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南戈壁資源有限公司\*

*(A company continued under the laws of British Columbia, Canada with limited liability)*

(Hong Kong Stock Code: 1878)

(Toronto Stock Code: SGQ)

## OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made by SouthGobi Resources Ltd. (the “**Company**”) pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The following document of the Company was published on the website of the SEDAR filing system in Canada ([www.sedar.com](http://www.sedar.com)). It is enclosed hereto as overseas regulatory announcement.

For and on behalf of

**SouthGobi Resources Ltd.**

Allison Snetsinger

*Corporate Secretary*

Vancouver, March 31, 2023

Hong Kong, March 31, 2023

*As at the date of this announcement, the executive Directors are Mr. Dong Wang, Ms. Chonglin Zhu and Mr. Chen Shen; the independent non-executive Directors are Mr. Yingbin Ian He, Mr. Mao Sun and Ms. Jin Lan Quan; and the non-executive Directors are Mr. Zhu Gao and Mr. Gang Li.*

\* For identification purposes only

**SOUTHGOBI RESOURCES LTD.**

**Annual Information Form**

For the year ended  
December 31, 2022

Dated: March 31, 2023

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## DEFINITIONS AND OTHER INFORMATION

### Currency and Exchange Rates

In this Annual Information Form, all funds are quoted in United States dollars unless otherwise indicated. References to “\$” and “US\$” are to United States dollars, references to “Cdn\$” are to Canadian dollars, references to “HK\$” are to Hong Kong dollars and references to “MNT” are to the Mongolian Tugrik.

The following table reflects the closing, high, low and average rates of exchange for the purchase of one United States dollar using Canadian dollars for the indicated periods below, based upon the noon buying rates published by the Bank of Canada:

*(Stated in Canadian dollars)*

	Year Ended December 31		
	2022	2021	2020
End of period	1.2678	1.2778	1.2732
High for the period	1.3856	1.2942	1.4496
Low for the period	1.2451	1.2040	1.2718
Average for the period	1.3011	1.2535	1.3415

The Bank of Canada noon buying rate as of March 30, 2023 for the purchase of one United States dollar using Canadian dollars was Cdn\$1.3533 (one Canadian dollar on the same date equalled US\$0.7389).

The following table reflects the closing, high, low and average rates of exchange for the purchase of one Hong Kong dollar using Canadian dollars for the indicated periods below, based upon the noon buying rates published by the Bank of Canada:

*(Stated in Canadian dollars)*

	Year Ended December 31		
	2022	2021	2020
End of period	0.1626	0.1621	0.1642
High for the period	0.1765	0.1659	0.1869
Low for the period	0.1589	0.1552	0.1641
Average for the period	0.1662	0.1613	0.1730

The Bank of Canada noon buying rate as of March 30, 2023 for the purchase of one Hong Kong dollar using Canadian dollars was Cdn\$0.1724 (one Canadian dollar on the same date equalled HK\$5.8006).

## Defined Terms and Abbreviations

In this Annual Information Circular, unless the subject matter or context is inconsistent therewith, the following terms shall have the meanings set forth below:

“**2006 Minerals Law**” means the Minerals Law of Mongolia, enacted on July 8, 2006, and effective from August 26, 2006, as the same may be amended or supplemented from time to time.

“**2012 Technical Report**” means the preliminary feasibility study and technical report on the Ovoot Tolgoi Deposit dated March 19, 2012, prepared by RungePincockMinarco.

“**2016 Technical Report**” means the technical report on the Ovoot Tolgoi Deposit dated May 6, 2016, prepared by RungePincockMinarco.

“**Addendum**” means the March 2007 addendum to the EIA for the Ovoot Tolgoi Deposit.

“**Annual Information Form**” means this annual information form dated March 31, 2023 in respect of the financial year ended December 31, 2022.

“**Articles**” means the Articles of Continuation of the Company dated May 29, 2007.

“**Audit Committee**” means a committee of the Board formed for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company.

“**BDO**” means BDO Limited, the Company’s external auditors.

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as the same may be amended or supplemented from time to time.

“**Biluut**” means the area delineated and identified as the Biluut coal field in the Soumber Project.

“**Board**” means the board of directors of the Company.

“**Canadian Securities Administrators**” means the securities regulators of each province and territory of Canada.

“**CDIA**” means the Court Decision Implementing Agency of Mongolia.

“**Ceke**” means the PRC coal distribution terminal at the Shivee Khuren Border Crossing.

“**Central Soumber**” means the area delineated and identified as the Central Soumber coal field in the Soumber Project.

“**CIC**” means China Investment Corporation, together with its wholly owned subsidiaries and affiliates.

“**CIM**” means the Canadian Institute of Mining, Metallurgy and Petroleum.

“**Cinda**” means China Cinda (HK) Investments Management Company Limited, a wholly owned subsidiary of China Cinda Asset Management Corporation Limited.

“**Class Action**” means the class action lawsuit in Canada filed against the Company, certain of its former senior officers and directors, and the Company’s former auditor relating to the Restatement.

“**Common Shares**” means common shares without par value in the capital of the Company.

“**Company**” or “**SouthGobi**” means SouthGobi Resources Ltd. and includes, as the context requires, one or more of its subsidiaries.

“**Compensation and Benefits Committee**” means a committee of the Board formed to discharge the Board’s responsibilities relating to compensation and benefits of directors and executive officers of the Company.

“**Convertible Debenture**” means the convertible debenture issued by the Company to CIC on October 26, 2009, which was assigned by CIC to CIC Subco on November 19, 2009, and which was further assigned by CIC Subco to JDZF on August 30, 2022.

“**DMCL**” means Dragon Mining Consulting Limited.

“**East Soumber**” means the area delineated and identified as the East Soumber coal field in the Soumber Project.

“**EIA**” means Environmental Impact Assessment.

“**EMP**” means Environmental Management Plan.

“**EPP**” means Environmental Protection Plan.

“**FIL**” means Foreign Investment Law of Mongolia.

“**First Concept**” means First Industrial Group Limited.

“**Former Employees**” means the three former employees of SGS named as defendants in the Tax Evasion Case.

“**Government of Mongolia**” or “**Mongolian Government**” means the executive branch of the government of Mongolia, whether state, regional or local, and any agency, authority, branch, department, regulatory body or other entity exercising executive, taxing, regulatory or administrative powers of or pertaining to the government of Mongolia, and all officials, agents and representatives of each of the foregoing.

“**GSC Paper 88-21**” means Paper 88-21 of the Geological Survey of Canada titled “*A Standardized Coal Resource/Reserve Reporting System for Canada*”, dated 1989, as amended.

“**HKEX**” means The Stock Exchange of Hong Kong Limited.

“**Land Grand**” means Land Grand International Holding Limited.

“**IAAC**” means the Mongolian Independent Authority Against Corruption.

“**ISO**” means the International Organization for Standardization.

“**IVN**” means Ivanhoe Mines Limited.

“**JDZF**” means JD Zhixing Fund LP.

“**Jargalant**” means the area delineated and identified as the Jargalant coal field in the Soumber Project.

“**Land Law of Mongolia**” means Law on Land of Mongolia enacted on June 7, 2002, as the same may be amended or supplemented from time to time.

“**MAK**” means Mongolyn Alt MAK LLC.

“**MAK-Qinghua**” means the joint venture between MAK and Qinghua.

“**MEL**” means a Mongolian mineral exploration licence.

“**Mineral Deposit of Strategic Importance**” means, under the 2006 Minerals Law, a deposit that may have the potential to impact national security, or the economic and social development of Mongolia at the national and regional levels, or that is generating, or has the potential to generate, more than 5% of Mongolia’s gross domestic product in any given year.

“**Mining Prohibition in Specified Areas Law**” means the Law on Prohibition against Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands of July 16, 2009, as the same may be amended or supplemented from time to time.

“**MNT**” means togrog or tugrik, the legal currency of Mongolia.

“**MRAM**” means the Mineral Resources and Petroleum Authority of Mongolia.

“**Nariin Sukhait Mine**” means the coal mine operated by Mak-Qinghua located immediately north of the Sunrise Field of the Ovoot Tolgoi Mine.

“**NI 43-101**” means National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators.

“**NI 51-102**” means National Instrument 51-102 - *Continuous Disclosure of Obligations* of the Canadian Securities Administrators.

“**Nominating and Corporate Governance Committee**” means a committee of the Board formed to assist the Board in fulfilling its oversight responsibilities with respect to appointment and election of individuals to the Board and developing corporate governance guidelines for the Company.

“**Norwest**” means Norwest Corporation of Salt Lake City, Utah.

“**Novel Private Placement**” means the two tranche private placement with Novel Sunrise pursuant to the terms of a private placement agreement entered into between the Company and Novel Sunrise on February 24, 2015.

“**Novel Sunrise**” means Novel Sunrise Investments Limited, an investment holding company registered in the British Virgin Islands.

“**Ontario Court**” means the Ontario Superior Court of Justice in Canada.

“**OT LLC**” means Oyu Tolgoi LLC (formerly Ivanhoe Mines Mongolia Inc. LLC), a company incorporated under the laws of Mongolia and a subsidiary of Turquoise Hill.

“**Ovoot Tolgoi Deposit**” means the Company’s coal exploration, development and production projects at Ovoot Tolgoi, including the Ovoot Tolgoi Mine and the Ovoot Tolgoi Underground Deposit.



“**Ovoot Tolgoi Mine**” means the Company’s open pit coal mine at Ovoot Tolgoi, which is comprised of the Sunrise and Sunset open pit coal mines.

“**Ovoot Tolgoi Technical Report**” means the technical report on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by DMCL.

“**Ovoot Tolgoi Underground Deposit**” means the Company’s underground development project at Ovoot Tolgoi.

“**Parliament of Mongolia**” means the State Great Khural of Mongolia.

“**PRC**” or “**China**” means the People’s Republic of China, and references in this Annual Information Form to the PRC or China exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.

“**Preferred Shares**” means preferred shares without par value in the capital of the Company.

“**PwC**” means PricewaterhouseCoopers, LLP (Vancouver).

“**qualified person**” or “**QP**” means a “qualified person” as such term is defined in NI 43-101.

“**Renminbi**” or “**RMB**” means the lawful currency of the PRC.

“**Restatement**” means the decision by the Board in November 2013 to restate the Company’s 2011 and 2012 financial statements.

“**RungePincockMinarco**” means RungePincockMinarco, formerly known under the trade name “Minarco-MineConsult” including the times during which it published the 2012 Technical Report and the 2016 Technical Report.

“**Sapphire**” means Sapphire Geo Ltd., a company established under the laws of Mongolia.

“**SGS**” means SouthGobi Sands LLC, a wholly owned subsidiary of the Company.

“**Shareholders**” means holders of the Common Shares, and “**Shareholder**” means any one holder of the Common Shares.

“**Shivee Khuren Border Crossing**” means the Shivee Khuren-Ceke crossing at the Mongolia-PRC border.

“**SGQ Coal**” means SGQ Coal Investment Pte. Ltd., a wholly owned subsidiary of the Company.

“**Strategic Deposits List**” means a list of 15 deposits designated by the Parliament of Mongolia to be Mineral Deposits of Strategic Importance.

“**Soumber**” means, together, the areas delineated and identified as the Central Soumber and East Soumber coal fields in the Soumber Project.

“**Soumber Project**” means the Company’s coal exploration project located approximately 20km east of the Sunrise Pit comprised of the Central Soumber, East Soumber, South Biluut, Biluut and Jargalant fields.

“**South Biluut**” means the area delineated and identified as the South Biluut coal field in the Soumber Project.

“**Sunrise Field**” means the area of the coal deposit that comprises both the surface and underground resources in the area delineated and identified as the Sunrise Field in the Ovoot Tolgoi Technical Report.

“**Sunrise Pit**” means the area of the coal deposit delineated and identified as the Sunrise Pit in the Ovoot Tolgoi Deposit.

“**Sunset Field**” means the area of the coal deposit that comprises both the surface and underground resources in the area delineated and identified as the Sunset Field in the Ovoot Tolgoi Technical Report.

“**Sunset Pit**” means the area of the coal deposit delineated and identified as the Sunset Pit in the Ovoot Tolgoi Deposit.

“**TAG**” means The Americas Group.

“**Tanan Impex**” means Tanan Impex Co. Ltd.

“**Tax Evasion Case**” means the investigations by IAAC regarding allegations of tax evasion and money laundering by the Former Employees and SGS.

“**Tier 2 Deposits List**” means the list of 39 deposits designated by the Parliament of Mongolia as subject to further investigation by the Government of Mongolia in order to determine if one or more of such deposits should be designated as a Mineral Deposit of Strategic Importance.

“**Turquoise Hill**” means Turquoise Hill Resources Ltd., a corporation incorporated under the laws of the Yukon.

“**TSX**” means the Toronto Stock Exchange.

“**United States**” means the United States of America, its territories, its possessions and all areas subject to its jurisdiction.

“**VAT**” means value added tax.

“**Voyage Wisdom**” means Voyage Wisdom Limited, a company owned by the VWL Shareholders.

“**VWL Shareholders**” means Messrs. Ningqiao Li, Aminbuhe and Yulan Guo, each a former director and/or officer of the Company.

“**Water Law of Mongolia**” means the Law of Mongolia on Water enacted on May 17, 2012, as the same may be amended or supplemented from time to time.

“**Zag Suuj Project**” means the Company’s coal exploration project located approximately 150km east of the Ovoot Tolgoi Deposit.

## Conversion Factors

For ease of reference, the following conversion factors are provided:

Imperial Measure =	Metric Unit	Metric Unit =	Imperial Measure
2.47 acres	1 hectare	0.4047 hectares	1 acre
3.28 feet	1 m	0.3048 m	1 foot
0.62 miles	1 km	1.609 km	1 mile
0.032 ounces (troy)	1 gram	31.1 grams	1 ounce (troy)
2.205 pounds	1 kilogram	0.454 kilograms	1 pound
1.102 tons (short)	1 tonne	0.907 tonnes	1 ton
0.029 ounces (troy)/ton	1 gram/tonne	34.28 grams/tonne	1 ounce (troy)/ton

## Glossary of Geological and Mining Terms

**ad:** air dried basis (in reference to the moisture content of coal samples).

**ar:** as received basis (in reference to the moisture content of coal samples).

**cv:** means calorific value.

**fault:** a fracture in rock along which the adjacent rock surfaces are differentially displaced.

**FSI:** free swelling index (as a measure of coking properties of coal).

**ha:** hectares.

**indicated mineral resource:** that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing and is sufficient to assume geological and grade or quality continuity between points of observation. An indicated mineral resource has a lower level of confidence than that applying to a measured mineral resource and may only be converted to a probable mineral reserve.

**inferred mineral resource:** that part of a mineral resource for which quantity and grade or quality are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade or quality continuity. An inferred mineral resource has a lower level of confidence than that applying to an indicated mineral resource and must not be converted to a mineral reserve. It is reasonably expected that the majority of inferred mineral resources could be upgraded to indicated mineral resources with continued exploration.

**kcal:** kilocalorie.

**km:** kilometres.

**km<sup>2</sup>:** square kilometres.

**lb:** pound.

**logged:** measured and described.

**m:** metres.

**measured mineral resource:** that part of a mineral resource for which quantity, grade or quality, densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of modifying factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing and is sufficient to confirm geological and grade or quality continuity between points of observation. A measured mineral resource has a higher level of confidence than that applying to either an indicated mineral resource or an inferred mineral resource. It may be converted to a proven mineral reserve or to a probable mineral reserve.

**metallurgic coal:** various grades of coal suitable for making steel, such as coking coal.

**mineral reserve:** the economically mineable part of a measured or indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of modifying factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified. The reference point at which mineral reserves are defined, usually the point where the ore is delivered to the processing plant, must be stated.

**mineral resource:** is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade or quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade or quality, continuity and other geological characteristics of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling.

**mm:** millimetres.

**Mt:** million tonnes.

**PCD:** polycrystalline.

**preliminary feasibility study, pre-feasibility study or PFS:** a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the modifying factors and the evaluation of any other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the mineral resource may be converted to a mineral reserve at the time of reporting. A pre-feasibility study is at a lower confidence level than a feasibility study.

**probable mineral reserve:** the economically mineable part of an indicated, and in some circumstances, a measured mineral resource. The confidence in the modifying factors applying to a probable mineral reserve is lower than that applying to a proven mineral reserve.

**proven mineral reserve:** the economically mineable part of a measured mineral resource. A proven mineral reserve implies a high degree of confidence in the modifying factors.

**RC:** reverse circulation.

**ROM:** run-of-mine.

**seam:** a stratum or bed of coal or other mineral; generally applied to large deposits of coal.

**splits:** the division of a bed of coal into two or more horizontal sections by intervening rock strata.

**strike:** the direction, or course or bearing, of a vein or rock formation measured on a level surface.

**thermal coal:** coal that is used primarily for its heating value and that tends not to have the carbonization properties possessed by metallurgic coal.

## FORWARD LOOKING STATEMENTS

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

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company’s expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company’s ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the 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) and the Credit Facility (as defined below) as the same become due;
- the Company's anticipated financing needs, operational and development plans and future production levels, including ramp up of the Company’s mining operations and capacity in 2023;
- the impact of the Coronavirus Disease 2019 (“COVID-19”) pandemic and the potential closure of Mongolia’s southern border with China on the Company’s business, financial condition and operations, including the resumption of coal production and coal processing at normal levels;
- the impact of the restrictions on the number of trucks permitted to cross the border at the Ceke Port of Entry and the import coal quality standards established by Chinese authorities on the Company’s operations;
- enhancements to the infrastructure and technologies which support cross-border exports at the Ceke Port of Entry in 2023;
- the results and impact of the Class Action (as defined under Section 6 of this Annual Information Form 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;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this Annual Information Form under the heading entitled “*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda*”);

- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability of the Company to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the voluntary delisting of the Common Shares from the TSX and the listing of the Common Shares on the TSX Venture Exchange (the "TSX-V") pursuant to the Voluntary Delisting Application (as defined below) and the Listing Application (as defined below), respectively;
- the conversion of the Company's listing of Common Shares on the HKEX from a secondary listing to a primary listing pursuant to the Primary Listing Application (as defined below);
- the Company's outlook and objectives for 2023 and beyond (as more particularly described under Section 11 of this Annual Information Form under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this Annual Information Form, 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 2023 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will reopen for coal exports at normal levels; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued restrictions on the number of trucks crossing the border at the Ceke Port of Entry; the risk that

the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject for further closure; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Convertible Debenture, 2020 November Deferral Agreement, the Amended and Restated Cooperation Agreement, the 2021 July Deferral Agreement, the 2022 May Deferral Agreement, 2022 November Deferral Agreement, the 2023 March Deferral Agreement and the Credit Facility; the risk of the Company failing to satisfy the listing conditions for the listing of the Common Shares from the TSX-V; the risk of the Company failing to complete the conversion of the Company's Common Shares on the HKEX from a secondary listing to a primary listing; 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 Annual Information Form under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*") and any damages payable by the Company as a result; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 10 of this Annual Information Form under the heading entitled "Risk Factors" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

Due to assumptions, risks and uncertainties, including the assumptions, risks and uncertainties identified above and elsewhere in this Annual Information Form, 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 Annual Information Form; they should not rely upon this information as of any other date.

