal

Mr. Chen Shen, 35, joined the Board of Directors on December 6, 2022 as a Non-Executive Director. On February 17, 2023, he became the Head of the Company's legal department and an Executive Director. He was appointed as the Company's Vice President of Legal on May 25, 2023.

Mr. Shen has a professional legal background and experience in the energy industry. Mr. Shen has served as the executive director and supervisor of Zhonghong Energy (Inner Mongolia) Co., Ltd. ("Zhonghong Group") since April 2021, and is responsible for investment in traditional energy and new energy fields in the Northwest districts in China. From October 2020 to January 2022, Mr. Shen served as a supervisor of Zhonghong Zhengyi Energy Holding (Inner Mongolia) Co., Ltd. Before joining Zhonghong Group, Mr. Shen worked as an attorney in Tahota Law Firm from 2015 to 2020 in China.

Mr. Shen obtained his Bachelor of Law degree from Southwest University of Political Science and Law in 2011 and his Master of Law degree from Guizhou University in 2014 in China. He is a member of the Canadian Institute of Directors.

Zhu Gao

Non-Executive Director

Mr. Zhu Gao, 66, joined the Board of Directors on December 6, 2022 as a Non-Executive Director.

Mr. Gao is the founder of Mengfa Energy Holding Group Co., Ltd. ("Mengfa Group"). Since the establishment of the Mengfa Group in 1998, he has served as its Chairman and President. Mr. Gao has nearly 40 years of investment and management experience in the traditional energy industry. Prior to the establishment of the Mengfa Group, he held management positions in several large coal enterprises in Inner Mongolia.

Mr. Gao received an honorary doctorate in Management from Princeton University, in the United States, in 2017. He is a member of the Canadian Institute of Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Zaixiang Wen
Non-Executive Director

Mr. Zaixiang Wen, 48, joined the Board of Directors on May 17, 2023 as a Non-Executive Director.

Mr. Wen has over 20 years' of experience in corporate management and financial management. He possesses a comprehensive understanding of the coal industry and the capital market. He has been the Vice President of Mengfa Group since January 2018, where he is responsible for overseeing the group's strategic development, capital operations, investment and financing, public affairs relations, and real estate development. Mr. Wen joined the Mengfa Group in 2002 and has held various leadership positions within the Mengfa Group. Prior to joining Mengfa Group, he worked as an accounting and finance professional in various energy resources companies.

Mr. Wen obtained a diploma in accounting from Inner Mongolia Yike Zhao League School of Finance and Economics in 1996. He completed a certificate in financial management at the Central University of Finance and Economics in 2018. He is a member of the Canadian Institute of Directors.

Yingbin Ian He
Independent Non-Executive Director

Mr. Yingbin Ian He, 62, joined the Board of Directors on May 16, 2017 as an Independent Non-Executive Director.

Mr. He's career in the mining industry has spanned over 30 years, with extensive senior executive and board experience. Mr. He is Director and Chairman of Vatukoula Gold Mines, Lead Independent Director of China Gold International Resources Corp. Ltd., a company dually listed on the Toronto Stock Exchange and the Hong Kong Stock Exchange; Director of PT Bumi Resources Tbk listed on the Indonesia Stock Exchange, and Director of Tri-River Ventures Inc., a company listed on the TSX Venture Exchange ("TSX-V"). Throughout his career, Mr. He has served as director of several public companies and was the President and Director of Spur Ventures Inc. (TSX-V, now Atlantic Gold Corp.) (1995 to 2006), and General Manager of its operating subsidiary Yichang Mapleleaf Chemicals Inc. (2003 to 2006 and 2011 to 2017). In his early career, Mr. He worked as senior metallurgical engineer with Process Research Associates (now Bureau Veritas) (1992 to 1995), mineral process engineer (1990 and 1992) with Teck Resources, and Lecturer (1982-1985) with Heilongjiang Institute of Mining and Technology (now Heilongjiang University of Science and Technology).

Mr. He obtained his PhD (1994) and Master of Applied Science (1990) degrees in Mineral Process Engineering from the University of British Columbia in Canada and his Bachelor of Engineering degree (1982) in Coal Preparation and Utilisation from Heilongjiang Institute of Mining and Technology in China. Mr. He is a member of the Canadian Institute of Mining, Metallurgy and Petroleum and the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Jin Lan Quan
Independent Non-Executive Director

Ms. Jin Lan Quan, 61, joined the Board of Directors on August 6, 2015 as an Independent Non-Executive Director.

Ms. Quan is a venture capitalist, independent financial planner and business consultant based in Sydney, Australia. Ms. Quan has accumulated extensive and diverse finance and audit experience during her time as an audit partner with one of the big four international accounting firms in Sydney, Australia. She has wide-ranging experience in financial consulting services with skills in external auditing, internal audit structuring, corporate financing, risk management and business acquisition. Ms. Quan was previously a director of Kresta Holdings Ltd., a company listed on the Australian Stock Exchange.

Ms. Quan is a Fellow of the Association of Chartered Certified Accountants United Kingdom (ACCA UK), a P.R.C. Certified Public Accountant (CICPA), a member of the Chartered Accountants Australia & New Zealand (CA ANZ), and a member of the Canadian Institute of Corporate Directors.

Mao Sun
Independent Non-Executive Director and Lead Director

Mr. Mao Sun, 47, joined the Board of Directors on November 5, 2015 as an Independent Non-Executive Director. He was the Company's Interim Lead Director from August 16, 2016 to May 30, 2019 and was appointed as the Lead Director on May 30, 2019.

Mr. Sun is the founding partner of Mao & Ying LLP, a private accounting firm offering tax, assurance and management consulting services.

Mr. Sun has over 20 years' experience in the accounting sector and has extensive knowledge of Canadian accounting standards, International Financial Reporting Standards and Canadian taxation laws. Mr. Sun has extensive experience with Canadian listed companies. He was appointed as the Chief Financial Officer of HFX Holding Corp. (TSX-V) in June 2014. He was appointed as a Director and Chief Executive Officer of Hero Innovation Group Inc. ("Hero") (formerly Euro Asia Pay Holdings Inc.), listed on the Canadian Securities Exchange, on February 21, 2023 and was the Chief Financial Officer of Hero from May 22, 2020 to February 21, 2023. Mr. Sun was a Director and Chairman of the audit committee for Yalian Steel Corporation (TSX-V) from 2012 to 2013, and a Director and member of the audit committee for Wildsky Resources Inc. (TSX-V) from 2017 to February 2020. Prior to founding Mao & Ying LLP, Mr. Sun was the audit manager in the Vancouver office of KPMG, an internationally recognised accounting firm.

Mr. Sun graduated from Columbia University in New York with a Master's Degree in International Affairs, International Finance and Business, and a Bachelor's Degree in Computer Science from Nanjing University, China. Mr. Sun is a member of the Institute of Chartered Accountants of British Columbia, the Canadian Tax Foundation and the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Allison Snetsinger
Corporate Secretary

Ms. Allison Snetsinger, 55, was re-appointed as the Company's Corporate Secretary in November 2014 and was the Company's Corporate Secretary from May 2012 to March 2014. Prior to her appointment as the Corporate Secretary, Ms. Snetsinger was the Company's Assistant Corporate Secretary from the time of its Canadian initial public offering in December 2003. Ms. Snetsinger is also a Director of certain of the Company's subsidiaries.

Ms. Snetsinger has over 20 years' experience providing regulatory and corporate services to public and private companies, primarily in mining and resource industries. She graduated with honours from the British Columbia Institute of Technology and is a member of the Canadian Institute of Corporate Directors and the Association of the Governance Professionals (Canada).

Munkhbat Chuluun
Vice President of Public Relations

Mr. Munkhbat Chuluun, 64, was appointed as the Company's Vice President of Public Relations on February 10, 2021 and as the Vice President of the Company's wholly-owned subsidiary Southgobi Sands LLC ("SGS") on October 26, 2023.

Mr. Chuluun joined the Company as an advisor in 2012 and held the positions of interim President and Executive Director, and General Manager of Government Relations and Compliance. He was the President and Executive Director of SGS between September 2015 and February 2021.

Prior to joining SGS, Mr. Chuluun was the Project Director of Asia Development Bank, the Coordinator of The World Bank and the Deputy of Prosecutors of Mongolia. Mr. Chuluun is the New Zealand Honorary Consul-General in Mongolia and serves on the Board of AmCham Mongolia (American Chamber of Commerce), and Public Administration magazine, and is the President of the Mongolian Rugby Football Union.

Mr. Chuluun holds a Master's Degree of Social Sciences in Public Administration and Public Policy from the University of Waikato, Hamilton, New Zealand, a postgraduate Diploma in Public Administration from the Academy of Management, Ulaanbaatar, Mongolia and a Bachelor of Law from the Institute of the Ministry of Internal Affairs, Leningrad, Russia.

DIRECTORS' REPORT

The board of directors (the "Directors" and the "Board", respectively) of SouthGobi Resources Ltd. ("SGQ") is pleased to present its report along with the audited consolidated financial statements (the "Financial Statements") of SGQ together with its subsidiaries (collectively the "Company") for the financial year ended December 31, 2023 (the "Financial Year").

Principal activities, business review and geographical analysis of operations

The Company is an integrated coal mining, development and trading company. The Company's significant subsidiaries are set out in Note 33 to the Financial Statements and the activities of all major subsidiaries of the Company as at December 31, 2023 are set out in the table below:

Name	Country of incorporation	Issued and fully paid share capital/paid-in capital/registered capital	Principal activities
SGQ Coal Investment Pte. Ltd.	Singapore	US$1	Other holding companies (Investment holding)
Southgobi Sands LLC	Mongolia	MNT1,116,039,871,410.50	Mineral exploration, mineral extraction, foreign trade, use of radio frequency and aerodrome operation
Mazaalai Resources LLC	Mongolia	MNT1,000,000	Foreign trade
SouthGobi Resources (Hong Kong) Limited	Hong Kong	HK$1	Business services and investment holding
SouthGobi Trading (Beijing) Co., Ltd.*	China	US$400,000	Investment holding
Inner Mongolia SouthGobi Energy Co., Ltd.*	China	CNY100,000,000	Import agency and trading of coal
Chongqing SouthGobi Energy Co. Ltd.*	China	HK$10,000,000	Coal trading
Inner Mongolia SouthGobi Enterprise Co., Ltd.*	China	CNY142,857,143	Storage and warehouse service, customs clearance service and transportation for imported goods
Inner Mongolia SouthGobi Mining Development Co., Ltd.*	China	CNY50,000,000	Transportation of imported goods, import and export agent for goods and technology, wholesale of coal and other mining products, coal processing, warehouse and storage, and information technology consultation services
Wuhai SouthGobi Mining Resources Co., Ltd.*	China	CNY50,000,000	Sales of coal products, construction materials and other chemical products; warehouse and storage services
Inner Mongolia SouthGobi Trading Co., Ltd.*	China	CNY50,000,000	Sales of coal products, construction materials and other chemical products; warehouse and storage services
TST Holdings Limited	Hong Kong	US$110,000	Investment holding
TST Coal Trans LLC	Mongolia	US$100,000	Transportation of goods by vehicles

* English names are for identification purpose only

The analysis of the principal activities by geographical location of the operations of the Company for the Financial Year is set out in Note 4 to the Financial Statements.

A review of the business of the Company during the Financial Year and a further discussion and analysis of these activities, including a description of the principal risks and uncertainties the Company may be facing and an indication of likely future development in the Company's business, can be found in Management's Discussion and Analysis set out on pages 60 to 118 of this Annual Report. The discussion forms part of this directors' report.

Results

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 155 of this Annual Report.

Dividends

The Company has adopted a Dividend Policy which sets out guidelines for the Board to consider in determining if and when dividends should be declared and paid in the future. Under the Dividend Policy, the Board will make all decisions with respect to dividends on the Company's common shares, and the Board shall consider the following factors in determining if and when dividends should be declared and paid in the future based on, amongst other things:

- the actual and expected financial results of the Company at the relevant time (including whether the Company has adequate retained earnings);

- economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Company;

- the Company's business strategy and operational plans, including future cash commitments and investment needs to sustain the long-term growth of the Company;

- the current and expected liquidity position and capital requirements of the Company; and

- any other factors that the Board deems appropriate.

The Board reviews the Dividend Policy from time to time and has the right to amend, suspend or terminate the Dividend Policy at any time in its sole and absolute discretion. There is no assurance that dividends will be paid in any particular amount for any given period. If a dividend is declared by the Board, all of the Company's common shares are entitled to an equal share in any dividends declared and paid. Please refer to the Company's website (www.southgobi.com) to obtain further details on the Dividend Policy.

Since its incorporation, the Company has not paid any dividends on its common shares and the Board does not anticipate that any dividends will be declared on the Company's common shares in the immediate or foreseeable future.

The Board did not recommend the payment of any final dividend for the Financial Year (2022: Nil). No interim dividend was declared or paid during the Financial Year (2022: Nil).

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Company during the Financial Year are set out in Note 19 to the Financial Statements.

Share capital

The Company has authorised an unlimited number of common and preferred shares with no par value. At December 31, 2023, the Company had 295,277,779 common shares outstanding. Details of the movements in the share capital of the Company during the Financial Year are set out in Note 28 to the Financial Statements and in the Consolidated Statement of Changes in Equity on page 157 of this Annual Report.

The Company did not enter into any private placements for equity or debt securities during the Financial Year.

Purchase, sale or redemption of listed securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Financial Year.

Reserves

Details of the reserves available for distribution to the shareholders of the Company (the "Shareholders") as at December 31, 2023 are set out in the Consolidated Statement of Changes in Equity on page 157 of this Annual Report.

Directors

The Directors during the Financial Year and up to the date of this report are as follows:

DIRECTORS

Executive Directors:
Mr. Ruibin Xu (1)
Ms. Chonglin Zhu
Mr. Chen Shen

Non-Executive Directors:
Mr. Zhu Gao
Mr. Zaixiang Wen (2)

Independent Non-Executive Directors:
Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Mao Sun *(Independent Lead Director)*

FORMER DIRECTORS

Executive Director:
Mr. Dong Wang (3)

Non-Executive Directors:
Mr. Gang Li (4)

Notes:

1) Mr. Ruibin Xu was appointed as CEO on May 15, 2023 and joined the Board as an Executive Director on June 20, 2023. He is an Executive Director in his capacity as the Company's CEO.

2) Mr. Zaixiang Wen was appointed as a non-executive Director ("NED") on May 17, 2023 and is a NED in his capacity as a nominee director of Land Grand International Holding Limited ("Land Grand"), a substantial shareholder of the Company.

3) Mr. Dong Wang was CEO and an executive Director from September 8, 2022 to May 15, 2023 and was an executive Director in his capacity as the Company's CEO. Mr. Wong ceased to be CEO on May 15, 2023. He was a non-executive Director from May 15, 2023 to June 20, 2023.

4) Mr. Gang Li was an NED in his capacity as a nominee director of Land Grand. Mr. Gang Li resigned from the Board of Directors on May 8, 2023, and ceased to be a NED at that time. Mr. Gang Li confirmed that he has no disagreement with the Board and that there were no matters that needed to be brought to the attention of the Shareholders. To the best of the Company's knowledge, Mr. Gang Li ceased to be a shareholder of Land Grand in May 2023.

Except where such Director has already resigned from the Board, the term of office for each of the Directors will end at the conclusion of the Company's forthcoming annual general meeting (the "2024 AGM"). In accordance with article 14.1 of the articles of continuation of the Company (the "Articles of Continuation"), all of the Directors, including the Independent Non-Executive Directors ("INEDs") and the NEDs, would retire and, being eligible, may offer themselves for re-election at the 2024 AGM.

Director Independence

The Company has received written annual confirmations of independence from each of Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan, the Company's INEDs.

The Board and Nominating and Corporate Governance Committee have assessed the independence of each INED and, as at the date of this report, considers each of them to be independent in accordance with the applicable listing rules and, having regard to (i) their annual confirmation on independence as required under the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (the "Listing Rules"), (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

Biographies of the Directors and Senior Management

The biographical details of the Directors and senior management are set out in the Director's and senior management's profiles on page 8 of this Annual Report.

Directors' service contracts

None of the Directors proposed for re-election at the 2024 AGM have a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' interests in transactions, arrangements or contracts of significance

Save as disclosed in the related party transactions as set out in Note 33 to the Financial Statements, no transactions, arrangements or contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, whether directly or indirectly, subsisted at the end of the Financial Year or at any time during the Financial Year.

Directors' interests in competing businesses

To the best knowledge of the Directors, during the Financial Year and up to the date of this report, save for the directorships, management roles and/or shareholdings of our Directors in other mining companies as disclosed in Board and Senior Management section of this report and below, none of the Directors and the controlling Shareholders had any interests in businesses that compete or are likely to compete, either directly or indirectly, with the Company's business.

Directors' and Chief Executive's interests and short positions in shares, underlying shares and debentures

As at December 31, 2023, or in the case of a departed Director as at his resignation/retirement date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) were as follows:

Interests in common shares of SGQ (the "Shares"):

	Number of Shares and underlying Shares held, capacity and nature of interest (1)						
	Number of Shares interested				Number of underlying Shares interested		
Name of Directors	Directly beneficially owned	Through spouse or minor children	Through controlled company	Beneficiary of a trust	Directly beneficially owned	Total(2)	Approximate percentage of SGQ's issued Shares(3)
Current Directors							
Chonglin Zhu (4)	–	–	85,714,194	–	–	85,714,194	29.03%
Zhu Gao (5)	–	–	46,358,978	–	–	46,358,978	15.70%
Yingbin Ian He	27,000	–	–	–	300,000 (6)	327,000	0.11%
Jin Lan Quan	–	–	–	–	300,000 (6)	300,000	0.10%
Mao Sun	–	–	–	–	400,000 (6)	400,000	0.14%
Senior Management							
Alan Ho	190,475	–	–	–	417,000 (6)	607,475	0.21%
Allison Snetsinger	1,000	2,200	–	–	200,000 (6)	203,200	0.07%
Munkhbat Chuluun	–	–	–	–	550,000 (6)	550,000	0.19%
Former Directors							
Gang Li (5)	–	–	46,358,978	–	–	46,358,978	15.70%

Notes:

(1) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.

(2) All interests stated above are long positions.

(3) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2023 (i.e. 295,277,779 Shares).

(4) JD Dingxing Limited and Inner Mongolia Tianyu Trading Limited are the general partner and limited partner of JD Zhixing Fund L.P., respectively. Ms. Chonglin Zhu holds 80% of the shares of JD Dingxing Limited.

(5) Land Grand International Holding Limited ("Land Grand") is the registered and beneficial owner of 46,358,978 Shares of the Company's issued and outstanding Shares. Mr. Zhu Gao is the indirect controlling shareholder of Land Grand. To the best of the Company's knowledge, Mr. Gang Li ceased to be a shareholder of Land Grand in May 2023.

(6) These interests represented the underlying Shares comprised in the share options granted by the Company.

Other than the shareholdings disclosed in the preceding table, to the best of the Company's knowledge, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2023.

Equity Incentive Plan

The Company first adopted the Company's Equity Incentive Plan (the "Plan" or "EIP") in 2003, and was last amended, restated and approved by the Shareholders (the "Amended EIP") in July 2022 at the Annual General Meeting (the "2022 Meeting"). A copy of the Amended EIP can be found in the Management Proxy Circular published on the Company's website. The amendments to the EIP became effective upon the change of the Company's listing status from the Toronto Stock Exchange ("TSX") to TSX Venture Exchange ("TSX-V") in April 2023.

The purpose of the Plan is to secure for the Company and the Shareholders the benefits of incentive inherent in equity ownership by eligible participants who, in the judgment of the Board, will be largely responsible for its future growth and success. It is generally recognised that equity incentive plans of the nature provided for therein aid in retaining and encouraging employees and directors of exceptional ability because of the opportunity offered them to acquire a proprietary interest in the Company.

The Plan is valid and effective until the close of business of the Company on the date which falls ten (10) years after the date on which the Plan is adopted, after which period no further Options may be issued but the provisions of the Plan shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto.

The aggregate number of Shares that may be reserved for issuance under the Plan (together with any other security-based compensation arrangements of the Company in effect from time to time) will not exceed ten per cent (10%) of the Company's outstanding issue as of the date of the 2022 Meeting. This prescribed maximum may be subsequently increased to any other specified amount, provided the increase is authorised by a vote of the Shareholders. In addition, the aggregate number of Shares reserved for issuance under the Plan:

(a) that may be reserved for issuance to Insiders (as defined under the *Securities Act* (Ontario), as amended) under the Plan (or when combined with all of the Company's other security-based compensation arrangements) will not exceed ten per cent (10%) of the Company's outstanding issue from time to time (unless requisite disinterested shareholder approval has been obtained pursuant to applicable stock exchange rules);

(b) that may be issued to Insiders under the Plan (or when combined with all of the Company's other security based compensation arrangements) within any one-year period will not exceed ten per cent (10%) of the number of shares issued and outstanding, calculated as of the date of grant or issue (unless requisite disinterested shareholder approval has been obtained pursuant to applicable stock exchange rules); and

(c) that may be issued to any one Insider and his or her Associates (as defined under the *Securities Act* (Ontario), as amended) under the Plan within any one-year period will not exceed five per cent (5%) of the share capital of the Company, calculated as of the date of grant or issue (unless requisite disinterested shareholder approval has been obtained pursuant to applicable stock exchange rules).

In no event will the number of Shares at any time reserved for issuance to any participant of the Plan exceed five per cent (5%) of the Company's outstanding issue from time to time.

The grantees shall not be required to bear or pay any price or fee for the application or acceptance of the grant of options or awards under the Plan.

The number of Shares that may be issued in respect of the share options and awards granted under the Plan during the Financial Year, divided by the weighted average number of Shares for the Financial Year, is 0.001%.

The Plan is comprised of two components, the share option plan (the "Share Option Plan") and the share purchase plan (the "Share Purchase Plan").

Share Option Plan

The particulars of the Share Option Plan are set out in Note 29 to the Financial Statements.

The eligible participants of the Share Option Plan are (i) directors of the Company or an Affiliate (as defined under the *Securities Act* (Ontario), as amended) (the "Eligible Directors"); and (ii) employees of the Company or an Affiliate, or service providers of the Company or an Affiliate, i.e., any person or company engaged by the Company or an Affiliate to provide services for an initial, renewable or extended period of 12 months or more (the "Eligible Employees").

Each share option granted under the Share Option Plan ("Option") has an option period ("Option Period") of five years from the date of grant of an Option, or such longer or shorter duration as the Board may determine as of the date of grant (which will not be more than ten years from the date of grant except as expressly provided in the Plan), and may thereafter be reduced as contemplated under the Share Option Plan; provided that if at any time the Option Period would otherwise end during a period of time during which the trading of Shares or other securities of the Company is restricted under the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy, or under any other policy of the Company then in effect ("Blackout Period") or within ten business days following the expiry of a Blackout Period, the Option Period will be deemed to end on the tenth business day following the expiry of the Blackout Period.

The following share issuance limitations was introduced to the Share Option Plan in 2022:

- the maximum number of Common Shares issuable to eligible participants who are insiders of the Company, at any time, under the Amended Equity Incentive Plan and any other security-based compensation arrangement of the Company, shall not exceed ten percent (10%) of the number of shares issued and outstanding from time to time (unless requisite disinterested shareholder approval has been obtained pursuant to applicable stock exchange rules);

- the maximum number of Common Shares issued to eligible participants who are insiders of the Company, within any one year period, under the Amended Equity Incentive Plan and any other security-based compensation arrangement of the Company, shall not exceed ten percent (10%) of the number of shares issued and outstanding, calculated as of the date of grant or issue (unless requisite disinterested shareholder approval has been obtained pursuant to applicable stock exchange rules);

- the maximum number of Common Shares issuable to any one eligible participant, within any one year period, under awards granted under the Amended Equity Incentive Plan and any other security-based compensation arrangement of the Company shall not exceed 5% of the share capital of the Company, calculated as of the date of grant or issue (unless requisite disinterested shareholder approval has been obtained pursuant to applicable stock exchange rules);

- the maximum number of Common Shares issuable to any one service provider of the Company, within any one year period, under awards granted under the Amended Equity Incentive Plan and any other security-based compensation arrangement of the Company shall not exceed 2% of the share capital of the Company, calculated as of the date of grant or issue; and

- any person performing investor relations activities on behalf of the Company and any employee, officer or director of the Company whose role and duties primary consists of investor relations activities (each, an "Investor Relations Service Provider") may only be granted Options under the Amended Equity Incentive Plan and the maximum number of Common Shares issuable to all such persons under any Options awarded in a 12-month period shall not exceed 2% of the share capital of the Company, calculated as of the date of grant.

DIRECTORS' REPORT

Options will vest and may be exercised (in each case to the nearest full Share) during the Option Period as follows:

(a) at any time after the first year of the Option Period, the optionee ("Optionee") may exercise the Option to purchase up to 33% of the number of Shares underlying the Option as of the date of grant of the Option;

(b) at any time after the second year of the Option Period, the Optionee may exercise the Option to purchase up to 66% of the number of Shares underlying the Option as of the date of grant of the Option; and

(c) at any time after the third year of the Option Period, the Optionee may exercise the Option to purchase up to 100% of the number of Shares underlying the Option as of the date of grant of the Option.

The exercise price per Share of any Option will be not less than one hundred per cent (100%) of the fair market value ("Fair Market Value"), that is, the volume weighted average price of a Share on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange" or "HKEX") for the five days on which Shares were traded immediately preceding the date in respect of which the Fair Market Value is to be determined or, if the Shares are not, as at that date, listed on the Hong Kong Stock Exchange, on the TSX-V, or such other stock exchange on which the Shares are listed on that date (the "Exchange").

No Options were issued, granted or awarded under the Share Option Plan in the Financial Year. Information relating to Options exercised, forfeited and expired can be found in the table below.

The following table discloses movements in the Options under the Share Option Plan for the Financial Year:

Name	Number of share options: At January 1, 2023	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At December 31, 2023	Date of grant of share options	Exercise period of share options	Exercise price per share
Directors									
Mao Sun	200,000	–	–	–	(200,000)	–	July 3, 2018	July 3, 2019 – July 3, 2023	CAD$0.13
	200,000	–	–	–	–	200,000	September 11, 2019	September 11, 2020 – September 11, 2024	CAD$0.11
	200,000	–	–	–	–	200,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41
	600,000	**–**	**–**	**–**	**(200,000)**	**400,000**			
Jin Lan Quan	150,000	–	–	–	(150,000)	–	July 3, 2018	July 3, 2019 – July 3, 2023	CAD$0.13
	150,000	–	–	–	–	150,000	September 11, 2019	September 11, 2020 – September 11, 2024	CAD$0.11
	150,000	–	–	–	–	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41
	450,000	**–**	**–**	**–**	**(150,000)**	**300,000**			
Yingbin Ian He	150,000	–	–	–	–	150,000	September 11, 2019	September 11, 2020 – September 11, 2024	CAD$0.11
	150,000	–	–	–	–	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41
	300,000	**–**	**–**	**–**	**–**	**300,000**			
Ruibin Xu	–	–	–	–	–	–			
Chonglin Zhu	–	–	–	–	–	–			
Chen Shen	–	–	–	–	–	–			
Zhu Gao	–	–	–	–	–	–			
Zaixiang Wen	–	–	–	–	–	–			
Former Directors									
Dong Wang	–	–	–	–	–	–			
Gang Li	–	–	–	–	–	–			
Total for Directors	**1,350,000**	**–**	**–**	**–**	**(350,000)**	**1,000,000**			
Other share option holders	459,000	–	(34,000) (3)	–	(425,000)	–	August 16, 2018	August 16, 2019 – August 16, 2023	CAD$0.13
	762,500	–	(17,000) (3)	–	(70,000)	675,500	November 15, 2019	November 15, 2020 – November 15, 2024	CAD$0.13
	2,421,800	–	–	(524,550)	(359,750)	1,537,500	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41
Total for other share option holders	**3,643,300**	**–**	**(51,000)**	**(524,550)**	**(854,750)**	**2,213,000**			
Total	**4,993,300**	**–**	**(51,000)**	**(524,550)**	**(1,204,750)**	**3,213,000**			
Number of Options available for grant	**24,529,378**					**24,212,442**			

Notes:

1. Options will vest and may be exercised (in each case to the nearest full Share) during the Option Period as follows: (a) at any time after the first year of the Option Period, the Optionee may exercise the Option to purchase up to 33% of the number of Shares underlying the Option as of the date of grant of the Option; (b) at any time after the second year of the Option Period, the Optionee may exercise the Option to purchase up to 66% of the number of Shares underlying the Option as of the date of grant of the Option; and (c) at any time after the third year of the Option Period, the Optionee may exercise the Option to purchase up to 100% of the number of Shares underlying the Option as of the date of grant of the Option.

2. The exercise price of the Options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

3. The 51,000 shares issued as a result of the exercise of options are listed on the TSX-V.

Details of the accounting policy for the Share Option Plan are set out in Note 29 to the Financial Statements.

Share Purchase Plan

The particulars of the Share Purchase Plan are set out in Note 29.3 to the Financial Statements.

As at the date of the 2023 Annual Report, the total number of shares available for issue under the Share Purchase Plan remained the same as at December 31, 2023 (2,297), representing approximately 0.000777% of the issued shares of the Company at that time.

The eligible participants of the Share Purchase Plan are the Eligible Employees who have been continuously employed by the Company or any of its Affiliates on a full-time basis for at least 12 consecutive months and who have been designated by the Board as Participants in the Share Purchase Plan.

The Share Purchase Plan allows participants (the "SPP Participants") to contribute up to 10% of their basic annual salary to purchase Shares. The Company contributes 50% of each SPP Participant's contribution and at the end of each calendar quarter, Shares are issued by the Company on behalf of the SPP Participants. The aggregate maximum number of shares that may be issued pursuant to the Share Purchase Plan will be limited to 500,000 Shares.

On March 31, June 30, September 30 and December 31 of each Financial Year, the Company will issue to each SPP Participant a number of fully paid and non-assessable Shares, disregarding fractions, which is equal to the aggregate amount of the participant's contribution and the Company's contribution divided by the issue price, that is, the weighted average price of the Shares on HKEX for the 90-day period immediately preceding the date of issuance or, if the Shares are not, as at that date, listed on HKEX, on such other Exchange on which the Shares are listed on that date. If the Shares are not traded on a stock exchange on the date of issuance, the relevant issue price will be such price per Share as the Board, acting in good faith, may determine.

Shares issued to a participant pursuant under the Share Purchase Plan shall be subject to a hold period for a duration of 90 days from the date of issuance of such shares (the "Hold Period"). During the Hold Period, each participant's right to transfer, sell, exchange, pledge, assign or otherwise dispose of such Shares shall be restricted. The share certificate delivered in respect of the shares issued to a participant shall bear a restrictive legend stating that such shares will not be transferable during the Hold Period, or if such shares are held in book-entry form, the Company will provide instructions to its transfer agent that such shares will not be transferable during the Hold Period. For the purpose of this section, "vest" in respect of the relevant Shares issued under the Share Purchase Plan refers to their change of state when the Hold Period expires and that the relevant participant's right becomes unrestricted, and "vested" and "vesting" shall be construed accordingly.

No Shares were issued, granted, awarded, vested, lapsed or cancelled under the Share Purchase Plan in the Financial Year. The total number of Shares available for grant under the Share Purchase Plan at the beginning and end of the Financial Year is 2,297 Shares. Upon the conversion to primary listing on the HKEX, the Company has undertaken not to issue any further shares under the Share Purchase Plan.

Details of the accounting policy for the Share Purchase Plan are set out in Note 29.3 to the Financial Statements.

Number and remuneration of employees

As at December 31, 2023, the Company had 554 employees working in various locations. During the Financial Year, staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately $9.6 million as compared to staff costs of $5.6 million in 2022.

Arrangement to purchase shares and debentures

Save as disclosed above under the paragraphs headed "Equity Incentive Plan", at no time during the financial year was the Company, or any of its subsidiaries or fellow subsidiaries, or the holding company a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

The register of interests and short positions in Shares required to be kept by the Company (the "Register of Interests") showed that as at December 31, 2023, the Company has been notified of the following interests in the Shares and underlying Shares (other than those of a Director or the chief executive of the Company) representing 5% or more of the Company's issued Shares:

Name of Substantial Shareholder	Capacity/Nature of interests	Number of Shares/underlying Shares held (1) (2)	Percentage of shareholding (%) (3)
JDZF (4)	Beneficial owner	85,714,194	29.03%
JD Dingxing Limited (4)	Interest in a controlled corporation	85,714,194	29.03%
Chonglin Zhu (4)	Interest in a controlled corporation	85,714,194	29.03%
Inner Mongolia Tianyu Trading Limited** （内蒙古天宇创新商贸有限公司）("IMTT") (4)	Interest in a controlled corporation	85,714,194	29.03%
Inner Mongolia Yuxinsheng Technology Co., Ltd.** （内蒙古宇鑫盛科技有限公司）("IMYTC") (4)	Interest in a controlled corporation	85,714,194	29.03%
Inner Mongolia Tianyu Innovation Investment Group Limited**（内蒙古天宇创新投资集团有限公司）("IMTIIG") (4)	Interest in a controlled corporation	85,714,194	29.03%
Yong An (4)	Interest in a controlled corporation	85,714,194	29.03%
Land Grand (5)	Beneficial owner	46,358,978	15.70%
Mengfa Energy Holding Group Co., Ltd. ("Mengfa Group") (5)	Interest in a controlled corporation	46,358,978	15.70%
Zhu Gao (5)	Interest in a controlled corporation	46,358,978	15.70%
Voyage Wisdom Limited (6)	Beneficial owner	25,768,162	8.73%
Aminbuhe (6)	Interest in a controlled corporation	25,768,162	8.73%
Ningqiao Li (6)	Interest in a controlled corporation	25,768,162	8.73%

** English names are for identification purpose only

DIRECTORS' REPORT

Notes:

(1) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.

(2) All interests stated above are long positions.

(3) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2023 (i.e., 295,277,779 Shares).

(4) JD Dingxing Limited and IMTT are the general partner and limited partner of JDZF, respectively. IMTT is a wholly-owned subsidiary of IMYTC, which is owned as to 80.00% of its issued share capital by IMTIIG. Mr. Yong An owns 75.00% of the issued share capital of IMTIIG.

(5) Mengfa Group owns 100% of the issued share capital of Land Grand and Mr. Zhu Gao owns 80.00% of the issued share capital of Mengfa Group.

(6) To the best of the Company's knowledge, Messrs. Yulan Guo, Aminbuhe and Ningqiao Li are directors and shareholders of Voyage Wisdom Limited, a private company which owned 8.73% of the Company's issued and outstanding common shares at December 31, 2023. Each of Messrs. Aminbuhe and Ningqiao Li each own 45% of the issued share capital of Voyage Wisdom Limited, respectively.

Save as disclosed above, according to the Register of Interests, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at December 31, 2023.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Financial Year.

Emolument policy

The emolument policy for 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. Although remuneration is generally tied to performance goals, the Compensation and Benefits Committee and the Board maintain a degree of flexibility in making recommendations and compensation decisions.

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 Company's executive officers and Directors are not permitted to purchase financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the executive officer or Director in accordance with the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy. The Company continually reviews its emolument policy to ensure the alignment of remuneration outcomes with the successful delivery of the Company's strategy.

The emolument policy for the Directors is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics. Details on the emolument policy for the INEDs are set out in the Remuneration of Directors section on page 50 of the Corporate Governance Report.

How We Make Compensation Decisions

The Compensation and Benefits Committee generally oversees and sets the general guidelines and principles for the Company's emolument policy for its executive officers. It assesses individual performance of the Company's executive officers and makes recommendations relating to compensation to the Board. Based on these recommendations, the Board makes decisions concerning the nature and scope of the compensation to be paid to the Company's executive officers. The Compensation and Benefits Committee bases its recommendations to the Board on a combination of its compensation philosophy, market analysis for compensation paid by a peer comparator group, advice from third-party consultants and the Committee's assessment of individual performance based on an objective set of performance goals. In the normal course, the Company's total compensation package is made up of three elements: salary, bonus and equity incentives. In addition, certain executives receive other compensation such as housing allowance, income tax benefit and travel expenditures, as determined on a case by case basis.

