SouthGobi
RESOURCES

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SouthGobi Resources Ltd.
南戈壁资源有限公司

Annual Report 2022

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SouthGobi Resources Ltd.
Annual Report 2022

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

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

俄罗斯
Russia
敖包特陶勒盖煤矿
Ovoot Tolgoi Mine
铁路 Railway
蒙古
Mongolia
乌兰巴托
Ulaanbaatar
Russia
Ulaanbaatar
Mongolia
Beijing
Seoul
China
Shanghai
SouthGobi
RESOURCES
敖包特陶勒盖煤矿
Ovoot Tolgoi Mine
达兰扎德嘎德
Dalanzadgad
二连浩特
Erenhot
策克
Ceke
额济纳旗
Ejinaqi
临河
Linhe
呼和浩特
Hohhot
乌兰察布
Ulanqab
张家口
Zhangjiakou
秦皇岛
Qinhuangdao
酒泉
Jiuquan
嘉峪关
Jiayuguan
乌海
Wuhai
包头
Baotou
大同
Datong
北京
Beijing
银川
Yinchuan
中国
China
天津
Tianjin
N
200km

MESSAGE FROM THE CEO

2022 was a year of reformation for SouthGobi. JD Zhixing Fund L.P. ("JDZF") has acquired all the interests of China Investment Corporation in the Company (including 64,766,591 common shares and US$250 million convertible bonds of the Company), becoming the largest shareholder of the Company. Land Grand International Holding Limited has subscribed for 46,358,978 common shares held by China Cinda (HK) Asset Management Co., Limited, becoming the second largest shareholder of the Company. Accordingly, corresponding adjustments have been made to the Board of Directors and the management.

On behalf of the Company, I would like to extend a warm welcome to the new strategic partners, and recognise the efforts of the former directors and management team.

Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased gradually. As a result, the Company has significantly improved its cash flows. Its major mining operations, including coal mining, have been gradually resumed on July 15, 2022.

Safety continues to be one of the Company's top priorities, and the Company remains fully committed to operating in a safe and socially responsible manner. The Company ended 2022 without a lost time injury, per 200,000 man-hours based on a rolling 12-month average. We are proud of our track record of low incident frequency rates that have been consistently maintained over the years and we will strive to uphold this trend going forward.

In 2023, with the assistance and support from JDZF, the Company will actively adjust its sales strategy and continue to expand its sales network and customer base in the Chinese market leveraging the opportunity of cross-border export infrastructure and technology optimisation at the Ceke Port of Entry, hoping to achieve a simultaneous increase in coal sales volume and prices.

In the meantime, the Company plans to seek multi-party strategic cooperations to increase its mining capacity and operating efficiency, and to optimise its operational cost structure. In addition, the Company will also consider resuming its coal washing and dry coal processing operations according to market demand, and increase product value and quality through diversified coal blending, thereby boosting its profits from coal sales.

MESSAGE FROM THE CEO

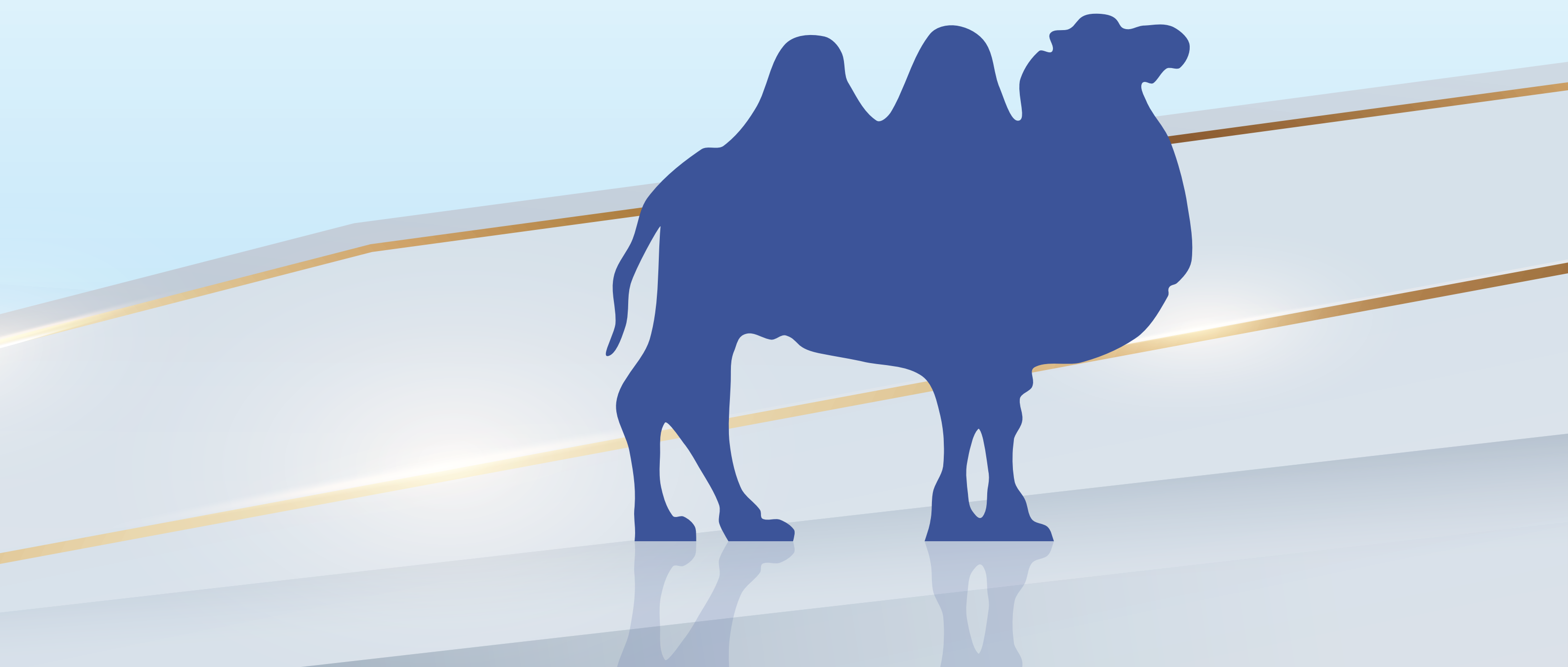
The Company will continue to utilise the flat management structure to implement various measures and strategies, which will enhance the Company's competitiveness and thus advance the operational efficiencies of the Company's operations, sales, logistics, production processes and finances.

The Company also places great emphasis on environmental, social and governance. We will further promote environmental protection, social responsibility and effective corporate governance, and integrate them with the strategies, production and operations of the Company, in order to bring sustainable development for the Company's business and the community.

Looking ahead, the Company aims to improve its financial position and enhance its corporate value. We will strengthen strategic cooperation with various companies, gear towards the direction of global energy development actively, and explore green energy and new investment opportunities. At the same time, the Company will continue to leverage its key competitive advantages in furtherance of its business growth, create sustainable development and maximise value for the Company and its shareholders.

On behalf of the management team, I would like to thank all of SouthGobi's loyal employees, communities and the authorities of Mongolia, China and Canada, our customers, suppliers and shareholders for all your support.

Dong Wang
CEO and Executive Director



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 collaboration from its two largest shareholders, which are both experienced coal mining enterprises in China, and its strong operational record for the past decade in Mongolia, being one of the largest enterprises and taxpayers in Mongolia.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Dong Wang

Executive Director and Chief Executive Officer

Mr. Dong Wang, 49, was appointed an Executive Director and the Company's Chief Executive Officer on September 8, 2022. Mr. Wang is also a Director of several of the Company's subsidiaries.

Mr. Wang was the General Manager of Inner Mongolia Dongfang Guoxin Technology Co. Ltd.* (内蒙古东方国信科技有限公司) ("Dongfang Guoxin") from February 2018 to September 2022. He was responsible for the operations management of Dongfang Guoxin, which provides services to energy and mining companies in chemistry management, safety and equipment management, and energy conservation management. Prior to joining Dongfang Guoxin, Mr. Wang served as the Chairman of Guangzhou Guide Investment Co. Ltd.* (广州贵德投资有限公司) from 2015 to 2019, responsible for investment and financing in government infrastructure projects. Mr. Wang has over 20 years of experience in investment and management in the energy and resources industry.

Mr. Wang obtained a Bachelor's degree in Industrial Electrical Engineering and Automation from the Liaoning Technical University (the former Fuxin Institute of Mining) in 1997 and a Master's Degree in Finance Management from The University of Chinese Academy of Sciences in 2011. He is a member of the Canadian Institute of Corporate Directors.

Chonglin Zhu

Executive Director and Senior Vice President of Finance

Ms. Chonglin Zhu, 36, was appointed as an Executive Director and the Company's Senior Vice President of Finance on September 8, 2022. Ms. Zhu is also a Director of several of the Company's subsidiaries.

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

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

Chen Shen
Executive Director

Mr. Chen Shen, 34, joined the Board of Directors on December 6, 2022 as a Non-Executive Director. On February 17, 2023 he became the Head of the Company's legal department and an Executive Director.

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

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

Zhu Gao
Non-Executive Director

Mr. Zhu Gao, 65, joined the Board of Directors on December 6, 2022 as a Non-Executive Director.

Mr. Gao is the founder of Mengfa Energy Holding Group (the "Mengfa Group"). Since the establishment of the Mengfa Group in 1998, he has served as its Chairman and President. Mr. Gao has nearly 40 years of investment and management experience in the traditional energy industry. Prior to the establishment of the Mengfa Group, he held management positions in several large coal enterprises in Inner Mongolia. Mr. Gao received an honorary doctorate in Management from Princeton University, in the United States, in 2017. He is a member of the Canadian Institute of Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Gang Li
Non-Executive Director

Mr. Gang Li, 46, joined the Board of Directors on December 6, 2022 as a Non-Executive Director.

Mr. Li has over 25 years of experience in investment management and asset operations. He has extensive operating experience and network resources in Ceke Port of Entry, China, and has been involved in various aspects of mining, railway transportation, road transportation, and sea transportation. Mr. Li served as the executive director and general manager of Inner Mongolia Weihong Energy Co., Ltd. ("Weihong Energy") from 2017 to 2022, and was responsible for the management of assets exceeding RMB100 million and operation of the company, which provides distribution management of bulk cargo, international import and export, transportation management, warehousing, logistics park planning, construction and other aspects of operations management. Prior to joining Weihong Energy in 2017, Mr. Li was the founder of an energy technology company (2004-2017), and served as its general manager and sales director, providing trade services, logistics and transportation services in energy, mining and other bulk trading industries.