## **CORPORATE STRUCTURE**

### **Name, Address and Incorporation**

The Company was incorporated on February 14, 2002, pursuant to the *Company Act* (British Columbia) under the name 5119 Investments Ltd. The Company changed its name to MX Capital Corp. on March 28, 2002, and then continued under the *Canada Business Corporations Act* on November 4, 2002. On August 26, 2003, the Company changed its name to Asia Gold Corp. On September 22, 2003, the Company

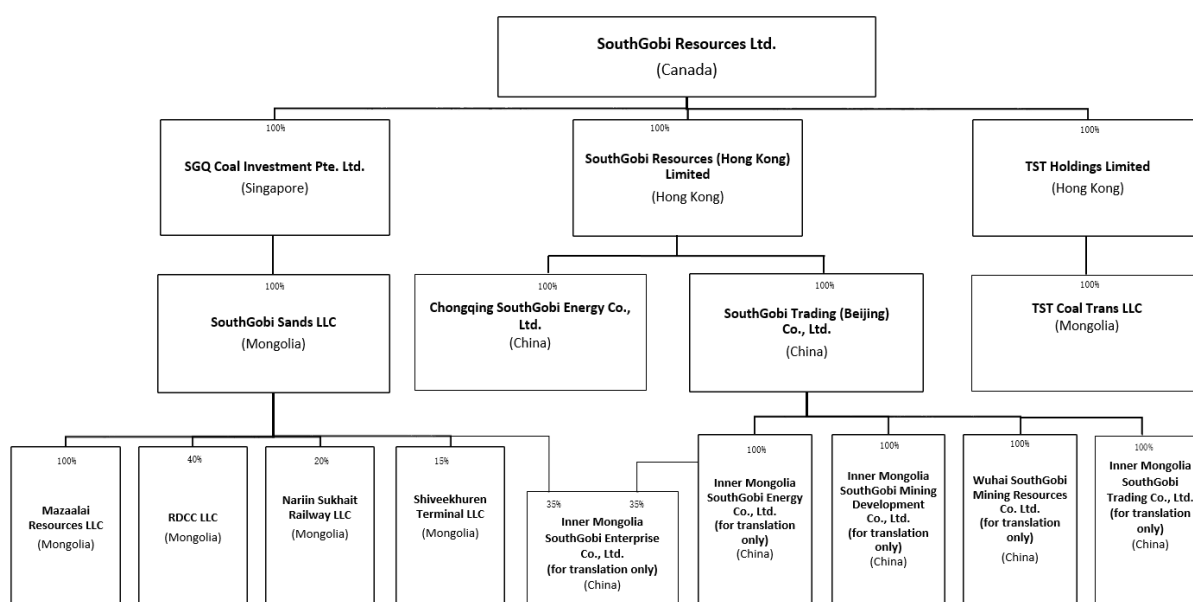


consolidated its Common Shares on a six for one basis. On May 29, 2007, the Company was continued under the BCBCA, changed its name to SouthGobi Energy Resources Ltd. and reorganized its authorized capital to create a class of shares separate from the Common Shares, consisting of an unlimited number of Preferred Shares. On January 1, 2008, the Company amalgamated with Ivanhoe Resources Ltd. under the BCBCA and continued under the name SouthGobi Energy Resources Ltd. On May 11, 2010, the Company changed its name to SouthGobi Resources Ltd.

The Company’s principal place of business is located at Unit 1208-10, Tower One, 193 Prince Edward Road West, Grand Century Place, Mongkok, Kowloon, Hong Kong. The Company’s registered and records office is located at 20<sup>th</sup> floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8.

## Intercorporate Relationships

The following sets forth the name and jurisdiction of incorporation of the Company and its principal subsidiaries:



## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

The Company is an integrated coal mining, development and exploration company with 360 employees, including 310 Mongolian employees, as at December 31, 2022. The Company owns the Ovoot Tolgoi Mine, a significant coal project in Mongolia. The Company also owns the Zag Suuj Project and the Soumber Project, both development projects. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150km of each other and in close proximity to the Mongolia-PRC border. The Company holds a 100% interest in the Ovoot Tolgoi Mine.

As of the date hereof, the Common Shares are listed for trading on the TSX under the symbol “SGQ” and on the HKEX under the stock code symbol “1878”.

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares. As at March 30, 2023, 295,226,779 Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 4,740,650 unissued Common Shares with exercise prices ranging from CAD\$0.13 and HKD\$1.41. There are currently no Preferred Shares issued and outstanding.

As of March 30, 2023, to the best of the Company's knowledge:

- JDZF holds approximately 85,714,194 million Common Shares representing approximately 29.0% of the issued and outstanding Common Shares; and
- Land Grand holds approximately 46,358,978 million Common Shares representing approximately 15.70% of the issued and outstanding Common Shares.
- Voyage Wisdom holds approximately 25.8 million Common Shares representing approximately 8.73% of the issued and outstanding Common Shares.

### **Context**

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren Border Crossing, is the Company's flagship asset.

The Ovoot Tolgoi Mine, together with the Ovoot Tolgoi Underground Deposit, forms the Ovoot Tolgoi Deposit. The Ovoot Tolgoi Deposit is separated into two distinct areas, the Sunrise and Sunset Pits. The Company commenced open pit mining at Ovoot Tolgoi's Sunset Pit in April 2008 and commenced coal sales in September 2008. In August 2011, the Company commenced open pit mining and sales at the Sunrise Pit.

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 consists 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.

The Ovoot Tolgoi Mine is covered by the Ovoot Tolgoi Mining Licence (as defined herein), a single 9,282.76ha mining licence, and a corresponding permit to mine. The Ovoot Tolgoi Underground Deposit is contiguous to, and located directly below, the Ovoot Tolgoi Mine.

The Soumber Project, comprising the Central Soumber, East Soumber, Biluut, South Biluut and Jargalant Fields, is located approximately 20km east of the Ovoot Tolgoi Mine.

The Zag Suuj Project is located approximately 150km east of the Ovoot Tolgoi Mine and approximately 80km north of the Mongolia-PRC border.

For a description of the Ovoot Tolgoi Mining Licence, refer to "Description of Material Property – Ovoot Tolgoi Deposit – Property Description and Location" in this Annual Information Form.

## Three Year History

### 2020

On February 11, 2020, the Company was informed that effective as of February 11, 2020, the Mongolian State Emergency Commission closed Mongolia's southern border with China in order to prevent the spread of COVID-19. Accordingly, the Company suspended coal exports to China beginning as of February 11, 2020 as a result of the border closure and the Company suspended its coal mining operation beginning as of February 11, 2020.

On February 19, 2020, the Company reported that SGS was informed by its Mongolian banks on February 7, 2020 that they received a request from the CDIA to freeze the respective bank accounts of SGS in Mongolia in relation to the enforcement of the Arbitration Award. Approximately \$0.8 million in cash was frozen by the banks as at February 7, 2020 and such amount was subsequently transferred to the CDIA on March 6, 2020.

On February 19, 2020, the Company and CIC entered into an agreement (the "**2020 February Deferral Agreement**") pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of \$1.3 million and \$2.0 million which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the deferral agreement executed by the Company and CIC on April 23, 2019 (the "**2019 Deferral Agreement**") (collectively, the "**2020 February Deferral Amounts**"); and (ii) approximately \$0.7 million of the Management Fee which was due and payable on February 14, 2020 to CIC under the Amended and Restated Cooperation Agreement. The 2020 February Deferral Agreement became effective on March 10, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 February Deferral Agreement from the TSX as required under applicable TSX rules.

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

- Payment of the 2020 February Deferral Amounts will be deferred until June 20, 2020, while the Management Fee will be deferred until they are repaid by the Company.
- As consideration for the deferral of these amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 February Deferral Amounts, commencing on the date on which each such 2020 Deferral Amount would otherwise have been due and payable under the 2019 Deferral Agreement; and (ii) a deferral fee equal to 2.5% per annum on the Management Fee, commencing on the date on which the Managements 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.
- The Company agreed to comply with all of its obligations under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, as amended by the 2020 February Deferral Agreement.
- The Company and CIC agreed that nothing in the 2020 February Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, respectively.

On February 19, 2020, the Company reported that effective as of February 11, 2020, the Mongolian State Emergency Commission closed Mongolia's southern border with China in order to prevent the spread of COVID-19. Accordingly, the Company suspended coal exports to China beginning as of February 11, 2020 as a result of the border closure.

On March 10, 2020, the Company agreed with CIC (the "**2020 March Deferral Agreement**") that the \$2.0 million which was due and payable to CIC on March 19, 2020 under the 2019 Deferral Agreement (the "**2020 March Deferral Amount**") will be deferred until June 20, 2020. The terms of the 2020 March Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 March Deferral Amount, commencing on March 19, 2020. The 2020 March Deferral Agreement became effective on March 25, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 March Deferral Agreement from the TSX as required under applicable TSX rules.

On March 11, 2020, Mr. Wen Yao, a non-executive director, resigned from the Board.

On March 18, 2020, Mr. Jianmin Bao was elected as a non-executive director of the Company by CIC pursuant to a contractual nomination right granted to CIC pursuant to a securityholders' agreement by and among the Company, CIC and a former shareholder of the Company (the "**Securityholders Agreement**").

On March 28, 2020, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period.

On March 30, 2020, the Company announced that Mr. Dalanguerban was appointed as the Company's CEO and executive director with effect from March 31, 2020, following the resignation of Mr. Shougao Wang as the Company's CEO and executive director.

On March 30, 2020, the Company announced its unaudited financial results for the financial year ended December 31, 2019 as required pursuant to the requirements of the HKEX. Due to the COVID-19 pandemic, the auditing process for the annual results for the year ended December 31, 2019 had not been completed by March 30, 2020 due to travel restrictions in force in parts of China and Mongolia. The unaudited financial results of the Company for the financial year ended December 31, 2019 were reviewed by the Audit Committee, and approved and authorized for issue by the Board on March 30, 2020. The Company also announced that it was postponing the filing of its audited consolidated financial statements for its financial year ended December 31, 2019 (the "**2019 Financial Statements**"), the accompanying Management Discussion & Analysis ("**MD&A**") and its Annual Information Form for the financial year ended December 31, 2019, as a result of the auditors of the Company being unable to complete the audit process for the Company's annual results for the year ended 2019 prior to the filing deadline for the 2019 Financial Statements of March 30, 2020 and would be relying upon the blanket relief order issued by the Canadian Securities Administrators on March 18, 2020 which provided reporting issuers with a 45-day extension for filing certain periodic filings normally required to be filed on or before June 1, 2020 under applicable Canadian securities laws.

On April 10, 2020, the Company agreed with CIC (the "**2020 April Deferral Agreement**") that the \$2.0 million of deferred cash interest and deferral fees which were due and payable to CIC on April 19, 2020 under the 2019 Deferral Agreement (the "**2020 April Deferral Amount**") will be deferred until June 20, 2020. The terms of the 2020 April Deferral Agreement were substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 April Deferral Amount, commencing on April 19, 2020. The 2020 April Deferral Agreement became effective on April 29, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 April Deferral Agreement from the TSX as required under applicable TSX rules.

On April 28, 2020, the Company reported that its coal mining activities would remain suspended in May 2020 and that its revenue, liquidity and profitability would continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels.

On May 8, 2020, the Company agreed with CIC (the “**2020 May Deferral Agreement**”) that the deferred cash interest and deferral fees of \$2.0 million which were due and payable to CIC on May 19, 2020 under the 2019 Deferral Agreement; and approximately \$0.2 million of Management Fees which were due and payable on May 15, 2020 to CIC under the Amended and Restated Cooperation Agreement (collectively, the “**2020 May Deferral Amount**”) will be deferred until June 20, 2020. The terms of the 2020 May Deferral Agreement were substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the deferred cash interest and deferral fees commencing on May 19, 2020 and a deferral fee equal to 2.5% per annum on the deferred Management Fees commencing on May 15, 2020. The 2020 May Deferral Agreement became effective on June 8, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 May Deferral Agreement from the TSX as required under applicable TSX rules.

On May 11, 2020, the Company announced that it obtained: (i) a waiver from the HKEX from strict compliance with the requirement under Rule 13.46(2)(b) of the HKEX listing rules to lay its 2019 Financial Statements before Shareholders at its 2020 annual general meeting of shareholders (“**2020 AGM**”) within 6 months of its financial year end; and (ii) an order dated May 7, 2020 from the British Columbia Registrar of Companies to extend the time to convene the 2020 AGM until February 28, 2021.

On May 12, 2020, the Company announced that it had been advised by its auditors that they would not be in a position to render an unmodified opinion on the 2019 Financial Statements prior to the extended filing deadline of May 14, 2020 because they were not able to obtain sufficient evidence to support management’s going concern assumptions. As a result, the Company was unable to file: (i) the 2019 Financial Statements, accompanying MD&A and CEO and CFO certificates prior to the filing deadline of May 14, 2020; the Annual Information Form prior to the filing deadline of May 14, 2020; and (iii) its interim consolidated financial statements for the three month period ended March 31, 2020 and accompanying MD&A and CEO and CFO certificates prior to the filing deadline of May 15, 2020 (collectively, the “**Required Filings**”). The Company was also unable to file its 2019 Annual Report prior to the filing deadline of May 15, 2020 as required under applicable HKEX listing rules.

On May 13, 2020, the Company applied for a management cease trade order (“MCTO” with the applicable Canadian securities regulators in connection with the anticipated delayed filing of the Required Filings. A MCTO was issued by the British Columbia Securities Commission (“**BCSC**”), the Company’s principal securities regulator in Canada, on May 15, 2020.

On June 2, 2020, the Company reported that it received a letter from legal counsel to First Concept demanding repayment of the outstanding sums and interests pursuant to an enforcement order issued in January 2020 in relation to a confidential partial award (final except as to costs) (the “**Arbitration Award**”) with respect to the arbitration proceeding in Hong Kong related to the dispute concerning a coal supply agreement between SGS and First Concept. On June 7, 2020, SGS entered into a settlement agreement with First Concept, pursuant to which SGS agreed to pay to First Concept a settlement sum in the amount of \$8.0 million in full and final settlement of any and all claims which First Concept may have against SGS in relation to Arbitration Award, the subject matter of the Arbitration Award including any claims for interests and costs and the fees and expenses of the Arbitration Award, and any and all enforcement proceedings and applications in any jurisdictions, and in relation to the deed of settlement with First Concept (the “**Full Settlement Sum**”). The Full Settlement Sum was fully satisfied by the Company in June 2020 and the outstanding payable to First Concept as of the date hereof is \$nil.

On June 18, 2020, the Company agreed with CIC (the “**2020 June Deferral Agreement**”) that the deferred cash interest and deferral fees in the aggregate amount of approximately \$74.0 million (the “**2020 June Deferral Amount**”) which were due and payable to CIC on June 19, 2020 under the 2019 Deferral Agreement and the prior deferral agreements entered into during the period between February to May 2020 will be deferred until September 14, 2020. The terms of the 2020 June Deferral Agreement were substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 June Deferral Amount commencing on June 19, 2020. The 2020 June Deferral Agreement became effective on July 17, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 June Deferral Agreement from the TSX as required under applicable TSX rules.

On June 19, 2020, the BCSC issued a general “failure to file” cease trade order (“**CTO**”) as a result of the Company’s failure to file the Required Filings prior to extended filing deadline of June 15, 2020, to prohibit the trading by any person of any securities of the Company in Canada. Trading in the Common Shares on the TSX was halted as a result of the CTO.

On June 30, 2020, the Company reported that the HKEX granted a waiver to the Company from the requirement under Rule 13.46(2)(a) of the HKEX listing rules to send to its members and other holders of its listed securities a copy of the annual report including its annual account not less than 21 days before the date of the Company’s annual general meeting and in any event not more than four months after the end of the financial year to which they relate, on the basis that the Company will despatch the 2019 Annual Report on or before July 24, 2020.

On July 24, 2020, the Company reported that the publication of the 2019 Financial Statements and despatch of the 2019 Annual Report would be further delayed.

On August 2, 2020, the Company resumed its coal mining operation.

On August 12, 2020, the Company reported that, due to the delay in publication of the 2019 Financial Statements, the Company applied for a voluntary trading suspension on the HKEX, which took effect on August 17, 2020.

On September 2, 2020, the Company received a letter from the HKEX setting out the following resumption guidance for the resumption of trading in the Common Shares on the HKEX (the “**Resumption Guidance**”): (i) publish all outstanding financial results and address any audit modifications; (ii) inform the market of all material information for the Company’s shareholders and investors to appraise its position; and (iii) announce quarterly updates on the Company’s developments under Rules 13.24A of the HKEX listing rules, including, amongst other relevant matters, its business operations, its resumption plan and the progress of implementation.

On September 11, 2020, the TSX notified the Company that it was reviewing the Company’s eligibility for continued listing of the Common Shares on the TSX pursuant to the TSX’s Remedial Review Process (“**TSX Delisting Review**”). The Company was granted until January 11, 2021 to remedy the following delisting criteria, as well as any other delisting criteria that become applicable during the Remedial Review Process: (i) financial condition and/or operating results; (ii) adequate working capital and appropriate capital structure; and (iii) disclosure issues (collectively, the “**Delisting Criteria**”).

On September 30, 2020, the Company was notified by the HKEX of the following additional condition which must be satisfied in order for trading in the Common Shares on the HKEX to resume: resolve issues arising from the CTO and/or the TSX Delisting Review (as defined below), or take steps to the satisfaction of the HKEX that the Company will be eligible for a primary listing on the HKEX.

On November 13, 2020, Mr. Xiaoxiao Li, a non-executive director, resigned from the Board.

On November 19, 2020, the Company and CIC entered into an agreement (the “**2020 November Deferral Agreement**”) pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of approximately \$75.2 million which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of \$16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) \$4.0 million worth of PIK Interest shares (“**2020 November PIK Interest**”) issuable to CIC on November 19, 2020 under the Convertible Debenture; and (iv) the Management Fees which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the “**2020 November Deferral Amounts**”). The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement were subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from the Company’s shareholders in accordance with applicable TSX rules. On October 29, 2020, the Company obtained an order from the BCSC which partially revoked the CTO to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement.

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

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

shares in accordance with the Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.

- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

On November 26, 2020, the Company reported that its auditors completed their audit of the 2019 Financial Statements and the Company filed its 2019 Financial Statements and accompany MD&A and CEO and CFO certifications as required under applicable Canadian securities laws.

On December 4, 2020, the Company announced that it obtained the requisite approvals from the TSX to extend the time within which to hold the 2020 AGM in order to permit the Company to convene the 2020 AGM on or before January 21, 2021.

On December 8, 2020, the Company announced the following additional condition which must be satisfied in order for trading in the Common Shares on the HKEX to resume: demonstrate compliance with Rule 13.24 of the HKEX listing rules which requires that an issuer carry out a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer's securities.

On December 9, 2020, Ms. Ka Lee Ku was appointed as a non-executive Director.

During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

The border closure has had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closures and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough from February 2020. On August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal.

## 2021

On January 4, 2021, the Company reported that its auditors completed their review of the September 30, 2020 third quarter financial statements and accompanying Management's Discussion and Analysis ("**Q3 Financial Statements and MD&A**") and the Company filed its Q3 Financial Statements and MD&A and CEO and CFO certifications as required under applicable Canadian securities laws.

On January 21, 2021, the 2020 November Deferral Agreement was approved at the Company's annual and special meeting of shareholders. As a result, the 2020 November Deferral Agreement, together with the deferral and waiver thereunder in favour of the Company, became effective as of the same date.

On February 5, 2021, the BCSC and the Ontario Securities Commission granted a full revocation of the CTO. Trading in the Common Shares resumed on the TSX on February 8, 2021.



On February 9, 2021, the Company confirmed that it has fulfilled all the conditions stated in the resumption guidance to the satisfaction of the HKEX. Trading in the Common Shares resumed on the HKEX on February 10, 2021.

On February 10, 2021, SouthGobi announced the following changes to its senior management team: the resignation of Mr. Weiguo Zhang as CFO and appointment of Mr. Alan Ho as acting CFO, resignation of Mr. Aiming Guo as Chief Operating Officer, re-designation of Mr. Tao Zhang's title to Vice President Sales and appointment of Mr. Munkhbat Chuluun as Vice President Public Relations.

On February 15, 2021, the Company announced that the TSX Continued Listing Committee determined that the Company satisfies the TSX's applicable requirements for continued listing.

On March 2, 2021, SGS received a notice from the Mongolian governmental authority that the Soumber licenses have been reinstated effective as of March 2, 2021.

On March 2, 2021, the Company provided a profit warning based on the preliminary assessment of the Company's unaudited management accounts for the year ended December 31, 2020.

On May 5, 2021, the Company provided a profit warning based on the preliminary assessment of the unaudited management accounts for the quarter ended March 31, 2021.

On June 6, 2021, the Company reported that in light of the resurgence of COVID-19 pandemic in Mongolia, additional precautionary measures were imposed by the Chinese authorities at the Ceke Port of Entry, including but not limited to, restricting the number of trucks crossing the Shivee Khuren Border Crossing.

On July 30, 2021, Company and CIC into a new deferral agreement (the "**2021 July Deferral Agreement**") pursuant to which CIC agreed to grant the Company: (i) a deferral of the semi-annual cash interest payment of US\$8,065,753 payable to CIC on November 19, 2021 under the Convertible Debenture; and (ii) a deferral of the payment-in-kind interest payment of US\$4,000,000 payable on November 19, 2021 under the Convertible Debenture (collectively, the "**2021 July Deferral Amounts**"), in each case until August 31, 2023.

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

- Payment of the 2021 July Deferral Amounts will be deferred until August 31, 2023;
- As consideration for the deferral of the 2021 July Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2021 July Deferral Amounts payable under the Convertible Debenture, commencing on November 19, 2021;
- If at any time before the 2021 July Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination;
- The Company agreed to comply with all of its obligations under the prior deferral agreements entered into with CIC; and

- The Company and CIC agreed that nothing in the 2021 July Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

On October 26, 2021, the Company provided a profit warning based on the preliminary assessment of the unaudited management accounts for the quarter ended September 30, 2021 and provided a business update which advised that due to the recent increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, the local government authorities imposed stringent preventive measures throughout the region beginning as of the second quarter of 2021, including the temporary closure of the Ceke Port of Entry located at the borders of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021.