The Compensation and Benefits Committee generally meets quarterly to deal with any compensation issues or more frequently as needed to address specific issues in respect of executive compensation. The Compensation and Benefits Committee meets with the CEO and CFO at least annually to discuss management's corporate goals for the forthcoming year, and to complete the annual review of the CEO and CFO's performance. The Compensation and Benefits Committee works with the CEO and CFO to evaluate the performance and set the compensation for the other executive officers, including proposed salary adjustments, bonus awards and stock options grants.

The Board has the responsibility for overseeing the Company's emolument program. The Board has delegated certain oversight responsibilities to the Compensation and Benefits Committee, but retains final authority over the emolument program and process, including approval of material amendments to or adoption of new equity-based compensation plans and the review and approval of Compensation and Benefits Committee recommendations regarding executive emolument.

In designing the various elements and determining amounts of compensation, the Compensation and Benefits Committee draws upon the advice from the CEO and CFO and may also obtain advice from compensation advisor(s) with regard to the recommendations of management as part of preparing its recommendations to the Board.

The CEO and CFO, in consultation with the Board and senior management, are responsible for developing the Company's overall strategic plan. On the basis of the strategic plan, the CEO and CFO develop an annual business plan and sets out corporate strategies, key performance indicators and objectives, which are reviewed and approved by the Board. These objectives include individual, general corporate and financial objectives and form the basis of assessing the performance of the executive management for the purpose of determining their annual incentive awards, which are weighted on an individual basis to reflect specific targets based on an executive's position.

The Board actively monitors the Company's adherence to its strategic plan and the annual business plan and budget and is directly involved in investigating any significant variance from those plans that would encounter any major new risks that have not already been identified and mitigated to the extent possible through its normal business practices. The Company has also adopted the Share Option Plan to incentivise Directors and eligible employees. Details of the plan are set out in Note 29 to the Financial Statements.

Details of the emoluments of the Directors and five individuals with the highest emoluments for the Financial Year are set out in Note 13 to the Financial Statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Articles of Continuation or under the laws of Canada which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Sufficiency of public float

Pursuant to the rules and regulations of the TSX-V, a Tier 2 listed issuer, such as the Company, may be delisted if the number of freely-tradable, publicly held securities is less than 500,000 or the number of public security holders, each holding a board lot consisting of 100 common shares or more, is less than 200. Based on information that is publicly available to the Company and within the knowledge of the Directors, the public float of the Company is approximately 55.22% as at the date of this report.

Major customers and suppliers

Details of the Company's transactions with its major suppliers and customers during the Financial Year are set out below:

Purchases

The largest supplier accounted for 16% of the Company's purchases.

The five largest suppliers accounted for 52% of the Company's purchases in aggregate.

Sales

The largest customer accounted for 17% of the Company's sales.

The five largest customers accounted for 57% of the Company's sales in aggregate.

At no time during the Financial Year did a Director, a close associate (as defined in the Listing Rules) of a Director or a Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in any of the Company's five largest suppliers or five largest customers.

Charitable donations

During the Financial Year, the Company made charitable donations amounting to US$228,318 (2022: US$140,217).

Permitted Indemnities

During the Financial Year, the Company had appropriate insurance cover for the Directors' and Officers' liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities.

Pursuant to the Articles of Continuation and subject to the Business Corporations Act of British Columbia, Canada, the Company must indemnify a director or former director of the Company and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding.

Related party transactions, Connected Transactions and Continuing connected transactions

"Related party transactions" of the Company during the Financial Year are disclosed in Note 33 to the Financial Statements. Pursuant to the Hong Kong Listing Rules, JD Zhixing Fund L.P. ("JDZF") is a substantial shareholder of the Company and hence a connected person of the Company.

Transactions between the Company and JDZF constitute connected transactions. JDZF became the registered holder of the Company's US$250 million Convertible Debenture (originally issued on November 19, 2009, the "Convertible Debenture") through assignment of all rights and obligations from the previous registered holder in May 2022. Since then, the Convertible Debenture, the amended and restated mutual cooperation agreement (signed by the previous registered holder on April 23, 2019, the "Amended and Restated Cooperation Agreement"), as well as the entering into of deferral agreements to defer certain payment obligations under the Convertible Debenture, constitute connected transactions or continuing connected transactions of the Company and are subject to ongoing compliance with Chapter 14A of the Listing Rules.

The details of the Convertible Debenture, the Amended and Restated Cooperation Agreement and the Deferral Agreements can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations – Convertible Debenture set out on pages 84 to 88 of this Annual Report, and the Company's announcements dated November 11, 2022; March 26, 2023; August 30, 2023; October 13, 2023; November 17, 2023; January 19, 2024; and March 19, 2024.

Equity-linked agreements

Other than the Share Option Plan and the Share Purchase Plan as disclosed above and in the Management's Discussion and Analysis, no equity-linked agreements that (i) will or may result in the Company issuing Shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Financial Year or subsisted at the end of the Financial Year.

Tax relief

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

Independent auditor

The Financial Statements have been audited by BDO Limited. BDO Limited will retire and, being eligible offer themselves for re-appointment at the forthcoming 2024 AGM. A resolution will be submitted at the 2024 AGM to appoint BDO Limited as the Auditor of the Company.

On behalf of the Board

Mao Sun
Independent Lead Director
March 28, 2024

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.

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Board of Directors of the Company (the "Directors" and the "Board", respectively) considers good corporate governance practices to be an important factor in the continued and long-term success of the Company by helping to maximise shareholders' value over time. The Board will continue to review, and where appropriate, improve the current practices of the Company based on the experience and regulatory changes to enhance the confidence of the Company's shareholders, and to safeguard shareholders' interest for continued and long-term success of the Company.

To further this philosophy and ensure that the Company follows good governance practices, the Board has taken the following steps:

- approved and adopted a mandate for the Board (the "Board Mandate"), which sets out its stewardship responsibilities;
- appointed an independent non-executive director ("INED"), as the independent Lead Director (the "Independent Lead Director"), with specific responsibilities of, among other things, providing overall leadership of the Board, maintaining the independence of the Board and ensuring that the Board carries out its responsibilities mandated by applicable statutory and regulatory requirements and stock exchange listing standards, and in accordance with best practices;
- established an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Benefits Committee, a Health, Environment, Safety and Social Responsibility ("HESS") Committee and Operations Committee;
- reviewed, and approved amendments as required to, the Board Mandate and the respective charters for Board committees, including the Audit, Nominating and Corporate Governance, Compensation and Benefits, HESS, and an Operations Committees;
- established a Disclosure Committee for the Company, comprised of members of management and the Chair of the Nominating and Corporate Governance Committee, with the mandate to oversee the Company's disclosure practices;
- adopted and implemented a compliance program for all Directors and employees, including business integrity policies and the whistleblowing program;
- adopted a Corporate Compliance Policy, as to comply with the Listing Rules;
- adopted a Director Conflict of Interest Policy, as to comply with the Listing Rules;

- adopted a Majority Voting Policy for Auditors, as to comply with the Listing Rules;
- reviewed, and approved amendments as required to, the Company's Disclosure Controls and Procedures, and the Corporate Disclosure and Securities Trading Policy;
- reviewed, and approved amendments, as required, to the Company's Business Integrity standards, including: the Anti-Corruption Standard and the Conflicts of Interest Standard, "*The Way We Work*", and Guidelines for the investigation into allegations of serious wrongdoing (collectively, the "Code of Conduct Standards");
- reviewed, and approved amendments, as required, to the Shareholder Communication Policy;
- reviewed, and approved amendments, as required, to the Majority Voting Policy;
- reviewed, and approved amendments, as required, to the Board Diversity Policy;
- reviewed, and approved amendments, as required, to the Dividend Policy;
- reviewed, and approved amendments, as required, to the Significant Contract Committee Policy and related procurement guidelines;
- reviewed, and approved amendments, as required, to the written position descriptions for the Chairman, Independent Lead Director, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), President, Vice President of Legal ("VP Legal"), Vice President of Public Relations ("VP Public Relations"), Corporate Secretary and Controller, as well as the Chairs of the Audit, Nominating and Corporate Governance, Compensation and Benefits and HESS Committees clearly defining their respective roles and responsibilities; and
- formalised a process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual Directors, on a regular basis.

Compliance with the Corporate Governance Code

The Board has considered carefully the requirements of the Corporate Governance Code set out in Appendix C1 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules" and the "Corporate Governance Code" respectively) and, save as disclosed below, deemed that the Company had complied with the mandatory disclosure requirements and code provisions set out in the Corporate Governance Code, throughout Financial Year:

- pursuant to Section C.2 under Part 2 of the Corporate Governance Code, the Chairman of the Board should be responsible for the overall management of the Board. The Company has not had a Chairman since November 2017. The Board has appointed an Independent Lead Director, who is fulfilling the duties of the Chairman; and
- pursuant to code provision F.2.2 under Part 2 of the Corporate Governance Code, the Chairman of the Board of Directors should attend the annual general meeting (the "AGM"). Mr. Mao Sun, an INED and the Independent Lead Director, attended and acted as Chairman of the Company's annual general meeting held on June 20, 2023 (the "2023 AGM") and the special meeting of shareholders held on August 29, 2023 (the "2023 EGM") to ensure effective communication with shareholders of the Company (the "Shareholders").

CORPORATE GOVERNANCE REPORT

Pursuant to code provision C.2.7 under Part 2 of the Corporate Governance Code, the Chairman of the Board should at least annually hold meetings with the NEDs (including INEDs) without the executive directors present. During the Financial Year, two (2) meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the NEDs were held. The opportunity for such communication channel is available at the end of each Board meeting.

The Company's current practices are reviewed and updated regularly to ensure that the latest developments and best practices in corporate governance are followed and observed.

During the Financial Year, the Board reviewed the Company's governance documents and policies included in the Code of Conduct Standards. The Code of Conduct Standards provides that the Company's Directors, officers, employees and consultants will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. The Company's Directors, officers, and employees are required to confirm, on an annual basis, whether they have reviewed the Company's Code of Conduct Standards and if they are aware of any actual or potential conflicts of interest.

The various policies forming the Code of Conduct Standards, in addition to the Shareholder Communication Policy, Majority Voting Policy for Directors, Majority Voting Policy for Auditors and the Board Diversity Policy, are available on the Company's website (www.southgobi.com).

A copy of the Code of Conduct Standards may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: +1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: corporate@southgobi.com.

To support the ethical standards expected of the Company and its employees, SouthGobi and its subsidiaries have adopted a confidential whistle-blower program, where employees may confidentially report any concerns or perceived misconduct.

The Company's whistle-blower program is administered by the Company's Corporate Secretary in conjunction with the Chair of the Audit Committee.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

Board Composition

In the corporate governance guidelines provided by the Canadian Securities Administrators (the "CSA"), it is recommended that a majority of the directors of a corporation be independent directors. Under the CSA corporate governance guidelines, a director is independent if he or she has no direct or indirect material relationship with the Company. A "material relationship" is one that could, in the view of the Board, be reasonably expected to interfere with the exercise of the Director's independent judgment. The Company considers that a partner, shareholder or officer of an organisation that has a material relationship with the Company has an indirect material relationship under the CSA corporate governance guidelines and is, therefore, not an independent Director. The Corporate Governance Code includes a number of factors to take into consideration when assessing the independence of a non-executive Director, including the percentage of shares held by him or her in the Company and any material interest in any principal business activity of the Company.

The Board has assessed the independence of all the INEDs and considers each of them to be independent having considered (i) receipt of their annual written confirmations of independence from Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan, relating to his/her independence pursuant to securities laws and stock exchange rules in all applicable jurisdictions, (ii) the absence of involvement in the daily management of the Company, (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement and (iv) information regarding personal and business circumstances provided in a comprehensive questionnaire completed annually by each of the Directors.

Following an assessment of the aforementioned information, the Board has determined that three (3) of its eight (8) current members (Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan) are independent, representing 37.5% of all Board members. Moreover, five (5) of the eight (8) Directors are NEDs.

The Board believes that its current size and composition and the composition of the Board committees, results in balanced representation. As at the date of this report, the Company believes it has a well-balanced Board. The Board is comprised of three (3) Executive Directors, two (2) NEDs and three (3) INEDs.

Although a majority of the Board are not independent Directors, the Board is of the view that appropriate structures and procedures are in place to allow the Board to function independently of management. The Board has appointed an INED as Independent Lead Director who is responsible for providing overall leadership of the Board and maintaining the independence of the Board. In the event that the Board must consider a potential or actual conflict, such matter is referred to the INEDs and is subject to independent scrutiny. To facilitate the exercise of independent judgment, the INEDs and NEDs of the Board hold meetings as required.

During the Financial Year and up to the date of this report, the Directors were/are as follows:

BOARD COMPOSITION

DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Ruibin Xu [(1)]
Ms. Chonglin Zhu
Mr. Chen Shen

NON-EXECUTIVE DIRECTORS:

Mr. Zhu Gao
Mr. Zaixiang Wen [(2)]

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Mao Sun *(Independent Lead Director)*

FORMER DIRECTORS

EXECUTIVE DIRECTOR:

Mr. Dong Wang [(3)]

NON-EXECUTIVE DIRECTOR:

Mr. Gang Li [(4)]

CORPORATE GOVERNANCE REPORT

Notes:

1) Mr. Ruibin Xu was appointed as CEO on May 15, 2023 and joined the Board as an Executive Director on June 20, 2023. He is an Executive Director in his capacity as the Company's CEO;

2) Mr. Zaixiang Wen was appointed as a NED on May 17, 2023 and is a NED in his capacity as a nominee director of Land Grand, a substantial shareholder of the Company;

3) Mr. Dong Wang was CEO and an Executive Director from September 8, 2022 to May 15, 2023. He was an Executive Director in his capacity as the Company's CEO. He was a non-Executive Director from May 15, 2023 to June 20, 2023; and

4) Mr. Gang Li was a NED in his capacity as a nominee director of Land Grand. Mr. Gang Li resigned from the Board of Directors on May 8, 2023, and ceased to be a NED at that time. Mr. Gang Li confirmed that he has no disagreement with the Board and that there were no matters that needed to be brought to the attention of the Shareholders. To the best of the Company's knowledge, Mr. Gang Li ceased to be a shareholder of Land Grand in May 2023.

As at March 28, 2024, to the knowledge of the Company, each of JDZF and Land Grand, held approximately 29.03% and 15.70% of the Company's issued and outstanding common shares, respectively. Based on information that is publicly available to the Company and within the knowledge of the Directors as at the last practicable date, the public float of the Company is approximately 55.22%.

Biographical details of the Directors of the Company are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 8 to 11 of this annual report. The Directors are satisfied that the size and composition of the Board results in a balanced representation on the Board among Executive Directors, INEDs and NEDs and the Company's controlling shareholder.

The NEDs and INEDs bring a range of business, professional and financial expertise, experience and independent judgment to the Board. Through active participation at Board meetings and serving on Board Committees, all NEDs and INEDs make various contributions to the effective direction of the Company. In accordance with the Company's Articles, all directors are subject to re-election each year at the Company's annual general meeting.

The Company does not currently have a Chairman. Mr. Mao Sun, the Company's Independent Lead Director and an INED, fulfils the duties of the Chairman, and is responsible for, amongst other things, maintaining the independence of the Board, ensuring that the Board carries out its responsibilities and chairing meetings of the Board.

Mr. Rubin Xu, one of the Company's Executive Directors, has been the CEO since May 15, 2023, and is responsible for the Company's operations. Prior to Mr. Ruibin Xu's appointment, Mr. Dong Wang was the Company's Executive Director and CEO from September 8, 2022 to May 15, 2023.

Mr. Rubin Xu and Mr. Zaixiang Wen were appointed during the Financial Year and had obtained legal advice referred to in Rule 3.09D of the Listing Rules on June 23, 2023 and June 8, 2023, respectively; and both directors have individually confirmed that he understood his obligations as a director of a listed issuer.

To the best knowledge of the Company, none of the Directors are related, except indirectly as noted below. Relationships include financial, business or family relationships. In this regard, the Company notes:

1. Mr. Ruibin Xu, Ms. Chonglin Zhu, Mr. Chen Shen and Mr. Dong Wang, were nominated for appointment as Directors of the Company by JDZF pursuant to contractual director nomination rights granted in favour of JDZF in connection with securityholders agreement between the Company, JDZF and a former shareholder of the Company and certain deferral agreements entered into among JDZF, the Company and its certain subsidiaries relating to the Company's US$250 million convertible debenture (the "Convertible Debenture") held by JDZF. Ms. Chonglin Zhu's spouse is the head of the Company's Transportation Department.

2. Messrs. Zhu Gao, Zaixiang Wen, and Gang Li were nominated by Land Grand, pursuant to the contractual director nomination rights granted in favor of Land Grand in connection with the Subscription Agreement and the associated assignment letter entered into among the Company, Land Grand and Novel Sunrise Investments Ltd..

The Directors are satisfied that the size and composition of the Board provides for a balanced representation on the Board among the Executive Directors, INEDs and NEDs. While the Board believes that it functions effectively given the size of the Company and complexity of its business, the Company, through its Nominating and Corporate Governance Committee, may in the future seek to add qualified candidates to augment its experience and expertise and to enhance the Company's ability to develop its business interests.

Each Director is free to exercise his or her independent judgment. Directors, including the current NEDs and INEDs, are elected at each annual general meeting and hold office until the next annual general meeting, unless a Director's office is earlier vacated in accordance with the provisions of the Business Corporations Act (British Columbia) and the Company's Articles.

Corporate Culture and Strategy

The Company believes that building a strong corporate culture and strategy is integral to its long-term growth and success. Through years of operating in Mongolia and China, the Company has developed a culture of mutual respect, and has embraced safety as a basic principle of its operations.

Management values the well-being of all employees and the returns from our assets to stakeholders. This commitment is demonstrated by operating in a safe, productive and socially responsible manner. The Company considers its employees to be its greatest asset and has undertaken to provide all employees with healthy, respectful and safe workplace conditions.

Mandate of the Board

Under the British Columbia Business Corporations Act in Canada ("BCBCA"), the Directors are required to manage the Company's business and affairs, and in doing so to act honestly and in good faith with a view to furthering the best interests of the Company. In addition, each Director must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Board is responsible for supervising the conduct of the Company's affairs and the management of its business. The Board Mandate includes setting long-term goals and objectives for the Company, formulating the plans and strategies necessary to achieve those objectives and supervising senior management in their implementation. Although the Board delegates the responsibility for managing the day-to-day affairs of the Company to senior management, the Board retains a supervisory role in respect of, and the ultimate responsibility for, all matters relating to the Company and its business.

CORPORATE GOVERNANCE REPORT

The Board Mandate requires the Board be satisfied that the Company's senior management will manage the affairs of the Company in the best interest of the Shareholders and that the arrangements made for the management of the Company's business and affairs are consistent with their duties described above. The Board is responsible for protecting the Shareholders' interests and ensuring that the incentives of the Shareholders and management are aligned. The obligations of the Board must be performed continuously, and not merely from time to time, and in times of crisis or emergency, the Board may have to assume a more direct role in managing the affairs of the Company.

In discharging this responsibility, the Board Mandate provides that the Board will oversee and monitor significant corporate plans and strategic initiatives. The Board's strategic planning process includes annual and quarterly budget reviews and approvals, and discussions with management relating to strategic and budgetary issues. At least one (1) Board meeting per year is devoted to a comprehensive review of strategic corporate plans proposed by management.

As part of its ongoing review of business operations, the Board periodically reviews the principal risks inherent in the Company's business, including financial risks, through periodic reports from management of such risks, and assesses the systems established to manage those risks. Directly and through the Audit Committee, the Board also assesses the integrity of internal controls over financial reporting and management information systems.

In addition to those matters that must, by law, be approved by the Board, the Board is required under the Board Mandate to approve annual operating and capital budgets, any material dispositions, acquisitions and investments outside of the ordinary course of business or not provided for in the approved budgets, long-term strategy, organisational development plans and the appointment of senior executive officers. Management is authorised to act, without the Board's approval, on all ordinary course matters relating to the Company's business.

The Board Mandate provides that the Board also expect management to provide the Directors, on a timely basis, with information concerning the business and affairs of the Company, including financial and operating information and information concerning industry developments as they occur, all with a view to enabling the Board to discharge its stewardship obligations effectively. The Board expects management to implement its strategic plans for the Company, to keep the Board fully apprised of its progress in doing so and to be fully accountable to the Board in respect to all matters for which it has been assigned responsibility.

The Board has instructed management to maintain procedures to monitor and promptly address Shareholders' concerns, has directed, and will continue to direct, management to apprise the Board of any major concerns expressed by the Shareholders.

Each committee of the Board is empowered to engage external advisors as it reasonably sees fit. Any individual Director is entitled to engage an outside advisor at the expense of the Company provided that such Director has obtained the approval of the Nominating and Corporate Governance Committee to do so. In order to ensure that the principal business risks borne by the Company are identified and appropriately managed, the Board receives monthly reports from management of the Company's assessment and management of such risks. In conjunction with its review of operations, the Board considers risk issues when appropriate and approves corporate policies addressing the management of the risk of the Company's business.

The Board takes ultimate responsibility for the appointment and supervision of the Company's senior management. The Board approves the appointment of senior management and through the Compensation and Benefits Committee, reviews their performance on an annual basis.

The Company has a disclosure policy addressing, among other things, the procedures and internal controls for the handling and dissemination of inside information, how the Company interacts with analysts and the public, and contains measures for the Company to avoid selective disclosure. The terms of the Company's Corporate Disclosure, Confidentiality and Security Trading Policy are no less exacting then those set out in the Guidelines on Disclosure of Insider Information published by the Securities and Futures Commission of Hong Kong.

The Company has a Disclosure Committee, comprised of members of management and with participation by the Chair of the Nominating and Corporate Governance Committee, and such other advisors as may be required. The Disclosure Committee is responsible for overseeing the Company's disclosure practices, including responsibility for the controls, procedures and policies with respect to corporate disclosure. The Disclosure Committee assesses materiality and determines when developments justify public disclosure. The Disclosure Committee reviews the disclosure policy annually and as otherwise needed, to ensure compliance with legal and regulatory requirements. The Disclosure Committee reviews all documents that are provided to the Board and the Audit Committee. The Board reviews and approves the Company's material disclosure documents, including its Annual Report, Annual Information Form and Management Proxy Circular. The Company's annual and quarterly financial statements, Management's Discussion and Analysis and other financial disclosure are reviewed by the Audit Committee and approved by the Board prior to release.

Committees of the Board

The Board has established several Board committees, namely the Audit, Nominating and Corporate Governance, Compensation and Benefits, HESS and Operations Committees, for overseeing particular aspects of the Company's affairs.

All Committees have been established with defined written charters, which are published on the respective websites of the Company and the Hong Kong Stock Exchange, and are available to the Shareholders upon request. All the Board committees report to the Board on their decisions or recommendations made.

Below please find the composition of the Company's Board Committees:

Audit (1)	Nominating and Corporate Governance (1)	Compensation and Benefits (1)	HESS (4) (5)	Operations
Mao Sun (Chair)	Yingbin Ian He (Chair)	Jin Lan Quan (Chair)	Ruibin Xu (Chair) (2)	Yingbin Ian He (Chair)
Yingbin Ian He	Jin Lan Quan	Yingbin Ian He	Yingbin Ian He	Ruibin Xu (2)
Jin Lan Quan	Mao Sun	Mao Sun	Jinsheng Xu (3)	Jinsheng Xu (3)

Notes:

1) The Audit, Nominating and Corporate Governance, and Compensation and Benefits Committees are comprised solely of INEDs.

2) Mr. Ruibin Xu joined and was appointed Chair of the HESS Committee and a member of the Operations Committee on June 20, 2023.

3) Mr. Jinsheng Xu is the Executive Director and President of Southgobi Sands LLC ("SGS"), a wholly-owned subsidiary of the Company. He joined the HESS Committee and Operations Committee on June 20, 2023.

4) Mr. Dong Wang ceased to be Chair and a member of HESS Committee and a member of the Operations Committee on June 20, 2023.

5) Mr. Munkhbat Chuluun ceased to be a member of the HESS Committee on June 20, 2023.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. In April 2023, the Audit Committee charter was updated to reflect current best practices. It is the Board's responsibility to ensure that the Company has an effective risk management and internal control framework. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Audit Committee's charter is available on the Company's website.

The Audit Committee is comprised of three INEDs, Mr. Mao Sun (Chair), Mr. Yingbin Ian He and Ms. Jin Lan Quan.

The primary objective of the Audit Committee is to act as a liaison between the Board and the Company's independent auditors (the "Auditors") and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the integrity and accuracy of the financial statements and other financial information provided by the Company to its Shareholders, the public and others, (b) the Company's compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the Auditors and (d) the Company's risk management and internal financial and accounting controls, and management information systems.

Although the Audit Committee has the powers and responsibilities set forth in its charter, the role of the committee is oversight. During the Financial Year, the Board reviewed the Audit Committee's charter to ensure it reflects current best practices.

The members of the Audit Committee are not employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such a capacity. Consequently, it is not the duty of the Audit Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

All services to be performed by the Auditors must be approved in advance by the Audit Committee or a designated member of the Audit Committee (the "Designated Member"). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services. Pre-approvals by the Designated Member are reviewed and ratified by the Audit Committee at the next meeting thereof.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the Auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the Auditors, other than any de minimis non-audit services allowed by applicable laws or regulations. The decisions of the Designated Member to pre-approve permitted services need to be reported to the Audit Committee at its regularly scheduled meetings. Pre-approval from the Audit Committee or the Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in the scope or final fees of the services. Pursuant to these procedures, 100% of each of the services provided by the Company's external auditors relating to the fees reported as audit, audit-related, tax and other fees are pre-approved by the Audit Committee or the Designated Member and then be recommended to the Board for approval or ratification.

In performing its duties in accordance with the Audit Committee's Charter, the Audit Committee has:

- overseen the Company's relationship, audit fees and terms of engagement of the Auditors;
- reviewed the independence of the Auditor and made recommendations to the Board on the reappointment of the Auditors;
- reviewed the Company's quarterly, half-year and annual consolidated financial statements during the Financial Year;
- reviewed and assessed the effectiveness of the systems of risk management and internal controls;
- reviewed the effectiveness of the Company's internal audit function and oversaw the engagement of a third-party internal auditor; and
- reported to the Board on the proceedings and deliberations of the Audit Committee.

Nominating and Corporate Governance Committee

The Board has established a Nominating and Corporate Governance Committee (the "NCG Committee") that operates under a charter approved by the Board. During the Financial Year, the Board reviewed the NCG Committee charter and the Board Mandate to ensure the documents reflect current best practices. The NCG Committee is comprised of three INEDs, Mr. Yingbin Ian He (Chair), Mr. Mao Sun and Ms. Jin Lan Quan.

The Company has adopted guidelines and procedures in its NCG Committee charter that are no less exacting than those that are set out in Section B.3 under Part 2 – Principles of good corporate governance, code provisions and recommended best practices of Corporate Governance Code relating to the creation of a nomination policy. The NCG Committee's charter is available on the Company's website.

The primary objective of the NCG Committee is to assist the Board in fulfilling its oversight responsibilities by (a) identifying individuals qualified to become members of the Board and the committees of the Board and recommending that the Board selects such individuals as director nominees for appointment or election to the Board or its committee, as the case may be; and (b) developing and recommending to the Board corporate governance guidelines for the Company and making recommendations to the Board with respect to corporate governance practices. The NCG Committee monitors the disclosure of conflicts of interest to the Board with a view to ensuring that no Director will vote or participate in a discussion on a matter in respect of which such Director has a material interest. Committee Chairs perform the same function with respect to meetings of each Board committee.

In performing its duties in accordance with the NCG Committee's charter, the NCG Committee has:

- assessed the independence of INEDs;
- reviewed the NCG Committee's charter to ensure that the Company has the appropriate procedures and processes in place to facilitate the nomination of Directors;
- conducted self-assessments of the Board and the Board committees;
- reviewed the structure, optimal size, composition (including diversity, skills, knowledge and experience, etc.) and qualifications of the Board;

CORPORATE GOVERNANCE REPORT

- made recommendations to the Board on the selection of individuals nominated for directorship in view of their qualifications and related expertise;

- made recommendations to the Board on the selection of individuals nominated for senior management roles;

- ensured that the Board has the necessary structures and procedures so that it can function with an appropriate degree of independence from management;

- provided a forum without management present to receive expressions of concern, including any concern regarding matters involving the independence of the Board from management;

- conducted induction programs for new Directors, as needed;

- reviewed the practices and procedures of the Board in light of ongoing developments in regulatory and stock exchange requirements and industry best practices in matters of corporate governance and recommended to the Board any changes considered necessary or desirable;

- supported the continuous professional development of the Directors as required by the Corporate Governance Code;

- reviewed, and recommended approval of amendments, as required, to the Company's internal governance policies being the: Corporate Compliance Policy, Corporate Disclosure and Securities Trading Policy, Policy for Disclosure Controls and Procedures, Board Diversity Policy, Majority Voting Policy for Directors, Majority Voting Policy for Auditors, Director Conflict of Interest Policy, and Shareholder Communication Policy;

- reviewed, and recommended approval of amendments, as required, to the Company's Code of Conduct Standards, including: the Anti-Corruption Standard, the Conflicts of Interest Standard, "The Way We Work", and Guidelines for the investigation into allegations of serious wrongdoing;

- reviewed, and recommended approval of amendments as required to, the written position descriptions for the Chairman, Independent Lead Director, CEO, CFO, SVP Finance, VP Legal, VP Public Relations, Corporate Secretary and Controller, as well as the Chairs of the Audit, NCG, Compensation and Benefits, and HESS Committees clearly defining their respective roles and responsibilities.

In connection with its efforts to create and maintain a diverse Board, the NCG Committee has:

- developed recruitment protocols that seek to include diverse candidates in any director search. These protocols take into account that qualified candidates may be found in a broad array of organisations, including academic institutions, privately held businesses, non-profit organisations and trade associations, in addition to the traditional candidate pool of corporate directors and officers;

- utilised the current network of organisations and trade groups that may help identify diverse candidates;

- periodically reviewed Board recruitment and selection protocols to ensure that diversity remains a component of any director search; and

- in order to support the specific objective of gender diversity, the NCG Committee considered the level of representation of women on the Board and will seek to include women in the short list of candidates being considered for future Board positions.

Compensation and Benefits Committee

The Board has established a Compensation and Benefits Committee (the "Compensation Committee") that operates under a charter approved by the Board. In November 2023, the Compensation Committee charter was updated to reflect current best practices.

The Compensation Committee is comprised of three INEDs, namely: Ms. Jin Lan Quan (Chair), Messrs. Yingbin Ian He and Mao Sun.

The primary objective of the Compensation Committee is to discharge the Board's responsibilities relating to the determination of remuneration and benefits for the Directors and executive officers of the Company. This role includes reviewing and approving executives' remuneration including long-term incentive components and making applicable recommendations to the Board, administering the employees' Equity Incentive Plan (including the Share Option Plan and Share Purchase Plan), determining the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time, and reviewing reports as may be required under applicable laws and regulations.

The objectives of the Compensation Committee are to: (i) provide a strong incentive for management to contribute to the achievement of the Company's short-term and long-term goals; (ii) to ensure that the interests of the Company's executive officers and shareholders are aligned; (iii) to enable the Company to attract, retain and motivate executive officers of the highest caliber in light of the strong competition in the Company's industry for qualified personnel; and (iv) to provide fair, transparent and defensible compensation.

In performing its duties in accordance with the Compensation Committee's charter, the Compensation Committee has:

- reviewed and made recommendations to the Board with respect to the adequacy and forms of the Company's remuneration policy relating to the remuneration and benefits of the Executive Directors, senior officers and INEDs;

- administered and made recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;

- reviewed and approved corporate goals and objectives for the remuneration of the CEO, CFO, SVP Finance, VP Legal and VP Public Relations evaluating their performance and setting their remuneration levels;

- reviewed and updated the form of agreement and compensation structure for the CEO, CFO, SVP Finance, VP Legal and VP Public Relations;

- recommended to the Board the performance evaluation of the CEO and CFO, taking into consideration their annual objectives and performance;

- determined the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time; and

- reviewed and/or approved matters relating to Equity Incentive Plan (including the Share Option Plan and Share Purchase Plan) and any share scheme that is to be adopted by the Company under Chapter 17 of the Listing Rules.

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Health, Environment, Safety and Social Responsibility Committee

The Board has established a HESS Committee that operates under a charter approved by the Board. During the Financial Year, the HESS Committee's charter was reviewed to ensure it reflects current best practices. The HESS Committee's charter is available on the Company's website.

The HESS Committee is comprised of an Executive Director, an INED and a member of senior management, namely Messrs. Mr. Ruibin Xu (Chair), Yingbin Ian He and Jinsheng Xu, the Executive Director and President of Southgobi Sands LLC ("SGS"), the Company's wholly owned subsidiary.

The primary objective of the HESS Committee is to assist the Board 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.

In performing its duties in accordance with the HESS Committee's charter, the HESS Committee has:

- reviewed, and recommended approval of amendments as required to, the health, environmental, safety and social responsibility policies of the Company;
- monitored the status of compliance with the Company's policies and applicable laws and regulations in the areas of health, environment, safety and social responsibility;
- reviewed the performance of the Company in the areas of health, environment, safety and social responsibility.
- reviewed the Company's environmental, social and governance report (the "ESG Report"); and
- provided guidelines and recommendations to the Company's management relating to the findings in the ESG Report.

The Board believes that strong corporate governance provides a framework to make well-informed and sound decisions that will facilitate the implementation of policies and procedures to safeguard the safety and well-being of its employees, the environment and neighbouring communities.

Operations Committee

The Board has established an Operations Committee that operates under a charter approved by the Board. The primary objective of the Operations Committee is to assist the Board in fulfilling its oversight responsibilities with respect to mine operations and product marketing. The Operations Committee is comprised of an Executive Director, an INED and a member of senior management, namely: Messrs. Yingbin Ian He (Chair), Ruibin Xu and Jinsheng Xu. The Operations Committee's charter is available on the Company's website.

Ad Hoc/Special Committees

In appropriate circumstances, the Board may establish a special committee to review a matter in which certain Directors or management may have a conflict of interest.

Meetings of the Board and Committees of the Board

The Board holds regular quarterly meetings. Between quarterly meetings, the Board meets as required, generally by means of telephone conferencing facilities. As part of the quarterly meetings, the INEDs also have the opportunity to meet separately from management. If required, between regularly scheduled Board meetings, a meeting of INEDs and NEDs, chaired by the Independent Lead Director, may be held by teleconference to update the Directors on corporate developments since the last Board meeting. Management also communicates informally with members of the Board on a regular basis, and may solicit the advice of the Board members on matters falling within their special knowledge or experience.

During the Financial Year, the majority Company's Board and Committee meetings were held via teleconference.

2023 Board and Committee Meetings	
Total Number of:	
Board Meetings:	
In Person:	1
Via conference call:	10
Audit Committee Meetings:	
In Person:	1
Via conference call:	9
Compensation Committee Meetings:	
Via conference call:	1
NCG Committee Meetings:	
Via conference call:	12
Combined meetings of the Compensation & NCG Committees:	
Via conference call:	3
HESS Committee Meetings:	
In Person:	1
Via conference call:	4
Operations Committee Meetings:	
Via conference call:	1

The 2023 AGM was held in Vancouver, Canada, via teleconference on June 20, 2023 and was attended by all the directors.

The 2023 EGM was held in Vancouver, Canada, via teleconference, on August 29, 2023 and was attended by all the directors.

It is anticipated that the 2024 AGM will be held on June 27, 2024. The notice of the 2024 AGM will be sent to shareholders at least 20 clear business days prior to the 2024 AGM.

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Attendance by the Directors at the 2023 AGM and 2023 EGM, as well as Board and Board committee meetings held in the Financial Year, is shown below:

	2023 AGM & 2024 EGM	Board meetings	Audit	NCG	Compensation	Combined NCG and Compensation	HESS	Operations
	(Number of Attendances/Number of Meetings)							
Executive Directors								
Mr. Ruibin Xu [(1)(2)]	1/1	5/5	N/A	N/A	N/A	N/A	4/4	1/1
Ms. Chonglin Zhu	1/1	11/11	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chen Shen	1/1	11/11	N/A	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors								
Mr. Zhu Gao	1/1	7/11	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Zaixiang Wen [(3)]	1/1	7/7	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-Executive Directors								
Mr. Yingbin Ian He	1/1	11/11	10/10	12/12	1/1	3/3	5/5	1/1
Ms. Jin Lan Quan	1/1	11/11	10/10	12/12	1/1	3/3	N/A	N/A
Mr. Mao Sun	1/1	11/11	10/10	12/12	1/1	3/3	N/A	N/A
Former Directors								
Mr. Dong Wang [(4)]	0/0	5/6	N/A	N/A	N/A	N/A	1/1	N/A
Mr. Gang Li [(5)]	0/0	2/3	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

1) Mr. Rubin Xu, was elected to the Board of Directors on June 20, 2023 and there were five (5) Board meetings subsequent to his election.