Mr. Li graduated from Guilin University of Electronic Technology with a bachelor degree in communication engineering in 2000. He is a member of the Canadian Institute of Directors.

Yingbin Ian He
Independent Non-Executive Director

Mr. Yingbin Ian He, 61, joined the Board of Directors on May 16, 2017 as an Independent Non-Executive Director.

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

Mr. He obtained his PhD (1994) and Master's of Applied Science (1990) degrees in Mineral Process Engineering from the University of British Columbia in Canada and his Bachelor of Engineering Degree (1982) in Coal Preparation and Utilization from Heilongjiang Institute of Mining and Technology (now 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Jin Lan Quan

Independent Non-Executive Director

Ms. Jin Lan Quan, 60, joined the Board of Directors on August 6, 2015 as an Independent Non-Executive Director.

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

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

Mao Sun

Independent Non-Executive Director and Lead Director

Mr. Mao Sun, 46, joined the Board of Directors on November 5, 2015 as an Independent Non-Executive Director, he was the Company's Interim Lead Director from August 16, 2016 to May 30, 2019 and was appointed as the Lead Director on May 30, 2019.

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

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

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Alan Ho

Chief Financial Officer

Mr. Alan Ho, 39, was appointed as the Company's Chief Financial Officer on September 8, 2022 and served as the Company's acting Chief Financial Officer from February 10, 2021 until September 8, 2022. Mr. Ho was the Company's Controller between July 2015 and February 2021 and is also a Director of several of the Company's subsidiaries.

Mr. Ho has over 15 years' of financial accounting, auditing and corporate finance experience. Prior to joining the Company in 2013, Mr. Ho was an audit manager at Ernst & Young, overseeing the audits of numerous public companies in diverse industries.

Mr. Ho holds a Bachelor's Degree in Economics and Finance from the University of Hong Kong and is a member of the Hong Kong Institute of Certified Public Accountants and the Canadian Institute of Corporate Directors. He is also a Chartered Financial Analyst (CFA) and a Certified Financial Risk Manager (FRM).

Dalanguerban

President

Mr. Dalanguerban, 65, was appointed as the Company's President on September 8, 2022 and served as the Company's Chief Executive Officer and Executive Director from March 31, 2020 to September 8, 2022.

Mr. Dalanguerban has over 35 years of international mining and operational experience including a number of mining projects in Mongolia. Mr. Dalanguerban is currently a director of the Mongolia National Mining Association, responsible for transportation. Mr. Dalanguerban spent the majority of his career working for China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. ("NFC"), in a variety of roles in various countries. Between 1992 and 2017, Mr. Dalanguerban was the Chief Representative of NFC in Mongolia. In Mongolia, Mr. Dalanguerban accomplished numerous achievements including the development and commissioning of the Tumurtiin-Ovoo zinc mine, which is recognized as an "Exemplary Project of China-Mongolia Cooperation" and for which he was awarded the "Mining Contribution" prize by the Ministry of Mining and Heavy Industry of Mongolia. Mr. Dalanguerban served as a Director, Executive Deputy General Manager, and General Manager at Tsairt Minerals LLC (the holding company of the Tumurtiin-Ovoo zinc mine) from its establishment in 1997 until 2005, when the Tumurtiin-Ovoo zinc mine was put into production.

Mr. Dalanguerban cofounded the Mongolian Chinese Chamber of Commerce in Mongolia in 2002, and he served as its Deputy Chairperson, Executive Vice President and Secretary-General until December 2022 when he retired upon expiry of term of office. In 2018, Mr. Dalanguerban was awarded an honorary Doctorate Degree from the Mongolian University of Life Sciences and in 2016 he was recognized by the Mongolian government as a leading cultural contributor. Mr. Dalanguerban studied Arabic at the Shanghai International Studies University and graduated in 1980.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Allison Snetsinger
Corporate Secretary

Ms. Allison Snetsinger, 54, was re-appointed as the Company's Corporate Secretary in November 2014 and was the Company's Corporate Secretary from May 2012 to March 2014. Prior to her appointment as the Corporate Secretary, Ms. Snetsinger was the Company's Assistant Corporate Secretary from the time of its Canadian initial public offering in December 2003. Ms. Snetsinger is also a Director of certain of the Company's subsidiaries.

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

Munkhbat Chuluun
Vice President of Public Relations

Mr. Munkhbat Chuluun, 63, was appointed as Vice President of Public Relations on February 10, 2021 and was the President and Executive Director of the Company's wholly-owned subsidiary SouthGobi Sands LLC ("SGS") between September 2015 and February 2021.

Mr. Chuluun joined the Company as an advisor in 2012 and held the positions of interim President and Executive Director, and General Manager of Government Relations and Compliance. Prior to joining SGS, Mr. Chuluun was the Project Director of Asia Development Bank, the Coordinator of The World Bank and the Deputy of Prosecutors of Mongolia. Mr. Chuluun is the New Zealand Honorary Consul-General in Mongolia and serves on the Board of AmCham Mongolia (American Chamber of Commerce), and Public Administration magazine, and is the President of the Mongolian Rugby Football Union.

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

DIRECTORS' REPORT

The board of directors (the "Directors" and the "Board", respectively) of SouthGobi Resources Ltd. ("SGQ") is pleased to present its report along with the audited consolidated financial statements (the "Financial Statements") of SGQ together with its subsidiaries (collectively the "Company") for the financial year ended December 31, 2022 (the "Financial Year").

Principal activities, business review and geographical analysis of operations

The Company is an integrated coal mining, development and trading company. The Company's significant subsidiaries are set out in Note 29 to the Financial Statements and the activities of all major subsidiaries of the Company as at December 31, 2022 are set out in the table below:

Name	Country of incorporation	Issued and fully paid share capital/paid-in capital/registered capital	Principal activities
SGQ Coal Investment Pte. Ltd.	Singapore	US$1	Investment holding
SouthGobi Sands LLC	Mongolia	MNT1,116,039,871,410.50	Coal mining, development and exploration of properties in Mongolia
SouthGobi Resources (Hong Kong) Limited	Hong Kong	HK$1	Business services and investment holding
SouthGobi Trading (Beijing) Co., Ltd.*	China	US$400,000	Investment holding
Inner Mongolia SouthGobi Energy Co., Ltd.*	China	CNY100,000,000	Import agency and trading of coal
Inner Mongolia SouthGobi Enterprise Co., Ltd.*	China	CNY142,857,143	Storage and warehouse service, customs clearance service and transportation for imported goods
Inner Mongolia SouthGobi Mining Development Co., Ltd.*	China	CNY50,000,000	Transportation of imported goods, import and export agent for goods and technology, wholesale of coal and other mining products, coal processing, warehouse and storage, and information technology consultation services.
Inner Mongolia SouthGobi Trading Co., Ltd.*	China	CNY50,000,000	Coal trading
Wuhai SouthGobi Mining Resources Co., Ltd.*	China	CNY50,000,000	Coal trading

* English names are for identification purpose only

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

A review of the business of the Company during the Financial Year and a further discussion and analysis of these activities, including a description of the principal risks and uncertainties the Company may be facing and an indication of likely future development in the Company's business, can be found in Management's Discussion and Analysis set out on pages 62 to 119 of this Annual Report. The discussion forms part of this directors' report.

Results

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 136 of this Annual Report.

Dividends

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

- the actual and expected financial results of the Company at the relevant time (including whether the Company has adequate retained earnings);
- economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Company;
- the Company's business strategy and operational plans, including future cash commitments and investment needs to sustain the long-term growth of the Company;
- the current and expected liquidity position and capital requirements of the Company; and
- any other factors that the Board deems appropriate.

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

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

The Board did not recommend the payment of any final dividend for the Financial Year (2021: Nil). No interim dividend was declared or paid during the Financial Year (2021: Nil).

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Company during the Financial Year are set out in Note 16 to the Financial Statements.

Share capital

Details of the movements in the share capital of the Company during the Financial Year are set out in Note 24 to the Financial Statements and in the Consolidated Statement of Changes in Equity on page 138 of this Annual Report.

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

Purchase, sale or redemption of listed securities

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

DIRECTORS' REPORT

Reserves

Details of the reserves available for distribution to the shareholders of the Company (the "Shareholders") as at December 31, 2022 are set out in the Consolidated Statement of Changes in Equity on page 138 of this Annual Report.

Directors

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

DIRECTORS

Executive Directors ("EDs")

Mr. Dong Wang (1)
Ms. Chonglin Zhu (1)
Mr. Chen Shen (2)

Non-Executive Directors ("NEDs")

Mr. Zhu Gao (3)
Mr. Gang Li (3)

Independent Non-Executive Directors ("INEDs")

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

FORMER DIRECTORS

Executive Director

Mr. Dalanguerban (4) (former Chief Executive Officer)

Non-Executive Directors

Mr. Jianmin Bao (5)
Mr. Ben Niu (5)
Mr. Zhiwei Chen (6)
Ms. Ka Lee Ku (6)

Notes:

1) Mr. Dong Wang was appointed as CEO and Ms. Chonglin Zhu was appointed as Senior Vice President of Finance and were elected to the Board of Directors as Executive Directors on September 8, 2022.

2) Mr. Chen Shen was elected to the Board of Directors as a non-executive Director on December 6, 2022. On February 17, 2023 he became the Head of the Company's legal department and was re-designated from a non-executive Director to an Executive Director.

3) Messrs. Zhu Gao and Gang Li were elected to the Board of Directors as non-executive Directors on December 6, 2022.

4) Mr. Dalanguerban was re-designated from CEO to President on September 8, 2022. He resigned from the Board of Directors on December 6, 2022, and ceased to be an Executive Director at that time. Mr. Dalanguerban confirmed that he had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders.

5) Messrs. Jianmin Bao and Ben Niu resigned from the Board of Directors on August 31, 2022, and ceased to be NEDs at that time. Messrs. Bao and Niu confirmed that they had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders; and

6) Mr. Zhiwei Chen and Ms. Ka Lee Ku resigned from the Board of Directors on December 6, 2022, and ceased to be a NEDs at that time. Mr. Chen and Ms. Ku confirmed that they had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders.