## 2022

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

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

On April 20, 2022, the Company announced that it would be making an application (the "**Listing Application**") to the TSX Venture Exchange ("**TSX-V**") to list its common shares on the TSX-V. In conjunction with the foregoing, the Company would also apply for voluntary delisting (the "**Voluntary Delisting Application**") of its common shares from the TSX, subject to the Company receiving approval from the TSX-V of the Listing Application.

Additionally, and pursuant to Rule 19C.13A of the Rules Governing the Listing of Securities on the HKEX, the Company announced it intended to submit a written notification to the HKEX (the "**Primary Listing Application**") stating, among other things, that it would be able to fully comply with the applicable Listing Rules in connection with the approval of the Listing Application and the Listing Application becoming effective, and such that its current secondary listing on the HKEX will be converted to a primary listing.

On May 13, 2022, Company and CIC, entered into a new deferral agreement (the "**2022 May Deferral Agreement**") pursuant to which: (i) CIC agreed to grant the Company a deferral of semi-annual cash interest payment of approximately US\$7,934,247 payable to CIC on May 19, 2022 under the Convertible Debenture (the "**2022 May Deferral Amount**"); and (ii) CIC agreed to grant the Company a deferral of the management fees accrued and became payable on February 14, 2022 and the management fees which will be due and payable on August 14, 2022 (the "**2022 May Deferred Management Fees**"), in each case under the Amended and Restated Cooperation Agreement.

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

- Payment of the 2022 May Deferral Amounts and 2022 May Deferred Management Fees will be, in each case, deferred until August 31, 2023;
- As consideration for the deferral of the 2022 May Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2022 May Deferral Amounts payable under the 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 Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination; and
- 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 May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly. Although the export of coal from Mongolia to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the Mongolian-Chinese border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company anticipates that its revenue, liquidity and profitability will continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels. The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the full resumption of its mining operation. In the event that the Company's ability to export coal into the Chinese market continues to be restricted or limited, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

On May 27, 2022, the Company announced that, as disclosed in the press release issued by CIC on May 26, 2022 (the "**CIC Press Release**"), CIC has entered into an agreement to sell (the "**CIC Sale Transaction**") all of its interests in the Company, including its 64,766,591 common shares of the Company and the Convertible Debenture, to JDZF.

Upon the completion of the CIC Sale Transaction, CIC agreed to assign (the "**Assignment**") to JDZF all of CIC's rights in and obligations under: (i) the Convertible Debenture and related security documents; (ii)

the Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Cooperation Agreement (the “Deferral Agreements”); and (iv) the Securityholders Agreement.

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

Upon the completion of the CIC Sale Transaction and related Assignment:

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

On May 30, 2022, the Company reported that its auditors had completed their audit of the consolidated financial statements of the Company for the year ended December 31, 2021 and accompanying Management’s and Discussion and Analysis (“**2021 Financial Statements and MD&A**”) and the Company filed its 2021 Financial Statements and MD&A and CEO and CFO certifications as required under applicable Canadian securities laws.

On June 7, 2022, the BCSC granted a full revocation of the 2022 MCTO. Trading in the Common Shares resumed on the TSX on June 8, 2022.

On July 15, 2022, the Company provided a voluntary business update to advise that the Company's major mining operations, including coal mining, had resumed and coal production volume will be increased in a gradual manner, while the coal processing shall remain suspended for the time being and the management will revisit the possibility of resumption of coal processing at a later time.

On July 21, 2022, the Company held its 2022 AGM.

On July 28, 2022, the Company received an acknowledgment from the HKEX, which informed the Company that upon the Voluntary Delisting, the HKEX will regard the Company as having a primary (rather than secondary) listing status on the HKEX.

On August 30, 2022, the Company reported that the CIC Sales Transaction had successfully completed.

On August 30, 2022, the Company announced that Mr. Jianmin Bao had resigned as a non-executive Director and Mr. Ben Niu had resigned as a non-executive Director and ceased to be a member of the operations committee of the Company.

On September 4, 2022, the Company announced that Mr. Tao Zhang had resigned as the Vice President of Sales and a director of several of the Company's subsidiaries.

On September 8, 2022, the Company announced the appointment of Mr. Dong Wang as the Company's Chief Executive Officer ("CEO") and an Executive Director, following the resignation of Mr. Dalanguerban as CEO and his subsequent appointment as President, the appointment of Ms. Chonglin Zhu as the Company's Senior Vice President of Finance and an Executive Director, and the appointment of Mr. Alan Ho as Chief Financial Officer.

On November 11, 2022 the Company announced that it had entered into a deferral agreement (the "**November 2022 Deferral Agreement**") with JDZF, pursuant to which JDZF agreed to grant the Company a deferral of the following payments until November 19, 2023: (i) the cash interest payment of approximately \$7.07 million payable to JDZF on November 19, 2022 (the "**November 2022 Cash Interest**") under the Convertible Debenture; (ii) \$1.1 million (the "**PIK Interest Deferral Amount**", and together with the November 2022 Cash Interest, the "**November 2022 Deferral Amounts**") out of \$4.0 million worth of payment-in-kind interest shares payable to JDZF on November 19, 2022 under the Convertible Debenture; and (iii) the management fees which will accrue and be due and payable on November 15, 2022, February 15, 2023, May 16, 2023 and August 15, 2023 (the "**November 2022 Deferred Management Fees**"), in each case under the Amended and Restated Cooperation Agreement.

On November 19, 2022, the Company paid JDZF a cash payment of \$1.0 million as partial payment for cash interest owed pursuant to the Convertible Debenture, and paid JDZF the remaining \$2.9 million of the November 2022 PIK Interest by way of issuing and delivering 20,947,063 Common Shares to JDZF at an issue price of \$0.185 per Common Share.

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

- Payment of the November 2022 Deferral Amounts and November 2022 Deferred Management Fees will be, in each case, deferred until November 19, 2023;
- As consideration for the deferral of the November 2022 Deferral Amounts, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the November 2022 Deferral Amounts payable under the Convertible Debenture, commencing on November 19, 2022;
- As consideration for the deferral of the November 2022 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 November 2022 Deferred Management Fees would otherwise have been due and payable under the Amended and Restated Cooperation Agreement;
- If at any time before the November 2022 Deferral Amounts, November 2022 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; and
- 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 November 29, 2022, the Company announced that, as disclosed in the early warning report filed by Cinda on November 28, 2022, Novel Sunrise, a wholly-owned subsidiary of Cinda, completed the sale of all of its interests in the Company (the “**Novel Sunrise Sale Transaction**”), including its 46,358,978 common shares of the Company, to Land Grand. In connection with the Novel Sunrise Sale Transaction, Novel Sunrise assigned to Land Grand certain rights in and obligations under the subscription agreement between the Company and Novel Sunrise dated February 24, 2015, including Novel Sunrise's right to nominate a certain number of individual(s) for appointment or election to the board of directors of the Company while its beneficial interests in the Company's issued and outstanding common shares exceed 10%.

On December 6, 2022, the Company announced the following changes to its Board of Directors: the appointments of Mr. Zhu Gao, Mr. Gang Li and Mr. Chen Shen as non-executive Directors; the resignations of Mr. Zhiwei Chen and Ms. Ka Lee Ku as non-executive Directors; and the resignation of Mr. Dalanguerban as an Executive Director.

On December 30, 2022, the Company provided an update on the Delisting and NEX Listing Application and advised that the anticipated effective date had moved to the end of January 2023.

#### *2023 to date*

On January 31, 2023, the Company announced that it had received a written notice from the HKEX (the “**Migration Exchange Notice**”) of its decision that the majority of trading in the Company's Shares has migrated to the HKEX markets (“**Migration**”) on a permanent basis as more than 55% of the Company's total worldwide trading volume took place on such markets over the most recent financial year. The Company has a grace period of 12 months to comply with the applicable HKEX listing rules, which will end at midnight on the first anniversary of the date of the Migration Exchange Notice.

On February 17, 2023, the Company announced that Mr. Chen Shen had been re-designated from a non-executive Director to an Executive Director.

On February 28, 2023, the Company provided an update on the Voluntary Delisting and advised that the anticipated effective date is postponed to April 2023.

On March 2, 2023, the Company announced that Inner Mongolia SouthGobi Energy Co., Ltd., (the “**Borrower**”) an indirect wholly-owned subsidiary of the Company, as the borrower, entered into a revolving loan agreement (the “**Revolving Loan Agreement**”) with Inner Mongolia Tianyu Innovation Investment Group Limited (the “**Lender**”) which owns 100% of the equity interest in Inner Mongolia Tianyu Trading Limited, being the sole limited partner of JDZF, as the lender. The lender agreed to make available to the borrower an unsecured revolving credit facility (the “**Credit Facility**”) up to a maximum principal sum of RMB90,000,000 with a maturity date, being the date which falls on three months after the date of the Revolving Loan Agreement.

On March 6, 2023, the Company announced that it was advised by the TSX-V that the TSX-V has reconsidered the Company's previous TSX-V Listing Application, and the TSX-V is prepared to grant approval for the Company's TSX-V Listing Application, once the Company is able to comply with certain

listing conditions. The Company had received a conditional acceptance letter from the TSX-V confirming that the TSX-V Listing Application had been approved subject to the satisfaction of certain listing conditions of the TSX-V. The Company is targeting a tentative date for the listing of the Common Shares on the TSX-V and the date of Delisting of April 17, 2023.

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

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 TSX and the shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the HKEX Rule.

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 (the “Deferral Date”).
- 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: (i) 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 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 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 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.
- The Company expects to convene a special meeting of Shareholders in the second quarter of 2023 to seek disinterested Shareholder approval of the 2023 March Deferral Agreement.

## Outlook

The re-opening of the Ceke Port of Entry in May 2022 and the subsequent gradual increase of coal export volumes into China resulted in significant improvements in the Company's cash flows in fiscal 2022. The Company expects that planned investments from multiple coal mining companies in 2023 to enhance the infrastructure and technologies which support cross-border exports at the Mongolian-Chinese border, will result in export volumes continuing to increase in 2023. With assistance and support from JZDF, 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 2023, the Company expects to continue to ramp up its mining operations and capacity to capitalize on the anticipated increase in sales volume. The Company will revisit the possibility of resuming coal processing at a later date.

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

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

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

- **Enhance product mix** – The Company will focus on improving the product mix by: (i) improving mining operations; (ii) consider resuming the operation of the Company's wet coal processing plant; (iii) exploring the possibility of a dry coal processing operation; and (iv) 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 maximize profit while maintaining sustainable long-term business relationships with customers.



- **Increase production and optimize cost structure** – The Company will aim to increase the volume of coal production, while also aiming to reduce its production costs and optimize 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.

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

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company’s main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **A large reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of more than 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 Mongolia and China** – 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.

## LEGAL MATTERS

### Class Action Lawsuit

In January 2014, Siskinds LLP, a Canadian law firm, filed 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 filings (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 (“**Certification Motion**”). 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 plaintiffs 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.

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

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

Counsel for the plaintiff and defendants have agreed on and the case management judge has ordered a trial to commence in December 2022 (subject to Court availability). To accomplish all steps necessary for trial preparation, counsels have agreed to the following proposed schedule under the case management of the judge: (i) document production and pleading amendments by October 31, 2021; (ii) oral examinations for discovery ending by December 31, 2022; (iii) expert reports of plaintiff by July 31, 2022 and by defendants, on damages and liability in early May, 2023, respectively; and (iv) pre-trial agreements, filings and motions by September 2023. 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 judged a provision for this matter as at December 31, 2022 and December 31, 2021 is 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 commencement of the contract and provided for an annual wet washing capacity of approximately 3.5 million tonnes of input coal.

Under the original 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 a provision for this matter at December 31, 2022 and December 31, 2021 is not required.

#### **Special Needs Territory in Umnugobi**

On February 13, 2015, the entire Soumber mining license and a portion of SGS' exploration license 9443X (9443X was converted to mining license MV-020436 in January 2016) (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 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).

### **Restrictions on 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 coal quality requirement.

## **RISK FACTORS**

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

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

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

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue operating until at least December 31, 2022 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, certain adverse conditions and material uncertainties cast doubt upon the ability of the Company to continue as a going concern. These include:

- the Company has a working capital deficiency (excess current liabilities over current assets) of \$184.7 million as at December 31, 2022;
- 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 the Company's aging profile of the trade and other payables as at December 31, 2022 in Section 6 of the Company's MD&A under the heading entitled "*Liquidity and Capital Resources – Liquidity and Capital Management – Going Concern Considerations*";

- the Company has other current liabilities which require settlement in the short-term, including the \$22.5 million of unpaid taxes payable by SGS to MTA; and
- the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan.

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

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

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

- An insolvency filing by or against the Company will cause an event of default under 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 reorganization plan and meet future obligations;
- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and
- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

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

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

The Company is currently a defendant in the Class Action (as more particularly described in the section entitled "*Legal Matters – Class Action Lawsuit*" of this Annual Information Form). 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.

### **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 TSX and the HKEX, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

### **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 realize on the estimates for the Ovoot Tolgoi deposit. It is not unusual in the mining industry for mining operations to experience unexpected problems during commercial production, resulting in delays and requiring more capital than anticipated. Actual costs and economic returns may

differ materially from the Company's estimates. Risks associated with the operation of mines include, but are not limited to, the following:

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

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

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

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

### **Risks Relating to the Company's Projects in Mongolia**

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

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

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

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

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

The 2006 Minerals Law, 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. Refer to the risk factor entitled "*The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance*" below.

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

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

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

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

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

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

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

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

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, which was converted to mining license MV-0125436 in January 2016, is overlapping with a protected area boundary.



The overlapping area has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority) In connection with the nullification of Annex 2 of the Government order No.194 “On determining boundary” issued on June 5, 2012, area around the water reservoir located at MV-016869 license area was annulled from the Specified Area Law.

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

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

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

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

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

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

The Company believes the COVID-19 pandemic in China has negatively affected its business. Furthermore, the economic slowdown and negative business sentiment in the PRC could potentially have a negative impact on the demand for coal generally and our business operations and financial condition may be adversely affected as a result. Given the difficulty involved in determining with any degree of certainty as to how long the COVID-19 pandemic will last, the Company cannot predict if the adverse impact on the

Company's business, financial condition and operations will be short-lived or long-lasting at this time. If the negative impact of the COVID-19 pandemic continues and becomes long-lasting, the Company's business, financial condition and operations may be materially and adversely affected as a result of any slowdown in economic growth in China, reduce demand for coal or other factors that the Company cannot foresee.

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

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

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

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

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

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

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit,

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

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

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

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

### **Risks relating to the Company's business and industry**

#### ***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. In consideration of the 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. Furthermore, given the current market conditions, directors' and officers' liability insurance cannot be obtained at economically reasonable premium. The Company has therefore elected to place its current directors' and officers' liability insurance with aggregate coverage in the amount of US\$5 million into three (3) years run-off, at one time cost of US\$50,000. The coverage has a deductible of US\$250,000.

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.

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

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

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

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

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

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

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

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

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

The Company expects that a majority if not all of the coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations. More recently, the COVID-19 pandemic has resulted in reduced industrial activity in China, with temporary closures of factories and other facilities, as described in the risk factor entitled "*The impact of the COVID-19 pandemic in China could have a material adverse impact on the Company's business, results of operations, or financial condition*".

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

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

As at March 31, 2023, 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 8.74% 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company intends to sell a majority of the coal it produces in China. Competition in the Chinese coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in China with other large Chinese and international coal mining companies. Due to location, some of the Company's Chinese competitors may have lower transportation costs than the Company does. The Chinese coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance.

Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

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

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

The Company has been selling its coal products since 2008. The Company had 51 active customers with the largest customer representing approximately 14%, the second largest customer representing approximately 9%, the third largest customer representing approximately 8% and the remaining customers accounting for 69% of the Company's total sales for the year ended December 31, 2022. In order to mitigate this risk, the Company is attempting to modify its sales strategy in order to expand its existing customer base. With certain of its customers, the Company has accepted payment for coal deliveries in the form of bank instruments, in lieu of cash. There can be no assurance, however, that the Company will be able to satisfy or comply with the funding conditions of such instruments following completion of the coal delivery or the bank that issues the instrument will be capable of paying all or any portion of the proceeds to the Company, which could have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares.

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

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

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

Effective internal controls are necessary for the Company to provide reliable financial reports and prevent fraud. If the Company fails to maintain an effective system of internal controls, the Company may not be able to report its financial results accurately or prevent fraud; and in that case, Shareholders and investors

could lose confidence in the Company's financial reporting, which would harm the Company's business and could negatively impact the price of the Common Shares.

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

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

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

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

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

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

The Company currently does not own a coal storage facility at the Ceke border. As a result of potential stricter requirements for coal storage facilities which may be adopted by the local government in the future, the Company may not be able to secure enough storage space at the Ceke border, which could have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares. As part of its focus on capital preservation, the Company has decided to suspend indefinitely all further development activities relating to the previously announced Ceke

Logistics Park Project until further notice. The Company may be at risk of becoming subject to litigation proceedings initiated by its investment partner in the Ceke Logistics Park Project for failing to comply with the underlying agreements governing project development. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company may become subject could have a material adverse impact on its business, operations, results of operations, financial condition and future prospects.

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

***Foreign currency fluctuations could affect expenses and any future earnings.***

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

***Information in this Annual Information Form regarding future plans reflects current intentions and is subject to change.***

Whether the Company ultimately implements the business strategies described in this Annual Information Form 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 Annual Information Form.

## DESCRIPTION OF MATERIAL PROPERTY

### Qualified Persons

Disclosure of a scientific or technical nature in this Annual Information Form in respect of the Company’s material mineral project 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 NI 43-101:

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 Annual Information Form is derived from the Ovoot Tolgoi Technical Report prepared in accordance with NI 43-101 for the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr. Larry Li of DMCL. A copy of the Ovoot Tolgoi Technical Report is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

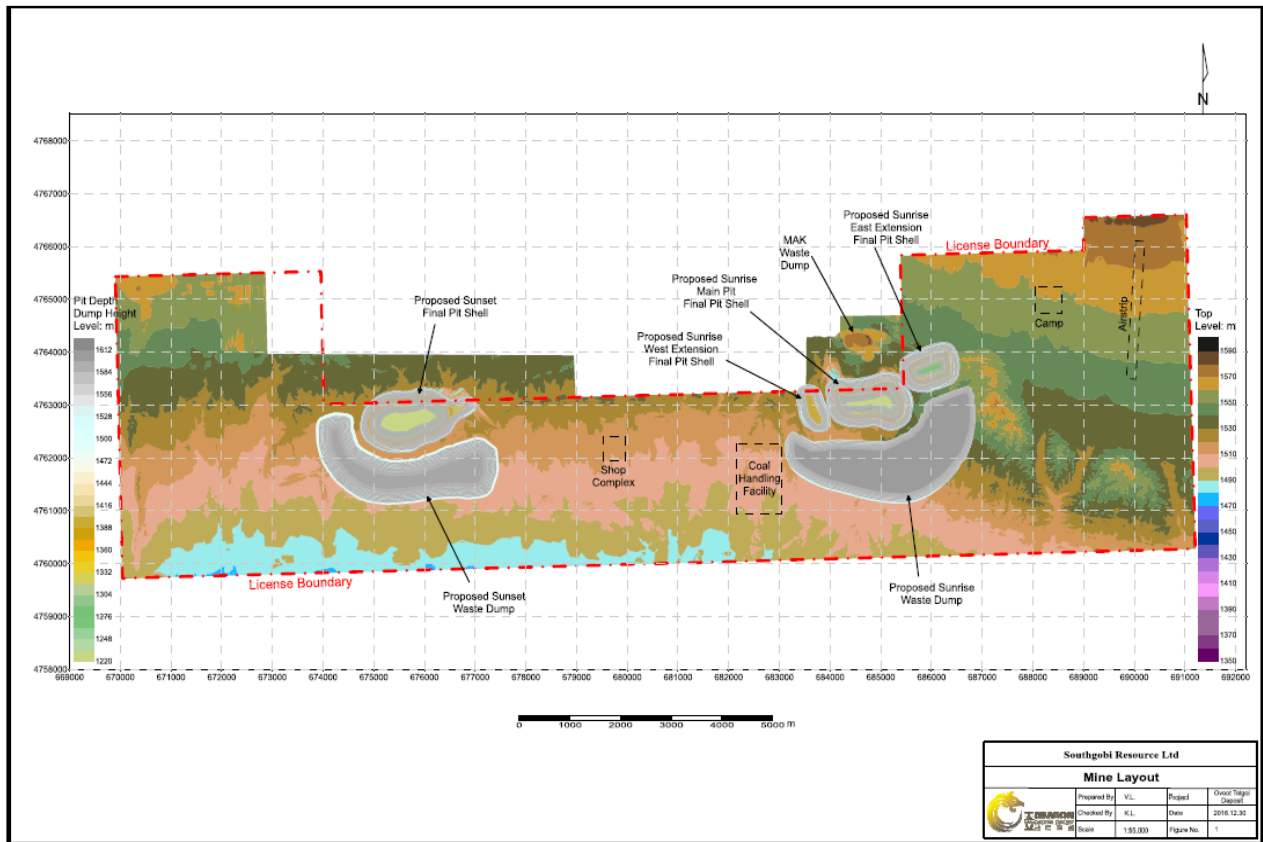
### Ovoot Tolgoi Deposit

#### *Property Description and Location*

The Ovoot Tolgoi Deposit is located in the southwest corner of the Umnugobi Aimag (South Gobi Province) of Mongolia within the administrative unit of Gurvantes Soum, 320km southwest of the provincial capital of Dalanzadgad and 950km south of the nation’s capital Ulaanbaatar. The Ovoot Tolgoi Deposit is approximately 45 kilometres north of the Mongolia-China border and the Ceke border crossing. Ceke, located in the People’s Republic of China, is the main distribution center for the Ovoot Tolgoi coal.