2) Mr. Rubin Xu joined the HESS and Operations Committees on June 20, 2023 and there were four (4) meetings of the HESS Committee and one (1) meeting of the Operations Committee subsequent to him joining the Committees.

3) Mr. Zaixiang Wen joined the Board on May 17, 2023 and there were seven (7) Board meeting subsequent to his appointment.

4) Mr. Dong Wang did not stand for re-election at the Company's 2023 AGM and ceased to be a Director and a member of the HESS and Operations Committees on June 20, 2023.

5) Mr. Gang Li resigned from the Board of Directors on May 8, 2023.

Professional Development

The Company takes steps to ensure that prospective Directors fully understand the role of the Board and its Committees and the contribution individual Directors are expected to make, including, in particular, the commitment of time and energy that the Company expects and requires. New Directors are provided with a director information package containing copies of all corporate policies and procedures, Board and committee mandates and policies, corporate disclosure protocols, corporate governance matters and other key documents. New Directors are also briefed by Chair of the Nominating and Corporate Governance Committee and management on the Company's business and encouraged to visit the Company's operations and mine-site, when permitted.

In addition, all Directors are briefed on the duties, responsibilities and liabilities of Directors, including the statutory duties of Directors to act honestly and in good faith with a view to the best interests of the Company when exercising the powers and performing the functions of Directors. In particular, the briefings focus on the Directors' obligations to provide objective oversight of the Company on behalf of all Shareholders notwithstanding other prior or current relationships, if any.

In the event the Board must consider a matter which involves a potential or actual conflict, such matter will be referred to the INEDs for consideration to ensure that a proper process is followed and the matter is subject to independent scrutiny.

Management and outside advisors provide information and education sessions to the Board and its committees as necessary to keep the Directors up-to-date with the Company, its business and the environment in which it operates as well as with developments and best practices relating to the responsibilities of directors.

The Directors are encouraged to attend seminars, webinars and conferences relating to corporate governance, financial, environmental, mining, legal, regulatory and/or business affairs at the Company's expense. The Company makes available continuous professional development for all Directors in order to develop and refresh their knowledge and skills.

All Directors participated in appropriate continuous professional development and provided the Company with their records of the training they received during the Financial Period. All Directors participated in various degrees of professional development, which included reading regulatory updates, attending seminars or conducting training sessions and exchanging views.

According to the training records maintained by the Company, the Director professional development during the Financial Year is summarised as follows:

a. The Company hosted four (4) professional development seminars, which were attended by all Directors.

   The Hong Kong Institute of Corporate Directors conducted seminars on:

   (1) Regulatory framework: The role of the Company Director in a listed or private company.

   (2) Corporate Governance: Insights into the Independence of the Board's Functions and Duties.

   The Company's external legal counsel conducted seminars on:

   (3) Responsibilities and Obligations of Directors, and Relevant Requirements under the Hong Kong Listing Rules and Securities and Futures Ordinance.

   (4) the Company's Corporate Compliance Policy.

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b. each Director was provided with a membership to the Canadian Institute of Corporate Directors (the "ICD") as a means of facilitating continuing education opportunities for the Directors. Directors have the opportunity to attend on-line courses, conducted by the ICD, relevant to the Company and its business, particularly with respect to corporate governance and the mining industry, at the Company's expense. Through the ICD, the Directors receive regular updates on numerous matters; and

c. Directors were provided with educational materials relating to matters relevant to their duties as directors, changes within the Company, and concerning regulatory and industry requirements and standards.

The following is a summary of the additional professional development completed by individual directors during the Financial Year.

Ms. Jin Lan Quan:

- Enterprise Risk Oversight for Directors webinar
- The Role of the Board in Financial Oversight webinar
- Climate Finance
- Advanced budgeting, planning and forecasting
- Human Resources and Compensation Committee Effectiveness
- Optimising the dynamics between Management and the Board is essential to achieving better outcome
- Detecting and deterring financial fraud

Mr. Mao Sun:

- Climate Adaptation Strategies And The Board's Roles
- The Role Of Boards In Overseeing Culture
- Navigating AI From The Boardroom
- Navigating Opportunities and Risks with Intangible Corporate Assets
- The Future Of Sustainability Reporting With ISSB Standards
- Securities Laws Updates And Trends Heading Into Proxy Season
- World of work Employment and labour law highlights US and Canada
- Cross-Canada Labour & Employment update
- Navigating workplace investigations
- Health and safety and wrongful dismissal updates
- Thorsteinssons Annual Tax Update 2023
- Surplus Stripping
- 2023 Taxation of Partnerships and the Attribution Rules
- 2023 British Columbia Tax Conference
- CPA Small Practitioners' Forum 2023 - Ethics Round Table
- Ethics and the CPA

Mr. Yingbin Ian He:

- Ring the Bell for Gender Equality
- Global Economic Outlook 2023
- Canada's changing privacy regime: Challenges and opportunities
- Perspective & Insights on Metals and Mines
- Transactional and Legal Trend in the International Mining Industry
- Navigating workplace investigations
- Materiality Matters: The Critical Step to Start Sustainability Reporting
- The Weaponisation of the 'E' in ESG

Ethical Business Conduct

The Company's current practices are reviewed and updated regularly to ensure that the latest best practices and developments in corporate governance are followed and observed.

The Company has adopted and implemented a Code of Business Conduct and Ethics (the "Ethics Policy") called "The Way We Work". The Ethics Policy is applicable to all of the Company's employees, consultants, officers and Directors regardless of their position in the organisation, at all times and everywhere the Company does business.

In addition to "*The Way We Work*", the Company has also adopted additional guidance notes and standards which form part of the Company's overall Code of Conduct Standards. Included in the Code of Conduct Standards are the following policies and standards: the Anti-Corruption Standard, "The Way We Work", Guidelines for the Investigation into Allegations of Serious Wrongdoing, and the EthicsPoint program. In support of the Code of Conduct standards, the Company adopted a Director Conflicts of Interest Standard.

To support the ethical standards expected of the Company and its employees, SouthGobi and its subsidiaries have adopted a confidential whistle-blower program, where employees may confidentially report any concerns or perceived misconduct. Information regarding the whistle-blower program is available on the Company's website (www.southgobi.com).

The Company's whistleblowing program is administered by the Company's Corporate Secretary in conjunction with the Chair of the Audit Committee.

The Ethics Policy and the Code of Conduct Standards provide that the Company's employees, consultants, officers and Directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. A copy of the "*The Way We Work*" and the various policies forming the Code of Conduct Standards are available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: +1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: corporate@southgobi.com.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

Shareholder Communication Policy

The Company has a Shareholder Communication Policy which sets out the general policy and measures adopted by the Company in respect to its communication with Shareholders, both individual and institutional, and, when appropriate, potential investors and analysts who report on and analyse the Company's performance (collectively, the "investment community"). The objective of the Shareholder Communication Policy is to ensure that Shareholders and the investment community is provided with complete, equal, and timely information about the Company (including its financial performance, strategic goals and plans, material business developments, corporate governance, risk profile and other material information) in order to enable Shareholders to make an informed decision with respect to their shares and other securities of the Company and to allow the investment community to engage in constructive dialogue with the Company.

In March 2023, the Shareholder Communication Policy was updated to incorporate amendments required to fully align the Shareholder Communication Policy with Listing Rules.

Over the course of the Financial Year, the Company has reviewed the implementation and effectiveness of the Shareholder Communication Policy.

A copy of the Shareholder Communication Policy is available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: +1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: corporate@southgobi.com.

Board Diversity Policy

The Company is of the view that Board appointments should be based on merit, and is committed to selecting the most suitable candidate to join the Board. At the same time, the Company recognises that diversity is important to ensure that the profiles of Board members provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship.

The Company believes that a diverse Board will enhance its decision-making by utilising the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of services, and other distinguishing qualities of the members of the Board. In support of this belief, in accordance with the requirements set out in the Corporate Governance Code, the Board adopted a Board Diversity Policy in March 2014, and approved the adoption of certain amendments to the Board Diversity Policy in November 2017 and in March 2022 in order to fully align the Board Diversity Policy with Listing Rules.

For the purposes of Board composition, diversity includes, but is not limited to, characteristics such as gender, age, disability, as well as the inclusion of members of visible minorities. In particular, the Company recognises that gender diversity is a significant aspect of diversity and acknowledges the important role that women play in contributing to the diversity of perspective on the Board.

Gender diversity is an important component of the Company's diversity strategy. The Board is committed to ensuring that gender diversity is actively pursued and seeks to ensure that women comprise at least 30% of the Board composition, giving due consideration to all other factors set forth in the Board Diversity Policy. The Company will seek to achieve a target of not less than 30% of women on the Board by December 31, 2024.

As at December 31, 2023, the gender ration in the workforce was 87% male employees and 13% female employees.

The Company is also committed to inclusiveness within all its positions.

The NCG Committee is required to review the effectiveness of the Board Diversity Policy on an annual basis. The NCG Committee also reviews the structure, size and diversity of the Board and makes recommendations on any proposed changes to the Board to complement the Company's objectives and strategy.

The NCG Committee is responsible for recommending qualified persons who possess the competencies, skills, business and financial experience, leadership and level of commitment required of a director to fulfill Board responsibilities. Diversity of directors is considered in assessing the skills matrix of the Board.

In the process of searching for qualified persons to serve on the Board, the NCG Committee strives for the inclusion of diverse groups, knowledge, and viewpoints. To accomplish this, the NCG Committee may retain an executive search firm to help meet the Board's diversity objectives.

In accordance with the Board Diversity Policy, Ms. Jin Lan Quan joined the Board on August 6, 2015 and Ms. Chonglin Zhu joined the Board on September 8, 2022.

Ms. Jin Lan Quan joined the Audit Committee on September 1, 2015, the NCG Committee on December 14, 2015, and the Compensation Committee on June 30, 2016. Ms. Jin Lan Quan has extensive experience in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing, risk management and business acquisition.

Ms. Chonglin Zhu is an Executive Director and the Company's Chief Financial Officer. She has considerable experience in the financial industry and was the Chief Financial Officer of Inner Mongolia Tianyu Innovation Investment Group Co., Ltd. ("Tianyu Group") prior to joining the Company. Tianyu Group is an investment company based in Inner Mongolia, China with a variety of businesses including coal mining and processing and Ms. Zhu was responsible for managing the financial operations and investments of Tianyu Group.

The Board currently consists of two (2) women and six (6) men, with females representing 25% of the total number of Directors. Throughout the Company, females represent approximately 13% of the overall workforce and the Company will work to increase this level in the upcoming years.

A copy of the Board Diversity Policy is available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: +1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: corporate@southgobi.com.

Appointment and Re-election of Directors

The Board determines, in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities it should seek in new Board members in order to add value to the Company. Based on this framework, the NCG Committee has developed a skills matrix to identify and track the Company's desired complement of Directors' competencies, skills and characteristics. The specific make-up of the matrix includes such items and experiences as international business exposure, leading growth-orientated companies, diversity, financial literacy, legal knowledge, corporate governance, etc. The NCG Committee annually assesses the current competencies and skill-sets represented on the Board and utilises the matrix to determine the Board's strengths and identify any gaps that need to be filled. This analysis assists the NCG Committee in discharging its responsibility for approaching and proposing to the full Board new nominees to the Board, and for assessing the Directors on an ongoing basis. The NCG Committee believes that the Board should be comprised of directors with a broad range of experience and expertise and utilises a skills matrix to identify those areas that are necessary for the Board to carry out its mandate effectively.

The skills matrix is also used to develop a list of potential candidates for nomination to the Board.

The following table reflects the diverse skill set requirements of the Board and identifies the specific experience and expertise brought by each individual Director nominee.

Directors	Corporate Governance	Mining Industry	General Business Management	Compensation/ Human Resources	Finance	Audit	Mining Expertise	Public Company	Mongolia Specific	China Specific
Mr. Zhu Gao	✓	✓	✓		✓				✓	✓
Mr. Yingbin Ian He	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms. Jin Lan Quan	✓		✓	✓	✓	✓		✓		✓
Mr. Chen Shen	✓		✓							✓
Mr. Mao Sun	✓		✓	✓	✓	✓		✓		✓
Mr. Zaixiang Wen			✓		✓					✓
Mr. Ruibin Xu	✓	✓	✓	✓	✓		✓			✓
Ms. Chonglin Zhu			✓		✓					✓

Unless a Director dies, resigns or is removed from office in accordance with the BCBCA, the term of appointment of each of incumbent Director (including INEDs and NEDs) ends at the conclusion of the next AGM following his or her most recent election or appointment.

At every AGM, the Shareholders entitled to attend and vote at the AGM for the election of Directors have the right to elect a Board consisting of the number of Directors for the time being set under the articles of continuation for the Company (the "Articles") and all the Directors cease to hold office immediately before such election but are eligible for re-election. If the Company fails to hold an AGM on or before the date by which the AGM is required to be held under the BCBCA or the Shareholders fail, at the AGM, to elect or appoint any Directors, each Director then in office continues to hold office until the earlier of:

- the date on which his or her successor is elected or appointed; and
- the date on which he or she otherwise ceases to hold office under the BCBCA or the Articles.

According to code provision B.2.3 of the Corporate Governance Code, if an independent non-executive Director serves more than nine (9) years, his further election should be subject to a separate resolution to be approved by shareholders.

Securities Transactions by Directors

The Company has adopted policies in its Corporate Disclosure, Confidentiality and Securities Trading Policy that have terms that are no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix C3 to the Listing Rules. Having made specific enquiry of all Directors, the Company received written confirmation that the Directors had received, reviewed and abided by the terms of the Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the Financial Year. In March 2023, the Corporate Disclosure, Confidentiality and Securities Trading Policy was updated to incorporate amendments required to fully align the Corporate Disclosure, Confidentiality and Securities Trading Policy with the Hong Kong Listing Rules.

Furthermore, if a Director (a) enters into a transaction involving securities of the Company or, for any other reason, the direct or indirect beneficial ownership of, or control or direction over, securities of the Company changes from that shown or required to be shown in the latest insider report filed by the Director, or (b) enters into a transaction involving a related financial instrument, the Director must, within the prescribed period, file (i) an insider report in the required form on the System for Electronic Disclosure by Insiders website (www.sedi.ca) operated by the Canadian Securities Administrators and (ii) a Disclosure of Interest Form with the Hong Kong Stock Exchange.

A "related financial instrument" is defined as: (a) an instrument, agreement, security or exchange contract, the value, market price or payment obligations of which is/are derived from, referenced to or based on the value, market price or payment obligations of a security, or (b) any other instrument, agreement or understanding that affects, directly or indirectly, a person's economic interest in respect of a security or an exchange contract.

Remuneration of Directors

The Compensation and Benefits Committee periodically reviews and makes recommendations to the Board regarding the adequacy and forms of remuneration for non-management Directors to ensure that such remuneration realistically reflects the responsibilities and risks involved in being an effective Director, without compromising a Director's independence. Directors who are executives of the Company or who are nominee Directors receive no additional remuneration for their services as Directors.

Based on the recommendations provided in the remuneration report commissioned from Roger Gurr & Associates (the "Roger Gurr Report"), the annual retainer for the Financial Year for each of the INEDs was approved as below:

	CA$
Independent Directors:	45,000
Independent Lead Director:	25,000
Audit Committee Chair:	20,000
Nominating and Corporate Governance Committee Chair:	20,000
Compensation and Benefits Committee Chair:	10,000
Operations Committee Chair:	nil

Should the HESS Committee be chaired by an INED he or she would be entitled to receive the CA$10,000 annual retainer. There are no fees paid to the Chair or members of the Operations Committee.

The meeting fees for each of the INEDs are CA$1,500 for each Board meeting and each Committee meeting attended. INEDs also receive a travel allowance of CA$2,000 per round-trip in excess of four (4) hours' travel time when travelling on behalf of the Company.

No options were granted in 2023.

All Directors are entitled to be reimbursed for actual expenses reasonably incurred in the performance of their duties as Directors.

Details regarding the remuneration of Directors are set out in Note 13 to the Financial Statements.

Risk Management and Internal Controls

The Board is responsible for maintaining appropriate and effective risk management and internal control systems. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, safeguard the investment of the Shareholders, and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and help the Board identify and mitigate, but not eliminate, risk exposure.

Due to their inherent limitations, internal controls and risk management systems can provide only reasonable assurance and may not prevent or detect misstatements due to error or fraud. 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 unauthorised override of controls. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company engaged an independent professional advisor, Ernst & Young (China) Advisory Limited (the "Independent Advisor") to assess the Company's risk management and internal control systems, including financial, operational and compliance controls, and perform the internal audit function for the year. From which, deficiencies in the design and implementation of internal controls will be identified and recommendations will be proposed for improvement. Such report will be submitted to the Audit Committee, and the Board will review the report and recommendations proposed by the Independent Advisor at least once a year.

The Audit Committee, on behalf of the Board, has conducted a review of the effectiveness of the Company's risk management and internal control systems, and has considered the relevant assessment and review reports in order to assess the effectiveness of the Risk Management and Internal Control systems. The Audit Committee has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function as well as the Company's internal audit function, which was performed by the Independent Advisor. The Board, through the reviews made by the Independent Advisor and the Audit Committee, concluded that the Company's Risk Management and Internal Control Systems are effective and adequate.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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, summarised 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 CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Management, including the CEO and CFO of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2023, the CEO and CFO 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 Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). 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 Accounting Standards.

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 Accounting Standards and that receipts and expenditures are being made only in accordance with authorisation of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorised 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 laws, 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 Organisations 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, 2023.

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.

Auditors

BDO Limited, are the Company's auditors and they report that they are independent of the Company in accordance with Chartered Professional Accountants of British Columbia, Code of Professional Conduct.

BDO Limited will be nominated at the upcoming AGM for reappointment as Auditors at a remuneration to be fixed by the Board. BDO Limited has served as the Auditors since November 13, 2019.

Fees paid/payable to BDO Limited and its affiliates in respect of audit and audit-related services provided during the Financial Year were approximately US$673,000.

These fees are detailed below:

Nature of services rendered	Fees paid/payable (US$000's) BDO Limited 2023
Audit fees [(1)]	625
Audit related fees [(1)]	48
Total	673

Notes:

(1) Fees for audit services billed relating to fiscal 2023 consisted of: (i) audit of the Company's annual financial statements; (ii) review of the Company's quarterly financial statements; (iii) statutory audit of the annual financial statements of subsidiaries of the Company; and (iv) other services related to Canadian securities regulatory authorities' matters.

Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibility in overseeing the preparation of financial statements that give a true and fair view of the financial affairs of the Company. With the assistance of the management of the Company, the Directors ensure that the financial statements of the Company are being prepared and published in a timely manner and in accordance with the applicable accounting and financial reporting standards as well as statutory and regulatory requirements.

Going Concern

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, 2024 and will be able to realise 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 had a deficiency in assets of $141.3 million as at December 31, 2023 as compared to a deficiency in assets of $142.5 million as at December 31, 2022 while the working capital deficiency (excess current liabilities over current assets) reached $218.8 million as at December 31, 2023 compared to a working capital deficiency of $184.7 million as at December 31, 2022.

Included in the working capital deficiency as at December 31, 2023 are significant obligations, represented by trade and other payables of $60.2 million, and an additional tax and tax penalty of $83.9 million.

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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 result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Furthermore, there is no guarantee that the Company will be successful in its negotiations with the Mongolian Tax Authority ("MTA"), or any appeal, in relation the Audit. Except as disclosed elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations, no such lawsuits or proceedings were pending as at March 28, 2024. 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.

In the past, the Company has customarily entered into cooperation agreements with the local custom office in Mongolia on an annual basis to facilitate the Company's export of coal into China. The Company's most recently executed cooperation agreement expired on November 23, 2023. While the Company has applied with the local Mongolian custom office to renew its cooperation agreement, the Company has not yet been able to renew its cooperation agreement as of the date hereof due to administrative delay on the part of the local Mongolian custom office. Consistent with prior years when there has been a temporary lapse under the cooperation agreement, the Company has continued to be able to export its coal products into China in the normal course without any negative impact on its operations since November 23, 2023. While the Company expects the renewal of the cooperation agreement to be approved by the second quarter of 2024, there can be no certainty that the renewal will be approved within such timeframe or at all.

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 realise 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 realisable 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, 2023. 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 the 2024 March Deferral Agreement with JDZF on March 19, 2024 for a deferral of the 2024 March Deferred Amounts; (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 Company; (d) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $127.0 million (equivalent to RMB900 million) during the period covered in the cash flow projection; and (e) obtained a new terminal agreement with Shiveekhuren Terminal LLC in March 2024, allowing for the subcontracting of coal transportation to China customers via alternative transportation channel in the event of a suspension of coal exports due to an expired cooperation agreement. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company. 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, 2023 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, 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.

Company Secretary

The Corporate Secretary is responsible for advising the Board through the Independent Lead Director on governance matters and also facilitates induction and professional development of Directors. The Corporate Secretary reports to the Independent Lead Director. All Directors have access to the advice and services of the Corporate Secretary to ensure that Board procedures, all applicable laws, rules and regulations are followed.

Ms. Allison Snetsinger has been the Company's Corporate Secretary since May 2012. Prior to her appointment as the Corporate Secretary, Ms. Snetsinger was the Company's Assistant Corporate Secretary from the time of its Canadian initial public offering in December 2003. Ms. Snetsinger is also a Director of certain of the Company's subsidiaries.

Ms. Snetsinger has over 20 years' experience providing regulatory and corporate services to public and private companies, primarily in mining and resource industries. She graduated, with honors, from the British Columbia Institute of Technology and is a member of the Canadian Institute of Corporate Directors and the Association of the Governance Professionals (Canada). Ms. Snetsinger has participated in over 15 hours' of professional development in the Financial Year required under Rule 3.29 of the Listing Rules.

Ms. Shuk Wan So was appointed as the Hong Kong Company Secretary of the Company on January 1, 2021. Ms. So joined the Company in February 2011 and has been the Company's Assistant Corporate Secretary since 2018.

Ms. So holds a Master of Corporate Governance degree from The Hong Kong Polytechnic University and a Bachelor of Business Administration degree in Finance and Investments from Baruch College, The City University of New York. She is a Chartered Governance Professional, an associate member of The Hong Kong Chartered Governance Institute and a member of the Canadian Institute of Corporate Directors. Ms. So has participated in over 15 hours' of professional development in the Financial Year required under Rule 3.29 of the Listing Rules.

Shareholders' Rights

Under Canadian corporate law, shareholders' rights are governed by the business corporation's legislation of the jurisdiction of incorporation of a company and by a company's constitutional documents. In the case of the Company, the BCBCA and the Articles govern the rights of Shareholders, as summarised in this section.

The Shareholder Communication Policy sets out the general policy and measures adopted by the Company in respect of its communication with Shareholders, both individual and institutional, and, when appropriate, potential investors and analysts who report on and analyse the Company's performance, with the objective that all of them will be provided with complete, equal, and timely information about the Company (including its financial performance, strategic goals and plans, material business developments, corporate governance, risk profile and other material information) in order to enable Shareholders to make an informed decision with respect to their shares and other securities of the Company and to allow the investment community to engage in constructive dialogue with the Company.

Further to the Shareholder Communication Policy, the section below entitled "Procedures by which enquiries may be put to the Board" also provides a basis for how Shareholders can communicate with the Company.

How Shareholders Can Convene an Extraordinary General Meeting

Shareholders may requisition a meeting for the purpose of transacting any business that may be transacted at a general meeting. The Shareholder or a group of Shareholders are required to hold (on the date of giving the requisition to the Company) an aggregate of at least 1/20 (five per cent (5%)) of the Company's issued and outstanding common shares.

CORPORATE GOVERNANCE REPORT

A valid requisition must:

- state the business to be transacted at the meeting (including the wording of any special resolution or exceptional resolution) in 1,000 words or less;
- be signed by and include the names and mailing addresses of all the requisitioning Shareholders, each of whom is a registered Shareholder;
- be made in a single record or several records, each of which is signed by one or more of the requisitioning Shareholders; and
- be delivered to the delivery address or mailed by registered mail to the mailing address of the Company at its registered office.

The Company's address for delivery is: SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary.

If the requisition consists of more than one record, the requisition is deemed to be received by the Company on the first date by which the Company received requisition records that comply with the above-listed conditions and by the Shareholders holding the minimum number of common shares to qualify for the requisition.

On receiving a valid requisition, the Board must, except in circumstances specified in the BCBCA, call a general meeting to be held not more than four (4) months after the date on which the Company receives the requisition. The notice of the meeting and the information circular must include the date, time, location and text of the business to be approved. If the Board does not call a meeting within 21 days after the date of receiving a valid requisition, the requisitioning Shareholders or any one of them holding more than 1/40 (two and a half per cent (2.5%)) of the Company's issued and outstanding common shares may send notice of a general meeting to transact the business stated in the requisition.

A general meeting called by the requisitioning Shareholders must be held within four (4) months of the Company receiving the requisition notice and must be conducted in the same manner as a general meeting called by the Board.

Unless the Shareholders otherwise resolve by an ordinary resolution at the meeting called, the Company must reimburse the requisitioning Shareholders for the expenses reasonably incurred by them requisitioning, calling and holding the meeting.

The quorum for meetings of the Shareholders is set forth in the Articles. A quorum for a meeting of the Shareholders is two persons who are, or who are represented by proxy, Shareholders who, in the aggregate, hold at least five per cent (5%) of the Company's issued and outstanding common shares.

Procedures by Which Enquiries May Be Put to the Board

The BCBCA does not legislate procedures by which shareholder enquiries may be put to the board of a company and the Company's constitutional documents do not mandate a specific process for enquiries to be put to the Board. However, Shareholders are kept informed of material information regarding the Company's financial position and operations through public disclosure in accordance with applicable Canadian securities laws and the stock exchange rules in all applicable jurisdictions. Further, the Directors are obliged to place the annual financial statements of the Company and an Auditor's report made on those financial statements before Shareholders at an AGM and must send a copy of this information to Shareholders who request such information within six (6) months of the Annual General Meeting.

Should a Shareholder wish to communicate with the Board, he/she can contact the Company's Corporate Secretary at SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8 Attention: Corporate Secretary, or by phone: +1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: corporate@southgobi.com.

Procedures for Putting Forward Proposals at Shareholders' Meetings

A qualified Shareholder (as herein defined) may put forward a written proposal setting out a matter that the qualified Shareholder wishes to have considered at the next AGM. A "qualified Shareholder" is a Shareholder who is, and who has been for an uninterrupted period of at least two (2) years before the date of the signing of the proposal, a holder or beneficial owner of the Company's issued and outstanding common share(s) (subject to certain exceptions).

A valid proposal must be signed by the submitter and by qualified Shareholder(s) (each, a "Supporter") who, together with the submitter, is/are holders of common shares that, at the time of signing, in the aggregate constitute at least one per cent (1%) of the Company's issued and outstanding common shares. A declaration signed by the submitter and each Supporter, must accompany the proposal, providing contact details and shareholdings of the submitter or the Supporter, as the case may be.

Each of the proposals and the declarations must be received at the registered office of the Company at least three (3) months before the anniversary of the previous year's AGM and the Company must then (subject to certain statutory exceptions) send the text of the proposal to all holders of the Company's issued and outstanding common shares. The Company must allow a submitter to present the proposal at the AGM in relation to which the proposal was made.

Investor Relations and Communication with Shareholders

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Members of the Board and senior management are available to meet with shareholders at the Company's annual general meeting in order to address shareholders' queries. Voting results are posted on the Company's website within 24 hours of the annual general meeting.

Our corporate website, which contains corporate information, corporate governance practice, interim and annual reports, news releases, announcements and circulars issued by the Company enables the Company's shareholders to have timely and updated information of the Company.

Constitutional Documents

There were no changes to the Company's constitutional documents during the Financial Year.

On July 21, 2022, a resolution to amend the Company's Articles (the "Amended Articles") was duly passed by the Shareholders by way of ballots at the Annual and Special Meeting of the Shareholders held on July 21, 2022 (the "Meeting"). For further details of the Amended Articles, please refer to the Management Proxy Circular of the Meeting dated June 22, 2022. The Amended Articles became effective upon the change of the Company's listing status from the TSX to TSX Venture Exchange (the "Delisting") on April 14, 2023.

The Amended Articles are available on the respective websites of the Company and the Hong Kong Stock Exchange.

On behalf of the Board

Allison Snetsinger
Corporate Secretary
March 28, 2024

A LARGE RESERVES BASE

The Ovoot Tolgoi Deposit has mineral reserves of more than 90 million tonnes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 characterised 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 realise 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 JD Zhixing Fund L.P. ("JDZF") 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), the 2022 May Deferral Agreement (as defined below), the 2022 November Deferral Agreement (as defined below), the 2023 March Deferral Agreement (as defined below), the 2023 November Deferral Agreement (as defined below) and the 2024 March Deferral Agreement (as defined below) as the same become due, the Company's ability to settle or appeal the tax penalty payable of $75.0 million imposed by the Mongolian Tax Authority ("MTA") and a provision of additional late tax penalty of $10.1 million;

- the Company's anticipated financing needs, operational and development plans and future production levels;

- the results and impact of the Ontario class action (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Class Action Lawsuit");

- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;

- renewal of the Company's cooperation agreement with the local Mongolian custom office by the second quarter of 2024;

- the agreement with Ejin Jinda and the payments thereunder (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");

Forward-Looking Statements continued

- 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 future demand for coal in China;

- future trends in the Chinese coal industry;

- the Company's outlook and objectives for 2024 and beyond (as more particularly described under Section 15 of this MD&A under the heading entitled "Outlook"); and

- other statements that are not historical facts.

Forward-Looking Statements continued

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 2024 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 ability of the Company to settle or appeal the tax penalty payable of $75.0 million imposed by the MTA and a provision of additional late tax penalty of $10.1 million; there being no impediment to the Company renewing its cooperation agreement with the local Mongolian custom office; the future coal market conditions in China and the related impact on the Company's margins and liquidity; 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 that the Company is unable to successfully settle or appeal the tax penalty payable of $75.0 million imposed by the MTA and a provision of additional late tax penalty of $10.1 million (as described under Section 1 of this MD&A under the heading entitled "Significant Events and Highlights – Additional Tax and Tax Penalty Imposed by the MTA"); 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 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 of the Company or its subsidiaries default 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"), the deferral agreement signed on May 13, 2022 (the "2022 May Deferral Agreement"), the deferral agreement signed on November 11, 2022 (the "2022 November Deferral Agreement"), the deferral agreement signed on March 24, 2023 (the "2023 March Deferral Agreement"), the deferral agreement signed on October 13, 2023 (the "2023 November Deferral Agreement") and the deferral agreement signed on March 19, 2024 (the "2024 March Deferral Agreement"); the risk that the local Mongolian custom denies the Company's application to renew its cooperation 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 14 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.

Forward-Looking Statements continued

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 March 28, 2024 and should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2023. The Company's consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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., Inner Mongolia SouthGobi Mining Development Co., Ltd., Inner Mongolia SouthGobi Enterprise Co., Ltd., Inner Mongolia SouthGobi Trading Co.,Ltd. and Wuhai SouthGobi Mining Resources Co., Ltd.) was Renminbi ("RMB") and the functional currency of the Company's Mongolian operations (Southgobi Sands LLC ("SGS"), Mazaalai Resources LLC, RDCC LLC, Nariinsukhait Railway LLC and Shiveekhuren Terminal LLC), was the Mongolian Tugrik ("MNT").

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

Introduction continued

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.sedarplus.ca. 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 554 employees as at December 31, 2023. The Company's common shares ("Common Shares") are listed for trading on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878 and on the TSX Venture Exchange ("TSX-V") under the symbol SGQ.

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 Chinese-Mongolian border.

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren-Ceke crossing at the Chinese-Mongolian 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 or mixed 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.

1. Overview continued

Significant Events and Highlights

The Company's significant events and highlights for the year ended December 31, 2023 and the subsequent period to March 28, 2024 are as follows:

- ***Operating Results*** – In late 2022, the Company resumed its major mining operations, including coal mining, and the volume of coal production has gradually increased since then. The Company also resumed coal washing operations in April 2023. In response to the market demand, the Company has been mixing some higher ash content product with its semi-soft coking coal product and selling this mixed product to the market as processed coal.

  The Company experienced an increase in the average selling price of coal from $65.7 per tonne in 2022 to $93.0 per tonne in 2023 as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base.

- ***Financial Results*** – The Company recorded a $75.9 million profit from operations in 2023 compared to a $13.6 million profit from operations in 2022. The financial results for 2023 were impacted by the improved market conditions in China, expansion of its sales network and diversification of its customer base.

- ***Deferral Agreements*** – On October 13, 2023, the Company and JDZF entered into the 2023 November Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (i) payment-in-kind interest ("PIK Interest") of approximately $4.0 million which are due and payable on November 19, 2023 under the Convertible Debenture; and (ii) the management fees payable to JDZF on November 15, 2023, February 15, 2024, May 16, 2024 and August 15, 2024, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2023 November Deferred Amounts").

  The principal terms of the 2023 November Deferral Agreement are as follows:

  - Payment of the 2023 November Deferred Amounts will be deferred until August 31, 2024 (the "2023 November Deferral Agreement Deferral Date").

  - As consideration for the deferral of the 2023 November Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2023 November Deferred Amounts, commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

  - As consideration for the deferral of the 2023 November Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2023 November Deferred Amounts commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Overview continued

Significant Events and Highlights continued

- The 2023 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 November Deferred Amounts or related deferral fees. Instead, the 2023 November Deferral Agreement requires the Company to use its best efforts to pay the 2023 November Deferred Amounts and related deferral fees due and payable under the 2023 November Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 November Deferral Agreement and ending as of the 2023 November Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2023 November Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2023 November Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On March 19, 2024, the Company and JDZF entered into the 2024 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash and PIK Interest, management fees, and related deferral fees in aggregate amount of $96.5 million which will be due and payable to JDZF on or before August 31, 2024 under the 2023 March Deferral Agreement and 2023 November Deferral Agreement; (ii) semi-annual cash interest payment of $7.9 million payable to JDZF on May 19, 2024 under the Convertible Debenture; (iii) semi-annual cash interest payments of $8.1 million payable to JDZF on November 19, 2024 and the $4.0 million in PIK Interest shares issuable to JDZF on November 19, 2024 under the Convertible Debenture; and (iv) management fees in the aggregate amount of $2.2 million payable to JDZF on November 15, 2024 and February 15, 2025, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2024 March Deferred Amounts").

The effectiveness of the 2024 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 March Deferral Agreement are subject to the approval (if any) from the TSX-V and requisite approval from the disinterested shareholders of the Company in accordance with applicable Canadian securities laws and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company will be seeking approval of the 2024 March Deferral Agreement from disinterested shareholders at the Company's upcoming annual general meeting ("AGM") of shareholders, which will be held at a future date to be set by the board of directors of the Company (the "Board").

The principal terms of the 2024 March Deferral Agreement are as follows:

- Payment of the 2024 March Deferred Amounts will be deferred until August 31, 2025 (the "2024 March Deferral Agreement Deferral Date").

- As consideration for the deferral of the 2024 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2024 March Deferred Amounts, commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

1. Overview continued

Significant Events and Highlights continued

- As consideration for the deferral of the 2024 March Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2024 March Deferred Amounts commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2024 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 March Deferred Amounts or related deferral fees. Instead, the 2024 March Deferral Agreement requires the Company to use its best efforts to pay the 2024 March Deferred Amounts and related deferral fees due and payable under the 2024 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 March Deferral Agreement and ending as of the 2024 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2024 March Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

- ***2023 March Deferral Agreement*** – On August 29, 2023, the Company convened a special meeting of shareholders during which the Company obtained the requisite approval from disinterested shareholders for the 2023 March Deferral Agreement.

- ***Additional Tax and Tax Penalty Imposed by the MTA*** – On July 18, 2023, SGS received an official notice (the "Notice") issued by the MTA stating that the MTA had completed a periodic tax audit (the "Audit") on the financial information of SGS for the tax assessment years between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA notified SGS that it is imposing a tax penalty against SGS in the amount of approximately $75.0 million. The penalty mainly relates to the different view on the interpretation of tax law between the Company and the MTA. Under Mongolian law, the Company had a period of 30 days from the date of receipt of the Notice to file an appeal in relation to the Audit. Subsequently the Company engaged an independent tax consultant in Mongolia to provide tax advice and support to the Company and filed an appeal letter in relation to the Audit with the MTA in accordance with Mongolian laws on August 17, 2023.