Except where such Director has already resigned from the Board, the term of office for each of the Directors will end at the conclusion of the Company's forthcoming annual general meeting (the "2023 AGM"). In accordance with article 14.1 of the articles of continuation of the Company (the "Articles of Continuation"), all of the Directors, including the INEDs and the NEDs, would retire and, being eligible, may offer themselves for re-election at the 2023 AGM.

Director Independence

The Company has received written annual confirmations of independence from each of Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan, the Company's INEDs. The Board and Nominating and Corporate Governance Committee have assessed the independence of each INED and, as at the date of this report, considers each of them to be independent in accordance with the applicable listing rules and, having regard to (i) their annual confirmation on independence as required under the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (the "Listing Rules"), (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

Biographies of the Directors and Senior Management

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

Directors' service contracts

None of the Directors proposed for re-election at the 2023 AGM have a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' interests in transactions, arrangements or contracts of significance

Save as disclosed in the related party transactions as set out in Note 29 to the Financial Statements, no transactions, arrangements or contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, whether directly or indirectly, subsisted at the end of the Financial Year or at any time during the Financial Year.

Directors' interests in competing businesses

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

Inner Mongolia Weihong Energy Co. Ltd.* ("Weihong Energy"), a wholly owned subsidiary of Weihong International Energy Technology (Beijing) Co., Ltd.* ("Weihong International") holds 34.48% interest in Land Grand which is a substantial shareholder of the Company and interested in approximately 15.70% of the issued share capital of the Company. Weihong Energy has been one of the Company's major customers since 2018 and the coal sales attributable to Weihong Energy represents a substantial portion of the Company's total sales. The Company's non-executive Director, Mr. Gang Li, served as the executive director and general manager of Weihong Energy from 2017 to October 2022, and he holds 50% indirect controlling interest of Weihong Energy through Weihong International.

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

As at December 31, 2022, or in the case of a departed Director as at his resignation/retirement date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) were as follows:

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

	Number of Shares and underlying Shares held, capacity and nature of interest [1]						
		Number of Shares interested			Number of underlying Shares interested		
Name of Directors	Directly beneficially owned	Through spouse or minor children	Through controlled company	Beneficiary of a trust	Directly beneficially owned	Total [2]	Approximate percentage of SGQ's issued Shares [3]
Current Directors							
Chonglin Zhu [4]	–	–	85,714,194	–	–	85,714,194	29.03%
Zhu Gao [5]	–	–	46,358,978	–	–	46,358,978	15.70%
Gang Li [5]	–	–	46,358,978	–	–	46,358,978	15.70%
Yingbin Ian He	27,000	–	–	–	300,000 [6]	327,000	0.11%
Jin Lan Quan	–	–	–	–	450,000 [6]	450,000	0.15%
Mao Sun	–	–	–	–	600,000 [6]	600,000	0.20%
Former Directors							
Dalanguerban	77,999	–	–	–	450,000 [6]	527,999	0.18%
Senior Management							
Alan Ho	156,475	–	–	–	451,000 [6]	607,475	0.21%
Allison Snetsinger	1,000	–	–	–	200,000 [6]	201,000	0.07%
Munkhbat Chuluun	–	–	–	–	550,000 [6]	550,000	0.19%

Notes:

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

(2) All interests stated above are long positions.

(3) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2022 (i.e. 295,226,779 Shares).

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

(5) Land Grand International Holding Limited ("Land Grand") is the registered and beneficial owner of 46,358,978 Shares of the Company's issued and outstanding Shares. Mr. Zhu Gao and Mr. Gang Li are the indirect controlling shareholders of Land Grand.

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

Other than the shareholdings disclosed in the preceding table, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2022.

Equity Incentive Plan

The Company first adopted the Company's Equity Incentive Plan (the "Plan" or "EIP") in 2003, and was last amended, restated and approved by the Shareholders in June 2021.

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

The Plan has an indefinite life, which shall be terminable by the Board at any time and from time to time, either prospectively or retrospectively, without shareholder approval.

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

(a) that may be reserved for issuance to Insiders (as defined under the Securities Act (Ontario), as amended) under the Plan (or when combined with all of the Company's other security-based compensation arrangements) will not exceed ten per cent (10%) of the Company's outstanding issue from time to time;

(b) that may be issued to Insiders under the Plan (or when combined with all of the Company's other security based compensation arrangements) within any one-year period will not exceed ten per cent (10%) of the Company's outstanding issue from time to time; and

(c) that may be issued to any one Insider and his or her Associates (as defined under the Securities Act (Ontario), as amended) under the Plan within any one-year period will not exceed five per cent (5%) of the Company's outstanding issue from time to time.

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

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

The number of Shares that may be issued in respect of the share options and awards granted under the Plan during the Financial Year, divided by the weighted average number of Shares for the Financial Year, is 0.05%.

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

Share Option Plan

The particulars of the Share Option Plan are set out in Note 25 to the Financial Statements.

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

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

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

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

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

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

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

DIRECTORS' REPORT

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

Share Option Plan	Number of Options										
Name	At January 1, 2022	Granted during the period	Exercised during the period	Forfeited/ cancelled during the period	Expired/ lapsed during the period	At December 31, 2022	Date of grant of Options [1]	Exercise period of Options	Exercise price per Share [2]	Closing price of the Shares immediately before the date on which the Options were granted	Weighted average closing price of the Shares immediately before the exercise date
Directors											
Mao Sun	200,000	–	–	–	(200,000)	–	June 30, 2017	June 30, 2018 – June 30, 2022	CA$0.33	–	–
	200,000	–	–	–	–	200,000	July 03, 2018	July 03, 2019 – July 03, 2023	CA$0.13	–	–
	200,000	–	–	–	–	200,000	September 11, 2019	September 11, 2020 – September 11, 2024	CA$0.11	–	–
	200,000	–	–	–	–	200,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	–	–
	800,000	**–**	**–**	**–**	**(200,000)**	**600,000**				–	–
Jin Lan Quan	150,000	–	–	–	(150,000)	–	June 30, 2017	June 30, 2018 – June 30, 2022	CA$0.33	–	–
	150,000	–	–	–	–	150,000	July 03, 2018	July 03, 2019 – July 03, 2023	CA$0.13	–	–
	150,000	–	–	–	–	150,000	September 11, 2019	September 11, 2020 – September 11, 2024	CA$0.11	–	–
	150,000	–	–	–	–	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	–	–
	600,000	**–**	**–**	**–**	**(150,000)**	**450,000**				–	–
Yingbin Ian He	100,000	–	–	–	(100,000)	–	June 5, 2017	June 5, 2018 – June 5, 2022	CA$0.39	–	–
	150,000	–	–	–	(150,000)	–	June 30, 2017	June 30, 2018 – June 30, 2022	CA$0.33	–	–
	150,000	–	–	–	–	150,000	September 11, 2019	September 11, 2020 – September 11, 2024	CA$0.11	–	–
	150,000	–	–	–	–	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	–	–
	550,000	**–**	**–**	**–**	**(250,000)**	**300,000**				–	–
Former Directors											
Dalanguerban	450,000	–	–	–	–	450,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	–	–
	450,000	**–**	**–**	**–**	**–**	**450,000**				–	–
Total for Directors/ Former Directors	**2,400,000**	**–**	**–**	**–**	**(600,000)**	**1,800,000**					
Other Option holders	459,000	–	–	–	–	459,000	August 16, 2018	August 16, 2019 – August 16, 2023	CA$0.13	–	–
	902,750	–	(24,750) [3]	–	(115,500)	762,500	November 15, 2019	November 15, 2020 – November 15, 2024	CA$0.13	–	CA$0.16
	2,487,500		–	(515,700)	–	1,971,800	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	–	–
Total for other Option holders	**3,849,250**	**–**	**(24,750)**	**(515,700)**	(115,500)	**3,193,300**					
Total	**6,249,250**	**–**	**(24,750)**	**(515,700)**	**(715,500)**	**4,993,300**					
Number of Options available for grant	**21,162,304**					**24,529,378**					

Notes:

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

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

3. The 24,750 shares issued as a result of the exercise of options are listed on the HKEX.

Details of the accounting policy for the Share Option Plan are set out in Note 25 to the Financial Statements.

Share Purchase Plan

The particulars of the Share Purchase Plan are set out in Note 25.3 to the Financial Statements.

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

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

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

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

DIRECTORS' REPORT

The following table discloses movements in the Shares under the Share Purchase Plan for the Financial Year:

Share Purchase Plan (SPP)	Number of Shares Issued/Vested											
	Total number of Shares issued/ granted as at January 1, 2022 [6]	Total number of Shares unvested as at January 1, 2022	Issued/ granted during the period	Vested during the period	Total number of Shares issued/ granted as at December 31, 2022 [7][8]	Total number of Shares unvested as at December 31, 2022	Date of Issuance/Grant of Shares	Vesting date of Shares [2]	Issue Price of Shares issued/ granted (HK$) [3]	Issue Price of Shares vested (HK$) [3]	Closing Price (HK$) [4]	Weighted average closing price of the Shares immediately before the date on which the Shares were vested (HK$)
Directors												
n/a												
Former Directors												
Dalanguerban	21,184	21,184	–	21,184	21,184	–	October 21, 2022	January 22, 2022	$1.88	$1.88	$1.33	$1.25
Q1 2022 SPP issuance	–	–	26,773	26,773	26,773	–	January 28, 2022 [1]	April 28, 2022	$1.49	$1.49	$1.25	$1.25
Q2 2022 SPP issuance	–	–	30,042	30,042	30,042	–	June 9, 2022 [5]	September 9, 2022	$1.33	$1.33	$1.19	$1.25
Total for Directors/Former Directors	21,184	21,184	56,815	77,999	77,999	–						
Other Share Purchase Plan Participants –Eligible Employees	24,025	24,025	–	24,025	24,025	–	October 21, 2022	January 22, 2022	$1.88	$1.88	$1.33	$1.24
Q1 2022 SPP issuance to Eligible Employees	–	–	36,925	36,925	36,925	–	January 28, 2022 [1]	April 28, 2022	$1.49	$1.49	$1.25	$1.24
Q2 2022 SPP issuance to Eligible Employees	–	–	45,142	45,142	45,142	–	May 11, 2022 June 9, 2022 [5]	August 11, 2022 September 9, 2022	$1.33 $1.33	$1.33 $1.33	$1.20 $1.19	$1.24 $1.24
Total for Eligible Employees	24,025	24,025	82,067	106,092	106,092	–						
Total	45,209	45,209	138,882	184,091	184,091	–						
Number of Shares available for issuance under the SPP	141,179				2,297							

Notes:

1. The Share Purchase Plan shares accrued in the fourth quarter of 2021 were issued on January 28, 2022.

2. In respect of the vesting period, Shares issued to a participant pursuant under the Share Purchase Plan shall be subject to the Hold Period of 90 days. During the Hold Period, each participant's right to transfer, sell, exchange, pledge, assign or otherwise dispose of such Shares shall be restricted. The share certificate delivered in respect of the shares issued to a participant shall bear a restrictive legend stating that such shares will not be transferable during the Hold Period, or if such shares are held in book-entry form, the Company will provide instructions to its transfer agent that such shares will not be transferable during the Hold Period.