The Company holds its interest in the Ovoot Tolgoi Deposit through its wholly owned subsidiary, SGS, the operating entity under the Company, which is incorporated in Mongolia and holds the mining licences of the Ovoot Tolgoi Deposit.

The property is located adjacent to the existing MAK-Qinghua Mines (including the Nariin Sukhait Mine) operations. The Ovoot Tolgoi Deposit resources comprises of two different resource areas, referred to as the Sunrise and Sunset Fields respectively. Both Sunrise and Sunset Fields are within the Ovoot Tolgoi mining licence, which covers a total of 9,282ha, and shall expire by 2037, with two possible 20- year extensions. The waste dumps for the Sunrise and Sunset Fields are located to the south of either field within the Ovoot Tolgoi Mining Licence area. The map below sets out the boundary of the mining licence and location of key infrastructures at the Ovoot Tolgoi Deposit. The Company is currently reviewing all aspects of the Ovoot Tolgoi Deposit’s mine with a view to achieving optimization of mining strategy. This review and optimization may affect the pit sizes shown on the map.



The Company’s exploration activities, mining operation and land use rights for the Ovoot Tolgoi Deposit, as well as the Company’s development projects are governed by the 2006 Minerals Law and the Land Law of Mongolia. The use of water is governed by the Water Law of Mongolia and the 2006 Minerals Law. These laws allow licence holders to use the land and water in connection with exploration and mining operations, subject to the discretionary authority of Mongolian national, provincial and regional governmental authorities as granted under the Mongolian law.

The Government of Mongolia grants MELs for a period of three years with the right to extend the period three times for three additional years each. MEL holders are subject to various environmental protection obligations including preparation and acceptance by the Mongolian government of detailed EIA and preparation of an EMP, which must be approved by the Soum Governor, as well as the annual posting of a bond equal to 50% of expected reclamation costs. MEL holders are also required to pay a land rent fee and commit to a minimum expenditure per hectare of licence area as set out in the table below.

### Mongolian Mineral Exploration Licence Fees

Year	Licence Fee (MNT/ha)	Minimum Expenditure (US\$/ha)
1	145	0.00
2	290	0.50
3	435	0.50
4-6	1,450	1.00
7-9	2,175	1.50
9-12	7,250	10.00

Following successful exploration, the holder of a MEL can apply for a mining licence over any portion of the MEL.

A mining licence is granted for a period of 30 years, with the right to extend the period for two additional 20-year periods. The mining licence covers both mineral and surface lease rights. The primary requirements to maintain mining licences in Mongolia are: (i) pay annual renewal fee of US\$5.00/ha; (ii) submit and have approved an annual mine plan; (iii) report mining quantities and pay appropriate royalties; (iv) submit and have approved annual EPP for mining activities; and (v) submit an annual report for the year most recently completed on mining activities by February 15 of the following year.

In September 2007 portions of existing MELs covering the Ovoot Tolgoi Deposit area held by the Company were converted to licence no. 12726A covering an area of approximately 9,282ha encompassing the areas of the Sunset Pit and the Sunrise Pit for the development of an open-pit coal mine (the “**Ovoot Tolgoi Mining Licence**”). The Ovoot Tolgoi Mining Licence is held by SGS and expires in 2037. RungePincockMinarco has inspected a copy of the Ovoot Tolgoi Mining Licence.

The area covered by the Ovoot Tolgoi Mining Licence is adjacent to concessions held by MAK where coal is being produced from the Nariin Sukhait Mine. The Sunrise and Sunset coal deposits extend across the Ovoot Tolgoi Mining Licence boundary into the MAK’s concessions. Resource and reserve estimates previously disclosed by the Company for Sunrise and Sunset are limited to the area covered by the Ovoot Tolgoi Mining Licence, even though the open pits extend across the lease boundaries in order to effectively access all economic coal within the licence area. SGS and MAK have entered a cooperation agreement on February 20, 2014 (amended in May 2015) which allows SGS to strip off the overburden in MAK’s property at SGS’s own cost. MAK will remove the coal within its lease area to allow development of the SGS’s pits. The coal within the pits and within the MAK’s concessions has been treated as generating no revenue and having no associated cost. SGS and MAK have also signed another cooperation agreement related to the dumping of overburden removed by MAK from the MAK’s concession on an area of the SGS’s concessions that has been shown to contain no potentially economic coal resources.

Waste disposal areas have been identified and approved in the Ovoot Tolgoi Mining Licence.



### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The area around the Ovoot Tolgoi Deposit currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km<sup>2</sup>. There are two primary sources of mining labour – Ulaanbaatar and the local soum.

The surface expression of the deposit ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1,515 to 1,555m above sea level. The region experiences a continental desert climate. Temperature typically ranges from 0° to -30°C in the winter, increasing to 30° to 35°C in the summer months. High winds occur frequently, particularly throughout the spring. Average annual rainfall is approximately 130mm with most precipitation occurring during the summer months. Vegetation is sparse, consisting primarily of small shrubs and grasses.

The local weather is acceptable for exploration activities from April through October. While exploration activities are not recommended during the harsh winters, the climate allows year-round mining operations.

The Ovoot Tolgoi Deposit has an onsite airport that is accessed via chartered aircraft from Ulaanbaatar, providing transport for the commute roster workforce. A regular air service is also available from Ulaanbaatar to Dalanzadgad, the administrative centre of Umnugobi Aimag. Travel from Dalanzadgad to the site takes approximately seven hours over unpaved roads. All parts of the Ovoot Tolgoi Deposit can be reached with four-wheel-drive vehicles.

A rail line connects the Ovoot Tolgoi area with the industrial centres in the PRC. The railroad terminus is approximately 40km south of the Ovoot Tolgoi Deposit, at the Shivee Khuren Border Crossing. Coal trucks travel overland from both Ovoot Tolgoi and the neighbouring MAK-Qinghua Mine to the railroad terminus located at Ceke. Electrical power is available from a power line distributing power from Ceke to various points within the Ovoot Tolgoi Deposit. Additional electric power is currently supplied by on-site diesel generators, as required.

No surface water is currently available in the immediate area of the Ovoot Tolgoi Deposit. Water for the camp and shop complexes is supplied from water supply wells drilled during the hydrological investigations. The recently completed permanent accommodation camp has a water treatment facility. Water for dust suppression is available from the pit dewatering.

### ***History***

The first geological investigations at Nariin Sukhait took place in 1951 and 1952 and were led by V.S. Volkhonina. Results included geological mapping at a scale of 1:500,000. Coal was first identified in the Nariin Sukhait area in 1971 by a Mongolian geological survey expedition led by D. Dashtseren. A study of the Nariin Sukhait coal deposit was undertaken by Exploration Unit No. 15 of the Ulaanbaatar Geological Research Group in 1991 that delineated an inferred resource on the property. Readers are reminded that inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Since this estimate was reported, substantial exploration has been undertaken as set out under the heading “*Description of Material Property – Ovoot Tolgoi Deposit - Exploration*” in this Annual Information Form.

The Company acquired its interest in the Ovoot Tolgoi Deposit from Turquoise Hill in May 2007.

## *Geological Setting*

The coal-bearing sedimentary sequences at Ovoot Tolgoi are Late Permian in age and are interpreted to have been deposited along the margins of a tectonically active continental basin. The region is interpreted to have subsequently undergone basin and range style extensional tectonics followed by a period of compressional folding and faulting. The most prominent feature relating to the coal deposit at Ovoot Tolgoi is the arcuate, east-west-trending Nariin Sukhait fault. The coal-bearing sedimentary sequences are exposed primarily in a window adjacent to the Nariin Sukhait fault.

## *Regional Geology*

The South Gobi region of Mongolia is considered to reflect a complex geological history of continental accretion and Basin-and-Range style crustal extension, followed by regional-scale compressional folding and faulting. The region is therefore dominated by elongate, east-west trending mountain ranges and intervening basins. The intervening basins contain Late Cretaceous to Permian age sediments, overlain by relatively thin Quaternary unconsolidated sediments. The mountain ranges separating these basins comprise mostly crystalline basement rocks, dissected by intermediate to high angle faults that show evidence of both compressional and extensional movement. The most prominent structure relating to the Ovoot Tolgoi coal deposit is the arcuate, east-west-trending, moderately dipping Nariin Sukhait fault where the Late Permian coal-bearing section is exposed in a window adjacent to it in the MAK Mine West Pit.

## *Coal Occurrences*

The most prominent structural feature relating to the coal deposit at Ovoot Tolgoi is the arcuate, east-west trending Nariin Sukhait fault. The coal-bearing sedimentary sequences, interpreted to be of Late Permian, are exposed primarily in a window adjacent to the Nariin Sukhait fault. The only place where the fault is exposed is in the Nariin Sukhait Mine, where it appears as an intermediate angle structure (40 - 50 degrees) in their west pit. The Company's concessions at Ovoot Tolgoi contain two distinct resource areas within the Late Permian sequences, which are the Sunrise and the Sunset Fields.

Exploration activities undertaken by SGS within the Ovoot Tolgoi Deposit area have focused on the thick coal forming the No. 5 Seam, but additionally have delineated further coal resources in packages of "upper seams" located above and below this horizon. As such, the current geological modeling has organized the coal seams within the Ovoot Tolgoi Deposit into a number of Seam Groups including the Seam Nos. 4, 5L, 5U, 6, 7, 8, 9, 10 and 11.

Seam Nos. 1 through 3, described in the early work at Nariin Sukhait have not been identified in the Ovoot Tolgoi Deposit.

Interburden both within and between coal seams is highly variable at Ovoot Tolgoi. Interburden between the coal seams is generally dominated by sandstones and conglomerates, while the partings within the coals are most commonly mudstones and carbonaceous mudstones.

## *Structural Geology*

The Sunrise Field is located on SGS controlled land surrounding the southeast corner of the MAK mining licence. The Seam No. 5 is currently being mined by MAK and MAK-Qinghua and is in this area along the axis of a regional-scale antiform. This structure trends to the southwest from the MAK East Pit and forms the basis for the Company's resources at the Sunrise Field. The coal-bearing sedimentary sequences are southeast dipping with an average dip of around 35 degrees. Minor Seam Nos. 6 and 7 occur above the

Seam No. 5 and Seam No.4 occurs beneath the Seam No. 5. Coal resources estimated for the Sunrise Field are largely contributed by the Seam No. 5.

The Sunset Field is located on the southwest corner of the MAK's concessions. Coal resources are found along a southeasterly-dipping monocline, which could represent a preserved limb of a southwesterly-plunging antiform extending in a north-east/south-west direction from the exposure in the north-west of the Sunset Pit, through to the MAK pit. The majority of resources are found in the Seam No. 5L and 5U within a southeast dipping coal-bearing sequence. Additionally, a considerable proportion of resources occur in the upper coals forming Seam Nos. 8, 9, and 10.

***Mineralization***

The coal-bearing formations occur primarily within a zone of upper Permian-aged sediments exposed in the hanging wall of the Nariin Sukhait Fault. Early work adopted the seam nomenclature presented by Dashkhoral (a geologist) in 1992, thereby calling the very thick coal in the middle of the sequence the Seam No. 5, and naming the upper seams in ascending order. As exploration work progressed, numerous additional seams and splits were discovered within the overall packages of coal previously described. The following tables present the coal seam characteristics on a seam-by-seam basis:

**Ovoot Tolgoi Deposit Coal Seam Characteristics**

**Sunset Field Coal Seam Thickness**

<b>Seam Group</b>	<b>Average Cumulative Coal Apparent Thickness (m)</b>	<b>Maximum Cumulative Coal Apparent Thickness (m)</b>
11	0.06	2.97
10	11.5	34.2
9	25.3	56.8
8	6.5	29.9
5U	45.1	204.3
5L	36.7	140.4

**Sunrise Field Coal Seam Thickness**

<b>Seam Group</b>	<b>Average Cumulative Coal Apparent Thickness (m)</b>	<b>Maximum Cumulative Coal Apparent Thickness (m)</b>
7	8.1	20.3
6	19.8	57.3
5U	29.3	100.0
5L	54.3	144.3
4	6.45	24.92

**Coal Quality**

Raw coal and clean coal quality of the Ovoot Tolgoi Coal Mine has been analysed through core, sold coal and washability samples. Coal quality has been shown to be similar in both the Sunrise and Sunset Pits. A summary of coal quality data for each pit organized by the coal seam group and confined to the in-pit resources (depth < 300m), based on the SGS's latest resource model, is presented in the table below.

**Coal Quality by Seam Group of Sunrise Pit**

Seam Group	Ash	Calorific Value	Volatile Matter	Total Sulphur	Relative Density	Inherent Moisture	Total Moisture
	%	Kcal/Kg	%	%	g/cc	%	%
7*	8.15	6,872	39.63	0.71	0.0	1.35	9.63
6U*	13.94	6,384	39.18	0.52	0.0	1.02	7.21
5U	17.96	6,407	31.74	1.04	1.42	1.01	9.32
5L	13.25	6,774	31.50	1.11	1.37	1.04	7.52

\* Based on RC samples, therefore indicative only.

**Coal Quality by Seam Group of Sunset Pit**

Seam Group	Ash	Calorific Value	Volatile Matter	Total Sulphur	Relative Density	Inherent Moisture	Total Moisture
	%	Kcal/Kg	%	%	g/cc	%	%
10	17.32	6,455	32.86	1.2	1.42	1.69	5.4
9	18.10	6,429	32.46	1.6	1.44	1.68	4.7
8	17.41	6,513	31.65	1.4	1.43	2.33	5.2
5U	9.75	7,240	32.22	0.7	1.34	1.34	4.4
5L	15.32	6,780	33.05	1.0	1.42	1.53	3.1

***Exploration***

IVN commenced modern systematic exploration in late 2004 with the completion of five boreholes in the Sunrise Field. This program was continued in early 2005 and expanded to include general exploration activities along the entire regional trend as well as resource delineation drilling in the Sunrise and Sunset Fields. The exploration programs undertaken from 2004 through 2006 by IVN and by the Company starting from 2007, concentrated on drilling in the Sunrise and Sunset Fields, but work also continued elsewhere on the trend. The 2010 exploration program included in-fill drilling and extended drill hole coverage in the west of the Sunrise Field. The 2011 exploration program included infill drilling and increased drill hole coverage in the Sunset Extension. The 2014 drilling program was completed exclusively in the Sunrise Field with 14 drill holes in the Sunrise Extension and 3 drill holes toward the western part of the Sunrise Main Pit. In 2016, 22 drill holes were completed with the majority of exploration drilling planned to test the further extension of coal resources extending from the current operation area.

Exploration activities used to date at the Ovoot Tolgoi Deposit include geological mapping, interpretation of satellite imagery and aerial photographs, geophysical surveys, trenching, and drilling.

Geological mapping was initiated by IVN in early 2005 and continued during 2006 to define the trend of outcrops and locate coal occurrences in the hanging wall of the Nariin Sukhait fault. Reconnaissance exploration work was contracted primarily to Sapphire and supervised initially by IVN and then by the Company. Norwest geologists provided assistance in the review of activities and interpretation of results in 2005 and 2006, while Sapphire directly supervised and assisted the Company in the review of activities and interpretation of results in 2007, 2008 and 2011. McElroy Bryan supervised the 2010 exploration program. The majority of the reconnaissance work was conducted prior to transfer of the MELs from IVN to the Company in 2007. Satellite imagery was used in conjunction with the geological mapping to locate surface exposures of coal and identify major faults and folds affecting coal occurrences. Commencing in 2017, the

Company began to carry out detailed geological mapping on areas cut open by mining and the mapping is being developed.

Additionally, 3-D and 2-D surface resistivity surveys were used to help locate coal (mineralization) in areas with thin Quaternary and younger surficial cover. Potential targets identified with the above-mentioned techniques were then tested with trenches cut perpendicular to their interpreted strike, to expose coal seams close to surface.

Trenching has been useful in identifying the near surface coal seams, primarily for testing by exploration drill holes. Coal seam thickness and structure observed in the trenches are greatly affected by weathering and erosion, alteration, and deformation. Trenching intercepts have been found to be unreliable sources to seam characteristics and structure information, and consequently are not used in resource estimation but are used to help inform geological models of the deposits.

### ***Drilling***

Drilling completed as of December 31, 2022 at the Ovoot Tolgoi Deposit includes a total of 601 exploration holes completed and 135,528.2m drilled. This does not include limited drilling that took place under the Soviet-Government of Mongolia sponsored exploration programs.

During the Soviet/Mongolian government-sponsored exploration programs, there was only limited drilling completed. From 2004 to 2006, an exploration program was carried out by IVN over both the Sunset and Sunrise Fields. A section line spacing of approximately 150m to 200m was generally employed with a drill hole spacing along a section line of approximately 50 m. From 2007 to 2011, drilling was further conducted by SGS to expand the coverage. In 2008, drilling focused on the deeper areas of the Sunset Field, with the aim of proving up the underground resource. Similarly, deeper areas of the Sunrise Field were drilled in 2010, as well as areas outside the initial target zone, in order to upgrade the classification of resource category. In 2014, drilling was conducted in the Sunrise Field with the majority of the drilling concentrating on the Sunrise Extension. In 2016, 22 drill holes were completed with the majority of exploration drilling planned to test the further extension of coal resources outside the current operation area. In 2018, five holes were drilled on the Sunrise pit and two holes were drilled on the Sunset pit, for a total of seven holes drilled, and core samples were taken for the purpose of checking former exploration holes and quality of the coal bed. In 2019, 7 holes were drilled on the Sunrise pit. In 2020, another 7 holes were drilled on the Sunrise pit, resulting 21 holes in total were drilled over the last three years. There were no holes drilled in 2021 and 2022.

All the 21 holes drilled from 2018 to 2020 have provided geological information of deeper coal seams compared to former holes for the purpose of checking the coal quality, and planning more accurate modeling for future production. The geophysical logging has been completed for 92% of all the holes. Depending on the equipment used, logs were either examined visually, or interpreted using the geophysical logging software. The depths for drilled seam intersections were then incorporated into the geologic database and model. A drilling summary by method and area is presented in the table below.

## Historic Coal Exploration Drilling

Field	Year	Core		Open		Total		Management Company
		No. Holes	Metres drilled	No. Holes	Metres drilled	No. Holes	Metres drilled	
Sunrise	2004	5	687			5	687	IVN
	2005	38	6,248	93	16,700	131	22,948	IVN
	2006	3	1,273	27	6,089	30	7,362	SGS/Sapphire
	2007	1	254	17	3,438	18	3,692	SGS/Sapphire
	2010	6	993	53	10,459	59	11,452	McElroy Bryan/Tanan Impex
	2014	17	2,446			17	2,446	Top diamond
	2016	2	350			2	350	Sant sharga
	2018	5	939.5			5	939.5	Sant sharga
	2019	7	1,233.3			7	1,233.3	SGS
	2020	7	1,511.4			7	1,511.4	SGS
Sub-total		91.0	15,935.2	190.0	36,686.0	281.0	52,621.2	
Sunset	2005	13	2,034	87	15,080	100	17,114	Norwest/Sapphire
	2006	24	5,187	47	10,738	71	15,925	Norwest/Sapphire
	2007	7	2,797	23	5,333	30	8,130	SGS/Sapphire
	2008	40	22,792			40	22,792	SGS/Sapphire
	2011	37	9,110	20	6,660	57	15,770	SGS/Sapphire
	2016	20	3,015			20	3,015	Sant sharga
	2018	2	161			2	161	Sant sharga
	Sub-total		143	45,096	177	37,811	320	82,907
<b>Grand Total</b>		<b>234</b>	<b>61,031.0</b>	<b>367.0</b>	<b>74,497.0</b>	<b>601</b>	<b>135,528.2</b>	

Drill core and drill cuttings descriptions, geophysical logs and coal analyses data were used to characterize and interpret the coal seam and coal-bearing stratigraphy of the Sunrise and Sunset Fields. All holes were drilled vertically.