1. Overview continued

Significant Events and Highlights continued

As at December 31, 2023, the Company recorded an additional tax and tax penalty in the amount of $85.1 million, which consists of a tax penalty payable of $75.0 million and a provision of additional late tax penalty of $10.1 million. The Company has paid the MTA an aggregate of $1.2 million in relation to the aforementioned tax penalty. According to Mongolian tax law, the MTA has a legal authority to demand payment from the Company irrespective of any potential appeal process that may change the aforesaid tax penalty. Based on the advice from tax professionals and the best estimate from the management, in the event that the Company's appeal is to be successful in future, it is probable that the Company may recover approximately $46.0 million which represents a portion of the tax penalty payable to the MTA. However, there are inherent uncertainties surrounding the development and outcome of the appeal. The Company cannot determine with virtually certainty the exact recoverability or recoverable amount of the tax penalty paid in future. If any subsequent event occurs that may impact the amount of the additional tax and tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

On February 8, 2024, SGS received notice from the Tax Dispute Resolution Council ("TDRC") which stated that, after the TDRC's review, the TDRC issued a decision in relation to SGS' appeal of the Audit, and ordered that the audit assessments set forth in the Notice of July 18, 2023 be sent back to the MTA for review and re-assessment.

On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipates commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days. Any decision of the MTA following the re-assessment process may not be conclusive as the Company retains the right to appeal such decision under Mongolian laws.

- ***Changes in Directors and Management***

    - **Mr. Gang Li:** Mr. Li resigned as a non-executive director on May 8, 2023.

    - **Mr. Dong Wang:** Mr. Wang was removed as Chief Executive Officer and redesignated from an executive Director to a non-executive Director on May 15, 2023. He ceased to be a non-executive Director upon conclusion of the Company's AGM held on June 20, 2023.

    - **Mr. Ruibin Xu:** Mr. Xu was appointed as Chief Executive Officer on May 15, 2023 and elected as an executive director at the Company's AGM held on June 20, 2023.

    - **Mr. Zaixiang Wen:** Mr. Wen was appointed as a non-executive Director on May 17, 2023.

    - **Ms. Chonglin Zhu:** Ms. Zhu was appointed as Chief Financial Officer on February 2, 2024.

    - **Mr. Alan Ho:** Mr. Ho was redesignated from Chief Financial Officer to a new management position within the Company on February 2, 2024.

- ***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, 2023	2022	2021
Revenue	**$ 331,506**	$ 73,084	$ 43,398
Profit from operations	**75,870**	13,572	4,377
Net profit/(loss) attributable to equity holders of the Company	**908**	(30,419)	(14,373)
Basic and diluted earnings/(loss) per share	**$ 0.003**	$ (0.110)	$ (0.053)
Cash from/(used in) operating activities	**160,839**	26,137	(4,329)
Cash used in investing activities	**(49,944)**	(13,037)	(8,637)
Cash used in financing activities	**(72,587)**	(1,427)	(6,010)
Coal sales volumes *(millions of tonnes)* (i)	**3.59**	1.11	0.94
Average realised selling price *(per tonne)*	**$ 93.02**	$ 65.69	$ 46.02

$ in thousands	As at December 31, 2023	2022	2021
Cash and cash equivalents	**$ 47,993**	$ 9,255	$ 723
Total working capital deficiency	**(218,815)**	(184,665)	(42,535)
Total assets	**295,738**	181,359	206,113
Total non-current liabilities	**102,900**	91,723	198,728

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

Despite an increase with the average realised 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.

Following the reopening of the Ceke Port of Entry in May 2022, the Company experienced increased revenues as compared to 2021, which was achieved by a higher selling price and a higher tonnage, while profit from operations increased to $13.6 million in 2022.

The Company resumed its major mining operations, including coal mining, in late 2022 and coal washing operations in April 2023. The Company experienced an increase in the average selling price and a higher tonnage in 2023 as compared to 2022, while profit from operations increased to $75.9 million in 2023 as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base.

3. Overview of Operational Data and Financial Results

Summary of Annual Operational Data

	Year ended December 31, 2023	2022
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**2.08**	0.27
Average realised selling price *(per tonne)*	**$ 106.91**	$ 73.49
Standard semi-soft coking coal/ premium thermal coal		
Coal sales *(millions of tonnes)*	**0.53**	0.08
Average realised selling price *(per tonne)*	**$ 70.58**	$ 39.85
Processed coal		
Coal sales *(millions of tonnes)*	**0.98**	0.76
Average realised selling price *(per tonne)*	**$ 75.23**	$ 65.43
Total		
Coal sales *(millions of tonnes)*	**3.59**	1.11
Average realised selling price *(per tonne)*	**$ 93.02**	$ 65.69
Raw coal production *(millions of tonnes)*	**4.05**	0.69
Cost of sales of product sold *(per tonne)*	**$ 44.07**	$ 52.04
Direct cash costs of product sold *(per tonne)* (i)	**$ 30.46**	$ 34.52
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.39**	$ 1.62
Total cash costs of product sold *(per tonne)* (i)	**$ 31.85**	$ 36.14
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**25.71**	3.59
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**6.36**	5.14
Lost time injury frequency rate (ii)	**0.17**	0.00

(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 experienced an increase in the average selling price of coal from $65.7 per tonne for 2022 to $93.0 per tonne for 2023, as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base. The product mix for 2023 consisted of approximately 58% of premium semi-soft coking coal, 15% of standard semi-soft coking coal/premium thermal coal and 27% of processed coal compared to approximately 25% of premium semi-soft coking coal, 6% of standard semi-soft coking coal/ premium thermal coal and 69% of processed coal in 2022.

The Company's unit cost of sales of product sold decreased from $52.0 per tonne in 2022 to $44.1 per tonne in 2023. The decrease was mainly driven by the economies of scale due to increased sales.

3. Overview of Operational Data and Financial Results continued

Summary of Annual Financial Results

$ in thousands, except per share information	Year ended December 31, 2023	2022
Revenue [i]	**$ 331,506**	$ 73,084
Cost of sales [i]	**(158,195)**	(57,762)
Gross profit excluding idled mine asset costs [ii]	**173,487**	16,252
Gross profit	**173,311**	15,322
Other operating income/(expenses), net	**(870)**	5,316
Administration expenses	**(10,437)**	(6,919)
Evaluation and exploration expenses	**(991)**	(147)
Additional tax and tax penalty	**(85,143)**	–
Profit from operations	**75,870**	13,572
Finance costs	**(49,072)**	(42,219)
Finance income	**5,084**	2,777
Share of earnings of joint ventures	**2,840**	119
Share of earning of an associate	**4**	–
Current income tax expenses	**(33,818)**	(4,668)
Net profit/(loss) attributable to equity holders of the Company	**908**	(30,419)
Basic and diluted earnings/(loss) per share	**$ 0.003**	$ (0.110)

(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 $75.9 million profit from operations in 2023 compared to a $13.6 million profit from operations in 2022. The financial results were impacted by increased sales volume and improvement in the Company's average realised selling price.

Revenue was $331.5 million in 2023 compared to $73.1 million in 2022. The increase was due to (i) coal export volumes through the Ceke Port of Entry gradually increased since the second quarter of 2023; and (ii) the Company experienced an increase in the average selling price of coal from $65.7 per tonne for 2022 to $93.0 per tonne for 2023, as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base.

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Cost of sales was $158.2 million in 2023 compared to $57.8 million in 2022. 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	2023	2022
Operating expenses	**$ 114,346**	$ 40,114
Share-based compensation expense	**4**	36
Depreciation and depletion	**5,165**	2,486
Royalties	**38,504**	14,196
Cost of sales from mine operations	**158,019**	56,832
Cost of sales related to idled mine assets	**176**	930
Cost of sales	**$ 158,195**	$ 57,762

Operating expenses in cost of sales were $114.3 million in 2023 compared to $40.1 million in 2022. The overall increase in cost of sales was primarily due to the increased sales.

Cost of sales related to idled mine assets in 2023 included $0.2 million related to depreciation expenses for idled equipment (2022: $0.9 million).

Other operating expenses was $0.9 million in 2023 (2022: other operating income of $5.3 million). Management fee of $4.9 million and foreign exchange loss of $1.2 million were recorded and largely offset by reversal of impairment on materials and supplies inventories of $5.0 million.

	Year ended December 31,	
$ in thousands	2023	2022
Management fee	**$ 4,879**	$ 1,201
Provision/(reversal of provision) for doubtful trade and other receivables	**59**	(784)
Foreign exchange loss/(gain), net	**1,202**	(4,639)
Gain on disposal of items of property, plant and equipment, net	**–**	(195)
Impairment/(reversal of impairment) on materials and supplies inventories	**(4,988)**	1,510
Impairment of prepaid expenses	**–**	145
Rental income from short term leases	**(68)**	(150)
Discount on settlement of trade payables	**–**	(191)
Written off of other payables	**–**	(3,287)
Penalty on late settlement of trade payables	**454**	1,860
Gain on contract offsetting arrangement	**(668)**	(786)
Other operating expenses/(income), net	**$ 870**	$ (5,316)

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Administration expenses were $10.4 million in 2023 as compared to $6.9 million in 2022, as follows:

	Year ended December 31,	
$ in thousands	2023	2022
Corporate administration	**$ 2,673**	$ 1,146
Legal and professional fees	**2,483**	1,830
Salaries and benefits	**4,779**	3,391
Share-based compensation expense	**10**	125
Depreciation	**492**	427
Administration expenses	**$ 10,437**	$ 6,919

Administration expenses were higher for 2023 compared to 2022, mainly due to increase in corporate administration expenses and salaries and benefits as a result of expansion of operation since the second quarter of 2023.

The Company continued to minimise evaluation and exploration expenditures in 2023 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2023 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $49.1 million and $42.2 million in 2023 and 2022, respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

3. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

	2023				2022			
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)*	**0.54**	0.64	0.57	0.33	0.06	0.17	0.04	–
Average realised selling price *(per tonne)*	**$ 107.59**	$ 100.33	$ 103.33	$ 124.72	$ 65.82	$ 71.01	$ 92.87	$ –
Standard semi-soft coking coal/premium thermal coal								
Coal sales *(millions of tonnes)*	**0.29**	0.18	0.05	0.01	0.01	0.03	0.04	–
Average realised selling price *(per tonne)*	**$ 72.41**	$ 68.43	$ 67.09	$ 73.52	$ 64.69	$ 43.34	$ 30.41	$ –
Processed coal								
Coal sales *(millions of tonnes)*	**0.13**	0.33	0.26	0.26	0.40	0.35	0.01	–
Average realised selling price *(per tonne)*	**$ 77.23**	$ 66.03	$ 82.99	$ 78.19	$ 65.94	$ 64.57	$ 79.02	$ –
Total								
Coal sales *(millions of tonnes)*	**0.96**	1.15	0.88	0.60	0.47	0.55	0.09	–
Average realised selling price *(per tonne)*	**$ 92.93**	$ 85.57	$ 95.34	$ 104.11	$ 65.90	$ 65.37	$ 66.55	$ –
Raw coal production *(millions of tonnes)*	**1.34**	1.18	0.97	0.56	0.57	0.12	–	–
Cost of sales of product sold *(per tonne)*	**$ 38.17**	$ 42.23	$ 47.76	$ 51.59	$ 41.81	$ 58.25	$ 56.32	*(iii)*
Direct cash costs of product sold *(per tonne)* (i)	**$ 26.20**	$ 32.26	$ 33.79	$ 28.95	$ 25.65	$ 41.44	$ 33.10	
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.83**	$ 0.82	$ 1.60	$ 1.48	$ 1.86	$ 1.47	$ 1.20	
Total cash costs of product sold *(per tonne)* (i)	**$ 28.03**	$ 33.08	$ 35.39	$ 30.43	$ 27.51	$ 42.91	$ 34.30	
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**7.81**	7.34	7.73	2.83	2.68	0.91	–	–
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**5.85**	6.24	7.93	5.07	4.67	7.33	–	–
Lost time injury frequency rate (ii)	**0.22**	0.21	0.23	0.00	0.00	0.00	0.00	0.00

(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.

(iii) Not presented as nil sales was noted for the quarter.

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Operational Data

The Company experienced an increase in the average selling price of coal from $65.9 per tonne in the fourth quarter of 2022 to $92.9 per tonne in the fourth quarter of 2023, as a result of improved market conditions in China. The product mix for the fourth quarter of 2023 consisted of approximately 56% premium semi-soft coking coal, 30% standard semi-soft coking coal/premium thermal coal and 14% of processed coal compared to approximately 13% premium semi-soft coking coal, 1% standard semi-soft coking coal/premium thermal coal and 86% of processed coal in the fourth quarter of 2022.

The Company sold 1.0 million tonnes for the fourth quarter of 2023, compared to 0.5 million tonnes for the fourth quarter of 2022.

The Company's unit cost of sales of product sold decreased from $41.8 per tonne in the fourth quarter of 2022 to $38.2 per tonne in the fourth quarter of 2023. The decrease was mainly driven by the economies of scale due to increased sales.

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	2023				2022			
Quarter Ended	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue [i]	**$ 88,504**	$ 97,979	$ 83,243	$ 61,780	$ 30,487	$ 36,807	$ 5,790	$ –
Cost of sales [i]	**(36,645)**	(48,569)	(42,027)	(30,954)	(19,652)	(32,036)	(5,069)	(1,005)
Gross profit/(loss) excluding idled mine asset costs [ii]	**51,908**	49,491	41,227	30,861	10,891	4,982	940	(561)
Gross profit/(loss) including idled mine asset costs	**51,859**	49,410	41,216	30,826	10,835	4,771	721	(1,005)
Other operating income/(expenses), net	**4,308**	(413)	(4,001)	(764)	(1,066)	546	3,778	2,058
Administration expenses	**(3,879)**	(1,846)	(2,656)	(2,056)	(2,111)	(1,830)	(1,772)	(1,206)
Evaluation and exploration expenses	**(91)**	(808)	(28)	(64)	(26)	(31)	(66)	(24)
Additional tax and tax penalty	**(10,153)**	–	(74,990)	–	–	–	–	–
Profit/(loss) from operations	**42,044**	46,343	(40,459)	27,942	7,632	3,456	2,661	(177)
Finance costs	**(12,334)**	(13,266)	(11,558)	(11,914)	(11,190)	(10,800)	(10,247)	(10,036)
Finance income	**40**	4,915	44	85	1,589	69	1,160	13
Share of earnings/(loss) of joint ventures	**1,101**	809	428	502	143	237	(109)	(152)
Share of earning of an associate	**4**	–	–	–	–	–	–	–
Current income tax expenses	**(6,519)**	(9,452)	(9,087)	(8,760)	(2,751)	(979)	(518)	(420)
Net profit/(loss)	**24,336**	29,349	(60,632)	7,855	(4,577)	(8,017)	(7,053)	(10,772)
Basic earnings/(loss) per share	**$ 0.082**	$ 0.099	$ (0.205)	$ 0.027	$ (0.016)	$ (0.029)	$ (0.026)	$ (0.039)
Diluted earnings/(loss) per share	**$ 0.082**	$ 0.099	$ (0.205)	$ 0.027	$ (0.016)	$ (0.029)	$ (0.026)	$ (0.039)

(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.

(ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results

The Company recorded a $42.0 million profit from operations in the fourth quarter of 2023 compared to a $7.6 million profit from operations in the fourth quarter of 2022. The financial results for the fourth quarter of 2023 were impacted by (i) the higher selling price achieved by the Company; and (ii) increased sales experienced by the Company following the reopening of the Ceke Port of Entry during the second quarter of 2022.

Revenue was $88.5 million in the fourth quarter of 2023 compared to $30.5 million in the fourth quarter of 2022. The increase was due to: (i) an increase in coal export volumes through the Ceke Port of Entry since the second quarter of 2023; and (ii) the Company experienced an increase in the average selling price of coal from $65.9 per tonne in the fourth quarter of 2022 to $92.9 per tonne in the fourth quarter of 2023 as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base.

Cost of sales was $36.6 million in the fourth quarter of 2023 compared to $19.7 million in the fourth quarter of 2022. The increase in cost of sales in the fourth quarter of 2023 was mainly due to the effect of increased 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	2023	2022
Operating expenses	**$ 26,906**	$ 12,929
Share-based compensation expense	**–**	7
Depreciation and depletion	**1,436**	794
Royalties	**8,254**	5,866
Cost of sales from mine operations	**36,596**	19,596
Cost of sales related to idled mine assets	**49**	56
Cost of sales	**$ 36,645**	$ 19,652

Cost of sales related to idled mine assets in the fourth quarter of 2023 included $0.1 million related to depreciation expenses for idled equipment (fourth quarter of 2022: $0.1 million).

Other operating income was $4.3 million in the fourth quarter of 2023 (fourth quarter of 2022: other operating expenses of $1.1 million). A reversal of impairment on materials and supplies inventories of $4.7 million and gain on a contract offsetting arrangement of $0.7 million were recorded and offset by management fee of $1.2 million in the fourth quarter of 2023 (fourth quarter of 2022: foreign exchange gain of $0.5 million and impairment on materials and supplies inventories of $1.5 million).

	Three months ended December 31,	
$ in thousands	2023	2022
Management fee	**$ 1,229**	$ 380
Reversal of provision for doubtful trade and other receivables	**(119)**	(166)
Foreign exchange gain, net	**(9)**	(545)
Impairment/(reversal of impairment) on materials and supplies inventories	**(4,726)**	1,520
Penalty on late settlement of trade payables	**–**	145
Rental income from short term leases	**(15)**	(85)
Discount on settlement of trade payables	**–**	(64)
Gain on contract offsetting arrangement	**(668)**	(119)
Other operating expenses/(income), net	**$ (4,308)**	$ 1,066

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results continued

Administration expenses increased from $2.1 million in the fourth quarter of 2022 to $3.9 million in the fourth quarter of 2023, due to an increase in legal and professional fees and salaries and benefits incurred during the quarter.

	Three months ended December 31,	
$ in thousands	2023	2022
Corporate administration	**$ 803**	$ 366
Legal and professional fees	**994**	295
Salaries and benefits	**1,956**	1,315
Share-based compensation expense	**1**	30
Depreciation	**125**	105
Administration expenses	**$ 3,879**	$ 2,111

The Company continued to minimise evaluation and exploration expenditures in the fourth quarter of 2023 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2023 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $12.3 million in the fourth quarter of 2023 compared to $11.2 million in the fourth quarter of 2022, which primarily consisted of interest expense on the $250.0 million 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 Accounting Standards. 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 Accounting Standards.

The Company believes that this measure, together with measures determined in accordance with IFRS Accounting Standards, provides investors with useful information to evaluate the underlying performance of the Company. Non-IFRS financial measures do not have a standardised meaning prescribed under IFRS Accounting Standards 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 Accounting Standards.

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 Accounting Standards 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 utilised in the mining industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

4. Non-IFRS Financial Measures continued

Cash Costs continued

The following table provides a reconciliation of the cash costs of product sold disclosed for the three months and year ended December 31, 2023 and December 31, 2022. 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	2023	2022	2023	2022
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 36,645**	$ 19,652	**$ 158,195**	$ 57,762
Less royalties	**(8,254)**	(5,866)	**(38,504)**	(14,196)
Less non-cash expenses	**(1,436)**	(801)	**(5,169)**	(2,522)
Less non-cash idled mine asset costs	**(49)**	(56)	**(176)**	(930)
Total cash costs	**26,906**	12,929	**114,346**	40,114
Less idled mine asset cash costs	**–**	–	**–**	–
Total cash costs excluding idled mine asset cash costs	**26,906**	12,929	**114,346**	40,114
Coal sales *(millions of tonnes)*	**0.96**	0.47	**3.59**	1.11
Total cash costs of product sold *(per tonne)*	**$ 28.03**	$ 27.51	**$ 31.85**	$ 36.14

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2023	2022	2023	2022
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 26.20**	$ 25.65	**$ 30.46**	$ 34.52
Mine administration cash costs of product sold *(per tonne)*	**1.83**	1.86	**1.39**	1.62
Total cash costs of product sold *(per tonne)*	**$ 28.03**	$ 27.51	**$ 31.85**	$ 36.14

The cash cost of product sold per tonne was $31.9 for 2023, which has decreased from $36.1 per tonne for 2022. The reason for the decrease was primarily related to change in product mix with a reduced volume of processed coal sold in 2023, where processed coal has a relatively higher unit cost of product sold as compared to the Company's other coal products.

4. Non-IFRS Financial Measures continued

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 Accounting Standards do not fully illustrate the ability of its mining operations to generate cash flows. This performance measure is commonly utilised in the mining industry.

The following table provides a reconciliation of the gross profit disclosed for the three months and year ended December 31, 2023 and December 31, 2022.

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2023	2022	2023	2022
Idled mine asset costs				
Gross profit excluding idled mine asset costs	**$ 51,908**	$ 10,891	**$ 173,487**	$ 16,252
Less non-cash idled mine asset costs	**$ (49)**	$ (56)	**$ (176)**	$ (930)
Gross profit including idled mine asset costs	**$ 51,859**	$ 10,835	**$ 173,311**	$ 15,322

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.

5. Properties continued

Operating Mine continued

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 (now known as SEDAR+ at www.sedarplus.ca) 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 (now known as SEDAR+ at www.sedarplus.ca) 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 utilising large scale hydraulic excavators and shovels and trucks. Terrace mining is utilised 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 ($34m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators and 19 MT4400AC (240 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at December 31, 2023, SGS employed 466 employees in Mongolia. Of the 466 employees, 41 are employed in the Ulaanbaatar office and 425 at the Ovoot Tolgoi Mine site. Of the 466 employees based in Mongolia, 464 (99%) are Mongolian nationals and of those, 170 (36%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

Exploration Program

The Company continued to minimise evaluation and exploration expenditures during 2023 in order to preserve the Company's financial resources. The 2024 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 its expansionary plans.

Costs reimbursable to Turquoise Hill Resources Limited ("Turquoise Hill")

Prior to the completion of a private placement with Novel Sunrise Investments Limited 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, 2023, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $6.3 million (such amount is included in the trade and other payables).

Additional tax and tax penalty imposed by the MTA

On July 18, 2023, SGS received the Notice issued by the MTA stating that the MTA had completed the Audit on the financial information of SGS for the tax assessment years between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA notified SGS that it is imposing a tax penalty against SGS in the amount of approximately $75.0 million. The penalty mainly relates to the different view on the interpretation of tax law between the Company and the MTA. Under Mongolian law, the Company had a period of 30 days from the date of receipt of the Notice to file an appeal in relation to the Audit. Subsequently the Company engaged an independent tax consultant in Mongolia to provide tax advice and support to the Company and filed an appeal letter in relation to the Audit with the MTA in accordance with Mongolian laws on August 17, 2023.

As at December 31, 2023, the Company recorded an additional tax and tax penalty in the amount of $85.1 million, which consists of a tax penalty payable of $75.0 million and a provision of additional late tax penalty of $10.1 million. The Company has paid the MTA an aggregate of $1.2 million in relation to the aforementioned tax penalty. According to Mongolian tax law, the MTA has a legal authority to demand payment from the Company irrespective of any potential appeal process that may change the aforesaid tax penalty. Based on the advice from tax professionals and the best estimate from the management, in the event that the Company's appeal is to be successful in future, it is probable that the Company may recover approximately $46.0 million which represents a portion of the tax penalty payable to the MTA. However, there are inherent uncertainties surrounding the development and outcome of the appeal. The Company cannot determine with virtually certainty the exact recoverability or recoverable amount of the tax penalty paid in future. If any subsequent event occurs that may impact the amount of the additional tax and tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

On February 8, 2024, SGS received notice from the TDRC which stated that, after the TDRC's review, the TDRC issued a decision in relation to SGS' appeal of the Audit, and ordered that the audit assessments set forth in the Notice of July 18, 2023 be sent back to the MTA for review and re-assessment.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Additional tax and tax penalty imposed by the MTA continued

On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipates commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days. Any decision of the MTA following the re-assessment process may not be conclusive as the Company retains the right to appeal such decision under Mongolian laws.

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, 2024 and will be able to realise 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 had a deficiency in assets of $141.3 million as at December 31, 2023 as compared to a deficiency in assets of $142.5 million as at December 31, 2022 while the working capital deficiency (excess current liabilities over current assets) reached $218.8 million as at December 31, 2023 compared to a working capital deficiency of $184.7 million as at December 31, 2022.

Included in the working capital deficiency as at December 31, 2023 are significant obligations, represented by trade and other payables of $60.2 million and an additional tax and tax penalty of $83.9 million.

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 result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Furthermore, there is no guarantee that the Company will be successful in its negotiations with the MTA, or any appeal, in relation the Audit. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at March 28, 2024. 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.

In the past, the Company has customarily entered into cooperation agreements with the local custom office in Mongolia on an annual basis to facilitate the Company's export of coal into China. The Company's most recently executed cooperation agreement expired on November 23, 2023. While the Company has applied with the local Mongolian custom office to renew its cooperation agreement, the Company has not yet been able to renew its cooperation agreement as of the date hereof due to administrative delay on the part of the local Mongolian custom office. Consistent with prior years when there has been a temporary lapse under the cooperation agreement, the Company has continued to be able to export its coal products into China in the normal course without any negative impact on its operations since November 23, 2023. While the Company expects the renewal of the cooperation agreement to be approved by the second quarter of 2024, there can be no certainty that the renewal will be approved within such timeframe or at all.

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 realise 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 realisable 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.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

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, 2023. 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 the 2024 March Deferral Agreement with JDZF on March 19, 2024 for a deferral of the 2024 March Deferred Amounts; (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 Company; (d) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $127.0 million (equivalent to RMB900 million) during the period covered in the cash flow projection; and (e) obtained a new terminal agreement with Shiveekhuren Terminal LLC in March 2024, allowing for the subcontracting of coal transportation to China customers via alternative transportation channel in the event of a suspension of coal exports due to an expired cooperation agreement. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company. 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, 2023 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, 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, 2023 and December 31, 2022, the Company was not subject to any externally imposed capital requirements.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Convertible Debenture

In November 2009, the Company entered into a financing agreement with China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "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 (CA$11.88).

Deferral Agreements

On May 13, 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; and (ii) the management fee which would have been payable to CIC on February 14, 2022 and August 14, 2022 (the "2022 Deferred Management Fees") under the Amended and Restated Cooperation Agreement (collectively, the "2022 Deferred Amounts").

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

- Payment of the 2022 Deferred Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the 2022 Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2022 Deferred Amounts payable under the Convertible Debenture, commencing on May 19, 2022.
- As consideration for the deferral of the 2022 Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the 2022 Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 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 Deferred 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.

Following the completion of the CIC Sale Transaction on August 30, 2022, the respective rights and obligations of CIC 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; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company, were assigned to JDZF.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

On November 11, 2022, the Company and JDZF entered into the 2022 November Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of $7.1 million payable to JDZF on November 19, 2022 and the $1.1 million in PIK Interest shares issuable to JDZF on November 19, 2022 under the Convertible Debenture (the "2022 November Deferral Interest"); and (ii) the management fees payable to JDZF on November 15, 2022, February 15, 2023, May 16, 2023 and August 15, 2023 under the Amended and Restated Cooperation Agreement (the "2022 November Deferred Management Fees").

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

- Payment of the 2022 November Deferred Interest and the 2022 November Deferred Management Fees will be deferred until November 19, 2023.

- As consideration for the deferral of the 2022 November Deferred Interest, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the 2022 November Deferred Interest payable under the Convertible Debenture, commencing on November 19, 2022.

- As consideration for the deferral of the 2022 November Deferred Management Fees, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of the 2022 Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 November Deferred Management Fees would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- If at any time before the 2022 November Deferred Interest and the 2022 November Deferred Management Fees 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

- The Company agreed to comply with all of its obligations under the prior deferral agreements assigned to JDZF.

- The Company and JDZF agreed that nothing in the 2022 November Deferral Agreement prejudices JDZF's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

On March 24, 2023, the Company and JDZF entered into the 2023 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of the (i) a deferral of the cash interest payment of approximately US$7.9 million payable to JDZF on May 19, 2023 under the Convertible Debenture; (ii) a deferral of the cash interest, management fees, and related deferral fees of approximately US$8.7 million payable to JDZF on or before August 31, 2023 under the deferral agreement dated May 13, 2022; (iii) the cash and PIK Interest, and related deferral fees of approximately US$13.5 million due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated July 30, 2021; and (iv) the cash and PIK Interest, management fees, and related deferral fees of approximately US$110.4 million which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020 (the "2023 March Deferred Amounts").

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

The effectiveness of the 2023 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2023 March Deferral Agreement were subject to the approvals from the Toronto Stock Exchange ("TSX") and the disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the Listing Rules. The requisite shareholder approvals for the 2023 March Deferral Agreement were obtained at a special meeting of shareholders convened on August 29, 2023.

The principal terms of the 2023 March Deferral Agreement are as follows:

- Payment of the 2023 March Deferred Amounts will be deferred until August 31, 2024.

- As consideration for the deferral of the 2023 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2023 March Deferred Amounts, commencing on the date on which each such 2023 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2023 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2023 March Deferred Amounts commencing on the date on which each such 2023 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2023 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 March Deferred Amounts or related deferral fees. Instead, the 2023 March Deferral Agreement requires the Company to use its best efforts to pay the 2023 March Deferred Amounts and related deferral fees due and payable under the 2023 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 March Deferral Agreement and ending as of August 31, 2024, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2023 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2023 March Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On October 13, 2023, the Company and JDZF entered into the 2023 November Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of the 2023 November Deferred Amounts.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

The principal terms of the 2023 November Deferral Agreement are as follows:

- Payment of the 2023 November Deferred Amounts will be deferred until the 2023 November Deferral Agreement Deferral Date.

- As consideration for the deferral of the 2023 November Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2023 November Deferred Amounts, commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2023 November Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2023 November Deferred Amounts commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2023 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 November Deferred Amounts or related deferral fees. Instead, the 2023 November Deferral Agreement requires the Company to use its best efforts to pay the 2023 November Deferred Amounts and related deferral fees due and payable under the 2023 November Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 November Deferral Agreement and ending as of the 2023 November Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2023 November Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2023 November Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On March 19, 2024, the Company and JDZF entered into the 2024 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of the 2024 March Deferred Amounts.

The effectiveness of the 2024 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 March Deferral Agreement are subject to the Company providing notice and obtaining approval (if required) from the TSX-V and requisite approval from the disinterested shareholders of the Company in accordance with applicable Canadian securities laws and the Listing Rules. The Company will be seeking approval of the 2024 March Deferral Agreement from disinterested shareholders at the Company's upcoming AGM of shareholders, which will be held at a future date to be set by the Board.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

The principal terms of the 2024 March Deferral Agreement are as follows:

- Payment of the 2024 March Deferred Amounts will be deferred until 2024 March Deferral Agreement Deferral Date.

- As consideration for the deferral of the 2024 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2024 March Deferred Amounts, commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2024 March Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2024 March Deferred Amounts commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2024 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 March Deferred Amounts or related deferral fees. Instead, the 2024 March Deferral Agreement requires the Company to use its best efforts to pay the 2024 March Deferred Amounts and related deferral fees due and payable under the 2024 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 March Deferral Agreement and ending as of the 2024 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2024 March Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

6. Liquidity and Capital Resources continued

Cash Flow Highlights

$ in thousands	Year ended December 31, 2023	2022
Net cash flows from operating activities	**$ 160,839**	$ 26,137
Cash used in investing activities	**(49,944)**	(13,037)
Cash used in financing activities	**(72,587)**	(1,427)
Effect of foreign exchange rate changes on cash	**430**	(3,141)
Increase in cash for the year	**38,738**	8,532
Cash balance, beginning of year	**9,255**	723
Cash balance, end of year	**$ 47,993**	$ 9,255

Net cash flows from Operating Activities

The Company generated $160.8 million of cash in operating activities in 2023 compared to an inflow of $26.1 million in 2022. The increase is primarily due to the increase in revenue generated.

Cash used in Investing Activities

The Company used $49.9 million of cash during 2023 in investing activities compared to $13.0 million during 2022. In 2023, expenditures on property, plant and equipment totaled $44.5 million (2022: $11.9 million).

Cash used in Financing Activities

Cash used in financing activities was $72.6 million in 2023 (2022: $1.4 million), which was principally attributable to the interest payment of convertible debenture of $72.1 million (2022: $1.0 million).

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, 2023, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2023				
Capital expenditure commitments	**$ –**	**$ –**	**$ –**	**$ –**
Operating expenditure commitments	**1,359**	**39**	**192**	**1,590**
Commitments	**$ 1,359**	**$ 39**	**$ 192**	**$ 1,590**

6. Liquidity and Capital Resources continued

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that indicators of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2023. The impairment indicators were the uncertainty of future coal price in China and cooperation agreement expired with Mongolian custom.

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, 2023. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $157.1 million as at December 31, 2023.

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 $15.7/(15.7) 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 $(12.7)/13.7 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 $(8.0)/8.1 million; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(2.3)/2.3 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, 2023. A decline of 5% (2022: 18%) in the long-term price estimates, an increase of more than 8% (2022: 26%) in the post-tax discount rate, an increase of 10% (2022: 33%) in the cash mining cost estimates or an increase of 41% (2022: 95%) 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.

6. Liquidity and Capital Resources continued

Financial Instruments

The fair value of financial assets and financial liabilities at amortised 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 convertible debenture below 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, 2023	2022
Financial assets		
Cash	**$ 47,993**	$ 9,255
Restricted cash	**423**	725
Trade and other receivables	**7,541**	1,199
Total financial assets	**$ 55,957**	$ 11,179

$ in thousands	As at December 31, 2023	2022
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives	**$ 361**	$ 69
Other financial liabilities		
Trade and other payables	**60,192**	59,730
Lease liabilities	**2,991**	502
Convertible debenture – debt host and interest payable	**193,939**	224,584
Total financial liabilities	**$ 257,483**	$ 284,885

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.

7. Regulatory Issues and Contingencies continued

Class Action Lawsuit continued

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.

To date, counsel for the plaintiffs and defendant have completed: (i) all document production; (ii) oral examinations for discovery; and (iii) counsel for the plaintiffs have served their expert reports on liability and damages. Counsel for the plaintiffs and defendant have agreed on the case management judge, who has ordered certain motions brought by the defendant and the plaintiffs to commence on May 13 and 14, 2024. Further discovery motions before an Associate Justice has been scheduled for August 7-9, and September 17, 2024.

Following the determination of the motions and any subsequent order to re-attend examinations, counsel for the defendant will serve responding expert reports on liability and damages approximately one month following any re-examinations/further examinations are completed. Counsel for the plaintiff and defendant have requested a further case conference to set a new trial date following the undertakings motion and serving of expert reports. The Company has urged a trial 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, 2023 and 2022 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, 2023 and 2022 was not required.

7. Regulatory Issues and Contingencies continued

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, 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).

On December 7, 2023, the Citizen representative Khural of Gurvantes soum held a meeting and passed a resolution claiming that the License Areas were part of local special needs protection area. A request letter was sent to Mineral Resources and Petroleum Authority of Mongolia ("MRPAM") on January 4, 2024.

On January 11, 2024, MRPAM issued an official letter to the Citizen representative Khural of Gurvantes soum and concluded that request was not reasonable and the License Areas will not be registered on the Cadastre mapping system.

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.

Tax Legislation

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

7. Regulatory Issues and Contingencies continued

Tax Legislation continued

Management believes that its interpretation of relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. However, the Company may be impacted if such unfavourable event occurs. Management regularly performs 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.

As of December 31, 2023, the Company has recorded an additional tax and tax penalty in the amount of $85.1 million, as more particularly detailed under section 6 "Liquidity and Capital Resources" of this MD&A under the heading entitled "Additional tax and tax penalty imposed by the MTA". Management will continue to assess whether any subsequent event may impact the amount of the additional tax and tax penalty, in which case an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

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 organisations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation within the organisation;
- 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 minimise 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 organisation. 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.

8. Environment continued

The Board maintains a Health, Environment, Safety and Social Responsibility Committee (the "HESS Committee"), which is composed of an independent non-executive director, an executive director and a senior management. The primary objective of the HESS Committee is to assist the Board 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 incentivise directors and eligible employees. Details of the plan are set out in note 29 of the Company's consolidated financial statements for the year ended December 31, 2023.