3. The "Issue Price" means the weighted average price of the relevant Shares on HKEX for the 90-day period immediately preceding the date of issuance or, if the relevant Shares are not, as at that date, listed on the Hong Kong Stock Exchange, on such other Exchange on which the Shares are listed on that date. If the relevant Shares are not traded on an Exchange on the date of issuance, the Issue Price will be such price per relevant Share as the Board, acting in good faith, may determine. The Shares issued under the Share Purchase Plan are listed on either the Hong Kong Stock Exchange or TSX.

4. The "Closing Price" means the closing price of the Shares on HKEX immediately before the date on which the Shares were issued/granted.

5. Due to the Management Cease Trade Order (the "MCTO") imposed on the Company's Chief Executive Officer and Chief Financial Officer by the British Columbia Securities Commission, the Shares issued to the executives of the Company occurred on a different date than the Shares issued to other SPP Participants under the Share Purchase Plan. Mr. Dalanguerban, the Company's Chief Executive Officer at the time of the MCTO was issued 30,042 Shares on June 9, 2022. Mr. Alan Ho, the Company's Chief Financial Officer was issued 22,106 Shares on June 9, 2022.

6. There were no cancelled or lapsed award of Shares in accordance with the terms of the Share Purchase Plan during the Financial Year.

7. No performance targets were set for the issuance/grant of Shares pursuant to the Share Purchase Plan during the Financial Year.

Details of the accounting policy for the Share Purchase Plan are set out in Note 25.3 to the Financial Statements.

Share Bonus Plan

The Board has the right to issue or reserve for issuance, for no cash consideration, to any Eligible Employee or any Eligible Director any number of Shares as a discretionary bonus subject to such provisos and restrictions as the Board may determine.

The aggregate maximum number of Shares that may be issued under the Share Bonus Plan is limited to 2,000,000 Shares. The Board in its absolute discretion, will have the right to reallocate any of the Shares reserved for issuance under the Share Bonus Plan for future issuance under the Share Option Plan or the Share Purchase Plan and, in the event that any Shares specifically reserved under the Share Bonus Plan are reallocated to the Share Option Plan or the Share Purchase Plan, as the case may be, the aggregate maximum number of Shares reserved under the Share Bonus Plan will be reduced to that extent. In no event will the number of Shares allocated for issuance under the Share Bonus Plan exceed 2,000,000 Shares.

There is no vesting period stipulated under the Share Bonus Plan.

The obligation of the Company to issue and deliver any Shares pursuant to an award made under the Share Bonus Plan will be subject to all necessary approvals of the Exchange or any securities regulatory authority having jurisdiction over the Shares.

No Shares were issued, granted, awarded, vested, lapsed or cancelled under the Share Bonus Plan in the Financial Year. The total number of Shares available for grant under the Share Bonus Plan at the beginning and the end of the Financial Year is 1,800,000 Shares.

EIP Amendments

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

Number and remuneration of employees

As at December 31, 2022, the Company had 360 employees working in various locations. During the Financial Year, staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately $3.39 million as compared to staff costs of $2.85 million in 2021.

Arrangement to purchase shares and debentures

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

Substantial shareholders

The register of interests and short positions in Shares required to be kept by the Company (the "Register of Interests") showed that as at December 31, 2022, the Company has been notified of the following interests in the Shares and underlying Shares (other than those of a Director or the chief executive of the Company) representing 5% or more of the Company's issued Shares:

Name of substantial shareholders	Nature of interest	Number of Shares held [(a)(b)]	Approximate percentage of issued Shares [(c)]
JD Zhixing Fund L.P. ("JDZF") [(d)]	Beneficial	85,714,194	29.03%
JD Dingxing Limited [(d)]	Interest of a controlled corporation	85,714,194	29.03%
Chonglin Zhu[(d)]	Interest of controlled corporations	85,714,194	29.03%
Inner Mongolia Tianyu Trading Limited* (内蒙古天宇创新商贸有限公司) ("IMTT") [(d)]	Interest of controlled corporations	85,714,194	29.03%
Inner Mongolia Yuxinsheng Technology Co., Ltd.* (内蒙古宇鑫盛科技有限公司) ("IMYTC") [(d)]	Interest of controlled corporations	85,714,194	29.03%
Inner Mongolia Tianyu Innovation Investment Group Limited* (内蒙古天宇创新投资集团有限公司) ("IMTIIG") [(d)]	Interest of controlled corporations	85,714,194	29.03%
Yong An [(d)]	Interest of controlled corporations	85,714,194	29.03%
Land Grand International Holding Ltd. ("Land Grand") [(e)]	Beneficial	46,358,978	15.70%
Inner Mongolia Weihong Energy Co., Ltd.* (内蒙古纬泓能源有限责任公司) ("Weihong Energy") [(e)]	Interest of a controlled corporation	46,358,978	15.70%
Weihong International Energy Technology (Beijing) Co., Ltd.* (纬泓国际能源科技(北京)有限公司) ("Weihong International") [(e)]	Interest of controlled corporations	46,358,978	15.70%
Xuemei Li [(e)]	Interest of controlled corporations	46,358,978	15.70%
Gang Li [(e)]	Interest of controlled corporations	46,358,978	15.70%
Mengfa Energy Holding Group Co., Ltd. ("Mengfa") [(e)]	Interest of a controlled corporation	46,358,978	15.70%
Zhu Gao [(e)]	Interest of controlled corporations	46,358,978	15.70%
Voyage Wisdom Limited [(f)]	Beneficial	25,768,162	8.73%
Aminbuhe [(f)]	Interest of controlled corporations	25,768,162	8.73%
Ningqiao Li [(f)]	Interest of controlled corporations	25,768,162	8.73%

* English names are for identification purpose only

Notes:

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

(b) All interests stated above are long positions.

(c) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2022 (295,226,779 Shares).

(d) JD Dingxing Limited and IMTT are the general partner and limited partner of JD Zhixing Fund L.P., respectively. Ms. Chonglin Zhu owns 80.00% of the issued share capital of JD Dingxing Limited. IMTT is a wholly-owned subsidiary of IMYTC, which is owned as to 80.00% of its issued share capital by IMTIIG. Mr. Yong An owns 75.00% of the issued share capital of IMTIIG.

(e) Each of Weihong Energy and Mengfa owns 34.48% and 64.52% of the issued share capital of Land Grand, respectively. Weihong Energy is a wholly-owned subsidiary of Weihong International, which is owned as to 50.00% and 50.00% of its issued share capital by each of Xuemei Li and Gang Li, respectively. Mr. Zhu Gao owns 80% of the issued share capital of Mengfa.

(f) To the best of the Company's knowledge, Messrs. Yulan Guo, Aminbuhe and Ningqiao Li are directors and shareholders of Voyage Wisdom Limited, a private company which owned 8.73% of the Company's issued and outstanding common shares at December 31, 2022. Each of Messrs. Aminbuhe and Ningqiao Li own 45% of the issued share capital of Voyage Wisdom Limited, respectively.

Other than the interests as disclosed above, according to the Register of Interests, the Company has not been notified of any relevant interests or short positions in the Shares and underlying Shares as at December 31, 2022.

Management contracts

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

Emolument policy

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

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

The Company has also adopted the Share Option Plan to incentivize Directors and eligible employees. Details of the plan are set out in Note 25 to the Financial Statements.

Details of the emoluments of the Directors and five individuals with the highest emoluments for the Financial Year are set out in Note A1 to the Financial Statements.

Pre-emptive rights

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

Sufficiency of public float

Pursuant to the rules and regulations of the Toronto Stock Exchange, a company's securities may be delisted if the number of freely-tradable, publicly held securities is less than 500,000 or the number of public security holders, each holding a board lot consisting of 100 common shares or more, is less than 150. Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Toronto Stock Exchange and Hong Kong Stock Exchange as at the date of this report.

Major customers and suppliers

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

Purchases

The largest supplier accounted for 13% of the Company's purchases.

The five largest suppliers accounted for 43% of the Company's purchases in aggregate.

Sales

The largest customer accounted for 14% of the Company's sales.

The five largest customers accounted for 40% of the Company's sales in aggregate.

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

Charitable donations

During the Financial Year, the Company made charitable donations amounting to US$140,217 (2021: US$186,883).

Permitted Indemnities

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

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

Related party transactions

Related party transactions of the Company during the Financial Year are disclosed in Note 29 to the Financial Statements. They did not constitute connected transactions or continuing connected transactions, which are required to comply with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Connected Transactions and Continuing connected transactions

For the avoidance of doubt, during the Financial Year and as at the date of this report, the Company was entitled and continues to be entitled to exceptions, waivers and exemptions had been granted to the Company as a secondary listed issuer on the Hong Kong Stock Exchange (the "Existing Waivers") before the effective date of voluntary delisting of Shares from the TSX and listing on the TSX-V, or the expiry of the 12-month grace period in respect of migration of the majority of trading of the Shares to the Hong Kong Stock Exchange's markets (whichever is earlier), provided that the Company remains primary listed on the TSX. Such Existing Waivers include the automatic and specific waivers granted to the Company by the Hong Kong Stock Exchange, exemption and ruling granted by the Securities and Futures Commission of Hong Kong, on an individual basis, to comply with, for instance, Chapter 14 and 14A of the Listing Rules.

Equity-linked agreements

Other than the Share Option Plan and the Share Purchase Plan as disclosed above and JDZF Convertible Debenture as disclosed in section 6 of Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources, no equity-linked agreements that (i) will or may result in the Company issuing Shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Financial Year or subsisted at the end of the Financial Year.

Tax relief

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

Independent auditor

The Financial Statements have been audited by BDO Limited, Hong Kong, Certified Public Accountants (Practising), ("BDO"). BDO will retire and, being eligible offer themselves for re-appointment at the forthcoming 2023 AGM. A resolution will be submitted at the 2023 AGM to appoint BDO as the Auditor of the Company.