Drill hole collars were initially located using a handheld GPS unit. After completion of drilling and logging, surveys were conducted to accurately locate the drill hole position and elevations.

### *Sampling, Analysis and Data Verification*

The majority of exploration holes at Ovoot Tolgoi have been drilled with rotary techniques, which means that only drill cuttings have been sampled. All quality analyses used for modelling were taken from core samples, which were obtained using triple-tube coring equipment. The procedures described below apply to holes used in the preparation of the Ovoot Tolgoi coal quality model.

Core drilling was used to collect complete representative samples of the coal seams, observe structural details, and to accurately measure the depths of lithological contacts. Although some of the initial holes were drilled with single-tube Russian-made core equipment, the majority of core drilling was done with wireline drilling systems and triple-tube core barrels. Work was conducted by Sapphire under Norwest supervision during the 2005 and 2006 programs, whereas in 2007, 2008, 2011 and 2014 it was under the Company's supervision and in 2010, it was under McElroy Bryan Geological supervision.

Core was retrieved, logged, and sealed according to Norwest conventions established in 2005. Each core run was measured for total core cut versus core recovered. Photographs were taken at 0.5m intervals. Coal showing distinct lithological variation was sampled separately, as were partings over 0.05m. Otherwise, coal intervals with a uniform appearance were bagged in 0.6m sample increments as per the core box length. When zones of core loss greater than 0.1m were encountered, separate samples were collected both above and below the zone. The Company personnel completed basic lithological logging and sampling of coal intervals at 1m interval during the 2014 exploration program.

Downhole geophysical surveys were completed on all drill holes during the program. Core recovery was recorded and core photographs taken. Lithological logs and sample intervals have been corrected based on the interval depths interpreted from the downhole geophysical survey. A large number of RC and a minor amount of conventional air-rotary holes were drilled. Samples of cuttings were collected at 1m intervals and laid out in rows on the ground for examination and logging. A portion of the RC samples were used for basic proximate and thermal analysis as a comparison to the core samples. The remaining portion of the samples has been stored in Ulaanbaatar. Analytical results from these samples have not been included in the geological model.

#### Core Drilling Samples

Core recovery is logged after comparing the recovered core length with the core run length recorded by the driller. Recovered core is then also measured and compared to the coal interval thickness determined from the geophysical log suite. Recovered coal intervals are sampled using the following criteria: (i) coal samples are broken out based on lithological changes; (ii) in zones of uniform coal appearance, samples are bagged about every 0.6m as per the capacity of the core boxes; (iii) in-seam partings, to a maximum thickness of 0.1m, are included in a coal sample where the thickness of the adjacent coal beds above and below the parting are both a minimum of twice the parting thickness; and (iv) a parting is sampled separately if it is non-coal lithology type and greater than 0.1m thick, carbonaceous shale, bone or interbedded coal/mudstone, or deemed to be greater than 50% coal.

Collected samples are cleaned of any contamination and placed in individual, core-sleeve style plastic bags. The bags are labelled on the outside with both the core hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then placed in sequence into waxed-cardboard core boxes. Core boxes are sealed with tape. Core boxes from the 2005 program were transported to the Company's office in Ulaanbaatar, then shipped to SGS Mineral Labs in Denver, Colorado (ISO-9000 certified, accredited by NQA in the United States of America and independent of the Company). Core from the 2006 program was similarly transported to offices affiliated with SGS North America Inc. laboratories offices in Ulaanbaatar, and then shipped to SGS Laboratories in Tianjin, PRC (currently holds ISO-17025 certification, accredited by China National Accreditation Service for Conformity Assessment).

Core samples undergo a full suite of coal quality testing including short proximate, full proximate, thermal tests, ash analysis, and metallurgical testing. Some select samples undergo washability testing.

### Reverse Circulation Samples

Drill hole cutting samples are collected at 1.0m intervals into plastic bags. The bags are labelled on the outside with both the drill hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then grouped by hole into larger bags, packaged and transported to Ulaanbaatar for storage at the Company facilities. It is believed that testing of RC samples was discontinued in 2007 due to the difficulty in distinguishing between coal cuttings and parting cuttings using RC samples.

### Data Verification

Since the initial setup of the exploration camp in 2005, data collection verification and storage at Ovoot Tolgoi has been managed by various independent consultants employed by the Company. Between 2005 and 2006, Norwest directly managed the exploration program from conceptual planning of exploration targets, through to data collection, interpretation and analysis. Norwest provided on-site management throughout the majority of the exploration programs during those two years. All data collection was done under a defined set of protocols established in 2005 by QPs Mr. Patrick P. Riley and Mr. Richard Tift, consultant/QPs for Norwest at Ovoot Tolgoi during 2005 and 2006. Mr. Riley is owner and operator of TAG, an independent geological consulting company based in Lakewood, Colorado. Norwest site geologists were responsible for the training and administration of data collection procedures and were responsible for reviewing all data. Norwest maintained oversight of all data collection throughout the exploration program and the QP visited these operations and reviewed these procedures.

During 2007, 2008, 2010, 2011, 2013 and 2014, although Norwest was no longer involved at Ovoot Tolgoi, those field protocols previously established by Norwest were implemented by Sapphire field geologists, supervised by the Company and McElroy Bryan geological personnel. In 2011, Runge Pincock Minarco audited a subset of the data collection from previous years. Scanned field lithology logs and geophysical logs were provided for review. In 2017, a representative number of coal seams were verified against the seam picks used to generate the geological model by DMCL. Drill hole collars were verified against the digital topography of the resource model. Additional sampling of a number of coal seams and assay were also carried out in 2018. No material concerns were encountered.

### Security of Samples

Security measures to specifically detect any tampering with samples while in transit were not employed. Coal is a bulk commodity and, consequently, not susceptible to modification or “salting” as this would require replacement or modification of a considerable proportion of the sample collected for analysis, which is difficult to achieve on full and solid core.

### Resource Estimate

The term “resource” is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface considered by the QP to have reasonable prospects for eventual economic extraction. For a complete description of a resource, refer to “mineral resource” under the heading “*Definitions and other information – Glossary of Geological and Mining Terms*” in this Annual Information Form. The resource estimates presented are on an in-situ basis, i.e., without adjustment for mining losses or recovery. Minimum seam thickness is confined to be 0.6m and maximum parting thickness is confined to be 0.3m. Coal intervals not meeting these criteria are not included in the reported resources.

In accordance with NI 43-101, DMCL has made reference to the GSC Paper 88-21 during the classification, estimation and reporting of coal resources for the Ovoot Tolgoi Deposit. The exercise of resource classification is initially made based on the Geology-Type of the coal deposits as defined in the GSC Paper



88-21. According to the level of confidence of coal resource existence and data density, the resources are further classified into three categories respectively: Measured, Indicated and Inferred, in conformity with the requirements of NI 43-101, which were adopted by the QP during the classification of the resources at the Ovoot Tolgoi Deposit.

As a consequence of material changes in some key assumptions underlying the analysis of its resources subsequent to the last detailed review of the project in 2016, particularly those relating to ongoing changes in coal market conditions in China, geological analysis, optimized mining strategy and processing strategy, the Company has updated its resource and reserve estimate for the Ovoot Tolgoi Deposit in late 2016.

Resources have been estimated for the Ovoot Tolgoi Deposit as of December 31, 2016, including Measured Resources of 201.89Mt, Indicated Resources of 100.31 Mt and Inferred Resources of 89.01Mt.

Resource categorization was completed on a Seam Group basis. The resource categorization also took into account the continuity and confidence in drill hole intersections along each section.

The updated estimate of resources at the Ovoot Tolgoi Deposit is summarized in the following table.

**Ovoot Tolgoi Deposit - Surface Resource Estimate as of December 31, 2016**

Coalfield	Seam Group	Resource (Mt)		
		Measured	Indicated	Inferred
<b>Sunrise Pit (depth &lt;300m)</b>	<b>7</b>	2.18	2.94	1.96
	<b>6</b>	3.43	4.78	4.19
	<b>5U</b>	39.56	20.50	22.67
	<b>5L</b>	18.20	4.05	0.96
	<b>4</b>	0.45	0.68	0.60
	<b>Total</b>	63.83	32.96	30.38
<b>Sunset Pit (depth &lt;300m)</b>	<b>11</b>	0.01	0.00	0.00
	<b>10</b>	8.78	2.07	0.07
	<b>9</b>	17.78	3.39	0.23
	<b>8</b>	16.46	3.18	0.31
	<b>5U</b>	25.60	6.35	0.28
	<b>5L</b>	11.81	2.30	0.86
	<b>Total</b>	80.43	17.29	1.75
<b>Grand Total</b>		<b>144.26</b>	<b>50.25</b>	<b>32.13</b>

Totals may not add up due to rounding.

**Ovoot Tolgoi Deposit - Underground Resource Estimate as of December 31, 2016**

Coalfield	Seam Group	Resource (Mt)		
		Measured	Indicated	Inferred
Sunrise (depth 300m to 500m)	5U	1.96	4.96	13.09
	5L	6.02	11.97	24.98
	<b>Total</b>	7.98	16.93	38.07
Sunset (depth 300m to 500m)	10	2.97	1.90	0.00
	9	6.22	4.60	0.37
	8	6.88	3.80	2.18
	5U	27.92	14.88	3.47
	5L	5.67	7.95	12.79
	<b>Total</b>	49.65	33.13	18.82
<b>Grand Total</b>		<b>57.63</b>	<b>50.06</b>	<b>56.88</b>

Totals may not add up due to rounding.

The above resource statement of the Ovoot Tolgoi Deposit was estimated as of December 31, 2016 based on the Minex™ models provided by the Company and has not been depleted with 17.23Mt of raw coal produced during the period from 2017 to 2022.

The key assumptions used for the resource estimation are:

- Minimum coal thickness = 0.6m;
- Maximum coal parting = 0.3m;
- Surface resources were constrained to a depth of 300m, the same as the pit design used in the 2012 Technical Report;
- Volumes were converted to tonnages using laboratory relative density analytical results converted to an estimated in-situ basis;
- Resources are inclusive of reserves;
- Resources were constrained to the mining lease held by SGS only;
- Resource were estimated on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining recovery);
- Resources were depleted by mined out tonnage; and
- Resources were estimated based on the survey data made available as of December 20, 2016 for the Sunrise and Sunset fields.

### *Reserve Estimate*

In late 2016, the Company engaged DMCL to conduct a comprehensive review of all relevant information including technical data, mining strategy, pit optimization, mine design, production scheduling, coal processing strategy, sales strategy, coal prices and recovering coal transaction conditions, in order to prepare and update its resources and reserves estimate and to prepare a new mine plan. This process resulted in a re-calculation of estimated reserves by DMCL that appears in the table below.

#### **Ovoot Tolgoi Deposit - Reserve Estimate as of December 31, 2016**

Pit	Seam Group	Reserve (Mt)		
		Proven	Probable	Total
Sunrise Pit	7	0.39	0.47	0.85
	6	1.74	1.37	3.11
	5U	29.28	6.25	35.53
	5L	12.44	1.73	14.17
	4	0.40	0.52	0.92
	<b>Sub-total</b>	<b>44.25</b>	<b>10.34</b>	<b>54.59</b>
Sunset Pit	11	0.01	0.00	0.01
	10	4.97	0.64	5.61
	9	10.21	0.52	10.73
	8	10.42	0.48	10.90
	5U	21.06	1.80	22.86
	5L	8.56	0.91	9.47
	<b>Sub-total</b>	<b>55.23</b>	<b>4.34</b>	<b>59.57</b>
<b>Grand Total</b>	<b>99.49</b>	<b>14.68</b>	<b>114.17</b>	

Totals may not add up due to rounding.

The above reserve statement of the Ovoot Tolgoi Deposit was estimated as of December 31, 2016 based on the resource model provided by the Company and has not been depleted with 17.23Mt of raw coal produced during the period from 2017 to 2022.

Measured and Indicated Resources are inclusive of those Mineral Resources modified to produce the Reserves, i.e., Reserves are not additional to Resources.

The key assumptions used for the reserve estimation are:

- The reserve estimation used coal selling prices provided by an independent market consulting firm, which was commissioned by the Company in December 2016 and subsequently confirmed as reasonable and appropriate by the qualified person responsible for this reserve estimate;
- Reserves do not include any Inferred Resources which have been treated as waste (i.e. their mining costs have been covered but no revenue has been assumed for the Inferred Resources);
- A recovery factor of 95% and a dilution factor of 2.5% have been applied in the Reserve estimate;

- The pit design (and thus Reserves) was prepared to a depth of 300m below the original ground surface, which is same as the pit design used in the 2012 Technical Report;
- Reserves are constrained to the mining lease held by SGS only, although the open pit limits will extend across the lease boundary into the adjacent lease held by MAK, SGS and MAK have an agreement in place that allows SGS to strip off the overburden in MAK's lease. Coal within the pits and within the MAK's lease has been treated as generating no revenue and having no associated cost whereas the waste within the pits and MAK's lease will be stripped off at SGS' cost;
- Reserves are estimated to account for coal and waste that was mined as of 31 December 2016; and
- Totals may not add up due to rounding.

## ***Mining Operations***

### ***Mining Method***

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

The open pit limits extend across the Ovoot Tolgoi Mining Licence boundary into the adjacent lease held by MAK. As described previously, the Company and MAK have a cooperation agreement in place to allow mining across the boundary, which stipulates that SGS is responsible for removal of MAK waste but MAK is responsible for mining of MAK coal. Accordingly, the current reserve estimate does not include any coal within the MAK lease that must be extracted as part of the Company mining operation. Therefore, in the current mine plan, no revenue has been assumed for the MAK coal whereas costs have been assumed for stripping off the MAK waste.

### ***Coal Production and Stripping***

The actual production and stripping volume during 2017 to 2022 and the production schedule disclosed in the 2017 Technical Report are tabulated below.

	Actual Production		2017 Technical Report		Differences	
	Coal Production (Mt*)	Stripping volume (Mbcm**)	Coal Production (Mt)	Stripping volume (Mbcm)	Coal Production (Mt)	Stripping volume (Mbcm)
2017	6.38	20.82	4.69	30.98	36.0%	-32.8%
2018	4.34	18.12	8.29	38.74	-47.6%	-53.2%
2019	5.05	18.21	8.48	30.63	-40.4%	-40.5%
2020	1.49	5.34	8.87	31.86	-83.2%	83.24%
2021	1.36	5.94	9.30	35.15	-85.4%	-83.1%
2022	0.71	3.54	8.88	29.33	-92.0%	-87.9%

\*Mt: million tonnes

\*\*Mbcm: Million bank cubic meters

The difference between the actual production and the stripping volume during 2017 to 2022, and the production and stripping volume disclosed in the 2017 Technical Report was mainly attributed to the restriction of coal import through Ceke border. Additionally, the outbreak of COVID-19 at January 2020 which led to the temporary border closure between China and Mongolia for few months in first half of 2020, resulting to an adversely impact of sales and the coal production and stripping activities had been stopped for 6 months. As a result, the actual coal production and stripping activities in 2020 was significantly lower than those stated in the 2017 Technical Report. In 2022, export volume was still very low due to strict Covid-19 border restrictions imposed by China, as a result, coal production was completely halted from November 2021 to July 2022. In the future, more extensive use of mining contractors will be considered to catch up with the difference of production.

### ***Washing Operation***

The washing operation has been currently in place since 2018 and will be expanded in the future since China does not allow import of F-grade coal.

### ***Technical Report***

The latest technical report for the Ovoot Tolgoi Deposit that has been prepared by DMCL contains details of the resource estimation, reserve estimation, 9Mtpa raw coal production schedule and long-term mine plan for Ovoot Tolgoi and information with respect to (i) processing and recovery operations, (ii) infrastructure, permitting and compliance, and (iii) capital and operating costs as of 2017.

The mine plan in the DMCL technical report includes a 9Mtpa raw coal production schedule and processing strategy marked by wet washing facilities comprised of a wet wash plant equipped with the customized jig washing circuit and deep de-watering equipment. The processing strategy will be multi-phased and expanded over time.

The mine plan in the DMCL technical report is subject to changes from time to time depending on the market conditions as explained above and the Company will engage QP to review the necessity to update the technical report when necessary and if required to provide updated and relevant disclosure of the latest development and prospect of Ovoot Tolgoi mine.

### ***Coal Markets, Marketing and Sales Contracts***

For information on sales and marketing refer to “Sales and Marketing” in this Annual Information Form.

### Environmental Matters

The principal Mongolian environmental agency is the Ministry of Environment, Green Development and Environment. This agency reviews and approves EIAs, EMPs, and Environmental Monitoring Plans required by the 2006 Minerals Laws and subsequent amendment in 2014. In addition, the Soum Government receives a copy of each EIA document and has environmental inspectors who monitor the development, operation, and reclamation of mines within their jurisdiction.

In addition to obtaining approval of an EIA, an operator is also required to determine costs for annual implementation of the EMP. Funds in an amount sufficient to cover an amount equal to 50% of the budget for each year must be deposited in a special account established by the Government Ministry in charge of the environment. Funds from this account are released during mine closure phase upon demonstration of full implementation of the EMP for life of mine.

If the mining damages the environment, causes pollution, or violates the terms of any permits, the operator must make payments for the damage as determined by the Government of Mongolia. In addition, if any cultural or historic resource is damaged as a result of the mining, the operator must also pay damages. Financial compensation is also required for damages to any structure owned by third parties. The mine operator is also required to pay all relocation costs for anyone required to be relocated as a result of the mining operation. These costs are in addition to, not included in, the costs set out in the EIA.

The Company completed an EMP for the Ovoot Tolgoi Deposit in August 2005 and Environmental Consulting Company (ENCO), Ltd., prepared an EIA in 2006 and it was updated in 2012. Subsequently, the MELs were transferred from OT LLC to SGS, and then converted to the Ovoot Tolgoi Mining Licence. A number of fairly significant project changes have occurred since the submission and approval of EIA including an increased mine pit size and depth with associated increases in ore and waste rock quantities and hauling, increased blasting, increased operating hours and days, increased workforce, and relocation of the man camp. These changes resulted in the preparation of the Addendum.

As to flooding of the final pit, as backfilling is not proposed as a significant part of the mine plan it is possible that a pit lake would appear as a result of re-establishment of the groundwater table. The possibility that a pit lake will form part of the post mining reclamation creates a potential liability with respect to water quality. It is recommended that appropriate study be performed to determine if the pit lake will discharge to the surface water system or the alluvium in order to estimate the long-term effect of water in the final pit. Detailed plans for reclamation of the final mining pit have yet to be determined, as the final pit would provide possible access for future open pit or underground mining to extract some of the remaining coal, if economic. For information on the Company's environmental policy refer to "*Social and Environmental Policies – Environmental Policy*" in this Annual Information Form.

The Company has made \$7.6 million provision for the mine closure (i.e. the decommissioning liabilities in the financial statement) as of December 31, 2022.

### Taxes

The following taxes, royalties, and other government levies are applicable to the Ovoot Tolgoi mining operation:

- Royalty payments to the Government of Mongolia. Based on SGS's understanding of the Mongolian royalty legislation, it is subject to a base royalty in Mongolia of 5% on all export coal sales. In addition, effective January 1, 2011, SGS is subject to an additional sliding scale royalty of up to 5%. The royalty is calculated using a reference price per tonne published monthly by the

Ministry of Finance Mongolia. On June 23, 2021, the Government of Mongolia issued a resolution in connection with the royalty regime. From July 1, 2021 onwards, according to Government resolution 174, the royalty will be calculated only using reference price published by Ministry of Finance Mongolia. Refer to “RISK FACTORS – Risks relating to the Company’s projects in Mongolia” in this Annual Information Form.

- Property Tax: In 2022, the Immovable property tax was increased from 1% to 2% on acquisition value;
- Mining Licence: A fee of MNT7,250 per hectare is payable yearly on the Ovoot Tolgoi Mining Licence in the amount of MNT67.3 million (MNT7,250 x 9,282.76ha = MNT67.3 million) (approximately US\$19.5 thousands as of Dec 31, 2022);
- VAT: 10% on capital, materials and supplies. VAT is assumed to be refunded once the Company’s coal is incorporated in the final mining product list;
- Air pollution fee: A fee of 1,000 MNT per tonne of ROM coal;
- Land fee: The land fee is subject to change since 2020, it is increased to 4-30 MNT per square meter for mining area depending on usage of land.
- Income Tax: 1<sup>st</sup> of January 2020, new Corporate Income Tax law is adopted and 10% of the first six billion MNT of net profit before tax, 25% thereafter; and
- Depreciation: 5-7 years on equipment, 5-15 years on buildings, 1-5 years on minor asset

## **SALES AND MARKETING**

The Company expects that all production from the Ovoot Tolgoi Mine will continue to be marketed and sold into the PRC. Saleable products from the Ovoot Tolgoi Mine primarily include SouthGobi standard and SouthGobi premium semi-soft coking coal products. Some higher ash content product is washed or blended 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.