10. Outstanding Share Data

The Company is authorised to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at March 28, 2024, approximately 295.3 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 2.7 million unissued Common Shares with exercise prices ranging from CA$0.11 to CA$0.13 and HK$1.41. There are no preferred shares outstanding.

As at March 28, 2024, to the best of the Company's knowledge:

- JDZF holds a total of approximately 85.7 million Common Shares representing approximately 29.0% of the issued and outstanding Common Shares;
- Land Grand International Holding Limited ("Land Grand") holds a total of approximately 46.4 million Common Shares representing approximately 15.7% 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 8.7% 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, summarised 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, 2023, 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 Accounting Standards. 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 Accounting Standards.

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 Accounting Standards and that receipts and expenditures are being made only in accordance with authorisation of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorised 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 Organisations 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, 2023.

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 Accounting Standards 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 material accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2023.

The following new IFRS Accounting Standards were adopted by the Company on January 1, 2023. Refer to Note 2.3 of the Company's consolidated financial statement of the year ended December 31, 2023 for details.

Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction and International Tax Reform – Pilar Two Model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 17	Insurance Contracts and Initial Application of IFRS 17 and IFRS 9 – Comparative Information

Refer to Note 3.19 of the Company's consolidated financial statements of the year ended December 31, 2023 for information regarding the accounting judgments and estimates.

13. Recent Accounting Pronouncements

The following new and revised IFRS Accounting Standards, potentially relevant to the Company's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Company.

Amendments to IAS 1	Presentation of Financial Statements and Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants[1]
Amendments to IFRS 16	Lease liabilities in a Sale and Leaseback[1]
Amendments to IAS 21	Lack of Exchangeability[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[1]
Int 5 (Revised)	Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment On Demand Clause[1]

1 Effective for annual periods beginning on or after 1 January 2024.
2 Effective for annual periods beginning on or after 1 January 2025.

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 categorised 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, 2023 and will be able to realise 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 $218.8 million as at December 31, 2023;
- the Company has an obligation to pay JDZF under the Convertible Debenture and the associated deferral agreements;
- the trade and other payables of the Company remain high due to liquidity constraints. Refer to 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 trade and other payables of $60.2 million and an additional tax and tax penalty of $83.9 million; 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.

14. Risk Factors continued

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

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 JDZF 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 reorganisation 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 reorganisation 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 become 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

14. Risk Factors continued

Risks Relating to the Common Shares

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 HKEX and the TSX-V, 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.

Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project

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 2017 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 realise 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;

14. Risk Factors continued

Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project continued

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. continued

- 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 realised 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; 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia

The Company does not currently maintain insurance in relation to its ongoing mining operations.

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. As of the date hereof, in consideration of aging profile of the mining equipment and the continuous engagement of third party mining contractors, the Company did not renew the insurance policies relating to the mining property and commercial general liability and will renew any necessary insurance policies at the appropriate time.

Should any liability arise for which is it 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.

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 nationalisation, 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 nationalisation. Expropriation or nationalisation 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.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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 licenses 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 license in respect of the Ovoot Tolgoi Mine and the exploration license 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 License, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining license 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 licenses 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 licenses 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 license holders.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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. continued

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.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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, nationalisation 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 nationalisation, 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 license 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 license holder. Details of any mineral reserves must be filed by the relevant license 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 license 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 license 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".

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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. continued

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 license holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the license 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 license holder the state's share in the Mineral Deposit of Strategic Importance upon the approval of an authorised Government body, with the license 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 centred 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 license 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 licenses or exploration licenses 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.

14. Risk Factors continued

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 mineralisation 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 realisable 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 categorised as mineral reserves.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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 emphasising the utilisation 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.

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, JDZF, Land Grand and Voyage Wisdom, may differ from those of the other stakeholders.

As at March 28, 2024, to the best of the Company's knowledge:

- JDZF holds a total of 85.7 million Common Shares representing approximately 29.0% of the issued and outstanding Common Shares;

- Land Grand holds a total of approximately 46.4 million Common Shares representing approximately 15.7% of the issued and outstanding Common Shares; and

- Voyage Wisdom holds a total of approximately 25.8 million Common Shares representing approximately 8.7% 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 JDZF and Land Grand 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The interests of the Company's principal stakeholders, JDZF, Land Grand and Voyage Wisdom, may differ from those of the other stakeholders. continued

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.

As of December 31, 2023, the Company has recorded an additional tax and tax penalty in the amount of $85.1 million, as more particularly detailed under section 6 "Liquidity and Capital Resources" of this MD&A under the heading entitled "Additional tax and tax penalty imposed by the MTA".

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

14. Risk Factors continued

Risks relating to the Company's business and industry continued

Licenses and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licenses 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 licenses 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 license holder whose rights or license status are affected. The failure to pay the compensation within the one year period would allow the license holder to resume its operations. If any of the Company's land use rights or mining licenses 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.

- On December 7, 2023, the Citizen representative Khural of Gurvantes soum held a meeting and passed a resolution claiming that the License Areas were part of local special needs protection area. A request letter was sent to MRPAM on January 4, 2024.

- On January 11, 2024, MRPAM issued an official letter to the Citizen representative Khural of Gurvantes soum and concluded that request was not reasonable and therefore the License Areas will not be registered on the Cadastre mapping system.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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 realised 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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. continued

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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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 84 active customers with the largest customer representing approximately 17%, the second largest customer representing approximately 14%, the third largest customer representing approximately 13% and the remaining customers accounting for 56% of the Company's total sales for the year ended December 31, 2023. 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 authorisation 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 authorisations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

In the past, the Company has customarily entered into cooperation agreements with the local custom office in Mongolia on an annual basis to facilitate the Company's export of coal into China. The Company's most recently executed cooperation agreement expired on November 23, 2023. While the Company has applied with the local Mongolian custom office to renew its cooperation agreement, the Company has not yet been able to renew its cooperation agreement as of the date hereof due to administrative delay on the part of the local Mongolian custom office. Consistent with prior years when there has been a temporary lapse under the cooperation agreement, the Company has continued to be able to export its coal products into China in the normal course without any negative impact on its operations since November 23, 2023. While the Company expects the renewal of the cooperation agreement to be approved by the second quarter of 2024, there can be no certainty that the renewal will be approved within such timeframe or at all.

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 realise 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 realisable 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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 Accounting Standards, 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 unauthorised 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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 labourers 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 Company had been increasing the scale of its mining operations in 2023, and had resumed wet washing since April 2023. The gradual increase in production volume led to subsequent growth of coal export volume into China, and resulted in significant improvements in the Company's cash flow in 2023.

Both Chinese and Mongolian governments played a significant role in strengthening their ties on coal trade. The development of new cross-border railways, expansion of road infrastructure, deployment of automated technologies in export operations and streamlined customs clearances underscore the collaborative efforts to facilitate cross-border trade. These strategic initiatives position Mongolian coal favourably in the evolving dynamics of China's coal imports.

With the continuous assistance and support from JDZF, the Company will focus on expanding its market reach and customer base in China to improve the profit margin earned on its coal products.

In 2024, the Company will continue to ramp up its mining operations and production capacity to capitalise on the anticipated increase in sales volume.

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 maximise revenue, expand its customer base and sales network, improve logistics, optimise 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 by: (i) improving mining operations; (ii) utilising the Company's wet and dry coal processing plants; and (iii) trading and blending different types of coal to produce blended coal products that are economical to the Company.

- **Expand market reach and customer base** – The Company will endeavor 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 maximise profit while maintaining sustainable long-term business relationships with customers.

- **Increase production and optimise cost structure** – The Company will aim to increase coal production volume to take advantage of economies of scale. The Company will also focus to reduce its production costs and optimise its cost structure through engaging sizable 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.

15. Outlook continued

In the long term, the Company will continue to focus on creating and maximising 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 90 million tonnes.

- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

- **Bridge between China and Mongolia** – The Company is well-positioned to capture the resulting business opportunities between China and Mongolia. The Company will seek potential strategic opportunities to collaborate with its two largest shareholders, which are both experienced coal mining enterprises in China, and have a strong operational record for the past decade in Mongolia.

March 28, 2024

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SouthGobi Resources Ltd., together with its subsidiaries (collectively the "Company" or "we"), is an integrated coal mining, development, and trading company.

The Company is pleased to announce our Environmental, Social and Governance ("ESG") report (the "Report" or the "ESG Report") for the financial year ended December 31, 2023 (the "Reporting Period" or "2023") which discloses core values, ESG related policies, measures, and performance of the Company. The Report is aimed to enhance the communication with the Company's stakeholders, to reinforce the confidence of stakeholders and to further increase their understanding of the Company's direction and progress on material sustainability issues.

Scope of Report

The Company's coal mining and exploration businesses are operated by the Company's wholly-owned subsidiary, Southgobi Sands LLC ("SGS"), in Mongolia. The environmental and social aspects covered in this Report are focused on SGS, same as last year, exceptions will be stated in the Report. The coverage of the scope represents the materiality and comprehensiveness of the Company's performance and highlights the key business activities that have significant ESG impacts.

This Report discloses the ESG performance of the Company for the period from January 1, 2023 to December 31, 2023. Unless otherwise indicated, the information and data included in this Report pertain the operation of the Company. The Company's data collection system is integrated into our daily operations and supports the ESG practices.

Reporting Principles

This ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide"), as set out in Appendix C2 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The ESG Report complies with the "Comply or Explain" provisions and the four reporting principles as required by the ESG Reporting Guide:

1. **Materiality**: The threshold at which ESG issues determined by the Board of Directors of the Company (the "Board") are significant to investors and other stakeholders that they should be reported. The Company has made disclosures in this Report based on the material issues identified through stakeholder surveys and materiality assessments, to respond to the most concerned ESG issues of the stakeholders.

2. **Quantitative**: The Key Performance Indicators ("KPIs") are measurable, the environmental and social aspects are presented in quantitative format as much as possible. The effective comparative data is also provided where appropriate. The standards, methods and reference sources for relevant data statistics and calculation are in accordance with the guideline outlined in "How to prepare an ESG report" issued by the Stock Exchange of Hong Kong Limited.

3. **Balance**: The ESG Report represents an objective overview of the Company's performance. It avoids making any biased selections, omissions, or presentation formats that may potentially influence the reader's decision-making or judgment.

4. **Consistency**: The Company used consistent methodologies to allow for meaningful comparisons of ESG data over time. Unless otherwise stated, this Report has no significant adjustments in the disclosure scope of the Company's ESG Reports for previous years. Changes, if any, will be stated clearly to inform the stakeholders and readers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Assessment

In order to identify the key ESG topics that are most important to the Company, the Company conducts regular materiality assessments and make appropriate enhancements to its policies and procedures. These assessments encompass the perspectives of both internal and external stakeholders of the Company. The assessment process consists of the following steps:

1. **Designing the methodology**: The materiality analysis methodology aligns with the implementation of the ESG initiative and adheres to the materiality principles stated in the Reporting Principles section and Listing Rules mentioned earlier.

2. **Identifying key ESG topics**: The Company takes into account a variety of sources to identify key ESG issues. These sources include significant ESG issues from previous years, feedback from stakeholders, existing policies and procedures, industry and international trend reports, regulatory updates, and external standards. By considering these diverse sources of information, the Company aims to ensure a comprehensive and well-informed identification of the key ESG issues that are relevant to its operations.

3. **Validating and engaging stakeholders**: Internal and external stakeholders are actively involved in the assessment process. Stakeholders are encouraged to provide feedback on engagement practices and raise any additional ESG issues.

4. **Prioritising significant ESG issues**: Through statistical analysis of the collected data, the materiality assessment prioritises ESG issues based on their overall importance.

The results of the materiality assessment in 2023 were as follows:

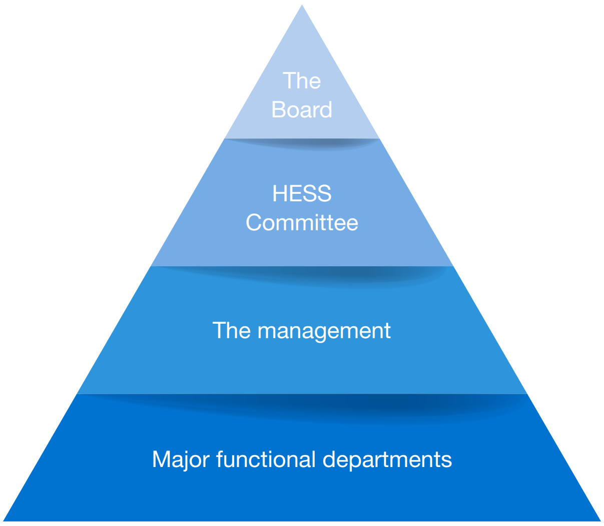
Aspect / Level	Environmental	Social	Governance
Highly related	• Hazardous emission and waste • Biodiversity and land use • Water stress • Carbon emissions	• Health and safety • Labour welfare • Supply chain management	• Governance
Generally related	• Climate change • Raw material sourcing	• Product safety and quality • Privacy and data security	• Anti-corruption
Related	• Use of resources	–	–

In 2023, the Company conducted a review of the materiality assessment results and identified the three most important topics within the environmental and social aspects. These results had been presented to the Health, Environment, Safety and Social Responsibility Committee (the "HESS Committee") and the Board to review and discuss on the improvements in the respective areas. Based on the assessment, the top three significant topics for the Company are "hazardous emissions and waste", "health and safety" and "labour welfare". These areas are identified as priorities for the Company's focus and efforts in addressing environmental and social concerns.

Message from the Board

The Board believes that having sound ESG performance is important to the continued sustainable development of its business and community. The Company is committed, not only in creating value for its shareholders, but also in promoting environmental protection, social responsibility and effective corporate governance.

The Board has established a HESS Committee, which operates under a charter approved by the Board. The primary objective of the HESS Committee is to assist the Board 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 occur and provides guidance on how to prevent any recurrences. The HESS Committee held five (5) meetings to discuss ESG matters in 2023.



Annually, the HESS Committee reviews the Company's ESG Report and provides guidelines and recommendations to the Company's management relating to the findings and materiality assessment result in the ESG Report. The HESS Committee reports to the Board quarterly. During 2023, the HESS Committee reviewed its charter in light of current best practices.

We uphold and value the principles of integrity and responsibility in our operations and are constantly seeking ways to enhance our competitive edge by striving for excellence and embracing technological advances. We fulfil our social responsibility through our work in supporting the local communities and by minimising pollution to the environment. We also conduct an environmental monitoring program every year, which consists of checking soil quality, ground and surface water levels and quality, vegetation, fauna, air quality including dust and waste gas emissions, and reclamation and rehabilitation.

Safety continues to be one of the Company's top priorities. We provide a positive working environment, and maintain strong safety guidelines and systems for our employees to minimise lost time injuries. Since its incorporation and the Company has been fully committed to operating in a safe and socially responsible manner in order to maintain a low lost time injury frequency rate. The Company ended 2023 with a low lost injury case. We are proud of our track record of low incident frequency rates, and we will strive to uphold our safety record going forward. We will provide continuous training for our staff to enhance morale and improve efficiency.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Comments and Feedback

We appreciate the input and suggestion from every stakeholder. We believe that collaboration and open communication are essential for continuous improvement and maintaining strong relationships with our stakeholders. Your input is important to us, and we are committed to listening and incorporating valuable suggestions into our decision-making processes. Together, we can work towards building a sustainable and responsible future.

Should there be any comments, feedback, or suggestions regarding the Company's performance in the ESG aspects, please contact us through the following channels.

Email:	corporate@southgobi.com
Mail:	20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8
Phone:	+1 604-762-6783 (Canada)
	+852 2156 1438 (Hong Kong)

Stakeholder Engagement

Stakeholders play a critical role to help shape the Company's strategy. The input and feedback from the Company's stakeholders are essential for conducting a comprehensive and well-aligned evaluation of its ESG performance, as well as for contributing to the overall improvement of the Company's business performance. We have identified various stakeholders based on industry dynamics, as well as the characteristics and development of the Company. As the Company's business impacts a wide range of stakeholders, including investors, shareholders, employees, suppliers, and customers, we recognise the importance of addressing their diverse expectations. To enhance the Company's ESG practices, we will continue to engage with stakeholders and gather their inputs through different channels. Simultaneously, we are committed to improving our disclosures to align with stakeholders' expectations and ensure that the content of the ESG Report reflects their needs.

We believe that efficient engagement and a shared understanding of our sustainability vision and expectations can be achieved through the communication channels presented in the table below.

Stakeholders	Expectations and Concerns	Communication Channels
Government and regulatory authorities	• Compliance with laws and regulations • Contribution on local economy • Safe production • Energy conservation and reduction of emissions	• Government conferences • Inspection and supervision • Tax Return Filing
Shareholders and investors	• Sustainable development of business and return • Return on investment • Safe production • Compliance with laws and regulations	• General meeting • Results announcements • Information disclosure • Company website
Employees	• Safe production • Employees' right and interests • Career development • Health and safety • Training and development	• Regular meeting • Training • Internal email • Staff handbook • Whistle-blower hotline • Guidelines for reporting allegations of serious wrongdoing
Customers	• Quality of products and services • Excellent service • Fair trade	• After-sales services • Quality supervision • Satisfaction survey
Suppliers	• Fair and trustworthy cooperation and competition • Quality of products • Business ethics	• Quality supervision • Technical benchmarking
Community	• Environmental protection • Community development	• Environmental impact assessment • Declaration and commitment • Community charity

Through these proactive communication efforts, we aim to foster transparency, build trust, and ensure that investors feel heard and valued. By actively involving stakeholders and continuously refining the reporting practices of the Company, we aim to meet their needs and demonstrate our commitment to responsible and sustainable business practices.

A. Environmental

The Company primarily operates in Mongolia and is required to comply with the Laws of Mongolia, including but not limited to the Environmental Protection Law of Mongolia ("EPL"), Law of Mongolia on Environmental Impact Assessment Law, Law of Mongolia on Water, Law of Mongolia on Soil Protection and Prevention of Desertification, Law of Mongolia on Waste, and Law of Mongolia on Air.

The Company is endowed with the following obligations concerning environmental protection:

- To comply with the EPL and the decisions of the government, local self-governing organisations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation within the organisation;
- 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition to those duties imposed on them by the EPL, mining license holders SGS was 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 and Tourism of Mongolia, which should take into account the results of the environmental impact assessment. The environmental management plan 2024 was approved by the Ministry of Environment and Tourism of Mongolia. For details of the environmental protection plan, please refer to our latest “Annual Information Form” that can be found on the Company’s website.

The Company has established the “Social and Environmental Policies of SGS” to govern the operational practice in both environmental and social aspects.

The Company is committed to adhering to the following environmental protection practice:

- discharging its duty of protecting the environment in accordance with Mongolian laws in the course of its mining activities;
- prioritising environmental actions for implementation in its business activities;
- implementing third party and internal environmental monitoring and include the participation of local people and governmental organisations;
- preventing and reducing environmental impact, and rehabilitating and carrying out biological offsetting in the project area;
- carrying out land reclamation in accordance with Mongolian standards during mining operation and at the time of mine closure;
- establishing and implementing environmental management system;
- identifying, assessing and managing the environmental risks of its activities in all planning and operational decisions;
- examining its environmental management system and regulations regularly, and revising the same where necessary, in order to continuously improve its environmental activities;
- cooperating with local people and administration as well as specialists or specialised agencies; and
- organising training for its employees and contractors with respect to the environment regularly.

A1. Emissions

Within the framework of the abovesaid environmental laws and regulations, the Company aspires to demonstrate its environmental leadership by keeping its environmental impact at a minimum through rehabilitation, biological offsetting, regular monitoring of pollutant emissions and taking relevant responsive measures and protecting the environment with the participation of locals in the area in which it operates. The Company uses, and will continue to utilise, appropriate and recognised environmental management systems, including documentation of all relevant environmental matters, and conducting internal compliance audits and engaging third parties to conduct audits where necessary to assist with environmental management.

A1.1 Air Emissions

The Company aims to develop a comprehensive air quality plan and improve the internal and independent air quality monitoring and analysis mechanism. In order to achieve this goal, SGS cooperated with an environmental consultancy firm, “ECOTYCOON”, to perform and an on-site survey, was completed in October 2023.

In 2023, the emissions of sulphur dioxide, nitrogen dioxide, respirable and fine suspended particles released through the mining process were within Mongolian air quality standard MNS 4585:2016. The results obtained through SGS's environmental monitoring program, wherein samples were collected from selected areas and submitted to an authorised laboratory for testing.

The results shown below illustrate that the Company's average results of the measured parameters were below the standard requirement for both 2022 and 2023.

Air Pollutants	Unit	Average amount released in 2023	Average amount released in 2022	Permissible amount
Dust content	mg/m^3	**0.25**	0.14	<0.5
Sulphur Dioxide	mg/m^3	**0.0149**	0.0164	<0.45
Nitrogen Dioxide	mg/m^3	**0.03**	0.026	<0.2

Note:

The above data are extracted from the "environmental impact assessment" performed by the environmental monitoring program of SGS.

As part of the environmental management plan, SGS regularly monitors air quality indicators and implements prevention and mitigation measures to address air pollution at the Ovoot Tolgoi Mine. The Mongolia-based operation has implemented a monitoring program in accordance with the MNS 4585:2016 standard. The air pollutants average amount released complies with the laws and requirements of Mongolia. SGS will continue to monitor the available air emission data and continue to enhance the disclosure details. Due to the business nature of SGS, the air pollutants produced during the operation may not have significant reduction. Regular monitoring of the air pollutants released will be conducted to ensure the minimisation of their release into the air.

A1.2 Greenhouse Gases Emissions

Greenhouse gases ("GHG") are the main reason for the global warming, which also lead to the climate change. The GHG emissions are caused by both directly (by burning fossil fuels) and indirectly (by electricity purchased for daily operation). The Scope 1 emissions included the fossil fuel burning (stationary sources), fossil fuel burning (moving sources), and fugitive emissions (underground mining and post-mining activities). In 2023, the amount of the air pollutants produced and the Scope 1 emissions may not be provided due to technical constraints. Scope 2 emissions include purchased electricity. The Company will continue to monitor air emissions and GHG emissions arising from the Company's operations.

In 2023, the Scope 2 and total GHG emissions amounted to 3,087.44 tonnes of carbon dioxide equivalent. The emission factor used in the calculation is in accordance with the "Grid emission factor for Mongolia's national" issued by the United Nations Framework Convention on Climate Change. To provide a measure of intensity, the calculation were performed by dividing the total GHG emissions above by the tonnes of raw coal produced in 2023, which amounting to 4.05 million tonnes. Consequently, the intensity in 2023 is 762.33 tonnes of carbon dioxide equivalent per million tonnes of produced.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Joining the "One Billion Trees" Campaign

SGS actively participated in the "One Billion Trees" national campaign initiated by the President of Mongolia, a strategic and action plan for the whole country to mitigate climate change and accelerate green recovery. In 2023, SGS planted a total of 23,700 trees, including 5,000 trees on Bogdhan Mountain in Ulaanbaatar, 18,000 trees in Sevrey, Khanhongor, and Bulgan soums of Umnugovi province, and 700 elm trees at the Shiveehuren port.

A1.3 Waste Management

Hazardous waste

The Company has implemented various environmentally friendly waste management programs with a strong emphasis on waste reuse, recycle and reduction (3R goals).

The relevant policies and procedures are listed as follow:

- "Waste collection, loading, transportation, and disposal procedure";
- "Mine camp waste handling procedure"; and
- "Mine workshop waste handling procedure".

The Company has implemented the aforementioned policies and procedures to offer comprehensive guidance to staff regarding waste handling practices. These guidelines aim to promote the principles of the 3R goals and ensure the protection of staff health and environmental safety. The measures encompass pasteurisation, appropriate transportation, recycling, disposal, and the overall reduction of any adverse environmental impacts.

The Company has engaged a professional waste oil-recycling contractor in the operation in Mongolia. In 2023, the Ovoot Tolgoi mine site generated 120 (2022: 81) tonnes of hazardous waste, including waste oil, used tires, car batteries and cartridges, and 58% (2022: 88%) of such materials were recycled and donated to local residents and various contract companies for reuse. To provide a measure of intensity, the calculation was performed by diving the total hazardous waste by the tonnes of raw coal produced in 2023, which amounting to 4.05 million tonnes. The intensity in 2023 is 29.63 tonnes of carbon dioxide equivalent per million tonnes of produced. The increase of waste generated in 2023, compared to 2022, was attributed to the increased number of subcontractors and employees.

Non-hazardous waste

The Company considered the non-hazardous waste is immaterial to the operation. However, the Company will continue to monitor the non-hazardous waste production determine the disclosure of relevant data in future, based on materiality considerations.

The non-hazardous waste recyclables are being provided to a local village in order to increase income and create work opportunities within the community. Additionally, the Company is collaborating with the local waste service company in Mongolia to improve the handling and management of non-minerals waste.

A2. Use of Resources

The Board, together with its HESS Committee, supports the management's decision in respect of energy conservation and environmental protection. The Company has established a top-down management approach and assessment mechanism for energy conservation and environmental protection at the mine site, in order to delegate responsibility, effectively communicate, and connect incentives and constraints on all division.

A2.1 Energy Consumption

The primary energy consumed in 2023 is electricity, with additional use of gas and oil for mining operations. The gas types include the propane, oxygen, acetylene, argon and nitrogen. The oil types include gear oil, hydraulic oil and engine oil. The Company will closely monitor the usage of energy to prevent any inefficient and improper usage.

The use of energy for both 2023 and 2022 are as follow:

Use of energy	Unit	2023	2022
Electricity	MWh	**3,594.22**	1,350.54
Intensity[1]	MWh/millions of tonnes produced	**887.46**	1,957.30
Gas	Gallon/33,000 psi	**85.00**	56.00
Oil	tonnes	**119.50**	62.00

Notes:

1. Intensity was calculated by dividing the electricity consumption by the tonnes of raw coal produced in 2023, amounting to 4.05 millions of tonnes.

The Company utilises the following measures to promote energy saving:

- conducting routine camp meetings for all employees regarding energy use efficiency;
- erecting signage to remind employees to turn off lights when not in use;
- checking the lights every night;
- closely maintaining and monitoring room temperatures; and
- air conditioners being only utilised according to a specific schedule.

A2.2 Water Consumption

The Ovoot Tolgoi Mine utilises underground water for three primary purposes being:(i) a source for drinking water, (ii) as well as for activities such as showering, cleaning, and other related purposes within the camp and (iii) in the coal washing plant. Groundwater and grey water are employed for dust suppression.

The Company has obtained conclusions and approvals from the relevant Government departments to ensure compliance with legal requirements. Furthermore, the Company has entered into a contract with the administration of the Altai Basin to formalise the usage of water resources as per the requirements. In accordance with the terms of the contract, the Company duly pays the appropriate water usage fees, contributing to the local budget.

Water consumption
In 2023, the Ovoot Tolgoi Mine consumed 23,597m^3 (2022: 14,574m^3) of water for domestic use. In addition, 155,829m^3 (2022: 20,901m^3) of water, obtained from a nearby pit and water pond, was used for dust suppression. the coal wash plant at the Ovoot Tolgoi mine site consumed 127,753m^3 (2022: 0m^3) of water for the coal washing process. The Company has continue to strive to minimise the water consumption used in dust suppression by reducing the source pollution and emission during the mining process.

The Company has implemented various measures to conserve water usage in Mongolia, particularly at the mine site. Various meetings have been conducted with employees and local residents to raise awareness about the significance of water preservation, as well as to provide information on various methods for conserving water and promoting efficient water usage. The Company have placed rubbish bins near the water sources at multiple locations surrounding the mine site to prevent littering, as it has a direct impact on the quality of these water sources. Furthermore, the Company constantly cleans and maintains the water source areas to ensure the the high-quality water can be supplied to the Company's camp at the Ovoot Tolgoi Mine and the neighbouring community.

In 2023, the Company has not identified any issues in related to sourcing of water. The Company targets to sustain multiple water sources in future. In order to accomplish this target, the Company will continue to monitor water supplies in various regions and explore the possibility of acquiring additional water sources.

Utilised Grey Water
SGS utilises a water treatment facility in Mongolia to reuse its grey water, which helps to reduce water usage and promotes environmental benefits. Since 2015, the Company has been actively utilising grey water as part of its operation. In 2023, SGS purified 20,140m^3 (2022: 15,045m^3) of domestic wastewater, with 17,036m^3 (2022: 12,036m^3) was allocated for watering green areas and dust suppression at the mine site.

Spill
A spill refers to the unintentional release or loss of toxic or hazardous materials, which can have detrimental effects on the natural environment, as well as on the health of humans and animals. Specifically, spills can occur both in natural environments and in workplace settings.

The "Wastewater Spill" procedure is designed to prevent potential spills of wastewater and to establish immediate response and safety measures in the event of a spill. The objective of this procedure is to minimise the occurrence of wastewater spills and to ensure that prompt action is taken in the event of an incident. By implementing preventive actions, such as regular maintenance of equipment and infrastructure, training of personnel, and the use of appropriate containment measures, the procedure aims to minimise the risk of wastewater spills.

The procedure provides guidelines for responding quickly and effectively, emphasising safety protocols to protect the environment, as well as the health and well-being of individuals exposed to the spill. It serves as an important component of the overall risk management strategy, ensuring that appropriate measures are in place to prevent spills and to respond swiftly and safely in the event of an incident.

A3. The Environment and Natural Resources

The Company adheres to the notion of producing green coal and building ecological mining sites. The Company has developed a comprehensive "Mine Closure Plan" to mitigate the significant impact on the environment and natural resources resulting from its operations. This plan aims to address and minimise the potential adverse effects associated with the closure of the mine. Emphasis has been placed on soil and water conservation, land rehabilitation and greening, ecological projects and other efforts to safeguard and improve the local eco-environment and advance the ecological progress.

Soil Management

The Company conducts an annual environmental monitoring programme to monitor soil quality underground water, reclamation and rehabilitation in the surrounding areas of the Ovoot Tolgoi Mine. The areas around the Ovoot Tolgoi Mine do not have large scale soil contamination by heavy metals often associated with mining operations. Samplings were obtained in fourteen (14) different locations and the results were all within the permissible level under the Mongolian government standard MNS 5850:2019.

The overall results of heavy metals content for 2023 and 2022 are as follows:

		Chromium		Lead		Cadmium		Nickel		Zinc	
Heavy metals	Unit	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Average	Mg/kg	**33.4**	47.5	**18.3**	21.8	**0**	0	**29.9**	14.6	**64**	58.4
Maximum	Mg/kg	**40.1**	62.1	**29.1**	30.1	**0**	0	**35**	19.2	**77.9**	74.8
Minimum	Mg/kg	**26.9**	36.5	**11.4**	10.1	**0**	0	**20.9**	8	**48.3**	41.4
MNS 5850:2019	Mg/kg	<100		<70		<3		<100		<150	

Underground Water Management

In 2023, a total of nine (9) water sources were tested to monitor the quality of underground water. The analysis of underground water encompassed thirteen (13) parameters, while mine ground leaking water was analysed using ten (10) parameters. The results obtained from these tests met all the required standards

Rehabilitation

Mining, rehabilitation and greening at the Ovoot Tolgoi Mine are conducted in a synchronised manner. Timely rehabilitation and greening have been carried out in accordance with the procedure of topsoil stripping, layering up, mining, back-filling, covering the topsoil and restoring vegetation, which covers the topsoil and restors vegetation, enables a full-scale greening and restores the ecology to its pre-mining conditions. Commencing in 2008, SGS has carried out biological reclamation of a 56.2-hectare area and planted over 34,200 trees and shrubs to reduce greenhouse gas emissions. SGS organises tree planting activities at the Ovoot Tolgoi Mine twice a year during the spring and the fall.

In 2023, there were no areas requiring rehabilitation at the waste stockpile. Instead, the local authority proposed the Gurvantes soum as an alternative rehabilitation area, and four (4) mining companies from the Nariin Sukhait region or Ovoot Tolgoi mining complex participated in its construction.

Protection of Biodiversity

Currently there are no endangered plant and animal species near the Ovoot Tolgoi Mine. The Company monitors biodiversity conservation, implements measures to mitigate any potential impacts within the mining areas and fully prepared to take necessary actions as in the future to preserve or maintain biodiversity. In 2023, an environmental monitoring program was conducted in cooperation with other mining companies in the Nariin Sukhait region.

The Company collaborated with a professional organisation to develop a strategy from 2014 to 2018, to protect biological diversity, maintain ecosystem balance and preserve species dwelling near the Ovoot Tolgoi Mine, in accordance with Mongolian laws and regulations. In 2015, a biodiversity offset strategic plan was formulated in cooperation with Mycobio LLC. Within this framework of biodiversity offset, the Company established a water point for rare, wild animals in the Tost, Toson Bumba Nature Reserve in 2016. In 2017, border marking of the Tost, Toson Bumba Nature Reserve was completed. Offset reclamation was conducted at Tost Toson Bumba Nature reserve from 2016 to 2020, and the results were presented to local authorities. As part of the 2020 biodiversity offset rehabilitation, brochures with pictures of endangered birds were published in cooperation with Administration Office of "Tost and Toson Bumba" to educate people on endangered birds living in Tost, Toson Bumba Nature Reserve. Due to the COVID-19 pandemic, biodiversity offset rehabilitation was counted as rehabilitation conducted at areas of Sevrei soum in 2021. In 2022, a water point for wild animals was restored by the Company in cooperation with the Tost, Toson Bumba Mountain Nature Reserve. In 2023, the Company sponsored the furnishing of the information centre at the Tost, Toson Bumba Mountain Nature Reserve.

A4. Climate Change

Climate change is a critical global issue that has garnered widespread attention and concern in recent years. It refers to long-term shifts in weather patterns and average temperatures caused by human activities such as the burning of fossil fuels, deforestation, and industrial emissions. The consequences of climate change extend far and wide, impacting ecosystems, weather events, and human societies worldwide. Rising global temperatures contribute to the melting of polar ice caps, sea-level rise, extreme weather events, and disruptions to agricultural patterns. Additionally, climate change poses significant risks to biodiversity, human health, and socio-economic stability. Urgent action is needed on a global scale to mitigate greenhouse gas emissions, adapt to the changing climate, and work towards a sustainable future for generations to come.

The Company recognises the consequences of climate change. In order to mitigate and reduce its impact on the climate, the Company has developed a proactive plan to deal with the changing climate promptly. The "P-05-015 Regulation for environmental monitoring of Ovoot Tolgoi Mine" has been implemented to identify and address significant climate-related issues that have already affected or may affect the Company.

In 2023, the Company identified climate-related risks in both physical and transitional aspects:

Physical Risks

Risk Type	Risk	Description	Response
Acute risk	Extreme weather	The extreme weather may suspend production and operations by affecting the operational location and company assets.	To mitigate the impact of extreme weather events, the Company will implement disaster preparedness plans. Also, we will keep monitoring weather forecasts and maintaining effective communication systems that can respond promptly and minimise the disruption caused by extreme weather events.
Chronic risk	Water shortage	The water shortage may affect production and operations, resulting in lower revenue and higher costs.	To mitigate the impact of water shortage, the Company will implement water conservation measures, if necessary, and explore alternative water sources, also engage in sustainable water management practices. These actions can minimise disruptions, reduce costs, and ensure long-term resilience in the face of water scarcity.
	Temperature increase	High temperatures may increase the frequency of accidents, such as fires. Additionally, high temperatures can affect machinery, equipment, and worker performance, leading to decreased productivity and efficiency in production processes.	The Company will conduct regular equipment maintenance and adopting work schedules that minimise exposure to peak temperatures. By prioritising safety, health, and employee well-being, the Company can mitigate the risks associated with high temperatures and maintain optimal productivity.