On behalf of the Board

Mao Sun
Independent Lead Director
March 31, 2023

STRATEGIC LOCATION

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

CORPORATE GOVERNANCE REPORT

Corporate Governance

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

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

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

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

Compliance with the Corporate Governance Code

The Board has considered carefully the requirements of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules" and the "Corporate Governance Code" respectively) and, save as disclosed below, deemed that the Company had complied with the mandatory disclosure requirements and code provisions set out in the Corporate Governance Code, throughout the year ended December 31, 2022 (the "Financial Year"):

- pursuant to Section C.2 under Part 2 of the Corporate Governance Code, the Chairman of the Board should be responsible for the overall management of the Board. The Company has not had a Chairman since November 2017. The Board has appointed an Independent Lead Director, who is fulfilling the duties of the Chairman; and
- pursuant to code provision F.2.2 under Part 2 of the Corporate Governance Code, the Chairman of the Board of Directors should attend the annual general meeting (the "AGM"). Mr. Mao Sun, an INED and the Independent Lead Director, attended and acted as Chairman of the Company's annual general and special meeting held on July 21, 2022 (the "2022 AGM") to ensure effective communication with shareholders of the Company (the "Shareholders").

CORPORATE GOVERNANCE REPORT

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

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

During the Financial Year, the Board reviewed the Company's governance documents and policies included in the Code of Conduct Standards.

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

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

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

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

Board Composition

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

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

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

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

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

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

BOARD COMPOSITION

DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Dong Wang [(1)]
Ms. Chonglin Zhu [(2)]
Mr. Chen Shen [(3)]

NON-EXECUTIVE DIRECTORS:

Mr. Zhu Gao [(4)]
Mr. Gang Li [(4)]

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

FORMER DIRECTORS

EXECUTIVE DIRECTOR:

Mr. Dalanguerban [(5)]

NON-EXECUTIVE DIRECTORS:

Mr. Jianmin Bao [(6)]
Mr. Ben Niu [(6)]
Ms. Ka Lee Ku [(7)]
Mr. Zhiwei Chen [(7)]

CORPORATE GOVERNANCE REPORT

Notes:

1) Mr. Dong Wang was appointed as CEO and Executive Director on September 8, 2022 and is an Executive Director in his capacity as the Company's CEO;

2) Ms. Chonglin Zhu was appointed as SVP Finance and Executive Director on September 8, 2022 and is an Executive Director in her capacity as the Company's SVP Finance;

3) Mr. Chen Shen was appointed as a NED on December 6, 2022 and is a NED in his capacity as a nominee director put forward by JD Zhixing Fund L.P. ("JDZF"), a substantial shareholder of the Company; Mr. Shen was appointed as an Executive Director and Head of Legal Department on February 17, 2023.

4) Messrs. Zhu Gao and Gang Li were appointed as NEDs on December 6, 2022 and are NEDs in their capacity as nominee directors of Land Grand International Holding Limited ("Land Grand"), a substantial shareholder of the Company;

5) Mr. Dalanguerban resigned as the Company's CEO on September 8, 2022. He resigned from the Board of Directors on December 6, 2022, and ceased to be an Executive Director at that time. Mr. Dalanguerban confirmed that he had no disagreement with the Board and that there were no matters that needed to be brought to the attention of the Shareholders;

6) Messrs. Jianmin Bao and Ben Niu were NEDs in their capacity as employees of China Investment Corporation ("CIC"), a former substantial shareholder of the Company. Messrs. Jianmin Bao and Ben Niu resigned from the Board of Directors on August 31, 2022, and ceased to be NEDs at that time. Messrs. Jianmin Bao and Ben Niu confirmed that they had no disagreement with the Board and that there were no matters that needed to be brought to the attention of the Shareholders; and

7) Mr. Zhiwei Chen and Ms. Ka Lee Ku were NEDs in their capacity as employees of China Cinda (HK) Asset Management Co., Limited, which is a wholly owned subsidiary of Novel Sunrise Investments Limited, ("Novel Sunrise"), a former substantial shareholder of the Company. Mr. Zhiwei Chen and Ms. Ka Lee Ku resigned from the Board of Directors on December 6, 2022, and ceased to be NEDs at that time. Mr. Zhiwei Chen and Ms. Ka Lee Ku confirmed that they had no disagreement with the Board and that there were no matters that needed to be brought to the attention of the Shareholders.

As at March 31, 2023, to the knowledge of the Company, each of JDZF, Land Grand, and Voyage Wisdom Limited held approximately 29.03%, 15.70% and 8.73% of the Company's issued and outstanding common shares, respectively.

Biographical details of the Directors of the Company are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 8 to 13 of this annual report. The Directors are satisfied that the size and composition of the Board results in a balanced representation on the Board among Executive, INEDs and NEDs and the Company's controlling shareholder.

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

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

Mr. Dong Wang, one of the Company's Executive Directors, has been the CEO since September 8, 2022, and is responsible for the Company's operations. Prior to Mr. Dong Wang's appointment, Mr. Dalanguerban was the Company's Executive Director and CEO from March 31, 2020 to September 8, 2022.

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

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

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

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

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

Corporate Culture and Strategy

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

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

Mandate of the Board

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

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

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

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

Committees of the Board

The Board has established several Board committees, namely the Audit, Nominating and Corporate Governance, Compensation and Benefits, HESS and Operations Committees, for overseeing particular aspects of the Company's affairs. In December 2022, the Board established a Special Committee, comprised solely of INEDs, in order to explore, consider and assess various options and alternatives that may be available to the Company for the purpose of a potential restructuring of its capital structure, and provide recommendations and reports to the Board regarding any potential restructurings and any alternatives thereto.

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

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

Audit (1)	Nominating and Corporate Governance (1)	Compensation and Benefits (1)	HESS	Operations	Special (1)
Mao Sun (Chair)	Yingbin Ian He (Chair)	Jin Lan Quan (Chair)	Dong Wang (Chair) (2)(3)	Yingbin Ian He (Chair)	Mao Sun (Chair)
Yingbin Ian He	Jin Lan Quan	Yingbin Ian He	Yingbin Ian He	Dong Wang (5)(6)	Yingbin Ian He
Jin Lan Quan	Mao Sun	Mao Sun	Munkhbat Chuluun (4)		Jin Lan Quan

Notes:

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

2) Mr. Dong Wang joined and was appointed Chair of the HESS Committee on December 6, 2022.

3) Mr. Dalanguerban ceased to be Chair and a member of HESS Committee on December 6, 2022.

4) Mr. Munkhbat Chuluun is the Company's VP Public Relations.

5) Mr. Dong Wang joined and was appointed to the Operations Committee on September 8, 2022.

6) Mr. Ben Niu ceased to be a member of Operations Committee on August 31, 2022.

CORPORATE GOVERNANCE REPORT

Audit Committee

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

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

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

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

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

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

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

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

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

Nominating and Corporate Governance Committee

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

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

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

In performing its duties in accordance with the Nominating and Corporate Governance Committee's charter, the Nominating and Corporate Governance Committee has:

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

- conducted induction programs for new Directors, as needed;

- assessed the independence of INEDs;

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

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

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

- reviewed, and recommended approval of amendments as required to, the Company's Code of Conduct Standards, including: the Conflicts of Interest Standard, and the Whistle-blower program;

- Reviewed, and recommended approval of the adoption of the Corporate Compliance Policy, Majority Voting Policy for Auditors and Director Conflict of Interest Policy;

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

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

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

- utilized the current network of organizations and trade groups that may help identify diverse candidates;

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

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

Compensation and Benefits Committee

The Board has established a Compensation and Benefits Committee that operates under a charter approved by the Board. In March 2023, the Compensation and Benefits Committee charter was updated to incorporate amendments required to fully align the Compensation and Benefits Committee charter with the Hong Kong Listing Rules, and it was effective on April 2023. The Nominating and Corporate Governance Committee is comprised of three INEDs, namely: Ms. Jin Lan Quan (Chair), Messrs. Yingbin Ian He and Mao Sun.

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

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

- reviewed and made recommendations to the Board with respect to the adequacy and forms of the Company's remuneration policy relating to the remuneration and benefits of the Executive Directors, senior officers and INEDs;
- administered and made recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;
- reviewed and approved corporate goals and objectives for the remuneration of the CEO, CFO, and VP Public Relations evaluating their performance and setting their remuneration levels;
- reviewed and updated the form of agreement and compensation structure for the CEO, CFO, and VP Public Relations;
- recommended to the Board the performance evaluation of the CEO and CFO, taking into consideration their annual objectives and performance; and
- determined the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time.

Health, Environment, Safety and Social Responsibility Committee

The Board has established a HESS Committee that operates under a charter approved by the Board. During the Financial Year, the HESS Committee's charter was reviewed to ensure it reflects current best practices. The HESS Committee is comprised of an Executive Director, an INED and a member of senior management, namely Messrs. Dong Wang (Chair), Yingbin Ian He and Munkhbat Chuluun, the Company's Vice President of Public Relations.

The primary objective of the HESS Committee is to assist the Board in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company.

CORPORATE GOVERNANCE REPORT

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

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

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

Operations Committee

The Board has established an Operations Committee that operates under a charter approved by the Board. The primary objective of the Operations Committee is to assist the Board in fulfilling its oversight responsibilities with respect to mine operations and product marketing. At this time, the Operations Committee is comprised of an Executive Director and an INED, namely: Mr. Yingbin Ian He (Chair) and Mr. Dong Wang.

Ad Hoc/Special Committees

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

In December 2022, the Board established a Special Committee, comprised solely of INEDs, Mr. Mao Sun (Chair), Mr. Yingbin Ian He and Ms. Jin Lan Quan.

The purpose of the Special Committee is to order to explore, consider and assess various options and alternatives that may be available to the Company for the purpose of a potential restructuring of its capital structure, and provide recommendations and reports to the Board regarding any potential restructurings and any alternatives thereto.

Meetings of the Board and Committees of the Board

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

2022 Board and Committee Meetings	
Total Number of:	
Board Meetings:	13
Audit Committee Meetings:	10
Compensation and Benefits Committee Meetings:	5
Operations Committee Meetings:	4
Nominating and Corporate Governance Committee Meetings:	3
HESS Committee Meetings:	3
Special Committee:	3

During the Financial Year, and due to the travel restrictions implemented due to the novel coronavirus ("COVID-19"), all of the Company's Board and Committee meetings were held via teleconference.