Coal sales from Ovoot Tolgoi are made through the Shivee Khuren Border Crossing. Once the coal arrives in the PRC it is distributed from Ceke. End users and logistics specialists generally undertake logistics from Ceke, with the coal destined for use in coke-making, power generation and cement making. The Company established a wholly owned foreign enterprise in China in 2016, which enables the Company to sell coal directly to Chinese end users.

The Company intends to continue to develop markets for both its premium and standard semi-soft coking coal products and to pursue long-term supply offtake with end users in the PRC to complement its existing customer base and to gain best value of the Company’s coal in the PRC market. The Company is committed to further enhance the quality of its coal products through wet washing and coal blending and increase its market penetration in the PRC. The commissioning of the wash plant at the Ovoot Tolgoi mine was completed during the second quarter of 2018.

## **DIRECT AND INDIRECT EMPLOYEES**

As at December 31, 2022, the Company had 360 employees, including 310 Mongolian employees.

## SOCIAL AND ENVIRONMENTAL POLICIES

### Environmental Policy

Within the framework of applicable environmental laws and legislation, the Company aspires to demonstrate environmental leadership by adhering to the following principles:

- avoid any environmental impact wherever possible;
- where environmental impact cannot be avoided, minimize the impact; and
- engagement of locals in the area in which it operates.

In order to implement its environmental policy, the Company is committed to adhering to the following:

- fully discharging its duty of protecting the environment in accordance with Mongolian laws in the course of its mining activities;
- prioritizing environmental actions for implementation in its business activities;
- implementing third party and internal environmental monitoring and include the participation of local people and governmental organizations;
- 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;
- regularly examining its environmental management system and regulations, 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 specialized agencies; and
- regularly organizing training for its employees and contractors with respect to the environment.

The Company uses, and will continue to utilize, appropriate and recognized 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. Specifically, the measures it is taking or that it expects to take in relation to the protection of the environment at the Ovoot Tolgoi Mine include:

- **Reducing land use footprint at mining site:** There were no areas to be rehabilitated at the waste stockpile in 2022 and, as an alternative rehabilitation area suggested by the local authority, four mining companies of the Nariin Sukhait or Ovoot Tolgoi mining complex are participating in the construction of the Gobi Gurvansaikhan National Park. The Company has spent a total of



29,500,000 MNT on the project so far. Furthermore, the Company participated in planting 15 million trees in the "1 billion trees" national movement project initiated by the President of Mongolia. As part of the project, the Company has spent a total of 168,875,000 MNT to participate in planting four thousand trees on Bogd Khan Mountain in Enkhtaivnii Am, Ulaanbaatar. In 2022, SGS spent 198,375,000 MNT in rehabilitation expenses relating to the environmental management plan.

- **Monitoring biodiversity in licence area and surrounding territories:** Currently there are no endangered plant and animal species in the Ovoot Tolgoi Mine area. The Company monitors biodiversity conservation and impact mitigation measures in mining areas and is prepared to undertake action as required in the future to preserve or maintain biodiversity. In 2022, an environmental monitoring program was completed in cooperation with mining companies of Nariin Sukhait.
- **Developing an environmental protection strategy:** The Company worked with a professional organization to develop a strategy for 2014 - 2018 to protect biological diversity, maintain ecosystem balance and preserve species dwelling near the Ovoot Tolgoi Mine area, all in accordance with Mongolian laws and regulations. In 2015, the biodiversity offset strategic plan was produced 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. As a result of research work conducted, offset reclamation was undertaken at Tost Toson Bumba Nature Reserve between 2016 to 2020 and 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.
- **Environmental protection activities:** The Company participated in planting 15 million trees in the "1 billion trees" national movement initiated by the President of Mongolia. As part of the project, four thousand trees were planted on Bogd Khan Mountain in Enkhtaivnii Am, Ulaanbaatar and 200 elm trees were planted at the Ovoot Tolgoi camp.
- **Monitoring the air quality at mining site:** 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, the Company cooperates with "ECOTYCOON", an environmental consultancy firm, and an on-site survey was completed in October of 2022.
- **Reusing grey water:** The Company reuses its grey water using a water treatment facility, which is a key part of reducing consumption of water resources and benefits the environment. The Ovoot Tolgoi camp has utilized grey water since 2015. In 2022 the Company purified 15045 m<sup>3</sup> of domestic waste water and, of this, 12036 m<sup>3</sup> was used for watering green area and dust suppression at mine site.
- **Recycling waste oil and plastic bottle:** The Company has engaged a professional waste oil-recycling contractor. Other non-toxic waste recyclables are provided to a local village in order to increase income and provide work opportunities within the community. Additionally, the Company is working together with the first local waste service company in Mongolia to improve non-minerals waste handling and management.

For further information on the EIA and EMP for the Ovoot Tolgoi Mine, refer to the section entitled “*Description of Material Properties – Ovoot Tolgoi Deposit – Environmental Matters*” in this Annual Information Form.

### **Health and Safety Policy**

1. Based on industry best practices and advanced technology, the Company aspires to be a responsible mining company in terms of safety by complying with the occupational health and safety standards and requirements under Mongolian laws, providing employees with healthy and safe workplace conditions, and committing towards a target of zero incidents. All employees of the Company are its most valuable assets.
2. The Company will determine detailed performance targets, obligations and duties, in order to implement the Company’s occupational health and safety (“**OHS**”) goals and objectives.
3. To achieve our OHS goals and objectives the Company will;
  - identify, mitigate and control the Company’s operational risks which may adversely impact health of the Company’s employees and its contractors;
  - comply with the applicable laws, regulations and standards and, where possible, use its endeavors to 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 all levels of the organization and effectively exchange information in this regard;
  - 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 recognized best practices;
  - regularly provide training for all employees of the Company, and its contractors, in order to improve their safety-related knowledge and skills, and instill positive OHS attitudes;
  - identify direct and underlying causes of all OHS incidents and take measures to prevent any reoccurrence of such incidences;
  - regularly monitor, audit and review the effectiveness of the OHS management system for the purpose of its continuous improvement.
4. All employees of the Company, and its contractors are required to observe, and act in accordance with, this policy.

### **Health and Safety Training**

- regular training for new employees of SGS and contract companies provided;
- OHS training for visitors, representatives coming to observe mine activities, and conduct inspections are regularly organized.

## **Community Relations**

The Company aspires 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. The Company strives to achieve these goals while pursuing the underlying business objective of building value.

The Company 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. The Company, through its joint venture with NTB LLC, completed the construction of a paved highway from the Ovoot Tolgoi Deposit 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**

In 2022, an aggregate of MNT 445,975,447 (approximately USD 140,217) was spent by the Company on donations within the local community and country.

In 2022, the Company continued its core corporate social responsibility activities with the following initiatives:

- granted annual domestic university scholarships, named after SouthGobi Sands LLC, to 20 students from local, prioritized soums;
- continued to provide coal and livestock feed to local residents during the cold winter months. 5,765 tons 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.
- contributed donation to Naadam Festival of Dalanzadgad province and Gurvantes soum.
- supporting Mongolian National scrip writing competition and provided printing cost of “Ulamjlal Magazine”

## **Corporate Citizenship Committee**

The Corporate Citizenship Committee (“CCC”) was created to review and approve donations for sustainable projects that benefit the wider communities. In 2022, the CCC provided financial aid to families of deceased employees.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares. As at March 30, 2023, there were 295,226,779 Common Shares and no Preferred Shares issued and outstanding. Rights and restrictions in respect of the Common Shares and Preferred Shares are set out in the Company’s Articles, and in the BCBCA and its regulations.

## Common Shares

The holders of Common Shares are entitled to one vote per Common Share at all meetings of Shareholders except meetings at which only holders of another specified class or series of shares of the Company are entitled to vote separately as a class or series. Subject to the prior rights of the holders of Preferred Shares and any other shares ranking senior to the Common Shares, the holders of Common Shares are entitled to receive dividends as and when declared by the directors, and to receive a pro rata share of the remaining property and assets of the Company in the event of liquidation, dissolution or winding up of the Company.

The Common Shares have no pre-emptive, redemption, purchase or conversion rights. There are no sinking fund provisions in relation to the Common Shares and they are not liable to further calls or to assessment by the Company. The BCBCA provides that the rights and provisions attached to any class of shares may not be modified, amended or varied unless consented to by special resolution passed by a majority of not less than two-thirds of the votes cast in person or by proxy by holders of shares of that class.

## Preferred Shares

The Preferred Shares rank senior to the Common Shares as to the payment of dividends and the distribution of property and assets on the liquidation, dissolution or winding up of the Company. Holders of Preferred Shares will not be entitled to any voting rights as a class except as may be provided under the BCBCA other than those voting rights that attach to any series of Preferred Shares as determined by the Board from time to time. The Preferred Shares are issuable in one or more series, each consisting of such number of Preferred Shares as may be fixed by the Board. The Board may from time to time by resolution passed before the issue of any Preferred Shares of any particular series, determine the designation of the Preferred Shares of that series, fix the number of Preferred Shares of that series and create, define and attach special rights and restrictions to the Preferred Shares of that series.

## DIVIDENDS AND DISTRIBUTIONS

No cash dividends or distributions were declared on the Common Shares for the financial years 2020, 2021 and 2022.

Further to the requirements of the HKEX's Corporate Governance Code, the Board has adopted a dividend policy (the "**Dividend Policy**") effective as of March 26, 2019. Under the Dividend Policy, the Board will make all decisions with respect to dividends on the 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 Company has not paid any dividends on the Common Shares since its incorporation and the Board does not anticipate that any dividends will be declared on the Common Shares in the immediate or foreseeable future.

### **MARKET FOR SECURITIES**

As of the date hereof, the Common Shares are listed for trading in Canada on the TSX under the symbol “SGQ” and in Hong Kong on the HKEX under the stock code 1878. On March 6, 2023, the Company announced that it was advised by the TSX-V that the TSX-V has reconsidered the Company’s previous TSX-V Listing Application, and the TSX-V is prepared to grant approval for the Company’s TSX-V Listing Application, once the Company is able to comply with certain listing conditions. The Company is targeting a tentative date for the listing of the Common Shares on the TSX-V and the date of the Delisting of April 17, 2023.

The 2022 MCTO was issued by the BCSC, on April 1, 2022 in connection with the anticipated delayed filing of the 2022 Required Filings. On June 7, 2022, the BCSC granted a full revocation of the 2022 MCTO. Trading in the Common Shares resumed on the TSX on June 8, 2022.

The following sets forth the high and low market prices and the volume of the Common Shares traded on the TSX and HKEX during the periods indicated:

**TSX**  
(stated in Canadian dollars)

Period	High	Low	Volume
January 2022	0.23	0.16	432,600
February 2022	0.23	0.18	150,400
March 2022	0.40	0.19	2,338,900
April 2022	0.21	0.15	242,200
May 2022	0.22	0.14	303,200
June 2022	0.21	0.17	124,500
July 2022	0.21	0.17	192,700
August 2022	0.20	0.16	151,800
September 2022	0.18	0.16	370,600
October 2022	0.18	0.14	148,800
November 2022	0.18	0.13	205,300
December 2022	0.17	0.14	98,000

**HKEX**  
(stated in Hong Kong dollars)

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January 2022	1.50	1.16	4,285,650
February 2022	1.47	1.26	2,298,850
March 2022	1.47	1.00	5,634,150
April 2022	1.50	1.03	4,122,300
May 2022	1.54	1.19	3,715,950
June 2022	1.61	1.30	9,302,600
July 2022	1.44	1.11	2,755,800
August 2022	1.28	1.13	1,954,450
September 2022	1.24	1.01	3,249,650
October 2022	1.18	0.86	1,839,200
November 2022	1.15	0.87	1,821,850
December 2022	1.20	0.92	2,602,650

**DIRECTORS AND OFFICERS**

**Biographical Information**

The name, province or state, and country of residence and position with the Company of each director and executive officer of the Company, and the principal business or occupation in which each director or executive officer has been engaged during the immediately preceding five years are as follows (such information not being within the knowledge of the Company, it has been furnished by each director and officer individually):

<b>Name and Municipality of Residence</b>	<b>Position with Company</b>	<b>Principal Occupation During Past Five Years</b>
DONG WANG Beijing, China	CEO and Executive Director (since September 8, 2022)	CEO of the Company (September 2022 to present); Director with Inner Mongolia Dongfang Guoxin Technology Co., Ltd. (February 2018 – September 2022)
CHONGLIN ZHU Wuhai, China	Senior Vice President of Finance and Executive Director (since September 8, 2022)	Senior Vice President of Finance of the Company (September 2022 to present); CFO of Inner Mongolia Tianyu Innovation Investment Group (July 2010 to September 2022)

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
CHEN SHEN Chongqing, China	Head of Legal Department and Executive Director (since February 17, 2023)	Head of the Company's Legal Department (February 2023 – present); Supervisor at Zhonghong Zhengyi Energy Holding (Inner Mongolia) (October 2020 – January 2022); Attorney with Tahota Law Firm (March 2015 – October 2020)
YINGBIN IAN HE North Vancouver, Canada	Independent Director (since May 16, 2017)	Director of China Gold International Resources Corp. (May 2003 to present); Director of Tri-River Ventures Inc. (October 2006 to present); Director of Vatukoula Gold Mines plc (February 2013 to present); Director of PT Bumi Resources Tbk (June 18, 2019 to present); Director of Zhongrun Resources Investment Corporation (December 2010 to June 2018).
JIN LAN QUAN Sydney, Australia	Independent Director (since August 6, 2015)	Financial Planner and Business Consultant, J&Q Investments Pty Ltd. (June 2004 – present).
MAO SUN Richmond, British Columbia, Canada	Independent Director (Lead Director since May 30, 2019, Interim Lead Director between August 2016 and May 30, 2019, Director since November 2015)	Founding partner, Mao & Ying LLP (October 2009 - present); Chief Executive Officer of Hero Innovation (February 2023 – present).
ZHU GAO Beijing, China	Non-executive Director (since December 6, 2022)	Chairman of Ejin Horo Banner Mengtai Coal Co., Ltd. (January 2010 – present); Chairman of Mengfa Energy Holding Group (July 2007 – present).
GANG LI Beijing, China	Non-executive Director (since December 6, 2022)	Sales Director at Beijing Rongyue Tongda Trading Co., Ltd. (October 2022 – present); Manager at Inner Mongolia Weihong Energy Co., Ltd., (February 20217 – October 2022)
ALAN HO Hong Kong	Chief Financial Officer (since February 10, 2021)	Chief Financial Officer of the Company (February 10, 2021 to present); Controller of the Company (September 2015 – February 2021).
DALANGUERBAN Beijing, China	President (since September 8, 2022)	President of the Company (September 8, 2022 to present); CEO of the Company (March 31, 2020 to September 8, 2022); President and Executive Director of SGS (August 10, 2021 to present).

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
ALLISON SNETSINGER North Vancouver, British Columbia, Canada	Corporate Secretary (since November 11, 2014)	Corporate Secretary of the Company (November 11, 2014 to present).
MUNKHBAT CHULUUN Ulaan Baatar, Mongolia	Vice President Public Relations (Since February 10, 2021)	Vice President Public Relations of the Company (July 3, 2018 to present); President and Executive Director of SouthGobi Sands LLC (September 2015 to August 10, 2021).

Each director's term of office expires at the next annual general meeting of the Company.

### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Other than disclosed below, to the knowledge of the Company, no director, executive officer or Shareholder of the Company holding a sufficient number of Common Shares to materially affect control is, as at the date in this Annual Information Form, or has been, within 10 years before the date in this Annual Information Form, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity:

- was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- has within the 10 years before the date in this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

On May 13, 2020, the Company applied for a MCTO with the applicable Canadian securities regulators in connection with the anticipated delayed filing of the Required Filings. A MCTO was issued by the BCSC on May 15, 2020. On June 19, 2020, the BCSC issued a CTO prohibiting trading in the securities of the Company by any person in Canada, due to the Company's failure to file the Required Filings prior to the deadline of June 15, 2020 provided in the MCTO. On February 5, 2021, the BCSC and the OSC granted a full revocation of the CTO issued against the Company.

On March 17, 2022, the Company applied for the 2022 MCTO with the applicable Canadian securities regulators in connection with the anticipated delayed filing of the 2022 Required Filings. The 2022 MCTO



was issued by the BCSC, on April 1, 2022. On June 7, 2022, the BCSC granted a full revocation of the 2022 MCTO and trading resumed on the TSX on June 8, 2022.

Mr. Yingbin Ian He (a director of the Company) was a director of Huaxing Machinery Corp. (“**Huaxing**”) from January 2011 to December 2016. On February 26, 2015, the British Columbia Securities Commission issued a cease trade order requiring all persons to cease trading in the securities of Huaxing until Huaxing files amended and restated audited financial information for the financial years ended December 31, 2013 and 2012.

On June 9, 2015, the Alberta Securities Commission issued a cease trader order which required that all trading or purchasing cease in respect of the securities of Huaxing as a result of the failure by Huaxing to file: (i) annual audited financial statements, annual management’s discussion and analysis, and certification of annual filings for the year ended December 31, 2014; and (ii) interim unaudited financial statements, interim management’s discussion and analysis, and certification of interim filings for the interim period ended March 31, 2015.

### **Shareholdings of Directors and Senior Management**

As at March 30, 2023, to the best of the Company’s knowledge, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 46,542,453 Common Shares representing approximately 15.71% of the of the issued and outstanding Common Shares. Of these 46,542,453 Common Shares, 46,358,978 Common Shares are controlled by Mr. Zhu Gao, who is, to the best of the Company’s knowledge, the majority controlling shareholder of Land Grand.

### **Committees of the Board**

The committees of the Board consist of the Audit Committee, the Nominating and Corporate Governance Committee, the Compensation and Benefits Committee, the Health, Environment, Safety and Social Responsibility Committee and the Operations Committee.

The members of the Audit Committee are Messrs. Mao Sun (Chair), Yingbin Ian He, and Ms. Jin Lan Quan.

The members of the Nominating and Corporate Governance Committee are Messrs. Yingbin Ian He (Chair), Mao Sun, and Ms. Jin Lan Quan.

The members of the Compensation and Benefits Committee are Ms. Jin Lan Quan (Chair), Messrs. Yingbin Ian He and Mao Sun.

The members of the Health, Environment, Safety and Social Responsibility Committee are Messrs. Wang Dong (Chair), Yingbin Ian He and Munkhbat Chuluun.

The members of the Operations Committee are Messrs. Yingbin Ian He (Chair) and Dong Wang.

### **Audit Committee Information**

#### ***Audit Committee Charter***

The charter of the Audit Committee is reproduced in its entirety in Schedule “A” to this Annual Information Form.

### *Composition of Audit Committee*

The Audit Committee consists of Messrs. Mao Sun (Chair), Yingbin Ian He and Ms. Jin Lan Quan. The Board has determined that each of Messrs. Sun, He and Ms. Quan are “independent” directors, and each is “financially literate” within the meaning of Multilateral Instrument 52-110 *Audit Committees*.

### *Relevant Education and Experience*

#### Mao Sun

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 recognized accounting firm.

Mr. Sun graduated from Columbia University in New York with a Master Degree in International Affairs, International Finance and Business, and a Bachelor 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.

#### Yingbin Ian He

Mr. He’s career in the mining industry has spanned over 30 years, with extensive senior executive and board experience. Mr. He is the Lead Director (November 2018 to present) and an Independent Non-Executive Director of China Gold International Resources Corp. Ltd. (“**China Gold**”) (May 2003 to present), a company dually listed on the TSX and HKEX; a Director of Tri-River Ventures Inc. (“**Tri-River**”) (October 2006 to present), a company listed on the TSX-V; a Director of PT Bumi Resources Tbk (June 2019 to present), a company listed on the Indonesia Stock Exchange, and a Director and Chairman of Vatukoula Gold Mines Limited (“**Vatukoula**”) (February 2013 to present), formerly listed on the London Stock Exchange Alternative Investment Market. Previously, Mr. He also served as a Director on the Boards of the following companies: Zhongrun Resources Investment Corporation (“**Zhongrun**”), listed on Shenzhen Stock Exchange; Jiulian Resources Inc. (“**Jiulian**”), listed on the TSX-V; Huaxing Machinery Corp., listed on the TSX-V; and Dolly Varden Silver Corp., listed on the TSX-V. In addition to being a former President and Director of Spur Ventures Inc., listed on the TSX-V, Mr. He was also the General Manager of its operating subsidiary Yichang Mapleleaf Chemicals Inc. In his early career, Mr. He worked as a mineral process engineer and coal preparation engineer in a Canadian mining company and an engineering consulting company.