Transitional risk

Risk Type	Risk	Description	Response
Policy risk	Enhancement of policy	Local governments or international corporations may enhance regulations and policy requirements related to climate change and environmental protection. These updates in laws and policies can impose new obligations and standards on companies operating in those jurisdictions. Compliance with these regulations may require companies to invest additional resources, such as financial resources and manpower, to meet the new requirements.	Non-compliance with the updated laws and policies can lead to various consequences, including penalties, fines, and potential damage to a company's reputation. The Company will ensure we stay informed about the evolving regulatory landscape and the operations align with the new requirements.
Technology risk	Low-carbon technology cost	The enhancement of regulations surrounding energy efficiency and carbon emissions often comes with stricter standards and requirements for companies. Meeting these regulations may necessitate the use of more advanced and costly energy-saving equipment that complies with the new standards. With the increasing demand for low-carbon technology, the investment cost of energy-saving equipment may increase.	While the upfront investment cost of energy-saving equipment may be higher, it is important to consider the long-term benefits. Energy-saving technologies can help the Company to reduce operational costs by lowering energy consumption, improving efficiency. The Company will study and closely monitor the update of the relative technology and consider upgrading the equipment if necessary.
Market risk	The shift of market preference	The increasing favourability of new energy sources can indeed lead to a reduction in reliance on fossil fuels like coal. While the transition from fossil fuels to new energy sources is a gradual process, the favourable attributes of new energy technologies are driving the global shift towards cleaner and more sustainable energy systems.	The Company will closely monitor the shift in market preference, which we can stay informed about changing customer demands and industry trends. The Company will also actively study the possibility of using of new energy sources during the operation. Since 2018, the Company has been prohibited from exporting its F-grade coal products to China for sale, as a result of environmental protection measures implemented by the Chinese government.

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Risk Type	Risk	Description	Response
Reputation risk	The rising concern from the stakeholders	Stakeholders of the Company may reduce the interests if the Company fail to respond to climate change. As there are an increasingly value on environmentally responsible practices and sustainability efforts, the failure to respond to climate change or adopt sustainable practices can lead to reputational damage and loss of trust. Negative public perception can result in decreased customer loyalty, lower sales, and potential boycotts.	To maintain stakeholder interests, it is crucial for the Company to proactively address climate change through measures such as implementing sustainable practices, reducing greenhouse gas emissions, setting clear environmental goals, engaging in transparent reporting, and actively participating in initiatives to combat climate change. By demonstrating a commitment to climate action, we can enhance stakeholder trust, reputation, and long-term sustainability.

B. Social

The Board established '*The Way We Work*' which addresses safety in the workplace, health of employees, and the protection of employees during employment. In addition to this, we also address issues related to bribery and corruption, fair business practices, confidential information, management of intellectual property rights, and community relations.

B1. Employment

We are committed to acting in accordance with all applicable employment laws including Mongolian laws, Mainland China laws and Hong Kong laws.

The laws and regulations that have significant impact on us are illustrated as below:

Location	Name of the Law and Regulations
Mongolia	• Law of Mongolia on Labour • Law of Mongolia on Minimum Wage • Law of Mongolia on Pensions, Benefits and Payments for Industrial Accidents and Occupational Diseases to be issued from the Social Insurance Fund.
Mainland China	• the Labour Law of the PRC（中华人民共和国劳动法） • Labour Contract Law of the PRC（中华人民共和国劳动合同法） • Social Insurance Law of the PRC（中华人民共和国社会保险法）
Hong Kong	• Employment Ordinance (Cap.57) including the Mandatory Provident Fund Scheme • Minimum Wage Ordinance (Cap.608)

Based on industry best practices and advanced technology, we aspire to be a responsible mining company in terms of safety by complying with the occupational health and safety standards and requirements providing employees with healthy and safe workplace conditions, and committing towards a target of zero incidents.

We have formulated an internal labour policy, salary policy, procedures for transfer and rotation of employees covering the policies of human resource and working conditions. Additionally, we have policies relating to: recruitment and promotion programme, training, performance appraisal, remuneration and welfare, working hours, leaves and other holidays (including wedding leave, compassionate leave, maternity leave and paternity leave), equal opportunity, diversity, anti-discrimination. Such policies clearly define the rights and obligations of both parties and safeguard the legal rights of the employees.

We recognise the immense value of its employees, viewing them as its most valuable assets. As such, the workforce and turnover figures represent the data of the Company, providing a clear and comprehensive overview of its human resources and personnel dynamics.

The distribution of our workforce by gender, age group, education level and geographical region in 2023 and 2022 are as follows:

	Number of Employees		Percentage change
	2023	2022	
Total workforce	**554**	360	+53.89%
Workforce per category			
Gender			
– Male	**481**	312	+54.17%
– Female	**73**	48	+52.08%
Age Group			
– 30 or below	**189**	99	+90.91%
– Between 31-40	**228**	157	+45.22%
– Between 41-50	**100**	73	+36.99%
– 51 or above	**37**	31	+19.35%
Geographical Region			
– Employees in Mongolia	**466**	311	+49.84%
– Employees in Hong Kong	**17**	19	–10.53%
– Employees in Mainland China	**71**	30	+136.67%

Pursuant to the relevant national laws and regulations, we standardise the procedures for departure, safeguard the legitimate rights and interests of resigned employees to ensure our stable operation.

In 2023, our total turnover rate was 29.10%. The employee turnover rate by gender, age group and geographical region in 2023 and 2022 are as follows:

	Employee turnover rate (Percentage)		Percentage change
	2023	2022	
Turnover rate per category			
Gender			
– Male	**23.08%**	18.27%	+26.32%
– Female	**30.14%**	100.00%	–69.86%
Age Group			
– 30 or below	**26.46%**	32.32%	–18.15%
– Between 31-40	**21.93%**	22.29%	–1.63%
– Between 41-50	**20.00%**	41.10%	–51.33%
– 51 or above	**35.14%**	25.81%	+36.15%
Geographical region			
– Employees in Mongolia	**24.25%**	31.51%	–23.05%
– Employees in Hong Kong	**41.18%**	21.05%	+95.59%
– Employees in Mainland China	**18.31%**	10.00%	+83.10%

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B2. Health and Safety

Safety continues to be one of the top priorities of the Company. In accordance with the Law of Mongolia on Labour Safety and Hygiene, we have established "Pre-work Risk Assessment Procedures", "Procedures for Issuing Personal Protective Equipment" and "Alcohol Testing Policies" to ensure the safety of employees at the workplace. We provide a positive working environment and maintain strong safety guidelines and systems for our employees to minimise lost time injuries. We continue to be fully committed to operating in a safe and socially responsible manner in order to maintain a low lost time injury frequency rate. In the event that we encounter problems such as workplace violations, we have established procedures to standardise the investigation into any violations. We will strive to uphold our safety record going forward. We will also provide continuous training for our staff to enhance morale and improve efficiency.

We will determine detailed performance targets, obligations and duties, in order to implement our health and safety ("OHS") goals and objectives.

To achieve our OHS goals and objectives we;

- Identify, mitigate and control the Company's operational risks which may adversely impact the health and well-being of the Company's employees and its contractors;
- Comply with the applicable laws, regulations and standards and maintain its performance beyond the standards set out by those laws, regulations and standards;
- Establish accountability related to the Company's OHS goals and objectives and its performance at all levels of the organisation;
- Plan, manage, perform, and close all operations in a manner that meet our OHS goals and objectives;
- Develop, implement and maintain an effective OHS Management System that aligns with internationally recognised best practices;
- Regularly provide training for all employees and contractors of the Company, in order to improve their safety-related knowledge and skills, and instil positive OHS attitudes;
- Identify direct and underlying causes of all OHS incidents and take measures to prevent any reoccurrence of such incidents;
- Regularly monitor, audit and review the effectiveness of the OHS management system for the purpose of its continuous improvement.

Our employees and contractors are required to comply with and act in accordance with the above policies and procedures.

We achieved a successful of zero (0) lost time injuries ("LTI") in 2022. However, an LTI incident occurred during the Reporting Period, the lost time injury frequency rate of 0.17 (lost days due to work injuries: 161) was being recorded (2022: 0.00; lost days due to work injuries: 0) (Please refer to Section 3 of the Company's "Management Discussion and Analysis of Financial Condition and Results of Operations" for details). We will strive to enhance our protective measures to minimise the incidents and alleviate the impact on our operation. There are no work-related fatalities occurred in the past three years including 2023.

We did not observe any breach of relevant laws and regulations that may have a significant impact to the Company in 2023. We will continue promoting and maintaining occupational health and safety to all employees so as to avert work injuries from occuring.

B3. Development And Training

We attach great importance to staff training. We provide diversified on-the-job training for our employees to enhance their abilities and strengthen our competitiveness.

In accordance with the internal labour policy and procedures, we ensure the provision of regular training to new employees of both SGS and contract companies. Additionally, we formulate and implement job-specific training and development plans for all employees, aiming to foster an organisational culture and enhance their knowledge and skills.

In accordance with our development and job responsibilities, team management training is provided to middle and senior management, including but not limited to enhancing team emotional intelligence and problem-solving skill of employees, and also enhancing team cohesion. Each department collaborates with the administration and human resources departments, along with the assistance from the department managers to organise specialised and professional training pragrammes and activities. OHS training is organised and conducted by the SGS safety department, trainings are also provided for guests and representatives visiting the mine site regularly.

We hosted four professional development seminars for its Directors, which were attended by all Directors. In addition, each Director was provided with a membership to the Canadian Institute of Corporate Directors (the "ICD") as a means of facilitating continuing education opportunities for the Directors. Directors have the opportunity to attend on-line courses, conducted by the ICD, relevant to the Company and its business, particularly with respect to corporate governance and the mining industry, at our expense. Through the ICD, the Directors receive regular updates on numerous matters.

Throughout 2023, comprehensive trainings were provided to all employees at the mine site. The trainings encompassed a wide range of 26 topics, including corporate induction and safety operation. As a responsible company, we extended our training covering contractors. The training details are currently collected and disclosed by training categories and the Company will continue to review the data availability and enrich the disclosure details whenever necessary.

The safety training hours of SGS in 2023 is summarised as below:

Training	Q1	Q2	Q3	Q4	Total
New employee safety training SGS	113	107	68	49	337
New employee safety training contractors	391	907	806	973	3,077
Visitor induction	90	29	67	5	191
Refresher training	23	87	41	0	151
Refresher training for contractors	88	21	8	0	117
Other refresher training	21	36	0	0	57
Camp meeting	190	418	437	200	1,245
Other	0	0	0	0	0
Total	916	1,605	1,427	1,227	5,175

We offer employees with career opportunities. In addition to diverse trainings, we encourage employees to enhance their own performance through a well-established performance appraisal system. Official evaluations of employees' performance are conducted on an annual basis.

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B4. Labour Standards

We treat applicants and employees fairly and equally, and provide equal employment opportunity for them regardless of race, gender, religion, age, marital status and other social identities. We prohibit the employment of child, forced or compulsory labour.

We comply with the Law of Mongolia on Labour and stipulate that all employees shall be aged 18 or above. We also comply with the Protection of Minors Law of the PRC（中华人民共和国未成年人保护法）and Provisions on the Prohibition of Using Child Labour（禁止使用童工规定）and stipulated the basic requirement of employment in the Staff Handbook that all employees shall be aged 18 or above. In addition, we were not aware of any material non-compliance with the relevant Laws of Hong Kong and regulations in 2023 including but not limited to (i) Employment Ordinance (Hong Kong) and (ii) the Employment of Children Regulations (Hong Kong).

In 2023, we did not identify any event related to child employment or forced labour. If we identify any cases of forced labour or child labour, the relevant employment contract will be terminated immediately and the responsible staff in our human resource management will be disciplined accordingly.

B5. Supply Chain Management

During 2023, SGS had a total of 111 suppliers, with 106 are from Mongolia and 5 are located outside of Mongolia. These suppliers mainly provide fuel and mining operating services.

The number of suppliers by geographical region in 2023 and 2022 are as follows:

Region	2023	2022	Percentage change
Mongolia	**106**	77	+37.66%
PRC	**4**	3	+33.33%
Others	**1**	1	–
Total	**111**	81	+37.04%

We believe that establishing sustainable supply chains and facilitating interaction and communication with suppliers can boost confidence in the Company and its products. We only sustain long-term cooperation relationships with suppliers which possess high credibility, stable reputations, high-quality products and services as well as sound records and act in compliance with laws. In addition, by communicating with stakeholders and inviting them to participate in the materiality assessment process, we identified 'Management of Suppliers' as one of the material issues.

We regard strong business ethics as the primary condition for long-term business operations and relationships, and attaches great importance to the establishment of a corporate culture and a work ethics that promotes honesty and trustworthiness. It has established a system that requires employees to treat suppliers fairly and not to request or accept gifts from suppliers. A multi-level and multi-channel reporting mechanism is established to combat commercial bribery and other violations of laws and disciplines. It strives to create a fair, transparent, honest and healthy business environment.

In regard to the supplier evaluation, suppliers which provide better quality will be opted for within reachable scope in a bid to cut down unnecessary loss and reduce resource waste according to "*The Way We Work*". Meanwhile, we also considers environmental factors, and selects suppliers that produce products with low pollution and low energy consumption. Following the selection of suppliers, our Company will oversee the performance of suppliers on an ongoing basis. We have a strict policy to terminate cooperation with suppliers who demonstrate issues related to the quality, environmental concerns and social responsibility. We are not aware of any significant actual or potential negative influences caused by any supplier's lack of business ethics or improper environmental and labour protection measures.

B6. Product Responsibility

The Company's main coal products consists of premium semi-soft coking coal, standard semi-soft coking coal, standard thermal coal, and processed coal. We strive to maintain a steady supply of quality coal products for our customers.

In 2023, the Company produced 4.05 million tonnes of coal and sold 3.59 million tonnes of coal to customers. During production, a total of 3.6 million m^3 overburden was stripped, and the stripping ratio was 6.36m^3 per tonne. The Company actively promotes clean coal products. In general, our coal products' average ash content ranged from 7% to 28%, calorific value ranged from 5,500 to 7,000 kcal/kg, the sulphur content below 1.2%, G index ranged from 58 to 75, and volatile matter around 32.5%.

The coal wash plant at the Ovoot Tolgoi Mine commenced operations in October 2018. The plant washes run-of-mine coals with high ash content. In 2023, the coal wash plant washed 0.7 million tonnes WF coal, and produced 0.35 million tonnes WB washed coal. The washed coal is sold as semi-soft coking coal. In 2023, 0.22 million tonnes of washed coal were sold. The washed coal has an average ash content of around 13.0%, an average calorific value of 6,312 kcal/kg, an average sulphur content of 1.0%, G index of around 65, and volatile matter of 39.0%. We will continue to enhance the product value by increasing the volume of coal being washed. We are considering alternative technologies to enhance-coal quality for the Chinese market with improved margins.

Product quality management

We believe product safety and quality are two major competitive advantages of its business and endeavours to enhance product quality and strengthen trust with its customers. We have measures in place to deal with the issues of product quality to ensure all products that are supplied to our customers meet our high standards for product safety and quality.

We recognised that maintaining good quality products is how to uphold its reputation and secure long-term customer support.

The "Purchase order general terms and conditions" policy of SGS, specifies the strict procedure to deal with any matters relating to product recall that might be caused by product defect, safety hazard or non-compliance with relevant regulations.

Product recall and complaints management

In 2023, none of the coal sold or shipped had been subject to recall for safety and health reasons and no complaints on the coal quality had been received. We welcome all types of feedback, regardless of it being positive or a suggestion for improvement, views and feedback from its customers as an opportunity to review experiences and enhance service quality.

We have established a range of communication channels, including email and a hotline, to collect feedback from customers. We highly value input from each customer and are dedicated to promptly addressing any complaints. Moreover, we remain committed to enhancing the quality of our products in order to meet customers' expectations and enhance their overall experience. In 2023, we did not receive any complaints from our customers.

Data protection and privacy management

The senior management of the Company is responsible for safeguarding the Company's intellectual property. Contracts between the Company, employees and relevant parties contains as confidentiality clause to prevent the leakage and misuse of the intellectual property rights. A whistle-blower program is available for employees to report any incident regarding allegations of non-compliance with relevant laws and regulations of the patents, copyright and trademarks.

Data protection measures are established and monitored by the Company's IT Department to protect the sensitive data of its customers, suppliers and other relevant parties. A secure environment with data protection measures is maintained for the storage of data. Only authorised staff members have the right to access the sensitive data. Employees are trained on the importance of not disclosing the personal data of customers and suppliers to external parties without the permission of the relevant parties.

In 2023, we have not aware of any unauthorised access, accidental usage or amendments of these data.

B7. Anti-Corruption

All businesses operated by the Company must comply with the national and local laws and regulations regarding anti-bribery and anti-money laundering.

Our current practices are reviewed and updated annually to ensure that the latest developments and best practices in corporate governance are followed and observed.

In 2012, we adopted and implemented a Code of Business Conduct and Ethics (the "Ethics Policy") called '*The Way We Work*'. The Ethics Policy is applicable to all employees, consultants, officers and directors regardless of their position in the Company, at all times and everywhere the Company does business.

In addition to '*The Way We Work*', we have also adopted guidance notes and standards that form part of the Company's overall Code of Conduct Standards. Included in the Code of Conduct Standards are the following policies and standards: the Anti-Corruption Standard and the Conflicts of Interest Standard, 'The Way We Work', the Corporate Disclosure, Confidentiality and Securities Trading Policy, and Guidelines for Investigation into Allegations of Serious Wrongdoing and a whistle-blower program. In 2023, we adopted a Corporate Compliance Policy to enhance its Code of Conduct Standards.

To support the ethical standards expected of the Company and its employees, we have adopted an anonymous whistle-blower program, where employees may report any concerns or perceived misconduct anonymously.

Our whistle-blower program is administered by the Company's Corporate Secretary in conjunction with the Chair of the Audit Committee. Information regarding the whistle-blower program is available on the Company's website (www.southgobi.com).

The Ethics Policy and the Code of Conduct Standards, uphold its commitment to a culture of honesty, integrity and accountability which align with the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. A copy of the '*The Way We Work*' and the Code of Conduct Standards are available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8, Attention Corporate Secretary, or by phone to + 1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: corporate@southgobi.com.

The Nominating and Corporate Governance Committee monitors the compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

Employees of the Company are required to comply with the relevant local laws and regulations concerning anti-bribery and anti-corruption. In the event that an individual believes they have a conflict of interest, they must report the matter to their senior management and/or the Corporate Secretary.

We have established a 'Guidelines for Reporting Allegations of Serious Wrongdoing'. If an employee suspects a violation of any relevant laws and regulations regarding corruption and bribery and the requirements of our Company, they must report the matter to their supervisor, a member of senior management or utilise the Company's confidential whistle-blower hotline.

All allegations will be confidentially investigated and fairly dealt with. In the instance of a violation of national laws and regulations, the investigation will be passed onto the judicial authority for handling.

We emphasis raising the awareness of employees regarding anti-corruption. During the Reporting Period, the Company held an internal anti-corruption training for its directors and employees.

In 2023, to the best of our knowledge, we have complied with the relevant laws and regulations in respect to bribery, extortion, fraud and money laundering. Organisational structures and policies in the Company are in place to maintain a high standard of corporate governance and ensure an ethical corporate culture. In 2023, no incidents regarding bribery, corruption or unethical behaviour were recorded or identified.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B8. Community Investment

As a socially responsible enterprise, we are aware of the needs of the community and believes part of its corporate responsibility is to give back the community. We also believe in the importance of sustainable development and environmental protection in all aspects of its business activities.

Community Relations

We aspire to be a leader in community relations by (i) treating local citizens with dignity and respect, (ii) developing good relationships and mutual trust with local governments, and (iii) implementing environmentally friendly technology for coal exploration and mining. We strive to achieve these goals while pursuing the underlying business objective of building value.

SGS was involved in the paving of the runway at the Ovoot Tolgoi airport, which has enhanced trade and economic activity in the local communities of the South Gobi region. Roads to both Gurvantes and the Shivee Khuren border crossing have been improved and upgraded to facilitate the movement of local residents by increasing traffic safety and reducing travel time. SGS, through its joint venture with RDCC LLC, completed the construction of a paved highway from the Ovoot Tolgoi Mine to the Shivee Khuren border crossing. The highway significantly increases the safety of coal transportation, reduces environmental impacts, and improves efficiency and capacity of coal transportation.

Corporate Social Responsibility

The Corporate Citizenship Committee ("CCC") was established to review and approve donations for sustainable projects that benefit the wider communities. In 2023, the Company continued its core corporate social responsibility activities and contributed the following donations:

- Granting annual domestic university scholarships for the year of 2023-2024, named after Southgobi Sands LLC, to 36 students from local soums (11 students from Dalanzadgad, 15 students from Gurvantes soum, 3 students from Noyon soum, 3 students from Sevrei soum, and 4 students from Bayandalai).

- Providing coal and livestock feed to local residents during the cold winter months. 8,100 tonnes of coal were donated to Gurvantes, Bayandalai, Noyon and Sevrei soums and funds were donated to the Animal Protection Fund of the soum to purchase fodders.

- Sponsoring the Naadam Festival of Dalanzadgad province and Gurvantes soum.

- Purchasing a Mongolian ger for an elder citizen of the Health centre.

- Sponsoring Lunar New Year presents for elders.

- Supporting the sport event of secondary school of Gurvantes soum.

- Sponsoring a teacher and 6 students of Gurvantes soum participated to the Soroban World Championship which took place in Malaysia in December 2023. SGS donated international travel expense of one of the students.

- Sponsoring the inaugural festival of media and journalism "Steel Pen-2023".

We strive to uphold the principles of accountability to shareholders, investors, suppliers, customers and seek further development opportunities to maintain a harmonious relationship with the stakeholders in long-term relationship and enhance its social responsibilities as a corporate citizen to make positive contributions to the public community.

HKEX ESG Reporting Guide Content Index

Aspects, General Disclosures and KPIs	Description	Relevant Chapter/Explanation
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	A. Environmental
KPI A1.1	The types of emissions and respective emissions data.	A1.1 Air Emissions
KPI A1.2	Direct (Scope 1) and energy indirect Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility)	A1.2 Greenhouse Gases Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility)	A1.3 Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	A1.3 Waste Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	A1. Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	A1.3 Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	A2. Use of resources
KPI A2.1	Direct and/or indirect energy consumption by type gas or oil) in total (kWh in ’000s) and intensity (e.g., per unit of production volume, per facility).	A2.1 Energy Consumption
KPI A2.2	Water consumption in total and intensity (e.g., per unit of production volume, per facility).	A2.2 Water Consumption
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	A2.1 Energy Consumption

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Chapter/Explanation
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	A2.2 Water Consumption
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	A3. The environment and natural resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	A3. The environment and natural resources
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	A4. Climate change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	A4. Climate change
B. Social		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	B1. Employment
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	B1. Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	B1. Employment

Aspects, General Disclosures and KPIs	Description	Relevant Chapter/Explanation
Aspect B2: Health and Safety		
General Disclosure	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	B2. Health and safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	B2. Health and safety
KPI B2.2	Lost days due to work injury.	B2. Health and safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	B2. Health and safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	B3. Development and training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g., senior management, middle management).	B3. Development and training
KPI B3.2	The average training hours completed per employee by gender and employee category.	B3. Development and training
Aspect B4: Labour Standard		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	B4. Labour standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	B4. Labour standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	B4. Labour standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	B5. Supply chain management
KPI B5.1	Number of suppliers by geographical region.	B5. Supply chain management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	B5. Supply chain management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Chapter/Explanation
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	B5. Supply chain management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	B5. Supply chain management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	B6. Product responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	B6. Product responsibility
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	B6. Product responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	B6. Product responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	B6. Product responsibility
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	B6. Product responsibility
Aspect B7: Anti-Corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	B7. Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	B7. Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	B7. Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	B7. Anti-corruption

Aspects, General Disclosures and KPIs	Description	Relevant Chapter/Explanation
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	B8. Community investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	B8. Community investment
KPI B8.2	Resources contributed (e.g. money or time) to the focused area	B8. Community investment

SEVERAL GROWTH OPTIONS

The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港
干諾道中111號
永安中心25樓

To the Shareholders of SouthGobi Resources Ltd.

Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 155 to 218 which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our auditor's report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group had a deficiency in assets of US$141.3 million while the working capital deficiency reached US$218.8 million as at December 31, 2023. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of property, plant and equipment

(Refer to note 3.19(b) and 19 to the consolidation financial statements)

We have identified the impairment of property, plant and equipment as a key audit matter because of its significance to the consolidated financial statements of the Group and the Group's assessment of impairment of property, plant and equipment is a judgmental process which requires estimates concerning the forecast future cash flows associated with the assets in determining the recoverable amount.

The selection of valuation model, adoption of key assumptions and input data may be subject to management bias and changes in these assumptions and input to the valuation model may result in significant financial impact.

How the matter was addressed in our audit

Our procedures in relation to the impairment assessment of property, plant and equipment included:

- Assessing the appropriateness of the Group's identification of individual cash generating unit;

- Evaluating the competence, capabilities and objectivity of the independent external valuer engaged by the Group ("Management's Valuation Expert");

- With the assistance from our auditor's valuation expert, evaluating the appropriateness of the valuation methodology in the context of the relevant accounting standards, the data and technical information and the reasonableness of significant assumptions used by the Group and the Management's Valuation Expert in the valuation models against information of independent source, our knowledge of the Group and its industry; and

- Evaluating the adequacy of the sensitivity analysis on significant assumptions in the valuation models for risk assessments.

Key Audit Matters continued

Accounting for uncertain tax matters

(Refer to note 3.19(h), 9 and 36.3 to the consolidation financial statements)

We identified the accounting for uncertain tax matters as a key audit matter due to the Group's inter-group relationships and associated tax implications of substantial transactions, the significant judgement involved in the determination of the tax positions and the relevant estimates and assumptions in light of the number of jurisdictions in which the Group operates, including judgement concerning residency of key operations, application of transfer pricing rules, the recognition of provision of additional tax, the taxation impacts of any corporate restructurings and the recognition and measurement of provisions for tax exposures that may arise and associated disclosures.

This gives rise to complexity and uncertainty in respect of the calculation of royalty tax, income tax and consideration of contingent liabilities associated with tax years open to audit.

As at 31 December 2023, the Group operates across Mongolian jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business, including transfer pricing, royalty taxes, change of taxation laws, and transaction related tax matters as disclosed in notes 3.19(h), 9 and 36.3 to the consolidated financial statements.

How the matter was addressed in our audit

Our procedures in relation to the accounting for uncertain tax matters included:

- Evaluating the competence, capabilities and objectivity of the independent external tax consultant engaged by the Company ("Management's Tax Expert");

- Working with auditor's tax expert ("Auditor's Tax Expert") to evaluate the Group's tax obligations, review tax computations conducted by the Group, obtain an understanding of the current status of tax assessments and evaluate developments in ongoing tax disputes;

- Assessing the recognition and measurement of any relevant provisions for tax; and

- Reading recent rulings and the advices from Management's Tax Expert with the assistance from Auditor's Tax Expert, to satisfy ourselves that the tax provisions recognised or contingent liabilities disclosed have been appropriately recorded or adjusted to reflect the latest external developments.

Other Information

Management is responsible for the other information. The other information comprises all of the information included in the 2023 annual report of the Company (the "annual report") other than the consolidated financial statements and our auditor's report thereon. We obtained Management's Discussion and Analysis of Financial Condition and Results of Operations prior to the date of this auditor's report. The remaining other information, including Message from the CEO, Board of Directors and Senior Management, Directors' Report, Corporate Governance Report, Environmental, Social and Governance Report, Corporate Information and the other sections (if any) to be included in the annual report, is expected to be made available to us after that date.

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

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

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

When we read the remaining other information to be included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements continued

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

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

BDO Limited

Certified Public Accountants
Alfred Lee
Practising Certificate Number P04960

Hong Kong, March 28, 2024

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of U.S. dollars, except for share and per share amounts)

	Notes	Year ended December 31, 2023	2022
Revenue	5	$ **331,506**	$ 73,084
Cost of sales	7	**(158,195)**	(57,762)
Gross profit		**173,311**	15,322
Other operating income/(expenses), net	8	**(870)**	5,316
Administration expenses	10	**(10,437)**	(6,919)
Evaluation and exploration expenses		**(991)**	(147)
Additional tax and tax penalty	9	**(85,143)**	–
Profit from operations		**75,870**	13,572
Finance costs	11	**(49,072)**	(42,219)
Finance income	11	**5,084**	2,777
Share of earnings of joint ventures	20	**2,840**	119
Share of earning of an associate	21	**4**	–
Profit/(loss) before tax		**34,726**	(25,751)
Current income tax expenses	12	**(33,818)**	(4,668)
Net profit/(loss) attributable to equity holders of the Company		**908**	(30,419)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operation		**265**	(24,744)
Net comprehensive income/(loss) attributable to equity holders of the Company		$ **1,173**	$ (55,163)
Basic and diluted earnings/(loss) per share	14	$ **0.003**	$ (0.110)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

	Notes	As at December 31, 2023	2022
Assets			
Current assets			
Cash and cash equivalents	15	**$ 47,993**	$ 9,255
Restricted cash		**423**	725
Trade and other receivables	16	**7,541**	1,199
Inventories	17	**52,927**	34,830
Prepaid expenses	18	**6,471**	1,486
Total current assets		**115,355**	47,495
Non-current assets			
Property, plant and equipment	19	**157,119**	119,346
Investments in joint ventures	20	**15,178**	14,518
Investment in an associate	21	**8,086**	–
Total non-current assets		**180,383**	133,864
Total assets		**$ 295,738**	$ 181,359
Equity and liabilities			
Current liabilities			
Trade and other payables	22	**$ 60,192**	$ 59,730
Additional tax and tax penalty	9	**83,897**	–
Deferred revenue	23	**65,670**	30,282
Lease liabilities	24	**1,206**	298
Income tax payable		**20,055**	1,066
Convertible debenture	25	**103,150**	140,784
Total current liabilities		**334,170**	232,160
Non-current liabilities			
Lease liabilities	24	**1,785**	204
Convertible debenture	25	**91,150**	83,869
Decommissioning liability	26	**9,939**	7,650
Provision for long service payments	27	**26**	–
Total non-current liabilities		**102,900**	91,723
Total liabilities		**437,070**	323,883
Equity			
Common shares	28	**1,101,771**	1,101,764
Share option reserve	30	**53,030**	53,018
Capital reserve	30	**499**	396
Exchange fluctuation reserve	28	**(54,947)**	(55,212)
Accumulated deficit	28	**(1,241,685)**	(1,242,490)
Total deficiency in assets		**(141,332)**	(142,524)
Total equity and liabilities		**$ 295,738**	$ 181,359
Net current liabilities		**$ (218,815)**	$ (184,665)
Total assets less current liabilities		**$ (38,432)**	$ (50,801)

Corporate information and going concern (Note 1), commitments for expenditure (Note 35) and contingencies (Note 36)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD:

"Mao Sun" *"Ruibin Xu"*

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars and shares in thousands)

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2022	274,116	$ 1,098,835	$ 52,858	$ 396	$ (30,468)	$ (1,212,071)	$ (90,450)
Net loss for the year	–	–	–	–	–	(30,419)	(30,419)
Exchange differences on translation of foreign operations	–	–	–	–	(24,744)	–	(24,744)
Total comprehensive loss attributable to equity holders of the Company	–	–	–	–	(24,744)	(30,419)	(55,163)
Shares issued for:							
Interest settlement on convertible debenture	20,948	2,900	–	–	–	–	2,900
Exercise of stock options	24	3	(1)	–	–	–	2
Employee share purchase plan	139	26	–	–	–	–	26
Share-based compensation charged to operations	–	–	161	–	–	–	161
Balances, December 31, 2022	295,227	$ 1,101,764	$ 53,018	$ 396	$ (55,212)	$ (1,242,490)	$ (142,524)
Balances, January 1, 2023	**295,227**	**$ 1,101,764**	**$ 53,018**	**$ 396**	**$ (55,212)**	**$ (1,242,490)**	**$ (142,524)**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**908**	**908**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**265**	**–**	**265**
Total comprehensive income attributable to equity holders of the Company	**–**	**–**	**–**	**–**	**265**	**908**	**1,173**
Shares issued for:							
Exercise of stock options	**51**	**7**	**(2)**	**–**	**–**	**–**	**5**
Share-based compensation charged to operations	**–**	**–**	**14**	**–**	**–**	**–**	**14**
Appropriation to capital reserve	**–**	**–**	**–**	**103**	**–**	**(103)**	**–**
Balances, December 31, 2023	**295,278**	**$ 1,101,771**	**$ 53,030**	**$ 499**	**$ (54,947)**	**$ (1,241,685)**	**$ (141,332)**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2023	2022
Operating activities			
Profit/(loss) before tax		**$ 34,726**	$ (25,751)
Adjustments for:			
Depreciation and depletion	6	**5,833**	3,843
Share-based compensation	6	**14**	161
Interest expense on convertible debenture	11	**46,337**	39,645
Interest expense on interest-bearing borrowing	11	**–**	5
Interest elements on leased assets	11	**133**	82
Accretion of decommissioning liability	11	**384**	531
Fair value loss on embedded derivatives in convertible debenture	11	**292**	16
Interest income	11	**(234)**	(43)
Share of earnings of joint ventures	20	**(2,840)**	(119)
Share of earning of an associate	21	**(4)**	–
Gain on disposal of items of property, plant and equipment, net	6	**–**	(195)
Provision/(reversal of provision) for doubtful trade and other receivables	6	**59**	(784)
Impairment/(reversal of impairment) on materials and supplies inventories	6	**(4,988)**	1,510
Impairment of prepaid expenses	6	**–**	145
Discount on settlement of trade payables	6	**–**	(191)
Written off of other payables	6	**–**	(3,287)
Gain on contract offsetting arrangement	6	**(668)**	(786)
Penalty on late settlement of trade payables	6	**454**	1,860
Gain on modification of convertible debenture	11	**(4,850)**	(2,734)
Additional tax and tax penalty	9	**85,143**	–
Provision for long service payment	6	**26**	–
Operating cash flows before changes in working capital items		**159,817**	13,908
Net change in working capital items	34.2	**13,383**	15,170
Cash generated from operating activities		**173,200**	29,078
Interest paid		**–**	(5)
Income tax paid		**(12,361)**	(2,936)
Net cash flows from operating activities		**160,839**	26,137
Investing activities			
Expenditures on property, plant and equipment		**(44,524)**	(11,878)
Proceeds from disposal of items of property, plant and equipment		**45**	195
Interest received	11	**234**	43
Investment in a joint venture		**(986)**	(1,990)
Investment in an associate		**(7,939)**	–
Dividend from a joint venture	20	**3,226**	593
Net cash flows used in investing activities		**(49,944)**	(13,037)
Financing activities			
Interest payment of convertible debenture	25	**(72,132)**	(1,000)
Repayment of interest-bearing borrowing		**–**	(53)
Proceeds from exercise of share options		**5**	2
Capital elements of lease rental paid		**(327)**	(320)
Interest elements of lease rentals paid		**(133)**	(82)
Proceeds from issued shares for employee share purchase plan		**–**	26
Net cash flows used in financing activities		**(72,587)**	(1,427)
Effect of foreign exchange rate changes, net		**430**	(3,141)
Increase in cash and cash equivalents		**38,738**	8,532
Cash and cash equivalents, beginning of year		**9,255**	723
Cash and cash equivalents, end of year		**$ 47,993**	$ 9,255

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Hong Kong Stock Exchange ("HKEX") (Symbol: 1878) and TSX Venture Exchange ("TSX-V") (Symbol: SGQ). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. Pursuant to the announcement of the Company dated April 17, 2023, the change of its secondary listing status to primary listing on the Main Board of the HKEX became effective. The Company's common shares are primary listed on the HKEX and listed on the TSX-V as of the opening of trade on April 17, 2023 in Canada. At December 31, 2023, to the Company's best knowledge, JD Zhixing Fund L.P. ("JDZF") owned approximately 29.0% of the outstanding common shares of the Company. Land Grand International Holding Limited ("Land Grand") and Voyage Wisdom Limited owned approximately 15.7% and 8.7% of the outstanding common shares of the Company, respectively.

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

The registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8. The principal place of business of the Company is located at Unit 1208-10, Tower One, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

Going concern assumption

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, 2024 and will be able to realise 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 had a deficiency in assets of $141,332 as at December 31, 2023 as compared to a deficiency in assets of $142,524 as at December 31, 2022 while the working capital deficiency (excess current liabilities over current assets) reached $218,815 as at December 31, 2023 as compared to a working capital deficiency of $184,665 as at December 31, 2022.

Included in the working capital deficiency as at December 31, 2023 are significant obligations, represented by trade and other payables of $60,192 and an additional tax and tax penalty of $83,897.