The 2022 AGM was held in Vancouver, Canada, via teleconference on July 21, 2022 and was attended by Messrs. Mao Sun, Ben Niu, and Ms. Jin Lan Quan. The Company did not hold any extraordinary general meetings during the Financial Year. It is anticipated that the 2023 AGM will be held on June 29, 2023 in Vancouver, Canada. The notice of the 2023 AGM will be sent to shareholders at least 20 clear business days before the 2023 AGM.

CORPORATE GOVERNANCE REPORT

Attendance by the Directors at the 2022 AGM, as well as Board and Board committee meetings held in the Financial Year, is shown below:

	2022 AGM	Board meetings	Audit	Nominating & Corporate Governance	Compensation & Benefits	HESS	Operations	Special
	(Number of Attendances/Number of Meetings)							
Executive Directors								
Mr. Dong Wang [(1)(2)]	N/A	5/5	N/A	N/A	N/A	N/A	1/1	N/A
Ms. Chonglin Zhu [(1)]	N/A	5/5	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chen Shen [(3)]	N/A	1/1	N/A	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors								
Mr. Zhu Gao [(3)]	N/A	1/1	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Gang Li [(3)]	N/A	1/1	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-Executive Directors								
Mr. Yingbin Ian He	0/1	13/13	10/10	3/3	5/5	3/3	8/8	3/3
Ms. Jin Lan Quan	1/1	13/13	9/10	3/3	5/5	N/A	N/A	2/3
Mr. Mao Sun	1/1	13/13	10/10	3/3	5/5	N/A	N/A	3/3
Former Non-Executive Directors								
Mr. Jianmin Bao [(4)]	0/1	3/7	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Zhiwei Chen [(5)]	0/1	12/12	N/A	N/A	N/A	N/A	N/A	N/A
Ms. Ka Lee Ku [(5)]	0/1	12/12	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Ben Niu [(4)]	1/1	3/7	N/A	N/A	N/A	N/A	8/8	N/A
Former Executive Director								
Mr. Dalanguerban [(5)]	0/1	10/13	N/A	N/A	N/A	1/3	8/8	N/A

Notes:

1) Mr. Dong Wang and Ms. Chonglin Zhu were appointed to the Board of Directors on September 8, 2022 and there were five (5) Board meetings subsequent to their appointment.

2) Mr. Dong Wang joined the Operations Committee on September 8, 2022 and there was one (1) meeting of the Operations Committee subsequent to him joining the Committee.

3) Messrs. Chen Shen, Zhu Gao and Gang Li joined the Board on December 6, 2022 and there was one (1) Board meeting subsequent to this date.

4) Messrs. Jianmin Bao and Ben Niu resigned from the Board of Directors on August 31, 2022.

5) Mr. Zhiwei Chen, Ms. Ka Lee Ku and Mr. Dalanguerban resigned from the Board of Directors on December 6, 2022.

Professional Development

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

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

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

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

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

All Directors participated in appropriate continuous professional development and provided the Company with their records of the training they received during the Financial Period. All Directors participated in various degrees of professional development, which included reading regulatory updates, attending seminars or conducting training sessions and exchanging views. According to the training records maintained by the Company, the Director professional development during the Financial Year is summarized as follows:

a. all Directors participated or will have the opportunity to participate in four (4) professional development seminars provided by the Hong Kong Institute of Corporate Directors relating to (i) anti-corruption, (ii) connected transactions, (iii) insider information disclosure, and (iv) directors' duties;

b. the Executive Directors and members of the Audit Committee participated in a Risk Assessment seminar hosted by Ernst & Young (China) Advisory Limited;

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

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

CORPORATE GOVERNANCE REPORT

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

Ms. Jin Lan Quan:
- Analytics and Financial Modelling for the New Age Finance Professional
- the Finance and Accounting Professional in an Agile Organization
- Leadership that Sustains Performance and Builds Trust
- Leading the past pandemic finance function
- The Board's Role in CEO Transitions
- 2022 Executive Compensation Trends
- Strike the Gong for Financial Literacy
- Accountancy for the future

Mr. Mao Sun:
- 2021 Tax Updates
- Tax & Estate Planning for Owners of Closely-Held Corporation
- Audit and Assurance Standards Update 2022/2023
- 2023 Comprehensive Canadian Tax Review
- Tax Dispute Resolution
- Real Estate Accounting and Tax Rules
- Personal tax update 2022
- Workplace investigations
- Canada's Proposed Cybersecurity Bill: Key Insights
- 2022 Executive Compensation Trends
- Understanding directors Tax Implications
- Board's role in CEO Transitions
- Board Cybersecurity Governance during Geopolitical conflict
- 2022 Young Practitioner Focus
- Money and the World Virtual Conference 2022 – Small and Medium Business
- Money and the World Virtual Conference 2022 – Personal Finance

Mr. Yingbin Ian He:
- Anti Bribery without boundaries
- Privacy, Data Protection and Cybersecurity: 2021 Yearly Review of Lessons Learned in Canada and Abroad
- Gold Market Outlook, Mine Supply, and Industry Costs Trends
- Leadership: Managing Up and Across
- Entering the Metaverse Era In a Fully Realized Metaverse
- What Management and General Counsel Need to Know about Extractive
- Investment that Outside Counsel May Not Tell You
- Strategies for M&A activity in this new environment (What sellers and buyers need to consider)
- The Future of Biotechnology in Mining
- Osler's Understanding Directors' Tax Implications
- Managing Cyber Risk in an Evolving Threat Landscape
- The Board's Role in CEO Transitions
- Workplace Investigations
- The Belt and Road Initiative plus the Global Development Initiative: What's in these initiatives for Canadians?
- Strike the Gong for Financial Literacy

Mr. Chen Shen
- Listing rules and regulations for HKEX listed companies

Ethical Business Conduct

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

The Company has adopted and implemented a Code of Business Conduct and Ethics (the "Ethics Policy") called "The Way We Work". The Ethics Policy is applicable to all of the Company's employees, consultants, officers and Directors regardless of their position in the 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", Guidelines for the Investigation into Allegations of Serious Wrongdoing, and the EthicsPoint program.

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

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

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

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

Shareholder Communication Policy

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

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

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

Board Diversity Policy

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

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

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

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

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

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

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

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

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

Ms. Jin Lan Quan joined the Audit Committee on September 1, 2015, the Nominating and Corporate Governance Committee on December 14, 2015, the Compensation and Benefits Committee on June 30, 2016, and the Special Committee in December 2022. Ms. Jin Lan Quan has extensive experience in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing, risk management and business acquisition.

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

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

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

Appointment and Re-election of Directors

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

Securities Transactions by Directors

The Company has adopted policies in its Corporate Disclosure, Confidentiality and Securities Trading Policy that have terms that are no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Hong Kong Listing Rules. Having made specific enquiry of all Directors, the Company received written confirmation that the Directors had received, reviewed and abided by the terms of the Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the Financial Year. In March 2023, the Corporate Disclosure, Confidentiality and Securities Trading Policy was updated to incorporate amendments required to fully align the Corporate Disclosure, Confidentiality and Securities Trading Policy with the Hong Kong Listing Rules.

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

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

Remuneration of Directors

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

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

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

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

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

No options were granted in 2022.

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

Details regarding the remuneration of Directors are set out in Note A1 to the Financial Statements.

Risk Management and Internal Controls

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

Because of their inherent limitations, internal controls and risk management systems can provide only reasonable assurance and may not prevent or detect misstatements due to error or fraud. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In 2021, the Company engaged an independent professional advisor, Ernst & Young (China) Advisory Limited (the "Independent Advisor") to assess the Company's risk management and internal control systems, including financial, operational and compliance controls, and perform the internal audit function for the year. From which, deficiencies in the design and implementation of internal controls will be identified and recommendations will be proposed for improvement. Such report will be submitted to the Audit Committee and the Board at least once a year.

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

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

Management, including the CEO and CFO of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2022, the CEO and CFO of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

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

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2022.

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

Auditors

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

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

Fees paid/payable to BDO and its affiliates in respect of audit and non-audit services provided during the Financial Year were approximately US$462,000.

These fees are detailed below:

Nature of services rendered	Fees paid/payable (US$000's) BDO 2022
Audit fees [1]	361
Audit related fees [1]	101
Total	462

Notes:

(1) Fees for audit services billed relating to fiscal 2022 consisted of: (i) audit of the Company's annual financial statements; (ii) review of the Company's quarterly financial statements; and (iii) statutory audit of the annual financial statements of subsidiaries of the Company.

Responsibilities in Respect of the Financial Statements

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

Going Concern

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2023 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company incurred a net loss attributable to equity holders of the Company of US$30.4 million for 2022 (compared to a net loss attributable to equity holders of the Company of US$14.4 million for 2021), and had a deficiency in assets of US$142.5 million as at December 31, 2022 as compared to a deficiency in assets of US$90.5 million as at December 31, 2021 while the working capital deficiency (excess current liabilities over current assets) reached US$184.7 million as at December 31, 2022 compared to a working capital deficiency of US$42.5 million as at December 31, 2021.

Included in the working capital deficiency as at December 31, 2022 are significant obligations, represented by trade and other payables of US$59.7 million, which includes US$22.5 million in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

CORPORATE GOVERNANCE REPORT

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations, no such lawsuits or proceedings were pending as at March 31, 2023. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

The Chinese-Mongolian border was re-opened for coal export on a trial basis on May 25, 2022 but there can be no guarantee that the Company will be able to continue exporting coal to China, or the Chinese-Mongolian 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 has been proactively adjusting its sales strategy and exploring opportunities to expand its sales.