Mr. He obtained his Doctoral and Master’s Degrees in Mineral Process Engineering from the University of British Columbia in Canada and his Bachelor Degree in Coal Preparation from Heilongjiang Institute of Mining and Technology (currently known as the Heilongjiang University of Science 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.

Mr. He is currently the Chairman of the Audit Committee of China Gold and a member of the Audit Committee for Tri-River. He was a member of the Audit Committees for Zhongrun, Jiulian and Vatukoula.

### *Jin Lan Quan*

Ms. Quan is an independent financial planner and business consultant based in Sydney, Australia. Prior to her current role, Ms. Quan developed 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. Ms. Quan has extensive experience in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing and 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 Certified Public Accountant of China and a member of the Chinese Institute of Certified Public Accountants. She is also a Fellow of the Association of Chartered Certified Accountants of United Kingdom, a member of the Chartered accountants Australia and New Zealand (CA ANZ) and a member of the Canadian Institute of Corporate Directors.

### ***Pre-Approval Policies and Procedures***

All services to be performed by the Company's independent auditor must be approved in advance by the Audit Committee or a designated member of the Audit Committee ("**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.

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 external auditor, other than any de minimis non-audit services allowed by applicable law or regulation. 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 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 scope or in final fees.

Pursuant to these procedures, 100% of each of the services provided by the Company's external auditor relating to the fees reported as audit, audit-related, tax and other fees were pre-approved by the Audit Committee or the Designated Member.

### ***Audit Fees***

Fees paid/payable to BDO and its affiliates in respect of audit and non-audit services provided during fiscal 2022 and fiscal 2021 were approximately Cdn\$462,253 and Cdn\$517,000, respectively.

These fees are detailed below.

	<b>BDO</b>	<b>BDO</b>
<i>(Canadian \$ in 000's)</i>	<u>2022</u>	<u>2021</u>
Audit Fees <sup>1</sup>	490	395
Audit Related Fees <sup>1</sup>	137	122
Total	<u>626</u>	<u>517</u>

<sup>1</sup> Fees for audit services billed relating to fiscal 2021 and 2022 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.

### **Conflicts of Interest**

Certain directors of the Company and its subsidiaries are associated with other reporting issuers or other corporations, which may give rise to conflicts of interest. In accordance with the BCBCA, directors and officers of the Company are required to disclose to the Company the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with the Company, if the director or officer: (i) is a party to the contract or transaction; (ii) is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction; or (iii) has a material interest in a party to the contract or transaction.

The Nominating and Governance Committee monitors the disclosure of conflicts of interest by directors with a view to ensuring that no director votes or participates in any Board deliberations on a matter in respect of which such director has a material interest.

### **Ethical Business Conduct**

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 employees, consultants, officers and Directors regardless of their position in the organization, 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 and the Conflicts of Interest Standard, "The Way We Work" and Guidelines for the investigation into allegations of serious wrongdoing and the EthicsPoint program.

The Ethics Policy and the Code of Conduct Standards provide that the Company's employees, consultants, officers and Directors are required to uphold the Company's 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 Ethics Policy entitled "The Way We Work" and the various policies forming the Code of Conduct Standards are available on the Company's website at [www.SouthGobi.com](http://www.SouthGobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20<sup>th</sup> floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, for the attention of the Corporate Secretary, or by phone to 604-762-6783.

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 whistleblowing 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.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as described elsewhere in this Annual Information Form, no director, executive officer or person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company's outstanding voting securities and no associate or affiliate of any of such persons or companies has any material interest, direct or indirect, in any transaction within the three most recently completed fiscal years or since the commencement of the Company's last completed fiscal year or in any proposed transaction, which, in either case, has materially affected or is reasonably expected to materially affect the Company or any of its subsidiaries.

## **TRANSFER AGENTS AND REGISTRARS**

The registrar and transfer agent for the Common Shares in Canada is TSX Trust Company at its principal offices in Vancouver and Toronto. The registrar and transfer agent for the Common Shares in Hong Kong is Computershare Hong Kong Investor Services Limited.

## **MATERIAL CONTRACTS**

Material contracts under NI 51-102 are contracts, other than contracts entered into in the ordinary course of the Company's business, which are material to the Company. The Company has not entered into any material contracts since January 1, 2022. Prior to January 1, 2022, the following material contracts were entered into and remain in effect:

### **Novel Private Placement**

On February 24, 2015, the Company entered into a subscription agreement (the "**Novel Subscription Agreement**") with Novel Sunrise setting out the terms and conditions of the Novel Private Placement, which consisted of the issuance of a combination of mandatory convertible units of the Company and Common Shares to Novel Sunrise. The Novel Private Placement was completed in two stages for aggregate gross proceeds of \$7.5 million. The net proceeds of the Novel Private Placement were applied towards general working capital.

Pursuant to the terms of the Novel Subscription Agreement, Novel Sunrise is entitled to nominate up to three individuals for appointment or election to the Board and to appoint executive officers of the Company, subject to Novel Sunrise and its affiliates owning certain threshold percentages of the issued and outstanding Common Shares, as more particularly set out in Novel Subscription Agreement.

A copy of the Novel Subscription Agreement is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## Convertible Debenture

The major terms of the Convertible Debenture are described in the chart below. Unless otherwise defined in this Annual Information Form, capitalized terms used in the chart below shall have the meanings ascribed to them in the Convertible Debenture.

Transaction:	An original principal amount of US\$500 million senior debentures convertible into Common Shares (US\$485 million net of advisory fees). Subsequently, as described herein, US\$250 million was converted into Common Shares, leaving an outstanding principal balance of US\$250 million
Maturity:	30 years.
Interest:	The Convertible Debenture carries interest of 8.0% per annum made up of: <ul style="list-style-type: none"><li>(i) a cash coupon of 6.4% payable semi-annually; and</li><li>(ii) additional interest of 1.6% per annum payable in Common Shares to be issued on each anniversary of the issue. Share value shall be calculated based on the 50 business day volume weighted average price (“VWAP”) prior to each anniversary of the issue.</li></ul>
Conversion Price:	<p>Cdn\$11.88 shall be considered the “Base Conversion Value” and ordinarily, the conversion price will be set at the Base Conversion Value, subject to the adjustments set out below.</p> <p>At the time of conversion, the VWAP of the Common Shares for the 50 business days prior to the conversion date will be calculated (the “<b>Conversion Date Value</b>”).</p> <p>In the event the Conversion Date Value is lower than the Base Conversion Value, then the conversion price will be the Conversion Date Value.</p> <p>The conversion price will be subject to a “Floor Price” of Cdn\$8.88.</p> <p>The conversion price, so determined, is referred to as the “Conversion Price” in this summary of key investment terms.</p>
The Company’s Early Conversion Right:	<p>After the earlier of two years from closing or the time of the Qualified Float (as defined below), the Company will have the right to require conversion of up to 50% of the initial principal amount of US\$500 million at the Conversion Price.</p> <p>The Company exercised this conversion right and on March 29, 2010, the Company converted US\$250 million of the debt into 21,560,961 Common Shares at a price of US\$11.64 per share.</p>
Qualified Float:	A transaction whereby the Common Shares are listed on the SEHK or the SEHK and the TSX and that meets the following three criteria, shall be considered a “Qualified Float”: (i) not less than 25% of the issued and outstanding Common Shares (on a non-diluted basis, except including the initial principal amount of the Convertible Debenture on an as-converted basis) are held by persons who are not insiders of the Company (i.e. insider holdings cannot exceed 75%); (ii) the offering

price of the Common Shares issued to achieve the public float is not less than the base conversion value unless JDZF consents; and (iii) the Common Shares are listed on the SEHK.

- Right to Nominate Director:** While the Convertible Debenture is outstanding, or while JDZF has a 15% direct or indirect shareholding interest in the Company, JDZF has the right, but not the obligation, to nominate one person to the Board. When JDZF nominates a person, the Board is not obliged to appoint such nominee as a director; the election of a nominee to the Board is subject to Shareholders' approval. Furthermore, JDZF cannot require that its nominee be employed by or participate as the Company's executive or manager, and the sole entitlement of the nominee is to act in the capacity of director. If appointed to the Board the nominee would be a non-independent non-executive director.
- Voting Restriction:** JDZF or any transferee will be entitled to one vote per Common Share held on matters to be voted on by Shareholders. However, if conversion results in JDZF, or its affiliates, directly or indirectly owning more than 29.9% of the fully diluted Common Shares outstanding, JDZF will not vote any Share in excess of 29.9%. This cap in JDZF's voting rights is a contractual agreement between JDZF and the Company and will not extend to third party transferees of all or a part of any Common Shares issued to JDZF and thereafter sold to a third party. The cap does include shares held by JDZF affiliates, and shares beneficially owned by JDZF, so affiliate transferees are part of the aggregate summation to determine the 29.9%. Further, if JDZF transfers its interest, in the Convertible Debenture or the ancillary agreements, the latter being the security holder's agreement and the registration rights agreement made in connection with the Convertible Debenture financing, to an affiliate, the transferee of the interest would be bound by the contractual voting limitation.
- Security:** The Convertible Debenture is secured by a first charge over the Company's assets. Standard loan restrictive covenants regarding incurring additional debt and granting additional security to third parties (with standard carve-outs and grace periods for issues of this type) apply to the Company and its direct and indirect subsidiaries.
- Pre-emptive Right:** While the Convertible Debenture is outstanding, or while JDZF has a 15% direct or indirect shareholding interest in the Company, JDZF has a pre-emptive right on a pro rata basis to subscribe for any new Common Shares issued during the period which the Convertible Debentures remain outstanding. The pre-emptive right will not apply to new Common Shares issued pursuant to pro-rata public equity offerings made to all Shareholders, or the exercise of stock options and shares to achieve a 25% public float.
- Right of First Offer:** While the Convertible Debenture is outstanding, or while JDZF has a 15% direct or indirect shareholding interest in the Company, JDZF has a right of first offer for any direct or indirect sale of Turquoise Hill's stake in the Company.

Liquidity Rights: JDZF has registration rights for Common Shares received upon conversion of the Convertible Debenture.

Under certain conditions, including the non-payment of interest amounts as the same become due, amounts outstanding under the Convertible Debenture may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the Convertible Debenture. Subject to notice and cure periods, certain events of default under the Convertible Debenture will result in acceleration of the indebtedness under such debenture at the option of CIC. Such other events of default include, but are not limited to, non-payment, breach of warranty, non-performance of obligations under the Convertible Debenture, default on other indebtedness and certain adverse judgments.

On June 12, 2017, the Company executed the June 2017 Deferral Agreement with CIC for a revised repayment schedule on the \$22.3 million of cash interest and associated costs due under the Convertible Debenture on May 19, 2017. The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company was required to repay on average \$2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay \$9.7 million of cash interest and associated costs on November 19, 2017. The Company will pay a deferral fee at a rate of 6.4% per annum in consideration for the deferral.

On April 23, 2019, the Company executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of (i) \$41.8 million of outstanding cash and payment in kind interest and associated costs due and payable to CIC on November 19, 2018 under the Convertible Debenture and the June 2017 Deferral Agreement; and (ii) \$27.9 million of cash and PIK Interest payments payable to CIC under the Convertible Debenture from April 23, 2019 to and including May 19, 2020. Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement became effective on June 13, 2019, being the date on which the 2019 Deferral Agreement was approved by shareholders at the Company's adjourned annual and special meeting of shareholders.

The key repayment terms of the 2019 Deferral Agreement are: (i) the Company agreed to pay a total of \$14.3 million over eight instalments from November 2019 to June 2020; (ii) the Company agreed to pay the PIK Interest covered by the Deferral by way of cash payments, rather than the issuance of Common Shares; and (iii) the Company agreed to pay the remaining balance of \$62.6 million on June 20, 2020. The Company agreed to pay a deferral fee at a rate of 6.4% per annum in consideration of the deferred amounts.

At any time before the payment under the terms of the 2019 Deferral Agreement is fully repaid, the Company is required to consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer, otherwise this will constitute an event of default under the Convertible Debenture, but CIC shall not withhold its consent if the Board proposes to replace either or both such officers with nominees selected by the Board, provided that the Board acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements.

As a condition to agreeing to the Deferral, CIC required that the Cooperation Agreement dated November 19, 2009 between SGS and CIC, be amended and restated to clarify the manner in which the service fee payable to CIC under the Cooperation Agreement is calculated, with effect as of January 1, 2017. Specifically, the Management Fee under the Amended and Restated Cooperation Agreement is determined based on the net revenues realized by the Company and all of its subsidiaries derived from sales into China (rather than the net revenues realized by the Company and its Mongolian subsidiaries as currently contemplated under the Cooperation Agreement). As consideration for deferring payment of the additional Management Fee payable to CIC as a result of the Amended and Restated Cooperation Agreement, the



Company agreed to pay to CIC a deferral fee at the rate of 2.5% on the outstanding Management Fee. Pursuant to the Amended and Restated Cooperation Agreement, the Company agreed to pay CIC the total outstanding Management Fee and related accrued deferral fee of \$4.2 million over six instalments from June 2019 to November 2019. The Company executed the Amended and Restated Cooperation Agreement with CIC on April 23, 2019.

Pursuant to their terms, both the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement became effective on June 13, 2019, being the date on which the 2019 Deferral Agreement was approved by shareholders at the Company's adjourned annual and special meeting of shareholders.

In connection with the 2019 Deferral Agreement, the Company also announced that it intends to discuss a potential debt restructuring plan with respect to amounts owing to CIC which is mutually beneficial to the Company and CIC; and to form a special committee comprised of independent directors to ensure that the interests of its minority shareholders are fairly considered in the negotiation and review of any such restructuring; however, there can be no assurance that a favorable outcome will be reached. As of the date hereof, there has not been any significant progress in relations to the restructuring plan.

On February 19, 2020, the Company and CIC entered into the 2020 February Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of: (i) the 2020 February Deferral Amounts; and (ii) approximately \$0.7 million of the Management Fee which was due and payable on February 14, 2020 to CIC under the Amended and Restated Cooperation Agreement. The 2020 February Deferral Agreement became effective on March 10, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 February Deferral Agreement from the TSX as required under applicable TSX rules.

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

- Payment of the 2020 February Deferral Amounts will be deferred until June 20, 2020, while the Management Fee will be deferred until they are repaid by the Company.
- As consideration for the deferral of these amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 February Deferral Amounts, commencing on the date on which each such 2020 February Deferral Amounts would otherwise have been due and payable under the 2019 Deferral Agreement; and (ii) a deferral fee equal to 2.5% per annum on the Management Fee, commencing on the date on which the 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.
- As the Company anticipated prior to agreeing to the 2020 February Deferral Agreement that a deferral was likely required in respect of the monthly payments due and payable in the period between April 2020 and June 2020 under the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, the Company and CIC have agreed to discuss in good faith a deferral of these payments on a monthly basis as they become due. There can be no assurance, however, that a favorable outcome will be reached either at all or on favorable terms.
- The Company agreed to comply with all of its obligations under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, as amended by the 2020 February Deferral Agreement.

- The Company and CIC agreed that nothing in the 2020 February Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, respectively.

On March 10, 2020, the Company agreed with CIC that the \$2.0 million which was due and payable to CIC on March 19, 2020 under the 2019 Deferral Agreement will be deferred until June 20, 2020. The terms of the 2020 March Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 March Deferral Amount, commencing on March 19, 2020. The 2020 March Deferral Agreement became effective on March 25, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 March Deferral Agreement from the TSX as required under applicable TSX rules.

On April 10, 2020, the Company agreed with CIC that the \$2.0 million which was due and payable to CIC on April 19, 2020 under the 2019 Deferral Agreement will be deferred until June 20, 2020. The terms of the 2020 April Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 April Deferral Amount, commencing on April 19, 2020. The 2020 April Deferral Agreement became effective on April 29, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 April Deferral Agreement from the TSX as required under applicable TSX rules.

On May 8, 2020, the Company agreed with CIC that the 2020 May Deferral Amount which was due and payable to CIC on May 19, 2020 and May 15, 2020 under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, respectively, will be deferred until June 20, 2020. The terms of the 2020 May Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the deferred cash interest and deferral fees commencing on May 19, 2020 and a deferral fee equal to 2.5% per annum on the deferred Management Fees commencing on May 15, 2020. The 2020 May Deferral Agreement became effective on June 8, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 May Deferral Agreement from the TSX as required under applicable TSX rules.

On June 19, 2020, the Company agreed with CIC that the 2020 June Deferral Amount which was due and payable to CIC on June 19, 2020 under the 2019 Deferral Agreement and the prior deferral agreements entered into during the period between February and May 2020 will be deferred until September 14, 2020. The terms of the 2020 June Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 June Deferral Amount commencing on June 19, 2020. The 2020 June Deferral Agreement became effective on July 17, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 June Deferral Agreement from the TSX as required under applicable TSX rules.

On November 19, 2020, the Company and CIC entered into the 2020 November Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of the 2020 November Deferral Amounts. The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement are subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from the Company's shareholders in accordance with applicable TSX rules.

On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission, the Company's principal securities regulator in Canada, which partially revoked the CTO to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement. The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November

Deferral Agreement was approved by shareholders at the Company's annual and special meeting of shareholders.

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

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

On July 30, 2021, the Company and Land Breeze entered into the 2021 July Deferral Agreement, pursuant to which Land Breeze agreed to grant the Company a deferral of the 2021 July Deferral Amounts payable to Land Breeze on November 19, 2021 under the Convertible Debenture.

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

- Payment of the 2021 July Deferral Amounts will be deferred until August 31, 2023.

- As consideration for the deferral of the 2021 July Deferral Amounts, the Company agreed to pay Land Breeze a deferral fee equal to 6.4% per annum on the 2021 July Deferral Amounts payable under the Convertible Debenture, commencing on November 19, 2021;
- If at any time before the 2021 July Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from Land Breeze prior to effecting such appointment, replacement or termination;
- The Company agreed to comply with all of its obligations under the prior deferral agreements entered into with Land Breeze; and
- The Company and Land Breeze agreed that nothing in the 2021 July Deferral Agreement prejudices Land Breeze's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

On May 13, 2022, the Company, Land Breeze and Fullbloom entered into the 2022 May Deferral Agreement, pursuant to which Land Breeze agreed to grant the Company a deferral of the 2022 May Deferral Amounts payable to Land Breeze on May 19, 2022 under the Convertible Debenture and Fullbloom agreed to grant the Company a deferral of the 2022 May Deferred Management Fees, a portion of which became payable on February 14, 2022 and a portion of which will be due and payable on August 14, 2022, in each case under the Amended and Restated Cooperation Agreement.

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

- Payment of the 2022 May Deferral Amounts and 2022 May Deferred Management Fees will be, in each case, deferred until August 31, 2023;
- As consideration for the deferral of the 2022 May Deferral Amounts, the Company agreed to pay Land Breeze a deferral fee equal to 6.4% per annum on the 2022 May Deferral Amounts payable under the Convertible Debenture, commencing on May 19, 2022;
- As consideration for the deferral of the 2022 May Deferred Management Fees, the Company agreed to pay Fullbloom 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 Land Breeze with monthly updates regarding its operational and financial affairs;
- If at any time before the 2022 May Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from Land Breeze prior to effecting such appointment, replacement or termination; and

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

On May 13, 2022, Company and CIC, entered into the 2022 May Deferral Agreement pursuant to which: (i) CIC agreed to grant the Company a deferral of semi-annual cash interest payment of approximately US\$7,934,247 payable to CIC on May 19, 2022 under the Convertible Debenture; and (ii) CIC agreed to grant the Company a deferral of the management fees accrued and became payable on February 14, 2022 and the management fees which will be due and payable on August 14, 2022, in each case under the Amended and Restated Cooperation Agreement.

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

- Payment of the 2022 May Deferral Amounts and 2022 May Deferred Management Fees will be, in each case, deferred until August 31, 2023;
- As consideration for the deferral of the 2022 May Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2022 May Deferral Amounts payable under the 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 Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination; and
- 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 May 27, 2022, the Company announced that, as disclosed in the CIC Press Release, CIC has entered into an agreement to sell all of its interests in the Company, including its 64,766,591 common shares of the Company and the Convertible Debenture, to JDZF.

In connection with the CIC Sale Transaction, CIC agreed to assign to JDZF all of CIC's rights in and obligations under: (i) the Convertible Debenture and related security documents; (ii) the Amended and Restated Cooperation Agreement and related documents; (iii) Deferral Agreements; and (iv) the Securityholders Agreement.

On August 30, 2022, the Company announced that the CIC Sale Transaction was successfully completed. In connection with the completion of the CIC Sale Transaction, CIC assigned to JDZF all of its respective rights in and obligations under: (i) the Convertible Debenture and related security documents; (ii) the

Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements of 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. In connection with the completion of the CIC Sale Transaction, JDZF agreed to reduce the service fee payable by the Company under the Amended and Restated Cooperation Agreement from 2.5% to 1.5% of all net revenues realized by the Company and all of its subsidiaries derived from sales into China.