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. Furthermore, there is no guarantee that the Company will be successful in its negotiations with the Mongolian Tax Authority ("MTA"), or any appeal, in relation to the periodic tax audit. Except as disclosed elsewhere in these consolidated financial statements, no such lawsuits or proceedings were pending as at March 28, 2024. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

In the past, the Company has customarily entered into cooperation agreements with the local custom office in Mongolia on an annual basis to facilitate the Company's export of coal into China. The Company's most recently executed cooperation agreement expired on November 23, 2023. While the Company has applied with the local Mongolian custom office to renew its cooperation agreement, the Company has not yet been able to renew its cooperation agreement as of the date hereof due to administrative delay on the part of the local Mongolian custom office. Consistent with prior years when there has been a temporary lapse under the cooperation agreement, the Company has continued to be able to export its coal products into China in the normal course without any negative impact on its operations since November 23, 2023. While the Company expects the renewal of the cooperation agreement to be approved by the second quarter of 2024, there can be no certainty that the renewal will be approved within such timeframe or at all.

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 realise 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 realisable 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, 2023. 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 an agreement (the "2024 March Deferral Agreement") with JDZF on March 19, 2024 for a deferral of (i) the 2023 March Deferred Amounts (as defined in Note 25.5) which will be due and payable to JDZF on or before August 31, 2024 under the 2023 March Deferral Agreement (as defined in Note 25.5); (ii) the 2023 November Deferred Amounts (as defined in Note 25.5) which will be due and payable on August 31, 2024 under the 2023 November Deferral Agreement (as defined in Note 25.5); (iii) semi-annual cash interest payments of $7,934 payable to JDZF on May 19, 2024 (the "2024 May Cash Interest"); (iv) semi-annual cash interest payment of $8,066 (the "2024 November Cash Interest") and payment-in-kind interest (the "PIK Interest") payment of $4,000 (the "2024 November PIK Interest") in each case payable to JDZF on November 19, 2024 under the Convertible Debenture; and (v) the management fees which will be due and payable to JDZF on November 15, 2024 and February 15, 2025 under the Amended and Restated Cooperation Agreement, in each case until August 31, 2025. The Company expects to convene an annual general meeting of shareholders in the second quarter of 2024 to seek disinterested shareholder approval of the 2024 March Deferral Agreement; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with the 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 Company; (d) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $127,000 (equivalent to RMB900 million) during the period covered in the cash flow projection; and (e) obtained a new terminal agreement with Shiveekhuren Terminal LLC in March 2024, allowing for the subcontracting of coal transportation to China customers via alternative transportation channel in the event of a suspension of coal exports due to an expired cooperation agreement. Regarding these plans and measures, there is no guarantee that the suppliers and the MTA would agree the settlement plan as communicated by the Company. 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, 2023 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

Significant uncertainties exist regarding the Company's management's ability to achieve its plans as described above. The continued operation of the Company as a going concern depends on a key factor: the Company's prompt drawdown of the loan from the credit facility to settle payables, including the tax penalty payable and provision of additional late tax penalty, in a timely manner.

The outcome of this factor will have a significant impact on the Company's ability to continue operating as a going concern. It is crucial to closely monitor and address these uncertainties to ensure the Company's stability and long-term viability.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, 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, 2023 and December 31, 2022, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with IFRS Accounting Standards and International Accounting Standards ("IAS Standards") issued by the International Accounting Standards Board and Interpretations (collectively "IFRS Accounting Standards") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2.2 Basis of presentation

The consolidated financial statements of the Company for the year ended December 31, 2023 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on March 28, 2024.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 32.

2.3 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 33).

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

2. BASIS OF PREPARATION continued

2.4 Adoption of new and revised standards and interpretations

The following new IFRS Accounting Standards and interpretations were adopted by the Company on January 1, 2023.

Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction and International Tax Reform – Pilar Two Model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 17	Insurance Contracts and Initial Application of IFRS 17 and IFRS 9 – Comparative Information

There have been no new IFRS Accounting Standards or IFRIC interpretations that have a material impact on the Company's results and financial position for the year ended December 31, 2023. The Company has not early applied any new or amended IFRS Accounting Standards that is not yet effective for the year ended December 31, 2023.

2.5 Standard issued but not yet effective

The following new and revised IFRS Accounting Standards, potentially relevant to the Company's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Company.

Amendments to IAS 1	Presentation of Financial Statements and Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants[1]
Amendments to IFRS 16	Lease liabilities in a Sale and Leaseback[1]
Amendments to IAS 21	Lack of Exchangeability[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[1]
Int 5 (Revised)	Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment On Demand Clause[1]

1 Effective for annual periods beginning on or after 1 January 2024.
2 Effective for annual periods beginning on or after 1 January 2025.

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 consolidated financial statements.

3. MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Foreign currencies

The consolidated financial statements are presented in the U.S. dollar, which is the functional currency of SouthGobi Resources Ltd. Each entity in the Company has its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the U.S. dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. dollar rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

At the end of the reporting period, the assets and liabilities of an entity with the functional currency in a foreign currency are translated into the U.S. dollar at the exchange rates prevailing at the end of the reporting period and the profit or loss is translated into the U.S. dollar at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3.2 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3.3 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realisable value. Production cost is determined by the weighted average cost method and includes direct and indirect labour, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realisable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realisable value, less allowances for obsolescence. Replacement cost is used as the best available measure of net realisable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

3.4 Property, plant and equipment

Property, plant and equipment includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. Property, plant and equipment is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalised borrowing costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.4 Property, plant and equipment continued

Initial recognition continued

Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalised on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.5), certain production stripping costs (Note 3.6) and decommissioning liabilities related to the reclamation of the Company's mineral properties (Note 3.7).

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

Mobile equipment	5 to 7 years
Other operating equipment	1 to 10 years
Buildings and roads	5 to 20 years
Construction in progress	not depreciated
Mineral properties	unit-of-production basis based on proven and probable reserves

Upon disposal, reclassification to assets held for sale or when no future economic benefits are expected to arise from the continued use of an asset the original cost and related accumulated depreciation is removed from property, plant and equipment. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

3.5 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has technically feasibility and commercially viability.

Production phase

Upon a mine development being ready for its intended use it enters the production phase and depletion of the mineral property is recorded on a unit-of-production basis, using the estimated resources that are expected to be mined in the mine plan as the depletion base. Management's determination of when an asset is ready for its intended use is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached; and

- the commissioning of major operating equipment and infrastructure is completed.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.6 Development and production stripping costs

Once a property is determined to have reached technical feasibility and commercial viability, the Company's subsequent exploration and evaluation and development expenses are capitalised as mineral property costs within property, plant and equipment.

Production stripping activity assets are recognised when the following three criteria are met:

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

If not all of the criteria are met, the stripping activity costs are included in the cost of inventory produced during the period incurred.

3.7 Decommissioning, restoration and similar liabilities

The Company recognises provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortised as an expense over the estimated useful life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate and the amount or timing of the underlying cash flows required to settle the obligation. The discount rate used is a credit adjusted risk free rate.

3.8 Investments in associate and joint ventures

An associate is an entity in which the Company has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require the unanimous consent of the parties sharing control.

The Company's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Company's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Company's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Company recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and its associates or joint ventures are eliminated to the extent of the Company's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.8 Investments in associate and joint ventures continued

Goodwill arising from the acquisition of associates or joint ventures is included as part of the Company's investments in associates or joint ventures.

If an investment in a joint venture becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3.9 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Equity-settled transactions

The cost of equity-settled transactions with employees are measured by reference to the fair value at the date on which the awards are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

3.10 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings/(loss) per share is calculated by adjusting the profit or loss attributable to equity holders of the Company divided by the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company's dilutive share equivalents include stock options.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.11 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.12 Financial instruments

(a) Financial assets

All financial assets are initially recorded at fair value and categorised upon inception into one of the following categories: those to be measured subsequently at fair value either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL"), and those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity investments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.12 Financial instruments continued

(b) Financial liabilities

Financial liabilities are categorised, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable costs.

Financial liabilities categorised as financial liabilities measured at amortised cost are initially recognised at fair value less directly attributable transaction costs. After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities categorised as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. For liabilities designated at FVTPL, changes due to credit risk are recognised in other comprehensive income.

3.13 Impairment of financial assets

The Company's trade and other receivables are subject to IFRS 9's expected credit loss ("ECL") model.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. The Company's definition of a default scenario is if receivables from a customer are over six months past due, or if there is reasonable and supportable evidence that a customer will no longer be able to settle its receivables with the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.14 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.16 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.16 Revenue recognition continued

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sales of mining coal

Income from sales of mining coal is recognised at a point in time when the goods are delivered to customers and title has passed.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Deferred revenue

Deferred revenue represents the Company's obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

3.17 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.18 Related party transactions

(a) A person or a close member of that person's family is related to the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions apply:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.19 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

(a) Going concern assumption

The directors of the Company have prepared the consolidated financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 1 to the consolidated financial statements, the Company has the capability to continue as a going concern.

(b) Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognised in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

The Company determined that indicators of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2023. The impairment indicators were the uncertainty of future coal price in China and cooperation agreement expired with Mongolian custom.

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, 2023. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $157,119 as at December 31, 2023.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.19 Significant accounting judgments and estimates continued

(b) Review of carrying value of assets and impairment charges continued

Ovoot Tolgoi Mine cash generating unit continued

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 $15,700/(15,700);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(12,700)/13,700;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(8,000)/8,100; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(2,300)/2,300.

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, 2023. A decline of 5% (2022: 18%) in the long-term price estimates, an increase of more than 8% (2022: 26%) in the post-tax discount rate, an increase of 10% (2022: 33%) in the cash mining cost estimates or an increase of 41% (2022: 95%) 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.

(c) Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $22,487 (2022: $22,599) as at December 31, 2023.

(d) Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortisation charges.

(e) Estimated recoverable reserves

Reserve 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 estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognised in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.19 Significant accounting judgments and estimates continued

(f) Long term F-grade coal inventory

As a result of import restrictions established by Chinese 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 intends to realise the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities. As at December 31, 2023, none of the F- grade coal products was classified as non-current (December 31, 2022: $nil).

(g) Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognised in profit or loss.

(h) Taxes

The Company is subject to tax in several jurisdictions and significant judgement is required in determining the tax position and estimates and assumptions in relation to the provision for taxes related to transfer pricing, royalty, air-pollution fee and unpaid tax payables, having regard to the nature. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. The above-mentioned tax matters exist in Mongolia which is currently subject to re-assessment by the MTA and Tax Dispute Resolution Council ("TDRC") which belongs to the Ministry of Justice and works under its supervision.

The Company recognises this tax liabilities based on an official tax act letter issued by the MTA. The Company filed an appeal letter in relation to the tax penalty with the MTA in accordance with the Mongolian laws. This re-assessment relies on estimates and assumptions and may involve a series of complex judgments about final decisions of the MTA. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the future financial period in which such determination is made.

3.20 Long service payment ("LSP") liabilities

In June 2022, the Government of Hong Kong SAR (the "Government") enacted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will be effective from May 1, 2025 (the "Transition Date"). Under the Amendment Ordinance, any accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme (the "MPF Scheme") of the Company would no longer be eligible to offset against its obligations on LSP for the portion of the LSP accrued on or after the Transition Date.

The Company has accounted for the offsetting mechanism and its abolition. The Company has determined that the Amendment Ordinance primarily impacts the Company's LSP liability with respect to Hong Kong employees. The Amendment Ordinance has no material impact on the Company's LSP liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

4. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the years ended December 31, 2023 and 2022.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the years ended December 31, 2023 and 2022.

Information about major customers

During the years ended December 31, 2023 and 2022, the Coal Division had 84 and 51 active customers, respectively. 3 and 1 customers with respective revenue contributed over 10% of the total revenue during the years ended December 31, 2023 and 2022, with the largest customer accounting for 17% of revenue (2022: 14%), the second largest customer accounting for 14% of revenue (2022: 9%) and the third largest customer accounting for 13% of revenue (2022: 8%).

The operations of the Company are primarily located in Mongolia, Hong Kong and China.

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the year ended December 31, 2023	$ –	$ –	$ 331,506	$ 331,506
For the year ended December 31, 2022	–	–	73,084	73,084
Non-current assets				
As at December 31, 2023	$ 178,644	$ 135	$ 1,604	$ 180,383
As at December 31, 2022	133,345	337	182	133,864

(i) The revenue information above is based on the locations of the customers.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

5. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal. The Company recognises all revenue from the trading of coal at a point in time when the customer obtains control of the goods or services.

6. EXPENSES BY NATURE

The Company's profit/(loss) before tax is arrived at after charging/(crediting):

	Year ended December 31, 2023	2022
Depreciation	$ 5,833	$ 3,843
Auditors' remuneration	673	462
Employee benefit expense (including directors' remuneration)		
Wages and salaries	$ 9,583	$ 5,554
Equity-settled share option expense (Note 29)	14	161
Pension scheme contributions	1,359	528
Provision for long service payment (Note 27)	26	–
	$ 10,982	$ 6,243
Short term lease payments under operating leases	$ 283	$ 159
Foreign exchange loss/(gain), net (Note 8)	1,202	(4,639)
Impairment/(reversal of impairment) on materials and supplies inventories (Note 17)	(4,988)	1,510
Royalties (Note 7)	38,504	14,196
Management fee (Note 33)	4,879	1,201
Provision/(reversal of provision) for doubtful trade and other receivables (Note 16)	59	(784)
Impairment of prepaid expenses (Note 18)	–	145
Gain on disposal of items of property, plant and equipment, net (Note 19)	–	(195)
Gain on contract offsetting arrangement (Note 8)	(668)	(786)
Penalty on late settlement of trade payables (Note 8)	454	1,860
Rental income from short term leases (Note 8)	(68)	(150)
Discount on settlement of trade payables (Note 8)	–	(191)
Written off of other payables (Note 8)	–	(3,287)
Additional tax and tax penalty (Note 9)		
Provision of additional late tax penalty	$ 10,153	$ –
Tax penalty	74,990	–
	$ 85,143	$ –
Mine operating costs and others	$ 113,348	$ 39,925
Total operating expenses	$ 255,636	$ 59,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. COST OF SALES

The Company's cost of sales consists of the following amounts:

	Year ended December 31, 2023	2022
Operating expenses	**$ 114,346**	$ 40,114
Share-based compensation expense (Note 29)	**4**	36
Depreciation and depletion	**5,165**	2,486
Royalties	**38,504**	14,196
Cost of sales from mine operations	**158,019**	56,832
Cost of sales related to idled mine assets [(i)]	**176**	930
Cost of sales	**$ 158,195**	$ 57,762

(i) Cost of sales related to idled mine assets for the year ended December 31, 2023 includes $176 of depreciation expense (2022: includes $930 of depreciation expense). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the year ended December 31, 2023 totaled $92,482 (2022: $39,129).

8. OTHER OPERATING EXPENSES/(INCOME)

The Company's other operating expenses/(income) consist of the following amounts:

	Year ended December 31, 2023	2022
Management fee (Note 33)	**$ 4,879**	$ 1,201
Provision/(reversal of provision) for doubtful trade and other receivables (Note 16)	**59**	(784)
Foreign exchange loss/(gain), net	**1,202**	(4,639)
Gain on disposal of items of property, plant and equipment, net (Note 19)	**–**	(195)
Impairment/(reversal of impairment) on materials and supplies inventories (Note 17)	**(4,988)**	1,510
Impairment of prepaid expenses (Note 18)	**–**	145
Rental income from short term leases	**(68)**	(150)
Discount on settlement of trade payables	**–**	(191)
Written off of other payables [(i)]	**–**	(3,287)
Penalty on late settlement of trade payables	**454**	1,860
Gain on contract offsetting arrangement	**(668)**	(786)
Other operating expenses/(income), net	**$ 870**	$ (5,316)

(i) In 2022, the Company had written off of a significant vendor payable of $3,287 for which the contractual claim limitation period was expired as of the end of the reporting period pursuant to the relevant laws and regulations.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

9. ADDITIONAL TAX AND TAX PENALTY

On July 18, 2023, Southgobi Sands LLC ("SGS") a wholly-owned subsidiary of the Company, received an official notice (the "Notice") issued by the MTA stating that the MTA had completed a periodic tax audit (the "Audit") on the financial information of SGS for the tax assessment years between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA has notified SGS that it is imposing a tax penalty against SGS in the amount of approximately $74,990. The penalty mainly relates to the different view on the interpretation of tax law between the Company and the MTA. Under Mongolian law, the Company had a period of 30 days from the date of receipt of the Notice to file an appeal in relation to the Audit. Subsequently the Company engaged an independent tax consultant in Mongolia to provide tax advice and support to the Company and filed an appeal letter in relation to the Audit with the MTA in accordance with Mongolian laws on August 17, 2023.

As at December 31, 2023, the Company recorded an additional tax and tax penalty in the amount of $85,143, which consists of a tax penalty payable of $74,990 and a provision of additional late tax penalty of $10,153. The Company has paid the MTA an aggregate of $1,246 in relation to the aforementioned tax penalty. According to Mongolian tax law, the MTA has a legal authority to demand payment from the Company irrespective of any potential appeal process that may change the aforesaid tax penalty. Based on the advice from tax professionals and the best estimate from the management, in the event that the Company's appeal is to be successful in future, it is probable that the Company may recover a portion of the tax penalty payable to the MTA, which is approximately $46,000. However, there are inherent uncertainties surrounding the development and outcome of the appeal. The Company cannot determine with virtually certainty the exact recoverability or recoverable amount of the tax penalty paid in future. If any subsequent event occurs that may impact the amount of the additional tax and tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

On February 8, 2024, SGS received notice from the TDRC which stated that, after the TDRC's review, the TDRC issued a decision in relation to SGS' appeal of the Audit, and ordered that the audit assessments set forth in the Notice of July 18, 2023 be sent back to the MTA for review and re-assessment.

On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipates commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days. Any decision of the MTA following the re-assessment process may not be conclusive as the Company retains the right to appeal such decision under Mongolian laws.

10. ADMINISTRATION EXPENSES

The Company's administration expenses consist of the following amounts:

	Year ended December 31,	
	2023	**2022**
Corporate administration	**$ 2,673**	$ 1,146
Legal and professional fees	**2,483**	1,830
Salaries and benefits	**4,779**	3,391
Share-based compensation expense (Note 29)	**10**	125
Depreciation	**492**	427
Administration expenses	**$ 10,437**	$ 6,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. FINANCE COSTS AND INCOME

The Company's finance costs consist of the following amounts:

	Year ended December 31, 2023	2022
Interest expense on convertible debenture (Note 25.4)	**$ 46,337**	$ 39,645
Fair value loss on embedded derivatives in convertible debenture (Note 25.4)	**292**	16
Value added tax on interest from intercompany loan	**1,926**	1,940
Interest expense on borrowing	**–**	5
Interest elements on leased assets	**133**	82
Accretion of decommissioning liability (Note 26)	**384**	531
Finance costs	**$ 49,072**	$ 42,219

The Company's finance income consists of the following amounts:

	Year ended December 31, 2023	2022
Gain on modification of convertible debenture (Note 25.4)	**$ 4,850**	$ 2,734
Interest income	**234**	43
Finance income	**$ 5,084**	$ 2,777

12. TAXES

12.1 Income tax recognised in profit or loss

	Year ended December 31, 2023	2022
Current tax:		
PRC Enterprise Income Tax ("EIT")	**$ 6,159**	$ 824
Mongolian corporate income tax	**27,659**	3,844
Income tax expenses	**$ 33,818**	$ 4,668

No provision for Hong Kong Profits Tax, Canadian Corporation Income Tax, Singapore Corporate Income Tax haves been made in the financial statements as the Company has no assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% on the estimated assessable profits.

Mongolian corporate income tax was calculated at 10% to the first MNT 6 billion of annual taxable income and 25% on the remaining annual taxable income for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. TAXES continued

12.1 Income tax recognised in profit or loss continued

The Canadian statutory tax rate was 27% (2022: 27%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31,	
	2023	**2022**
Profit/(loss) before tax	**$ 34,726**	$ (25,751)
Statutory tax rate	**27%**	27%
Income tax expenses/(recovery) based on combined Canadian federal and provincial statutory rates	**9,376**	(6,953)
Lower/(higher) effective tax rate in foreign jurisdictions	**(2,543)**	1,945
Tax effect of tax losses and temporary differences not recognised	**10,787**	11,042
Withholding tax on intercompany interest	**3,168**	1,940
Profit/(loss) attributable to a joint venture	**(606)**	30
Income not subject to tax	**(5,322)**	(5,820)
Non-deductible expenses	**18,958**	2,484
Income tax expenses	**$ 33,818**	$ 4,668

12.2 Unrecognised deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognised consist of the following amounts:

	As at December 31,	
	2023	**2022**
Non-capital losses	**$ 202,465**	$ 176,186
Capital losses	**30,049**	30,049
Foreign exchange and others	**361,968**	426,171
Total unrecognised amounts	**$ 594,482**	$ 632,406

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

12. TAXES continued

12.3 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

		As at December 31, 2023	
		U.S. Dollar Equivalent	**Expiry dates**
Non-capital losses			
Canada	$	197,772	2041 – 2043
China		4,693	2028
	$	202,465	
Capital losses			
Canada	$	30,049	Indefinite

		As at December 31, 2022	
		U.S. Dollar Equivalent	**Expiry dates**
Non-capital losses			
Canada	$	173,178	2040 – 2042
China		3,008	2027
	$	176,186	
Capital losses			
Canada	$	30,049	Indefinite

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

13. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, the Company's directors' emoluments consist of the following amounts:

	Year ended December 31, 2023	2022
Directors' fees	**$ 358**	$ 276
Other emoluments for executive and non-executive directors		
Salaries and other benefits	**1,122**	758
Retirement Scheme Contributions	**41**	13
Directors' emoluments	**$ 1,521**	$ 1,047

Year ended December 31, 2023

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Pension and social insurance contributions	Total
Executive directors					
Ruibin Xu [i]	$ –	$ 283	$ –	$ 8	$ 291
Chonglin Zhu	–	350	–	11	361
Chen Shen	–	327	–	11	338
Dong Wang [ii]	–	162	–	5	167
	$ –	$ 1,122	$ –	$ 35	$ 1,157
Non-executive directors					
Zhu Gao	$ –	$ –	$ –	$ –	$ –
Yingbin Ian He	120	–	–	3	123
Gang Li [iii]	–	–	–	–	–
Jin Lan Quan	106	–	–	–	106
Mao Sun	132	–	–	3	135
Zaixiang Wen [i]	–	–	–	–	–
	$ 358	$ –	$ –	$ 6	$ 364
Directors' emoluments	$ 358	$ 1,122	$ –	$ 41	$ 1,521

(i) Appointed to the Board during the year ended December 31, 2023.

(ii) Redesignated from an executive Director to a non-executive Director on May 15, 2023, and ceased to be a non-executive Director upon conclusion of the Company's annual general meeting held on June 20, 2023.

(iii) Resigned from the Board during the year ended December 31, 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

13. DIRECTOR AND EMPLOYEE EMOLUMENTS continued

Year ended December 31, 2022

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Pension and social insurance contributions	Total
Executive directors					
Dong Wang [i]	$ –	$ 281	$ –	$ 2	$ 283
Chonglin Zhu [i]	–	177	–	1	178
Dalanguerban [ii]	–	300	–	4	304
	$ –	$ 758	$ –	$ 7	$ 765
Non-executive directors					
Jianmin Bao [ii]	$ –	$ –	$ –	$ –	$ –
Zhiwei Chen [ii]	–	–	–	–	–
Zhu Gao [i]	–	–	–	–	–
Yingbin Ian He	91	–	–	3	94
Ka Lee Ku [ii]	–	–	–	–	–
Gang Li [i]	–	–	–	–	–
Ben Niu [ii]	–	–	–	–	–
Jin Lan Quan	78	–	–	–	78
Chen Shen [iii]	–	–	–	–	–
Mao Sun	107	–	–	3	110
	$ 276	$ –	$ –	$ 6	$ 282
Directors' emoluments	$ 276	$ 758	$ –	$ 13	$ 1,047

(i) Appointed to the Board during the year ended December 31, 2022.

(ii) Resigned from the Board during the year ended December 31, 2022.

(iii) Re-designated as an executive Director with effect from February 17, 2023.

Five highest paid individuals

The five highest paid individuals included three directors of the Company for the year ended December 31, 2023 (2022: two directors). The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2023	2022
Salaries and other benefits	**$ 1,470**	$ 1,143
Total emoluments	**$ 1,470**	$ 1,143

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31, 2023	2022
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**2**	2
HK$2,500,001 to HK$3,000,000	**2**	–
	5	5

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

	Year ended December 31, 2023	2022
Net profit/(loss)	**$ 908**	$ (30,419)
Weighted average number of ordinary shares	**295,252**	276,575
Basic earnings/(loss) per share	**$ 0.003**	$ (0.110)
Earnings/(loss)		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share	**$ 908**	$ (30,419)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**295,252**	276,575
Effect of dilutive potential ordinary shares:		
– Share options	**470**	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**295,722**	276,575
Diluted earnings/(loss) per share	**$ 0.003**	$ (0.110)

Potentially dilutive items not included in the calculation of diluted earnings/(loss) per share for the year ended December 31, 2023 include the underlying shares comprised in the convertible debenture (Note 25) that were anti-dilutive.

15. CASH AND CASH EQUIVALENTS

	As at December 31, 2023	2022
Cash and bank balances	**$ 48,416**	$ 9,980
Less: Restricted cash (i)	**(423)**	(725)
Cash and cash equivalents	**$ 47,993**	$ 9,255

(i) Pursuant to relevant regulations in Mainland China, the Company is required to place certain amounts at designated bank accounts as guaranteed deposits for issuance of guarantee letter as requested by China Customs.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

15. CASH AND CASH EQUIVALENTS continued

The Company's cash is denominated in the following currencies:

	As at December 31, 2023	2022
Denominated in U.S. Dollars	**$ 1,511**	$ 101
Denominated in Chinese Renminbi	**37,555**	8,158
Denominated in Mongolian Tugriks	**8,221**	655
Denominated in Canadian Dollars	**95**	123
Denominated in Hong Kong Dollars	**611**	218
Cash	**$ 47,993**	$ 9,255

16. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at December 31, 2023	2022
Other receivables	**$ 7,541**	$ 1,199
Total trade and other receivables	**$ 7,541**	$ 1,199

The aging of the Company's trade and other receivables, based on invoice date and net of provisions, is as follows:

	As at December 31, 2023	2022
Less than 1 month	**$ 2,182**	$ 1,104
1 to 3 months	**5,359**	47
3 to 6 months	**–**	48
Over 6 months	**–**	–
Total trade and other receivables	**$ 7,541**	$ 1,199

Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

The Company has determined that the loss allowance on its trade and other receivables was $22,487 (December 31, 2022: $22,599) as at December 31, 2023, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due.

The closing allowances for trade and other receivables as at December 31, 2023 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2023	**$ 22,599**
Increase in loss allowance recognised in profit or loss during the year (Note 8)	**59**
Exchange realignment	**(171)**
Loss allowance as at December 31, 2023	**$ 22,487**
Opening loss allowance as at January 1, 2022	$ 23,841
Decrease in loss allowance recognised in profit or loss during the year (Note 8)	(784)
Exchange realignment	(458)
Loss allowance as at December 31, 2022	$ 22,599

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

17. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31, 2023	2022
Current inventories		
Coal stockpiles	**$ 37,754**	$ 26,857
Materials and supplies	**15,173**	7,973
Total inventories	**$ 52,927**	$ 34,830

Other operating expenses for the year ended December 31, 2023 includes a reversal of impairment loss of $4,988 (2022: impairment loss of $1,510). This reversal is specifically related to the Company's materials and supplies inventories due to the reuse of certain items that were previously impaired for certain mining equipment repair and maintenance purposes.

18. PREPAID EXPENSES

The Company's prepaid expenses consist of the following amounts:

	As at December 31, 2023	2022
Vendor prepayments	**$ 5,363**	$ 705
Other prepaid expenses	**1,108**	781
Total prepaid expenses	**$ 6,471**	$ 1,486

For the year ended December 31, 2023, the Company did not record any impairment on vendor prepayments (2022: $145).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

19. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2023	$ 203,761	$ 21,610	$ 63,359	$ 1,268	$ 206,165	$ 1,340	$ 497,503
Additions	**2,710**	**774**	**27**	**3,944**	**37,069**	**–**	**44,524**
Disposals	**(745)**	**(819)**	**–**	**–**	**–**	**–**	**(1,564)**
Exchange realignment	**2,221**	**229**	**721**	**14**	**2,299**	**64**	**5,548**
As at December 31, 2023	**$ 207,947**	**$ 21,794**	**$ 64,107**	**$ 5,226**	**$ 245,533**	**$ 1,404**	**$ 546,011**
Accumulated depreciation and impairment charges							
As at January 1, 2023	$ (200,206)	$ (20,332)	$ (54,914)	$ (964)	$ (101,741)	$ –	$ (378,157)
Depreciation for the year	**(1,227)**	**(631)**	**(1,308)**	**(562)**	**(4,615)**	**–**	**(8,343)**
Eliminated on disposals	**700**	**819**	**–**	**–**	**–**	**–**	**1,519**
Exchange realignment	**(2,063)**	**(216)**	**(517)**	**(10)**	**(1,105)**	**–**	**(3,911)**
As at December 31, 2023	**$ (202,796)**	**$ (20,360)**	**$ (56,739)**	**$ (1,536)**	**$ (107,461)**	**$ –**	**$ (388,892)**
Carrying amount							
As at January 1, 2023	$ 3,555	$ 1,278	$ 8,445	$ 304	$ 104,424	$ 1,340	$ 119,346
As at December 31, 2023	**$ 5,151**	**$ 1,434**	**$ 7,368**	**$ 3,690**	**$ 138,072**	**$ 1,404**	**$ 157,119**

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2022	$ 269,536	$ 23,836	$ 68,551	$ 1,510	$ 219,389	$ 982	$ 583,804
Additions	538	803	31	–	10,080	426	11,878
Disposals	(22,076)	(1,037)	–	–	–	–	(23,113)
Exchange realignment	(44,237)	(1,992)	(5,223)	(242)	(23,304)	(68)	(75,066)
As at December 31, 2022	$ 203,761	$ 21,610	$ 63,359	$ 1,268	$ 206,165	$ 1,340	$ 497,503
Accumulated depreciation and impairment charges							
As at January 1, 2022	$ (261,607)	$ (22,827)	$ (57,588)	$ (776)	$ (105,861)	$ –	$ (448,659)
Depreciation for the year	(1,270)	(462)	(1,444)	(307)	(1,217)	–	(4,700)
Eliminated on disposals	22,076	1,037	–	–	–	–	23,113
Exchange realignment	40,595	1,920	4,118	119	5,337	–	52,089
As at December 31, 2022	$ (200,206)	$ (20,332)	$ (54,914)	$ (964)	$ (101,741)	$ –	$ (378,157)
Carrying amount							
As at January 1, 2022	$ 7,929	$ 1,009	$ 10,963	$ 734	$ 113,528	$ 982	$ 135,145
As at December 31, 2022	$ 3,555	$ 1,278	$ 8,445	$ 304	$ 104,424	$ 1,340	$ 119,346

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

19. PROPERTY, PLANT AND EQUIPMENT continued

19.1 Non-depreciable assets

The non-depreciable assets mainly include the construction in progress. Depreciation on these assets will commence once they are ready for their intended use.

19.2 Pledge on items of property, plant and equipment

As at December 31, 2023, most of the Company's mobile equipment and other operating equipment with carrying value of $3,183 (2022: $2,347) were pledged as security of convertible debenture.

19.3 Right-of-use assets

The right-of-use assets relate to the buildings as at December 31, 2023 and 2022.

19.4 Impairment charges

No impairment nor reversal of impairment was made during the year ended December 31, 2023 (2022: $nil).

20. INVESTMENTS IN JOINT VENTURES

The Company's investments consist of the following amounts:

	As at December 31, 2023	2022
Non-current investments in joint ventures		
Investment in RDCC LLC	**$ 11,834**	$ 12,528
Investment in Nariinsukhait Railway LLC	**–**	80
Investment in Shiveekhuren Terminal LLC	**3,344**	1,910
Total investments	**$ 15,178**	$ 14,518

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Chinese-Mongolian border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The movement of the Company's investment in RDCC LLC is as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**$ 12,528**	$ 15,668
Dividend received	**(3,226)**	(593)
Share of earnings of a joint venture	**2,423**	119
Share of other comprehensive loss of a joint venture (i)	**–**	(2,666)
Exchange realignment	**109**	–
Balance, end of year	**$ 11,834**	$ 12,528

(i) In 2022, the share of other comprehensive loss of a joint venture of $2,666 is included exchange fluctuation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

20. INVESTMENTS IN JOINT VENTURES continued

Summarised financial statement information of RDCC LLC, which is a material joint venture, is as follows (presented on a 100% basis in which the Company has a 40% investment):

	As at December 31, 2023	2022
Current assets	**$ 5,192**	$ 674
Non-current assets	**18,819**	20,846
Total assets	**$ 24,011**	$ 21,520
Current liabilities	**$ 3,069**	$ 1,707
Total liabilities	**$ 3,069**	$ 1,707

	Year ended December 31, 2023	2022
Revenue	**$ 10,091**	$ 2,478
Gross profit	**7,265**	501
Other operating and finance costs	**(247)**	(203)
Profit before tax	**7,018**	298
Income tax expenses	**(961)**	–
Net profit	**$ 6,057**	$ 298
Other comprehensive income	**$ –**	$ –
Total comprehensive income	**$ 6,057**	$ 298

The movement of the Company's investment in Nariinsukhait Railway LLC is as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**$ 80**	$ –
Transfer to investment in an associate	**(80)**	–
Additions	**–**	80
Balance, end of year	**$ –**	$ 80

The Company has a 15% interest in Shiveekhuren Terminal LLC ("Shiveekhuren"). Shiveekhuren is operating the container transport terminal at Shiveekhuren-Ceke port and to provide container transportation terminal service to customers.

The movement of the Company's investment in Shiveekhuren is as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**$ 1,910**	$ –
Additions, net	**986**	1,910
Share of earnings of a joint venture	**417**	–
Exchange realignment	**31**	–
Balance, end of year	**$ 3,344**	$ 1,910

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

20. INVESTMENTS IN JOINT VENTURES continued

Summarised financial statement information of Shiveekhuren, which is a material joint venture, is as follows (presented on a 100% basis in which the Company has a 15% investment):

	As at December 31, 2023	2022
Current assets	**$ 6,226**	$ 1,519
Non-current assets	**9,675**	2
Total assets	**$ 15,901**	$ 1,521
Current liabilities	**$ 2,628**	$ 186
Total liabilities	**$ 2,628**	$ 186

	Year ended December 31, 2023	2022
Revenue	**$ 5,329**	$ –
Gross profit	**3,610**	–
Other operating and finance costs	**(323)**	–
Profit before tax	**3,287**	–
Income tax expenses	**(557)**	–
Net profit	**$ 2,730**	$ –
Other comprehensive income	**$ –**	$ –
Total comprehensive income	**$ 2,730**	$ –

21. INVESTMENT IN AN ASSOCIATE

The Company's investment consists of the following amounts:

	As at December 31, 2023	2022
Non-current investment in an associate		
Investment in Nariinsukhait Railway LLC	**$ 8,086**	$ –
Total investments	**$ 8,086**	$ –

The Company increased its investment in Nariinsukhait Railway LLC ("Nariinsukhait") by 20% during the first quarter of 2023, resulting in a total ownership stake of 40% in Nariinsukhait as of the year-end date. As a result of this increased ownership, the decision-making process for business activities in Nariinsukhait has changed from unanimous decision-making to majority voting. As a result, the Company has significant influence over Nariinsukhait which is classified as an associate.

The movement of the Company's investment in Nariinsukhait is as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**$ –**	$ –
Transfer from investment in a joint venture	**80**	–
Additions	**17**	–
Fund contributions	**7,922**	–
Share of earning of an associate	**4**	–
Exchange realignment	**63**	–
Balance, end of year	**$ 8,086**	$ –

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

21. INVESTMENT IN AN ASSOCIATE continued

Summarised financial statement information of Nariinsukhait, which is a material associate, is as follows (presented on a 100% basis in which the Company has a 40% investment):

	As at December 31, 2023	2022
Current assets	**$ 9,035**	$ 59
Non-current assets	**27,919**	323
Total assets	**$ 36,954**	$ 382
Current liabilities	**$ 7,241**	$ –
Non-current liabilities	**9,651**	–
Total liabilities	**$ 16,892**	$ –

	Year ended December 31, 2023	2022
Other operating and finance costs	**$ 12**	$ –
Profit/(loss) before tax	**12**	(1)
Income tax expenses	**(2)**	–
Net profit/(loss)	**$ 10**	$ (1)
Other comprehensive income	**$ –**	$ –
Total comprehensive income/(loss)	**$ 10**	$ (1)

22. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables, based on invoice date, is as follows:

	As at December 31, 2023	2022
Less than 1 month	**$ 7,466**	$ 14,402
1 to 3 months	**24,862**	5,886
3 to 6 months	**3,041**	3,772
Over 6 months	**24,823**	35,670
Total trade and other payables	**$ 60,192**	$ 59,730

The trade and other payables of $60,192 (2022: $59,730) included other tax payables of $16,492 (2022: $22,542).