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

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2022. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into the 2023 March Deferral Agreement with JDZF on March 24, 2023 for a deferral of (i) semi-annual cash interest payments of US$7.9 million payable to JDZF on May 19, 2023 under the Convertible Debenture; (ii) the cash interest, management fees, and related deferral fees of approximately US$8.7 million 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 US$13.5 million 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 US$110.4 million which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020, in each case until August 31, 2024; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Company; and (d) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of US$73.0 million during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company, Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2022 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

Company Secretary

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

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

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

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

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

Shareholders' Rights

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

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

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

How Shareholders Can Convene an Extraordinary General Meeting

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

A valid requisition must:

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

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

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

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

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

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

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

Procedures by Which Enquiries May Be Put to the Board

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

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

Procedures for Putting Forward Proposals at Shareholders' Meetings

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

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

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

Investor Relations and Communication with Shareholders

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

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

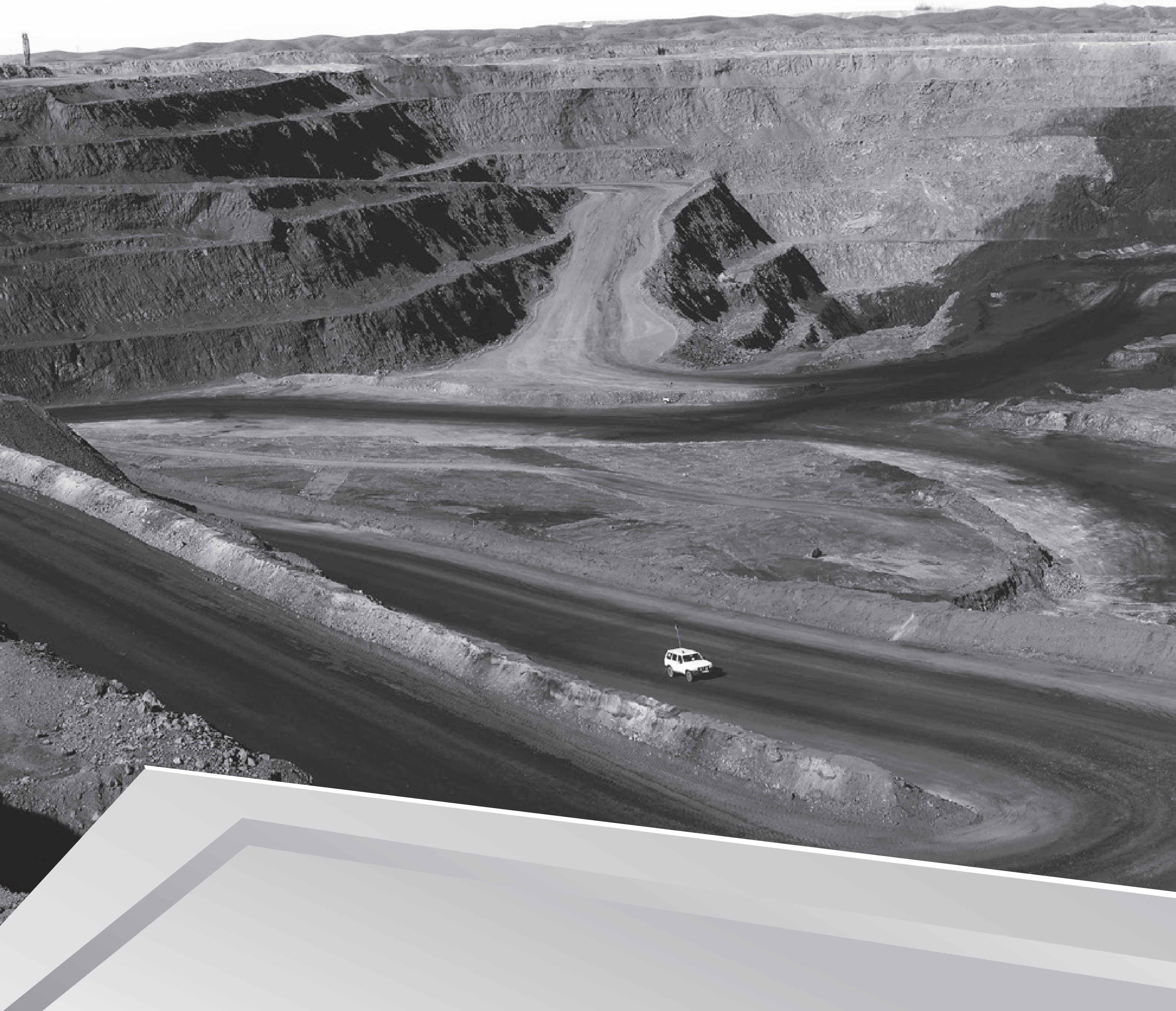
Constitutional Documents

There were no changes to the Company's constitutional documents during the Financial Year. The Articles are available on the respective websites of the Company and the Hong Kong Stock Exchange. On July 21, 2022, a resolution to amend the Company's Articles (the "Amended Articles") was duly passed by the Shareholders by way of ballots at the Annual and Special Meeting of the Shareholders held on July 21, 2022 (the "Meeting"). For further details of the Amended Articles, please refer to the Management Proxy Circular of the Meeting dated June 22, 2022. The Amended Articles shall be effective upon the change of the Company's listing status from the TSX to TSX Venture Exchange (the "Delisting").

On behalf of the Board

Allison Snetsinger
Corporate Secretary
March 31, 2023

A LARGE RESERVES BASE



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

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

Forward-Looking Statements

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

- the Company continuing as a going concern and its ability to realise its assets and discharge its liabilities in the normal course of operations as they become due;

- adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;

- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the JD Zhixing Fund L.P. (the "Buyer" or "JDZF") convertible debenture (the "Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below), the 2021 July Deferral Agreement (as defined below), the 2022 May Deferral Agreement (as defined below), the 2022 November Deferral Agreement (as defined below), the 2023 March Deferral Agreement (as defined below) 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 crossing 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 Ontario class action (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Class Action Lawsuit");

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

Forward-Looking Statements continued

- the agreement with Ejin Jinda and the payments thereunder (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");
- 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 15 of this MD&A under the heading entitled "Outlook"); and
- other statements that are not historical facts.

Forward-Looking Statements continued

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 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 default under its existing debt obligations, including the Convertible Debenture, the deferral agreement signed on November 19, 2020 (the "2020 November Deferral Agreement"), the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement"), the deferral agreement signed on July 30, 2021 (the"2021 July Deferral Agreement"), the deferral agreement signed on May 13, 2022 (the "2022 May Deferral Agreement"), the deferral agreement signed on November 11, 2022 (the "2022 November Deferral Agreement") and the deferral agreement signed on March 24, 2023 (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 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Class Action Lawsuit") and any damages payable by the Company as a result; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 14 of this MD&A under the heading entitled "Risk Factors" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

Forward-Looking Statements continued

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

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Introduction

This MD&A is dated as of March 31, 2023 and should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2022. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

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

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

Introduction continued

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

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

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

1. Overview

The Company is an integrated coal mining, development and exploration company with 360 employees as at December 31, 2022. As of the date hereof, the Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

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

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

1. Overview continued

Significant Events and Highlights

The Company's significant events and highlights for the year ended December 31, 2022 and the subsequent period to March 31, 2023 are as follows:

- ***Operating Results*** – In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region where the custom and border crossing are located, reported in late October 2021, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. Following the reopening of the Ceke Port of Entry for coal export on May 25, 2022, coal sales increased from 0.9 million tonnes in 2021 to 1.1 million tonnes in 2022.

  Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company has gradually resumed mining operations beginning on July 15, 2022. The Company's major mining operations, including coal mining, have resumed and the Company expects to increase the volume of coal production in a gradual manner, while coal washing remains suspended for the time being. In response to the market situation, the Company has been mixing some higher ash content product with the semi-soft coking coal product and selling this mixed product to the market as processed coal in 2022.

  The Company experienced an increase in the average selling price of coal from $46.0 per tonne in 2021 to $65.7 per tonne in 2022, due to improved market conditions in China.

- ***Financial Results*** – The Company recorded a $13.6 million profit from operations in 2022 compared to a $4.4 million profit from operations in 2021. The financial results for 2022 were impacted by a foreign exchange gain of $4.6 million and the increased sales experienced by the Company following the reopening of the Ceke Port of Entry during the second quarter of 2022.

- ***Completion of Sale by China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") of its Interests in the Company*** – The Company announced that, as disclosed in the press releases issued by CIC and JDZF respectively on August 30, 2022, the sale (the "CIC Sale Transaction") by CIC of all of its interests in the Company, including its 64,766,591 common shares of the Company and the Convertible Debenture, to JDZF was successfully completed on August 30, 2022. Following the completion of the CIC Sale Transaction, the respective rights and obligations of CIC under (i) the Convertible Debenture and related security documents; (ii) the Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company, were assigned to JDZF. 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 realised by the Company and all of its subsidiaries derived from sales into China.

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

1. Overview continued

Significant Events and Highlights continued

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

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

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

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

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

  - If at any time before the 2022 November Deferred Interest and the 2022 November Deferred Management Fees and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination;

  - The Company agreed to comply with all of its obligations under the prior deferral agreements assigned to JDZF; 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 24, 2023, the Company and JDZF entered into the 2023 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (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.

1. Overview continued

Significant Events and Highlights continued

The effectiveness of the 2023 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2023 March Deferral Agreement 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 listing rules.

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 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.

- ***Issuance of PIK Interest shares*** – In November 2022, the Company issued 20,947,603 Common Shares to JDZF in accordance with the terms of the Convertible Debenture at an issuance price of CA$0.185 per Common Share as settlement of $2.9 million in outstanding PIK Interest owing by the Company to JDZF under the Convertible Debenture and related deferral agreements.

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

1. Overview continued

Significant Events and Highlights continued

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

  On July 28, 2022, the Company received an acknowledgment from the HKEX in respect of the Delisting issued pursuant to paragraph 3.34 of the HKEX's Guidance Letter (HKEX-GL-112-22), which informed the Company that, upon the effective date of the Delisting, the Hong Kong Stock Exchange will regard the Company as having a primary (rather than secondary) listing status on the HKEX pursuant to Rule 19C.13A of the HKEX Listing Rules and the dis-application of the stock marker "S" from the Company's trading symbol on the HKEX will take effect.

  On March 6, 2023, the Company announced that it received a conditional acceptance letter from the TSX-V (the "TSX-V Conditional Approval Letter") 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 Company's common shares on the TSX-V and the date of Delisting from TSX (i.e., the Effective Date) of April 17, 2023. The Company expects that the listing conditions of the TSX-V can be fulfilled by the Company before the Effective Date.

- ***Completion of Sale by China Cinda (HK) Asset Management Co., Limited (together with its wholly-owned subsidiaries and affiliates, "CCAM") of its Interests in the Company*** – The Company announced that, as disclosed in the press releases issued by CCAM and Land Grand International Holding Limited ("Land Grand") respectively on November 28, 2022, the sale (the "Cinda Sale Transaction") by CCAM of all of its interests in the Company, including its 46,358,978 common shares of the Company to Land Grand was successfully completed. In connection with the Cinda Sale Transaction, CCAM assigned to Land Grand certain rights in and obligations under the subscription agreement between the Company and Novel Sunrise Investments Limited ("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%.