On November 11, 2022 the Company announced that it had entered into the November 2022 Deferral Agreement with JDZF, pursuant to which JDZF agreed to grant the Company a deferral of the following payments until November 19, 2023: (i) the November 2022 Deferral Amounts and (iii) the November 2022 Deferred Management Fees, in each case under the Amended and Restated Cooperation Agreement.

The Company anticipated paying JDZF a cash payment of \$1.0 million as partial payment for cash interest owed pursuant to the Convertible Debenture, and paying JDZF the remaining \$2.9 million of the November 2022 PIK Interest on November 19, 2023 by way of issuing and delivering a certain number of payment-in-kind interest shares to JDZF which will be determined based on the volume weighted average price of the Company's common shares during the 50 consecutive trading days preceding November 19, 2023, all in accordance with the terms of the Convertible Debenture.

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

- Payment of the November 2022 Deferral Amounts and November 2022 Deferred Management Fees will be, in each case, deferred until November 19, 2023;
- As consideration for the deferral of the November 2022 Deferral Amounts, the Company agrees to pay JDZF a deferral fee equal to 6.4% per annum on the November 2022 Deferral Amounts payable under the Convertible Debenture, commencing on November 19, 2022;
- As consideration for the deferral of the November 2022 Deferred Management Fees, the Company agrees 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 November 2022 Deferred Management Fees would otherwise have been due and payable under the Amended and Restated Cooperation Agreement;
- If at any time before the November 2022 Deferral Amounts, November 2022 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; and
- 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 26, 2023, it was announced that the Company and JDZF, entered into the a deferral agreement dated March 24, 2023 pursuant to which JDZF agreed to grant the Company a deferral of the following payments until August 31, 2024: (i) cash interest payments of approximately \$7.9 million (the “**May 2023 Cash Interest**”) which will be due and payable on May 19, 2023 under the Convertible Debenture; (ii) cash interest, management fees, and related deferral fees of approximately \$8.7 million (the “**May 2022 Deferred Amounts**”) which are due and payable to JDZF on or before August 31, 2023 under the May 2022 Deferral Agreement; (iii) the cash and PIK interest, and related deferral fees of approximately \$13.5 million (the “**July 2021 Deferred Amounts**”) which are due and payable to JDZF on or before August 31, 2023 under the July 2021 Deferral Agreement; and (iv) the cash and PIK interest, management fees, and related deferral fees of approximately \$110.4 million (the “**November 2020 Deferred Amounts**”, and together with the May 2023 Cash Interest, the May 2022 Deferred Amounts and the July 2021 Deferred Amounts, the “**March 2023 Deferred Amounts**”) which are due and payable to JDZF on or before August 31, 2023 under the November 2020 Deferral Agreement.

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

- Payment of the March 2023 Deferred Amounts will be, in each case, deferred until August 31, 2024;
- As consideration for the deferral of the March 2023 Deferred Amounts, the Company agreed JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such March 2023 Deferred Amounts payable under the Convertible Debenture commencing on the date on which each such March 2023 Deferred Amount would otherwise have been due and payable under the Convertible Debenture;
- As consideration for the deferral of the March 2023 Deferred Amounts, the Company agrees to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such March 2023 Deferred Amounts commencing on the date on which each such March 2023 Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement;
- If at any time before the March 2023 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;
- The Company agreed to comply with all of its obligations under the prior deferral agreements assigned to JDZF; and
- The Company and JDZF agreed that nothing in the March 2023 Deferral Agreement prejudices JDZF’s rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

A copy of the Convertible Debenture may be found under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **CIC Mutual Cooperation Agreement**

On November 19, 2009, the Company entered into the Cooperation Agreement with CIC. The agreement is on commercial terms consistent with industry practices. Under the terms of the Cooperation Agreement,

CIC agreed to provide advisory services to the Company in relation to the sale of coal into the PRC, and other procurement and logistics related matters. In consideration, the Company agreed to a commercial payment for such services based on the amount of the Company's coal sales into the PRC which originated from Mongolia.

As a condition to agreeing to the Deferral, CIC required that the Cooperation agreement be amended and restated to clarify the manner in which the Management Fee payable to CIC under the Cooperation Agreement is calculated, with effect as of January 1, 2017. Specifically, the Management Fee under the Amended and Restated Cooperation Agreement is determined based on the net revenues realized by the Company and all of its subsidiaries derived from sales into China (rather than the net revenues realized by the Company and its Mongolian subsidiaries as currently contemplated under the Cooperation Agreement). As consideration for deferring payment of the additional Management Fee payable to CIC as a result of the Amended and Restated Cooperation Agreement, the Company agreed to pay to CIC a deferral fee at the rate of 2.5% on the outstanding Management Fee. Pursuant to the Amended and Restated Cooperation Agreement, the Company agreed to pay CIC the total outstanding Management Fee and related accrued deferral fee of \$4.2 million over six instalments from June 2019 to November 2019. Pursuant to Section 501(c) of the TSX Company Manual, the Amended and Restated Cooperation Agreement became effective on June 13, 2019, being the date on which the 2019 Deferral Agreement was approved by shareholders at the Company's adjourned annual and special meeting of shareholders.

In connection with the CIC Sale Transaction, CIC assigned to JDZF all of CIC's rights in and obligations under the Amended and Restated Cooperation Agreement and related documents and the Deferral Agreements.

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

### **Revolving Credit Facility**

On March 2, 2023, the Borrower entered into an unsecured Revolving Loan Agreement with the Lender, pursuant to which the Borrower will borrow a loan up to a maximum principal sum of RMB 90,000,000 with a maturity date of three (3) months after the effective date of the agreement. The Company has obtained the requisite acceptance from the TSX for the credit facility in accordance with the requirements of the TSX Company Manual.

The principal terms of the Credit Facility are as follows:

- All obligations under the Credit Facility are due and payable on the maturity date.
- The Credit Facility is a revolving facility, pursuant to which the Borrower will be entitled, but not obligated, to request advances ("**Advances**") under the Credit Facility from time to time, provided that the aggregate amount of the outstanding Advances under the Credit Facility does not exceed the maximum loan amount at any time. The Borrower is entitled to repay all or any portion of the outstanding Advances under the Credit Facility from time to time without bonus or penalty.
- Advances under the Credit Facility will not accrue interest if the Borrower repays any Advance in full within fifteen (15) days following the date of drawdown (the "**Interest-Free Period**"). If the Borrower fails to repay in full the amount of the Advance prior to the end of the Interest-Free Period, then the Borrower will pay to the Lender interest on the outstanding amount of such Advance, beginning on the



day immediately following the last day of the Interest-Free Period (the "**Interest Trigger Date**") and ending on but excluding the day on which such Advance is repaid or satisfied in full. Interest on the outstanding amount of each Advance from the Interest Trigger Date is calculated at a rate per annum equal to 5%, determined daily and calculated and payable on the date on which the relevant Advance is repaid in full.

- The Company intends to use the proceeds of the Credit Facility for general corporate purposes.

### **INTERESTS OF EXPERTS**

BDO Limited is the independent auditor of the Company and they have advised that they are independent with respect to the Company within the meaning of the Code of Professional Conduct of the Institute of Chartered Professional Accountants of British Columbia.

Disclosure in this Annual Information Form relating to scientific and technical information with respect to the Ovoot Tolgoi Deposit is derived from the Ovoot Tolgoi Technical Report prepared in accordance with NI 43-101 by Dragon Mining Consulting Limited. To the knowledge of the Company, DMCL nor any of its respective "designated professionals" (as such term is defined in NI 51-102) held securities of the Company representing in excess of 1% of the outstanding securities of any class at the time of the preparation of the report.

### **INSURANCE**

The Company has elected to place its current directors' and officers' liability insurance with aggregate coverage in the amount of US\$5 million into three (3) years run-off, at one time cost of US\$50,000. The coverage has a deductible of US\$250,000.

In consideration of the 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.

### **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's management proxy circular dated June 22, 2022 for the Company's annual and special meeting of shareholders held on July 21, 2022. Additional financial information is contained in the Company's comparative financial statements and MD&A as at and for the years ended December 31, 2022 and 2021, copies of which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and may also be obtained by request to SouthGobi Resources Ltd., 20<sup>th</sup> floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone to 604-762-6783 or Unit 1208-10, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

Additional information relating to the Company may be found under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## SCHEDULE "A"

### AUDIT COMMITTEE CHARTER

(amended November 2021)

#### I. Purpose

The primary objective of the Audit Committee (the "Committee") of SouthGobi Resources Ltd. (the "Company") 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 Company's risk management and internal financial and accounting controls, and management information systems; and (d) the qualification, independence and performance of the Auditors.

Although the Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time 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 capacity. Consequently, it is not the duty of the 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.

The responsibilities of a member of the Committee are in addition to such member's duties as a member of the Board.

#### II. Organization

The Committee shall consist of three or more independent non-executive directors of the Company. The Committee membership shall satisfy, at a minimum, the laws governing the Company and the independence, financial literacy, expertise and financial experience requirements under applicable securities laws, rules and regulations, stock exchange rules and policies, and any other regulatory requirements applicable to the Company.

The members of the Committee and the Chair of the Committee shall be appointed (and may be replaced) by the Board on the recommendation of the Nominating & Corporate Governance Committee. The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of shareholders at which directors are elected, provided that if the appointment of members of the Committee is not so made, the directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.

Members of the Committee shall not simultaneously serve on the audit committees of more than two other public companies, unless the Board first determines that such simultaneous service will not impair the ability of the relevant member to effectively serve on the Committee.

Members of the Committee must be financially literate, as the Board interprets such qualification in its business judgment, and all members shall be able to read and understand the Company's financial statements and to understand the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

No member of the Committee shall have (i) been a partner of or otherwise have had a financial interest in the Auditors during the past two years; or (ii) participated in the preparation of the financial statements of the Company or any current subsidiary at any time during the past three years. At least one member of the Committee shall have past employment experience in finance or accounting of public companies, requisite professional certification in accounting, or any other comparable experience or background which results in such individual's financial sophistication (including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities).

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director of the Company. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board on the recommendation of the Nominating & Corporate Governance Committee.

The Committee may form and delegate authority to individual members or subcommittees when appropriate.

The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

### **III. Meetings**

The Committee shall meet as frequently as the Committee deems necessary to carry out its duties effectively, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, the Company's financial and accounting officer(s) and the Auditors in separate sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. Meetings may be held in person, by telephone, by video-conference or by any combination of any of the foregoing, to the extent permitted by the Company's constituting documents and applicable corporate law.

A majority of the members of the Committee, present in person, by video-conference, by telephone or by a combination thereof, shall constitute a quorum. Matters decided by the Committee shall be decided by a majority vote. The Chair of the Committee shall have an ordinary vote and not a casting vote.

The Chair of the Committee shall be an independent chair who is not the Chair of the Board. In the absence of the appointed Chair of the Committee at any meeting, the members shall elect a temporary Chair from those in attendance at the meeting. The Chair of the Committee, in consultation with the other members of the Committee, shall set the frequency and length of each meeting and the agenda of items to be addressed at each upcoming meeting. The Chair shall ensure that the agenda for each upcoming meeting of the Committee is circulated to each member of the Committee in advance of the meeting.

The Committee will appoint a Secretary who will keep full minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. Draft and final versions of the meeting minutes shall be sent to all members of the Committee within a reasonable time following such meetings, which, in the case of draft meeting minutes, shall be circulated no later than 21 days following the date of the applicable meeting.

The Committee may invite, from time to time, such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. The Company's accounting and financial officer(s) and the Auditors shall attend any meeting when requested to do so by the Chair of the Committee.

#### **IV. Authority and Responsibilities**

The Board, after consideration of the recommendation of the Committee, shall nominate the Auditors for appointment by the shareholders of the Company in accordance with applicable law. The Auditors report directly to the Committee. The Auditors are ultimately accountable to the Committee and the Board as representatives of the shareholders.

In fulfilling its duties and responsibilities under this Charter, the Committee will be entitled to reasonably rely on: (a) the integrity of those persons within the Company and of the professionals and experts (such as the Auditors) from whom it receives information; (b) the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts; and (c) the representations made by the Auditors as to any services provided by them to the Company.

The Committee shall have the following responsibilities:

##### **(a) Auditors**

1. Recommend to the Board the independent auditors to be nominated for appointment or reappointment as the Auditors of the Company at the Company's annual meeting of shareholders and the remuneration to be paid to the Auditors; approve the scope of all auditing services to be provided by the Auditors; be directly responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and the Auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the Auditors, if and when advisable.
2. When there is to be a change of the Auditors, (i) review all issues related to the change, including any notices required under applicable law, stock exchange rules or policies, or other regulatory requirements, and the planned steps for an orderly transition; and (ii) be primarily responsible for questions relating to such change.
3. Review and discuss with the Auditors their audit plan, scope, staffing, materiality threshold, and general audit approach.
4. Review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the Auditors the nature and scope of the audit and reporting obligations prior to the commencement of the audit.
5. Review on an annual basis the performance of the Auditors, including the lead audit partner.
6. Take reasonable steps to confirm the independence of the Auditors, which include:
  1. ensuring receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and the Company;
  2. considering and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;
  3. developing and implementing a policy on the provision of non-audit related services provided by the Auditors to the Company or its subsidiaries and approving in advance the provision of and the fees for such services, with a view to ensure independence of the Auditors, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors (for the purposes of this

Part IV(a)(6)(c), Auditors include any entity that is under common control, ownership or management with the Auditors or any entity that a reasonable and informed third party knowing all the relevant information would reasonably conclude to be part of the Auditors, nationally or internationally); and

4. as necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.
7. Review and approve any disclosures required to be included in periodic reports under applicable securities laws, rules and regulations and stock exchange and other regulatory requirements with respect to non-audit services provided by the Auditors.
8. Confirm with the Auditors and receive written confirmation at least once per year: (i) indicating that the Auditors are a member in good standing with the Canadian Public Accountability Board (CPAB) and comparable bodies elsewhere to the extent required and disclosing any sanctions or restrictions imposed by the CPAB and such other comparable bodies; and (ii) responding to any other reasonable request of the Committee for confirmation as to their qualifications to act as the Company's Auditors.
9. Consider the tenure of the lead audit partner on the engagement in light of applicable law, stock exchange rules and policies or other regulatory requirements.
10. Review all reports required to be submitted by the Auditors to the Committee under applicable laws, rules and regulations, stock exchange rules and policies or other regulatory requirements.
11. Receive and consider all recommendations and explanations which the Auditors place before the Committee.
12. Ensure that the provision of any non-audit related services by the Auditors does not impair their independence or objectivity and develop and implement any necessary policies in that regard.

**(b) Financial Statements and Financial Information**

1. Review and discuss with management, the financial and accounting officer(s) of the Company and the Auditors, the Company's annual audited financial statements, including the disclosure made in Management's Discussion and Analysis relating thereto and the Auditor's report thereon, prior to filing or distribution of such statements, and recommend to the Board, if appropriate, that the Company's audited financial statements be included in the Company's annual reports distributed and filed under applicable laws and regulatory requirements.
2. Review and discuss with management, the financial and accounting officer(s) of the Company and the Auditors, the Company's interim financial statements, including the disclosure made in Management's Discussion and Analysis relating thereto and the Auditors' review of such interim financial statements, prior to filing or distribution of such statements.
3. Review any earnings press release of the Company before the Company publicly discloses this information.
4. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures.

5. Discuss with the Auditors and review the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit, including:
  - (a) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices, including significant assumptions and qualifications;
  - (b) the management letter provided by the Auditors and the Company's timely response to that letter;
  - (c) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management; and
  - (d) any material queries raised by the Auditors to management about accounting records, financial accounts or systems of control and management's response.
6. Discuss with management and the Auditors any major issues regarding accounting principles used in the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, at least twice a year. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.
7. Review any report under applicable securities law, stock exchange rules or policies or other regulatory requirements, including any reports required to be included in statutory filings, including in the Company's annual proxy statement.

**(c) Ongoing Reviews and Discussions with Management and Others**

1. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company's financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.
2. Periodically review separately with each of management, the financial and accounting officer(s) of the Company and the Auditors: (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements; (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and (c) management's response to each.
3. Periodically discuss with the Auditors, without management being present: (a) their judgments about the quality, integrity and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting; and (b) the completeness and accuracy of the Company's financial statements.
4. Monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial reporting judgments contained therein. In reviewing such reports before submission to the Board, the Committee's review shall include a review of:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;

- (c) significant adjustments resulting from the audit;
  - (d) going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with applicable stock exchange regulations and other legal requirements relating to financial reporting.
5. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
  6. Review and discuss with management, the Auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules, or compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.
  7. Discuss with the Company's financial and accounting officer(s) and the Auditors any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of the Company and give due consideration to such matters.
  8. Review the principal control risks to the business of the Company, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.
  9. Review and discuss with management any earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies, before the Company publicly discloses this information. Such discussions may be done generally (i.e., discussion of the types of information to be disclosed and the types of presentations made).
  10. Review and discuss with management any material off-balance sheet transactions, significant or unusual items, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may need to be reflected in the reports or accounts, or may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.
  11. Review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and financial and accounting policies.

**(d) Risk Management and Internal Controls**

1. Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by the Company's financial and accounting group and the responsibilities, budget and staffing needs of such group.

2. Discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. Such discussions should include adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.
3. Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review and assess the effectiveness of such systems.
4. Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.
5. In consultation with the Auditors and management, review the adequacy of the Company's internal control structure and procedures designed to ensure compliance with applicable laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group.
6. Establish and review procedures for: (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns, including without limitation, concerns with respect to internal controls, financial reporting and questionable accounting or auditing matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of such matters and for appropriate follow-up.
7. Ensure coordination between the Auditors and the Company's internal audit team and ensure that the internal auditor function is adequately resourced and has appropriate standing within the Company; Maintain a direct reporting relationship with the Company's internal audit team and review: (i) the internal control reports prepared by management, including management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting; (ii) the Auditors' attestation and report on the assessment made by management; and (iii) the performance of the Company's internal audit team on an annual basis.
8. Review the appointment of the Chief Financial Officer and any key financial executives involved in the financial reporting process and recommend to the Nominating and Corporate Governance Committee and to the Board any changes in such appointments.
9. Review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and act as the key representative body for overseeing the Company's relations with the Auditors.

**(e) Other Responsibilities**

1. Create an agenda and timetable for the Committee for the ensuing year.
2. Review and approve related-party transactions if required under applicable law, stock exchange or other regulatory requirements.
3. Consider major investigation findings with respect to risk management and internal control matters, as delegated by the Board or on its own initiative, and management's response to such findings.



4. Review and approve: (a) any change or waiver in the Company's code of ethics applicable to senior financial officers; and (b) any disclosures made under applicable law, stock exchange or other regulatory requirements regarding such change or waiver.
5. Establish, review and approve policies for the hiring of partners, former partners, employees, or former employees of the Auditors or the Company's former independent auditors.
6. Review and reassess the adequacy of, and the duties and responsibilities set out in, this Charter annually and recommend to the Nominating and Corporate Governance Committee and to the Board any changes deemed appropriate by the Committee.
7. Review its own performance annually, seeking input from management and the Board.
8. Confirm to the Board annually that all responsibilities outlined in this Charter have been carried out.
9. Perform any other activities consistent with this Charter, the Company's constating documents and governing law, as the Committee or the Board deems necessary or appropriate.

## **V. Reporting**

The Committee shall report regularly to the Board, including on matters set out in applicable stock exchange regulations, and shall submit the minutes of all meetings of the Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee). The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance or independence of the Auditors or the performance of the Company's financial and accounting group.

## **VI. Resources and Access to Information**

The Committee shall be provided with sufficient resources by the Company to perform its duties. The Committee shall have the authority to: (i) retain, at the expense of the Company, independent legal, accounting and other advisors or consultants to advise the Committee, as it determines necessary to carry out its duties; and (ii) approve the terms and conditions of the arrangement (including, the fees and other retention terms) with such outside advisors.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Committee has direct and unrestricted access to any officer, employee or consultant of the Company and its subsidiaries. The Committee may request any officer, employee or consultant of the Company or its subsidiaries, the Company's outside counsel or the Auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee with or without the presence of management. In the performance of any of its duties and responsibilities, the Committee shall have unrestricted access to any and all books and records of the Company and its subsidiaries necessary for the execution of the Committee's obligations.

The Committee shall determine the extent of funding necessary for payment of: (a) compensation to the Company's independent public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (b) compensation to any independent legal, accounting and other advisors or consultants retained to advise the Committee; and (c)

ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

### **Amendments**

At least annually, this charter will be fully evaluated by the Nominating and Corporate Governance Committee and any appropriate updates will be recommended to the Board for consideration. The Nominating and Corporate Governance Committee shall have the authority to make minor technical amendments to this charter from time to time as required.