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

23. DEFERRED REVENUE

At December 31, 2023, the Company had deferred revenue of $65,670, which represents cash prepayments from customers for future coal sales (2022: $30,282).

The movement of the Company's deferred revenue is as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**$ 30,282**	$ 26,477
Revenue recognised that was included in the deferred revenue balance	**(30,190)**	(25,242)
Repayment of trade deposits	**(11,235)**	–
Increase due to trade deposits received, excluding amounts recognised as revenue during the year	**76,882**	30,337
Exchange realignment	**(69)**	(1,290)
Balance, end of year	**$ 65,670**	$ 30,282

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognised within one year after the reporting date. The Company applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

24. LEASE LIABILITIES

The Company leases certain of its office premises for daily operations. These leases have remaining lease terms ranging from 2 to 3 years.

At December 31, 2023, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at December 31, 2023	2022	Present value of minimum lease payments As at December 31, 2023	2022
Amounts payable:				
Within one year	**$ 1,486**	$ 340	**$ 1,206**	$ 298
In the second year	**1,002**	175	**844**	156
In the third to fifth year, inclusive	**1,101**	53	**941**	48
Total minimum lease payments	**$ 3,589**	$ 568	**$ 2,991**	$ 502
Future finance charges	**(598)**	(66)		
Total net lease payables	**$ 2,991**	$ 502		
Portion classified as current liabilities	**(1,206)**	(298)		
Non-current portion	**$ 1,785**	$ 204		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

25. CONVERTIBLE DEBENTURE

25.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's Common Shares) and has 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. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to December 31, 2023.

Following the completion of the CIC Sale Transaction on August 30, 2022, the respective rights and obligations of CIC under (i) the Convertible Debenture and related security documents; (ii) the amended and restated mutual cooperation agreement signed on April 23, 2019 (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; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company, were assigned to JDZF.

The key commercial terms of the financing include:

- Interest – 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).

- Term – Maximum of 30 years.

- Security – First charge over the Company's assets, including shares of its material subsidiaries.

- Conversion price – The conversion price is set as the lower of CA$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CA$8.88 per share.

- Representation on the Company's Board – While the convertible debenture is outstanding, or while JDZF has a minimum 15% direct or indirect stake in the Company, JDZF has the right to nominate one director to the Board. As of the date hereof, the Company currently has eight Board members of which three (Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Shen Chen) were nominated by JDZF.

- Voting restriction – JDZF has agreed that it will not have any voting rights in the Company beyond 29.9% if JDZF ever acquires ownership of such a shareholder stake.

- Pre-emption rights – While the convertible debenture is outstanding, or while JDZF has a 15% direct or indirect stake in the Company, JDZF has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will 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.

- Registration rights – JDZF has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.

- Event of default – JDZF could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX-V and the HKEX have occurred.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

25. CONVERTIBLE DEBENTURE continued

25.2 Debt host and embedded derivatives

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives – the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other financial liabilities and is measured at amortised cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss.

The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modelling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include: the floor and ceiling conversion prices, the Company's common share price, the risk-free rate of return, expected volatility of the Company's common share price, forward foreign exchange rate curves (between the CA$ and U.S. dollar) and spot foreign exchange rates.

The convertible debenture is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing convertible debenture is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original convertible debenture and a recognition of a new convertible debenture, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

The terms of exchanged or modified debt as 'substantially different' if the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original convertible debenture.

25.3 Valuation assumptions

The specific terms and assumptions used in the Company's valuation models are as follows:

	As at December 31,	
	2023	**2022**
Floor conversion price	**CA$8.88**	CA$8.88
Ceiling conversion price	**CA$11.88**	CA$11.88
Common share price	**CA$0.39**	CA$0.17
Historical volatility	**29%**	29%
Risk free rate of return	**3.51%**	3.95%
Foreign exchange spot rate (CA$ to U.S. Dollar)	**0.76**	0.74
Forward foreign exchange rate curve (CA$ to U.S. Dollar)	**0.755 to 0.897**	0.738 to 0.808

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25. CONVERTIBLE DEBENTURE continued

25.4 Presentation

Based on the Company's valuation as at December 31, 2023, the fair value of the embedded derivatives increased by $292 (2022: increased by $16) compared to December 31, 2022. The increase was recorded as finance income for the year ended December 31, 2023.

For the year ended December 31, 2023, the Company recorded interest expense of $46,337 related to the convertible debenture as a finance cost (2022: $39,645). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.1%.

A modification gain of $4,850 was recognised in profit or loss for the year ended December 31, 2023 (2022: $2,734) for the difference between the original contractual cash flows and modified cash flows under the 2023 March Deferral Agreement (as defined in Note 25.5) and 2023 November Deferral Agreement (as defined in Note 25.5) discounted at the original effective interest rate.

The movements of the amounts due under the convertible debenture are as follows:

	Year ended December 31,	
	2023	**2022**
Balance, beginning of year	**$ 224,653**	$ 191,626
Interest expense on convertible debenture (Note 11)	**46,337**	39,645
Increase in fair value of embedded derivatives (Note 11)	**292**	16
Gain on modification of convertible debenture (Note 11)	**(4,850)**	(2,734)
Interest paid	**(72,132)**	(1,000)
Shares issued for interest settlement on convertible debenture (i)	**–**	(2,900)
Balance, end of year	**$ 194,300**	$ 224,653

(i) The Company paid $2,900 of the 2022 November PIK Interest by way of issuing 20,948 shares at approximately of CA$0.185 on November 19, 2022 in accordance with the procedures set out in convertible debenture agreement on November 19, 2009.

The convertible debenture balance consists of the following amounts:

	As at December 31,	
	2023	**2022**
Current convertible debenture		
Interest payable	**$ 103,150**	$ 140,784
	103,150	140,784
Non-current convertible debenture		
Debt host and interest payable	**$ 90,789**	$ 83,800
Fair value of embedded derivatives	**361**	69
	91,150	83,869
Total convertible debenture	**$ 194,300**	$ 224,653

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement

On May 13, 2022, the Company and CIC entered into an agreement (the "2022 May Deferral Agreement"), pursuant to which CIC agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $7,934 payable to CIC on May 19, 2022 under the Convertible Debenture; and (ii) the management fee which payable to CIC on February 14, 2022 and August 14, 2022 (the "2022 May Deferred Management Fees") under the Amended and Restated Cooperation Agreement (collectively, the "2022 May Deferred Amounts").

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

- Payment of the 2022 May Deferred 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 CIC convertible debenture, commencing on May 19, 2022.

- As consideration for the deferral of the 2022 May Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the 2022 May 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 May Deferred 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.

On November 11, 2022, the Company and JDZF entered into an agreement (the "2022 November Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $7,066 payable to JDZF on November 19, 2022; (ii) $1,100 in PIK Interest shares issuable to JDZF on November 19, 2022 under the Convertible Debenture (collectively, the "2022 November Deferred Interest"); and (iii) the management fees payable to JDZF on November 15, 2022, February 15, 2023, May 16, 2023 and August 15, 2023 under the Amended and Restated Cooperation Agreement (the "2022 November Deferred Management Fees").

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

- Payment of the 2022 November Deferred Interest and the 2022 November Deferred Management Fees will be deferred until November 19, 2023.

- As consideration for the deferral of the 2022 November Deferred Interest, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the 2022 November Deferred Interest payable under the Convertible Debenture, commencing on November 19, 2022.

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(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement continued

- As consideration for the deferral of the 2022 November Deferred Management Fees, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of the 2022 November Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 November Deferred Management Fees would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- If at any time before the 2022 November Deferred Interest and the 2022 November Deferred Management Fees 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

- The Company agreed to comply with all of its obligations under the prior deferral agreements assigned to JDZF.

- The Company and JDZF agreed that nothing in the 2022 November Deferral Agreement prejudices JDZF's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

On March 24, 2023, the Company and JDZF entered into an agreement (the "2023 March Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $7,934 which are due and payable on May 19, 2023 under the Convertible Debenture; (ii) the 2022 May Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated May 13, 2022; (iii) the 2021 July Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated July 30, 2021; and (iv) November Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020 (collectively, the "2023 March Deferred Amounts").

The effectiveness of the 2023 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2023 March Deferral Agreement are subject to the approvals from the Toronto Stock Exchange ("TSX") and the disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the Listing Rules. The requisite shareholder approvals for the 2023 March Deferral Agreement were obtained at a special meeting of shareholders convened on August 29, 2023.

The principal terms of the 2023 March Deferral Agreement are as follows:

- Payment of the 2023 March Deferred Amounts will be deferred until August 31, 2024.

- As consideration for the deferral of the 2023 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2023 March Deferred Amounts, commencing on the date on which each such 2023 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement continued

- As consideration for the deferral of the 2023 March Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2023 March Deferred Amounts commencing on the date on which each such 2023 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2023 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 March Deferred Amounts or related deferral fees. Instead, the 2023 March Deferral Agreement requires the Company to use its best efforts to pay the 2023 March Deferred Amounts and related deferral fees due and payable under the 2023 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 March Deferral Agreement and ending as of August 31, 2024, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2023 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2023 March Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On October 13, 2023, the Company and JDZF entered into an agreement (the "2023 November Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) PIK Interest of approximately $4,000 which are due and payable on November 19, 2023 under the Convertible Debenture; and (ii) the management fees payable to JDZF on November 15, 2023, February 15, 2024, May 16, 2024 and August 15, 2024, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2023 November Deferred Amounts").

The principal terms of the 2023 November Deferral Agreement are as follows:

- Payment of the 2023 November Deferred Amounts will be deferred until August 31, 2024.

- As consideration for the deferral of the 2023 November Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2023 November Deferred Amounts, commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2023 November Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2023 November Deferred Amounts commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

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(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement continued

- The 2023 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 November Deferred Amounts or related deferral fees. Instead, the 2023 November Deferral Agreement requires the Company to use its best efforts to pay the 2023 November Deferred Amounts and related deferral fees due and payable under the 2023 November Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 November Deferral Agreement and ending as of August 31, 2024, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2023 November Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2023 November Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On March 19, 2024, the Company and JDZF entered into the 2024 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (i) the 2023 March Deferred Amounts which will be due and payable to JDZF on or before August 31, 2024 under the 2023 March Deferral Agreement; (ii) the 2023 November Deferred Amounts which will be due and payable on August 31, 2024 under the 2023 November Deferral Agreement; (iii) the 2024 May Cash Interest; (iv) the 2024 November Cash Interest and the 2024 November PIK Interest in each case payable to JDZF on November 19, 2024 under the Convertible Debenture; and (v) the management fees which will be due and payable to JDZF on November 15, 2024 and February 15, 2025 under the Amended and Restated Cooperation Agreement (collectively, the "2024 March Deferred Amounts").

The effectiveness of the 2024 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 March Deferral Agreement are subject to the approval (if any) from the TSX-V and requisite approval from the disinterested shareholders of the Company in accordance with applicable Canadian securities laws and the Listing Rules. The Company will be seeking approval of the 2024 March Deferral Agreement from disinterested shareholders at the Company's upcoming annual general meeting of shareholders, which will be held at a future date to be set by the Board.

The principal terms of the 2024 March Deferral Agreement are as follows:

- Payment of the 2024 March Deferred Amounts will be deferred until August 31, 2025 (the "Deferral Date").

- As consideration for the deferral of the 2024 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2024 March Deferred Amounts, commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement continued

- As consideration for the deferral of the 2024 March Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2024 March Deferred Amounts commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2024 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 March Deferred Amounts or related deferral fees. Instead, the 2024 March Deferral Agreement requires the Company to use its best efforts to pay the 2024 March Deferred Amounts and related deferral fees due and payable under the 2024 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 March Deferral Agreement and ending as of the Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, 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.

- If at any time before the 2024 March Deferred 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, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

26. DECOMMISSIONING LIABILITY

At December 31, 2023, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which as at December 31, 2023 totaled $12,810 (2022: $11,422). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 10.5% (2022: 9.7%) and discounted at 17% per annum (2022: 19% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2038.

The movements in the decommissioning liability during the years ended December 31, 2023 and 2022 were as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**$ 7,650**	$ 6,517
Adjustments	**1,803**	2,020
Accretion (Note 11)	**384**	531
Exchange realignment	**102**	(1,418)
Balance, end of the year	**$ 9,939**	$ 7,650

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27. LONG SERVICE PAYMENT LIABILITIES

The Company operates a MPF scheme for the employees in Hong Kong. In addition, the employees employed under the Hong Kong Employment Ordinance are also entitled to LSP if the eligibility criteria are met.

	As at December 31, 2023	2022
Total long service payment liabilities	**$ 26**	$ –

The Company provides LSP for its employees in respect of LSP on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

Hong Kong employees that have been employed continuously for at least five years are entitled to LSP in accordance with the Hong Kong Employment Ordinance under certain circumstances. These circumstances include where an employee is dismissed for reasons other than serious misconduct or redundancy, that employee resigns at the age of 65 or above, or the employment contract is of fixed term and expires without renewal. The amount of LSP payable is determined with reference to the employee's final salary (capped at HK$22,500) and the years of service, reduced by the amount of any accrued benefits derived from the Company's contributions to MPF scheme, with an overall cap of HK$390,000 per employee.

In June 2022, the Government gazetted the Amendment Ordinance, which will eventually abolish the statutory right of an employer to reduce its LSP payable to a Hong Kong employee by drawing on its mandatory contributions to the MPF scheme. The Government has subsequently announced that the Amendment Ordinance will come into effect from May 1, 2025 (the "Transition Date"). Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee's service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date. As at December 31, 2023, the Company employed 10 permanent employees in Hong Kong that is subject to LSP consideration (2022: 8).

The movements of the provision of long service payments recognised in the consolidated statement of financial position are as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**$ –**	$ –
Current service cost	**25**	–
Interest cost	**1**	–
Benefits paid	**–**	–
Balance, end of the year	**$ 26**	$ –

The principal actuarial assumptions used are as follows:

Discount rate	**2.02% p.a.**
Expected rate of future salary increase	**3%**

Expected contributions to the long service payment obligation by the Company for the year ended December 31, 2023 after the offset the accrued MPF account balance is approximately $405 (2022: $nil).

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

28. EQUITY

28.1 Share capital

The Company has authorised an unlimited number of common and preferred shares with no par value. At December 31, 2023, the Company had 295,278 common shares outstanding (2022: 295,227) and no preferred shares outstanding (2022: nil).

	As at December 31,					
	2023			2022		
Ordinary share issued at fully paid	Number of shares/units		Share capital	Number of shares/units		Share capital
Balance, beginning of year	**295,227**	**$**	**1,101,764**	274,116	$	1,098,835
Shares issued for interest settlement on convertible debenture	**–**		**–**	20,948		2,900
Shares issued under share options (Note 29)	**51**		**7**	24		3
Shares issued under employee share purchase plan (Note 29.3)	**–**		**–**	139		26
Balance, end of year	**295,278**	**$**	**1,101,771**	295,227	$	1,101,764

28.2 Exchange fluctuation reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

28.3 Accumulated deficit and dividends

At December 31, 2023, the Company has accumulated a deficit of $1,241,685 (2022: $1,242,490). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any dividend for the year ended December 31, 2023 (2022: $nil).

29. SHARE-BASED PAYMENTS

29.1 Stock option plan

The Company has a stock option plan which permits the Board to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorised to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. The stock option plan permits the Board to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the year ended December 31, 2023, the Company did not grant any stock options to officers, employees, directors and other eligible persons (2022: nil).

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29. SHARE-BASED PAYMENTS continued

29.1 Stock option plan continued

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2023	2022
Risk free interest rate	**0.87%**	0.87%
Expected life	**3.43**	3.43
Expected volatility (i)	**79%**	79%
Expected dividend per share	**$nil**	$nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options.

The total share-based compensation expense for the year ended December 31, 2023 was $14 (2022: $161). Share-based compensation expense of $10 (2022: $125) has been allocated to administration expenses and share-based compensation expense of $4 (2022: $36) has been allocated to cost of sales.

29.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of options	Weighted average exercise price (CA$)	Number of options	Weighted average exercise price (CA$)
Balance, beginning of year	**4,993**	**$ 0.18**	6,249	$ 0.17
Options exercised	**(51)**	**0.13**	(25)	0.13
Options forfeited	**(524)**	**0.22**	(515)	0.74
Options expired	**(1,205)**	**0.16**	(716)	0.74
Balance, end of year	**3,213**	**$ 0.19**	4,993	$ 0.18

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

29. SHARE-BASED PAYMENTS continued

29.2 Outstanding stock options continued

The stock options outstanding and exercisable are as follows:

	As at December 31, 2023							
	Options Outstanding				Options Exercisable			
Exercise price (CA$)	Options outstanding		Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)
$0.11 – $0.13	**1,175**	**$**	**0.12**	**0.80**	**1,175**	**$**	**0.12**	**0.80**

Exercise price (HK$)	Options outstanding		Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)
$1.41	**2,038**	**$**	**1.41**	**2.50**	**1,515**	**$**	**1.41**	**2.50**
Total	**3,213**			**1.88**	**2,690**			**1.76**

	As at December 31, 2022							
	Options Outstanding				Options Exercisable			
Exercise price (CA$)	Options outstanding		Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)
$0.11 – $0.13	2,076	$	0.13	1.33	2,076	$	0.13	1.33

Exercise price (HK$)	Options outstanding		Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)
$1.41	2,917	$	1.41	3.50	1,344	$	1.41	3.50
Total	4,993			2.59	3,420			2.18

29.3 Employee Share Purchase Plan

Share purchase plan as part of a long term employee retention program equity incentive plan, which allows the Company's eligible employees to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the employee's contribution and at the end of each calendar quarter shares are purchased on behalf of the employee. At the end of each quarter, the Company's share will be issued. Upon the conversion to primary listing on the HKEX, the Company has undertaken not to issue any further shares under the Share Purchase Plan. For the year ended December 31, 2023, eligible employees did not pay and the Company did not contribute to purchase any ordinary shares of the Company under the employee share purchase plan (2022: eligible employees paid $18 and the Company contributed $8 to purchase 139 ordinary shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

30. RESERVES

30.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 29.

The share option reserve transactions for the years ended December 31, 2023 and 2022 are as follows:

	Year ended December 31,	
	2023	**2022**
Balance, beginning of year	**$ 53,018**	$ 52,858
Exercise of stock options	**(2)**	(1)
Share-based compensation charged to operations	**14**	161
Balance, end of year	**$ 53,030**	$ 53,018

30.2 Capital reserve

Pursuant to the applicable laws and regulations of the People's Republic of China, a portion of the profits of a subsidiary has been transferred to reserve funds (i.e. capital reserve), which the Company is restricted from using.

31. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire previously issued shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board.

At December 31, 2023, the Company's capital structure consists of convertible debenture (Note 25), lease liabilities (Note 24) and the equity of the Company (Note 28). Except for disclosed elsewhere in the consolidated financial statements, the Company is not subject to any externally imposed capital requirements. In order to maximise ongoing development efforts, the Company does not pay dividends.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

31. CAPITAL RISK MANAGEMENT continued

The net debt to equity ratio at the end of the reporting period was as follows:

	As at December 31, 2023	2022
Debt	**$ 437,070**	$ 323,883
Cash and cash equivalents	**(47,993)**	(9,255)
Net debt	**$ 389,077**	$ 314,628
Equity	**$ (141,332)**	$ (142,524)
Net debt to equity ratio	**–275%**	–221%

For the year ended December 31, 2023, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2023, the Company had cash and cash equivalents of $47,993 (December 31, 2022: $9,255).

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

32.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorised as follows:

	As at December 31, 2023	2022
Financial assets		
At amortised cost		
Cash and cash equivalents	**$ 47,993**	$ 9,255
Restricted cash	**423**	725
Trade and other receivables (Note 16)	**7,541**	1,199
Total financial assets	**$ 55,957**	$ 11,179
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives (Note 25)	**$ 361**	$ 69
At amortised cost		
Trade and other payables (Note 22)	**60,192**	59,730
Lease liabilities (Note 24)	**2,991**	502
Convertible debenture – debt host (Note 25)	**193,939**	224,584
Total financial liabilities	**$ 257,483**	$ 284,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.2 Fair value

The fair value of financial assets and financial liabilities measured at amortised 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 Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortised cost approximates their fair value, except as disclosed below.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 25) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2023 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The following table provides an analysis of the Company's financial instruments that are measured and disclosed subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	As at December 31, 2023			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	**$ –**	**$ –**	**$ 361**	**$ 361**
Total financial liabilities measured at fair value	**$ –**	**$ –**	**$ 361**	**$ 361**

	As at December 31, 2022			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	$ –	$ –	$ 69	$ 69
Total financial liabilities measured at fair value	$ –	$ –	$ 69	$ 69

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2023 (2022: nil).

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. dollar. The Company manages this risk by matching receipts and payments in the same currency.

The sensitivity of the Company's loss before tax due to changes in the carrying values of monetary assets and liabilities denominated in foreign currencies is as follows. A positive number indicates a decrease in loss for the year, whereas a negative number indicates an increase in comprehensive loss for the year.

	As at December 31,	
	2023	2022
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ (183)**	$ 1,188
–5%	**$ 183**	$ (1,188)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3% (2022: 3%); therefore, the interest rate risk is not significant.

The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

Credit risk

The Company is exposed to credit risk associated with its cash and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 2 years before December 31, 2023 or 2022 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.3 Financial risk management objectives and policies continued

On that basis, the loss allowance as at December 31, 2023 and 2022 was determined as follows for trade and others receivables:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
As at December 31, 2023					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	**$ 2,182**	**$ 5,359**	**$ –**	**$ 22,487**	**$ 30,028**
Loss allowance	**$ –**	**$ –**	**$ –**	**$ 22,487**	**$ 22,487**
As at December 31, 2022					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	$ 1,104	$ 47	$ 53	$ 22,594	$ 23,798
Loss allowance	$ –	$ –	$ 5	$ 22,594	$ 22,599

(i) The expected credit loss rate is considered insignificant.

The Company's credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers are required to prepay deposits to the Company for future purchasing from the Company, and for those who wish to trade on credit terms are subject to credit verification procedures.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. Based on the Company's cash flow projection covering a period of 12 months from December 31, 2023, the Company is expected to have sufficient capital resources in order to satisfy its ongoing obligations and future contractual commitments. Please refer to Note 1 for further details.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.3 Financial risk management objectives and policies continued

Liquidity risk continued

	0 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
As at December 31, 2023						
Trade and other payables	**$ 60,192**	**$ –**	**$ –**	**$ –**	**$ 60,192**	**$ 60,192**
Lease liabilities (i)	**743**	**743**	**2,108**	**–**	**3,594**	**2,991**
Convertible debenture – cash interest (i)	**11,488**	**18,215**	**100,000**	**200,000**	**329,703**	**194,300**
	$ 72,423	**$ 18,958**	**$ 102,108**	**$ 200,000**	**$ 393,489**	**$ 257,483**
As at December 31, 2022						
Trade and other payables	$ 59,730	$ –	$ –	$ –	$ 59,730	$ 59,730
Lease liabilities (i)	171	171	228	–	570	502
Convertible debenture – cash interest (i)	8,000	151,371	100,000	220,000	479,371	215,932
	$ 67,901	$ 151,542	$ 100,228	$ 220,000	$ 539,671	$ 276,164

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the lease liabilities and convertible debenture for the years ended December 31, 2023 and December 31, 2022. Refer to Note 24 and Note 25 for the terms of lease liabilities and convertible debenture, respectively.

33. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest As at December 31, 2023	2022
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
Southgobi Sands LLC	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Trading Co., Ltd.	China	**100%**	100%
Wuhai SouthGobi Mining Resources Co., Ltd.	China	**100%**	100%

(i) SouthGobi Trading (Beijing) Co., Ltd. was registered as a wholly-foreign-owned enterprise under law of China.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the years ended December 31, 2023 and 2022:

- Before the completion of the sales of the interest in the Company from CIC to JDZF, the management fee shall be calculated based on 2.5% of the revenue of the Company and to be paid to CIC on a quarterly basis. Upon the completion of the sales on August 30, 2022, the respective rights and obligation under the Cooperation Agreement and related documents has been transferred to JDZF and JDZF has agreed to reduce the management fee payable by the Company under the Amended and Restated Cooperation Agreement from 2.5% to 1.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

33. RELATED PARTY TRANSACTIONS continued

During the year ended December 31, 2023, management fee of $4,879 was recorded in profit or loss (2022: $1,201).

As at December 31, 2023, there was no deferred revenue received (2022: $2,256) from an affiliate of Land Grand in the deferred revenue balance, which was related to receipt in advance for future coal sales before they became the related parties of the Company on November 28, 2022.

33.1 Related party expenses

The Company's related party expenses consist of the following amounts:

	Year ended December 31,	
	2023	**2022**
Finance costs (i)	**$ 46,337**	$ 39,645
Management fee (i)	**4,879**	1,201
Rental expenses (ii)	**79**	–
Warehouse logistics expenses (iii)	**98**	–
Office supplies expenses (iv)	**51**	–
Related party expenses	**$ 51,444**	$ 40,846

(i) HKEX has granted a waiver to the Company from strict compliance with (a) the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules in respect of the transactions under the Amended and Restated Cooperation Agreement; and (b) the requirement under Rule 14A.53 of the Listing Rules to set an annual cap expressed in monetary terms for the fees payable by the Company under the Amended and Restated Cooperation Agreement on April 3, 2023.

(ii) Rental expenses payment to a related company were conducted in the normal course of business and in accordance with terms of the lease agreement entered into between the Company and the related company. The lessor is a controlled entity by the Company's largest shareholder to be classified as a related company (2022: $nil).

(iii) Warehouse logistics expenses payment to a related company were conducted in the normal course of business and in accordance with terms of the logistics agreement entered into between the Company and the related company. The logistic company is a controlled entity by the Company's second largest shareholder to be classified as a related company during the period from January 1, 2023 to May 8, 2023 (2022: $nil).

(iv) Office supplies expenses payment to related companies were conducted in the normal course of business. The office supplies companies are controlled entities by the related party of the Company's largest shareholder to be classified as related companies (2022: $nil).

33.2 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31,	
	2023	**2022**
Salaries, fees and other benefits	**$ 2,175**	$ 1,411
Total remuneration	**$ 2,175**	$ 1,411

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

34. SUPPLEMENTAL CASH FLOW INFORMATION

34.1 Non-cash financing and investing activities

The Company's non-cash investing and financing transactions are as follows:

	Year ended December 31, 2023	2022
Depreciation and amortisation capitalised in mineral properties	**$ 2,350**	$ 2,044
Increase in decommissioning liability	**1,803**	2,020

34.2 Net change in working capital items

The net change in the Company's working capital items is as follows:

	Year ended December 31, 2023	2022
Decrease/(increase) in inventories	**$ (5,024)**	$ 15,055
Increase in trade and other receivables	**(13,700)**	(989)
Decrease/(increase) in prepaid expenses	**(3,884)**	88
Increase/(decrease) in trade and other payables	**524**	(2,667)
Increase in deferred revenue	**35,467**	3,683
Net change in working capital items	**$ 13,383**	$ 15,170

Depreciation and depletion capitalised in inventories for the year ended December 31, 2023 totaled $269 (2022: $1,139).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. SUPPLEMENTAL CASH FLOW INFORMATION continued

34.3 Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowing	Lease liabilities	Convertible debenture	Total
At January 1, 2022	$ 53	$ 881	$ 191,626	$ 192,560
Changes from financing cash flows:				
Interest payments	–	–	(1,000)	(1,000)
Repayment of interest-bearing borrowing	(53)	–	–	(53)
Capital element of lease rentals paid	–	(320)	–	(320)
Interest element of lease rentals paid	–	(82)	–	(82)
Total changes from financing cash flows	(53)	(402)	(1,000)	(1,455)
Other charges:				
Interest expenses	–	82	39,645	39,727
Changes in fair value of embedded derivatives	–	–	16	16
Gain on modification of convertible debenture	–	–	(2,734)	(2,734)
Shares issued for interest settlement on convertible debenture	–	–	(2,900)	(2,900)
	–	82	34,027	34,109
Exchange adjustments	–	(59)	–	(59)
At December 31, 2022 and January 1, 2023	$ –	$ 502	$ 224,653	$ 225,155
Changes from financing cash flows:				
Interest payments	**–**	**–**	**(72,132)**	**(72,132)**
Capital element of lease rentals paid	**–**	**(327)**	**–**	**(327)**
Interest element of lease rentals paid	**–**	**(133)**	**–**	**(133)**
Total changes from financing cash flows	**–**	**(460)**	**(72,132)**	**(72,592)**
Other charges:				
Interest expenses	**–**	**133**	**46,337**	**46,470**
Changes in fair value of embedded derivatives	**–**	**–**	**292**	**292**
Gain on modification of convertible debenture	**–**	**–**	**(4,850)**	**(4,850)**
Increase in finance lease payable	**–**	**2,789**	**–**	**2,789**
	–	**2,922**	**41,779**	**44,701**
Exchange adjustments	**–**	**27**	**–**	**27**
At December 31, 2023	**$ –**	**$ 2,991**	**$ 194,300**	**$ 197,291**

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

35. COMMITMENTS FOR EXPENDITURE

The Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2023				
Capital expenditure commitments	**$ –**	**$ –**	**$ –**	**$ –**
Operating expenditure commitments	**1,359**	**39**	**192**	**1,590**
Commitments	**$ 1,359**	**$ 39**	**$ 192**	**$ 1,590**
As at December 31, 2022				
Capital expenditure commitments	$ –	$ –	$ –	$ –
Operating expenditure commitments	2,154	39	210	2,403
Commitments	$ 2,154	$ 39	$ 210	$ 2,403

36. CONTINGENCIES

36.1 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.

To date, counsel for the plaintiffs and defendant have completed: (i) all document production; (ii) oral examinations for discovery; and (iii) counsel for the plaintiffs have served their expert reports on liability and damages. Counsel for the plaintiffs and defendant have agreed on the case management judge, who has ordered certain motions brought by the defendant and the plaintiffs to commence on May 13 and 14, 2024. Further discovery motions before an Associate Justice has been scheduled for August 7-9, and September 17, 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

36. CONTINGENCIES continued

36.1 Class Action Lawsuit continued

Following the determination of the motions and any subsequent order to re-attend examinations, counsel for the defendant will serve responding expert reports on liability and damages approximately one month following any re-examinations/further examinations are completed. Counsel for the plaintiff and defendant have requested a further case conference to set a new trial date following the undertakings motion and serving of expert reports. The Company has urged a trial 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, 2023 and 2022 was not required.

36.2 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 $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18,500 will be required to be paid.

Accordingly, the Company has determined that a provision for this matter as at December 31, 2023 and 2022 was not required.

36.3 Tax legislation

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

Management believes that its interpretation of relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. However, the Company may be impacted if such unfavourable event occurs. Management regularly performs 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.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

36. CONTINGENCIES continued

36.3 Tax legislation continued

As of December 31, 2023, the Company has recorded an additional tax and tax penalty in the amount of $85,143, as more particularly detailed under note 9 to the consolidated financial statements. Management will continue to assess whether any subsequent event may impact the amount of the additional tax and tax penalty, in which case an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

37. STATEMENT OF FINANCIAL POSITION OF THE INVESTMENT COMPANY

The statement of financial position of the investment company prepared on a stand-alone basis is presented below:

	As at December 31, 2023	2022
Assets		
Non-current assets		
Investment in subsidiaries	**$ –**	$ –
Total non-current assets	**–**	–
Current assets		
Cash and cash equivalents	**1,381**	154
Other receivables	**7**	4
Prepaid expenses	**94**	75
Total current assets	**1,482**	233
Total assets	**$ 1,482**	$ 233
Equity and liabilities		
Current liabilities		
Other payables	**$ 16,422**	$ 11,695
Current portion of convertible debenture	**103,150**	140,784
Total current liabilities	**119,572**	152,479
Non-current liabilities		
Convertible debenture	**91,150**	83,869
Total non-current liabilities	**91,150**	83,869
Total liabilities	**210,722**	236,348
Equity		
Common shares	**1,101,771**	1,101,764
Share option reserve	**53,030**	53,018
Accumulated deficit	**(1,364,041)**	(1,390,897)
Total deficiency in assets	**(209,240)**	(236,115)
Total equity and liabilities	**$ 1,482**	$ 233

APPROVED BY THE BOARD:

"Mao Sun"	**"Ruibin Xu"**
Director	Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

38. RESERVE AND DEFICIT OF THE INVESTMENT COMPANY

The reserve and deficit of the investment company prepared on a stand-alone basis is presented below:

	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2022	$ 52,858	$ (1,357,401)	$ (1,304,543)
Net loss for the year	–	(33,496)	(33,496)
Exercise of stock options	(1)	–	(1)
Share-based compensation charged to operations	161	–	161
Balances, December 31, 2022	$ 53,018	$ (1,390,897)	$ (1,337,879)
Balances, January 1, 2023	**$ 53,018**	**$ (1,390,897)**	**$ (1,337,879)**
Net profit for the year	**–**	**26,856**	**26,856**
Exercise of stock options	**(2)**	**–**	**(2)**
Share-based compensation charged to operations	**14**	**–**	**14**
Balances, December 31, 2023	**$ 53,030**	**$ (1,364,041)**	**$ (1,311,011)**

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the HKEX and not shown elsewhere in this report is as follows:

A1. FIVE-YEAR SUMMARY

The following table contains a five-year summary of the Company's results, assets and liabilities:

	Year ended December 31,				
	2023	2022	2021	2020	2019
Revenue	**$ 331,506**	$ 73,084	$ 43,398	$ 85,951	$ 129,712
Gross profit	**173,311**	15,322	12,094	27,294	45,312
Net comprehensive income/(loss) attributable to equity holders of the Company	**$ 1,173**	$ (55,163)	$ (14,570)	$ (27,132)	$ (928)
Basic and diluted earnings/(loss) per share	**$ 0.003**	$ (0.110)	$ (0.053)	$ (0.074)	$ 0.015

	As at December 31,				
	2023	2022	2021	2020	2019
Total assets	**$ 295,738**	$ 181,359	$ 206,113	$ 214,632	$ 228,427
Less: total liabilities	**(437,070)**	(323,883)	(296,563)	(290,869)	(277,645)
Total deficiency in assets	**$ (141,332)**	$ (142,524)	$ (90,450)	$ (76,237)	$ (49,218)

CORPORATE INFORMATION

Directors

Executive Directors:

Mr. Ruibin Xu *(Chief Executive Officer)*
Ms. Chonglin Zhu *(Chief Financial Officer)*
Mr. Chen Shen *(Vice President of Legal)*

Non-Executive Directors:

Mr. Zhu Gao
Mr. Zaixiang Wen

Independent Non-Executive Directors:

Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Mao Sun *(Independent Lead Director)*

Audit Committee

Mr. Mao Sun *(Chair)*
Mr. Yingbin Ian He
Ms. Jin Lan Quan

Nominating and Corporate Governance Committee

Mr. Yingbin Ian He *(Chair)*
Ms. Jin Lan Quan
Mr. Mao Sun

Compensation and Benefits Committee

Ms. Jin Lan Quan *(Chair)*
Mr. Yingbin Ian He
Mr. Mao Sun

Health, Environment, Safety and Social Responsibility Committee

Mr. Ruibin Xu *(Chair)*
Mr. Yingbin Ian He
Mr. Jinsheng Xu

Operations Committee

Mr. Yingbin Ian He *(Chair)*
Mr. Ruibin Xu
Mr. Jinsheng Xu

Joint Company Secretaries

Ms. Allison Snetsinger and Ms. Shuk Wan So

Records and Registered Office

20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8

Principal Place of Business in Hong Kong

Units 1208-10, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong

Principal Place of Business in Mongolia

8th Floor, Monnis Building, Orgil Stadium 22, Great Mongolian State Street, 15th Khoroo, Khan-Uul District, Ulaanbaatar, Mongolia, 17011

Principal Bankers

Canada:

BMO Bank of Montreal

Hong Kong:

Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar

TSX Trust Company
231-733 Seymour Street, Vancouver, British Columbia, Canada V6B 0S6

Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Independent Auditor

BDO Limited

Website address

SouthGobi.com