- ***Revolving Credit Facility*** – On March 2, 2023, an indirect wholly-owned subsidiary of the Company (the "Borrower") entered into an unsecured revolving credit facility (the "Credit Facility") with a related party of JDZF, the Company's largest shareholder, which makes available to the Company up to a maximum principal sum of RMB90 million with a maturity date of three months after the agreement was signed. The Company has obtained the requisite acceptance from the TSX for the Credit Facility in accordance with the requirements of the TSX Company Manual, subject to certain standard conditions.

  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.

1. Overview continued

Significant Events and Highlights continued

- 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.

- ***Changes in Management***

  Mr. Jianmin Bao: Mr. Bao resigned as a non-executive director on August 31, 2022.

  Mr. Ben Niu: Mr. Niu resigned as a non-executive director on August 31, 2022.

  Mr. Tao Zhang: Mr. Zhang resigned as Vice President of Sales on September 2, 2022.

  Mr. Dalanguerban: Mr. Dalanguerban was re-designated from Chief Executive Officer to President on September 8, 2022 and resigned as an executive director on December 6, 2022.

  Mr. Dong Wang: Mr. Wang was appointed as Chief Executive Officer and an executive director on September 8, 2022.

  Mr. Alan Ho: Mr. Ho was appointed as Chief Financial Officer (formerly, the acting Chief Financial Officer) on September 8, 2022.

  Ms. Chonglin Zhu: Ms. Zhu was appointed as Senior Vice President of Finance and an executive director on September 8, 2022.

  Mr. Zhiwei Chen: Mr. Chen resigned as a non-executive director on December 6, 2022.

  Ms. Ka Lee Ku: Ms. Ku resigned as a non-executive director on December 6, 2022.

  Mr. Zhu Gao: Mr. Gao was appointed as a non-executive director on December 6, 2022.

  Mr. Gang Li: Mr. Li was appointed as a non-executive director on December 6, 2022.

  Mr. Chen Shen: Mr. Shen was appointed as a non-executive director on December 6, 2022 and re-designated to an executive director on February 17, 2023.

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

2. Selected Annual Information

$ in thousands, except per share and per tonne information	Year ended December 31, 2022	2021	2020
Revenue	**$ 73,084**	$ 43,398	$ 85,951
Profit from operations	**13,572**	4,377	15,276
Net loss attributable to equity holders of the Company	**(30,419)**	(14,373)	(20,089)
Basic and diluted loss per share	**$ (0.11)**	$ (0.05)	$ (0.07)
Cash from/(used in) operating activities	**26,137**	(4,329)	23,687
Cash used in investing activities	**(13,037)**	(8,637)	(9,613)
Cash used in financing activities	**(1,427)**	(6,010)	(1,416)
Coal sales volumes *(millions of tonnes)* (i)	**1.11**	0.94	2.63
Average realized selling price *(per tonne)*	**$ 65.69**	$ 46.02	$ 33.01

$ in thousands	As at December 31, 2022	2021	2020
Cash and cash equivalents	**$ 9,255**	$ 723	$ 20,121
Total working capital deficiency	**(184,665)**	(42,535)	(217,607)
Total assets	**181,359**	206,113	214,632
Total non-current liabilities	**91,723**	198,728	6,869

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

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

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

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

3. Overview of Operational Data and Financial Results

Summary of Annual Operational Data

	Year ended December 31,	
	2022	2021
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.27**	0.60
Average realized selling price *(per tonne)*	**$ 73.49**	$ 51.80
Standard semi-soft coking coal/premium thermal coal		
Coal sales *(millions of tonnes)*	**0.08**	0.33
Average realized selling price *(per tonne)*	**$ 39.85**	$ 35.01
Processed coal		
Coal sales *(millions of tonnes)*	**0.76**	0.01
Average realised selling price *(per tonne)*	**$ 65.43**	$ 48.53
Total		
Coal sales *(millions of tonnes)*	**1.11**	0.94
Average realized selling price *(per tonne)*	**$ 65.69**	$ 46.02
Raw coal production *(millions of tonnes)*	**0.69**	1.36
Cost of sales of product sold *(per tonne)*	**$ 52.04**	$ 33.30
Direct cash costs of product sold *(per tonne)* (i)	**$ 34.52**	$ 17.81
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.62**	$ 1.53
Total cash costs of product sold *(per tonne)* (i)	**$ 36.14**	$ 19.34
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**3.59**	5.94
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**5.14**	4.36
Lost time injury frequency rate (ii)	**0.00**	0.00

(i) A non-IFRS financial measure, refer to Section 4. Cash costs of product sold exclude idled mine asset cash costs.

(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Overview of Annual Operational Data

The Company ended 2022 and 2021 without a lost time injury.

The Company experienced an increase in the average selling price of coal from $46.0 per tonne for 2021 to $65.7 per tonne for 2022, as a result of improved market conditions in China. The product mix for 2022 consisted of approximately 25% of premium semi-soft coking coal, 6% of standard semi-soft coking coal/premium thermal coal and 69% of processed coal compared to approximately 64% of premium semi-soft coking coal, 34% of standard semi-soft coking coal/premium thermal coal and 2% of processed coal in 2021.

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region where the custom and border crossing are located, reported in late October 2021, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. Following the reopening of the Ceke Port of Entry for coal export on May 25, 2022, coal sales increased from 0.9 million tonnes in 2021 to 1.1 million tonnes in 2022.

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

3. Overview of Operational Data and Financial Results continued

Overview of Annual Operational Data continued

Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company has gradually resumed mining operations beginning on July 15, 2022, yielding 0.7 million tonnes for 2022 as compared to 1.4 million tonnes for 2021. In response to the market situation, the Company has been mixing some higher ash content product with the semi-soft coking coal product and selling this mixed product to the market as processed coal in 2022.

The Company's unit cost of sales of product sold increased from $33.3 per tonne in 2021 to $52.0 per tonne in 2022. The increase was mainly driven by (i) the change in the product mix and processed coal having a relatively higher unit cost of sales as compared to the Company's other coal products; and (ii) the increase in the effective royalty rate.

Summary of Annual Financial Results

	Year ended December 31,	
$ in thousands, except per share information	2022	2021
Revenue (i)	**$ 73,084**	$ 43,398
Cost of sales (i)	**(57,762)**	(31,304)
Gross profit excluding idled mine asset costs (ii)	**16,252**	15,011
Gross profit	**15,322**	12,094
Other operating income/(expenses), net	**5,316**	(1,426)
Administration expenses	**(6,919)**	(6,068)
Evaluation and exploration expenses	**(147)**	(223)
Profit from operations	**13,572**	4,377
Finance costs	**(42,219)**	(39,118)
Finance income	**2,777**	23,165
Share of earnings/(loss) of a joint venture	**119**	(159)
Current income tax expenses	**(4,668)**	(2,638)
Net loss attributable to equity holders of the Company	**(30,419)**	(14,373)
Basic and diluted loss per share	**$ (0.11)**	$ (0.05)

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

(ii) A non-IFRS financial measure. Refer to "Non-IFRS Financial Measures" section. Idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

Overview of Annual Financial Results

The Company recorded a $13.6 million profit from operations in 2022 compared to a $4.4 million profit from operations in 2021. The financial results were impacted by (i) the higher selling price achieved by the Company; and (ii) increased sales experienced by the Company following the reopening of the Ceke Port of Entry during the second quarter of 2022.

Revenue was $73.1 million in 2022 compared to $43.4 million in 2021. The Company's effective royalty rate for 2022, based on the Company's average realised selling price of $65.7 per tonne, was 19.4% or $12.8 per tonne, compared to 18.7% or $8.6 per tonne in 2021 (based on the average realised selling price of $46.0 per tonne).

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Cost of sales was $57.8 million in 2022 compared to $31.3 million in 2021. The increase in cost of sales in 2022 was mainly due to the effect of increased sales volume as well as the change in product mix. Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, refer to Section 4 of this MD&A for further analysis) during the year.

$ in thousands	Year ended December 31, 2022	2021
Operating expenses	**$ 40,114**	$ 18,176
Share-based compensation expense	**36**	52
Depreciation and depletion	**2,486**	2,034
Royalties	**14,196**	8,125
Cost of sales from mine operations	**56,832**	28,387
Cost of sales related to idled mine assets	**930**	2,917
Cost of sales	**$ 57,762**	$ 31,304

Operating expenses in cost of sales were $40.1 million in 2022 compared to $18.2 million in 2021. Cost of sales related to idled mine assets in 2022 included $0.9 million related to depreciation expenses for idled equipment (2021: $2.9 million).

Other operating income was $5.3 million in 2022 (2021: other operating expenses of $1.4 million). A foreign exchange gain of $4.6 million and write-off of other payables of $3.3 million were recorded in 2022, respectively. (2021: foreign exchange loss of $0.3 million and write-off of other payables of $0.7 million).

$ in thousands	Year ended December 31, 2022	2021
Management fee	**$ 1,201**	$ 967
Provision/(reversal of provision) for doubtful trade and other receivables	**(784)**	191
Foreign exchange loss/(gain), net	**(4,639)**	325
Gain on disposal of items of property, plant and equipment, net	**(195)**	(299)
Impairment on materials and supplies inventories	**1,510**	2,411
Rental income from short term leases	**(150)**	(587)
Discount on settlement of trade payables	**(191)**	(891)
Written off of other payables	**(3,287)**	(691)
Gain on contract offsetting arrangement	**(786)**	–
Penalty on late settlement of trade payables	**1,860**	–
Impairment of prepaid expenses	**145**	–
Other operating expenses/(income), net	**$ (5,316)**	$ 1,426

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

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Administration expenses were $6.9 million in 2022 as compared to $6.1 million in 2021, as follows:

	Year ended December 31,	
$ in thousands	2022	2021
Corporate administration	**$ 1,146**	$ 1,312
Legal and professional fees	**1,830**	1,098
Salaries and benefits	**3,391**	2,847
Share-based compensation expense	**125**	151
Depreciation	**427**	660
Administration expenses	**$ 6,919**	$ 6,068

Administration expenses were higher for 2022 compared to 2021 primarily due to increase in salaries and benefits incurred during the year following the resumption of mining operations in the third quarter of the year.

The Company continued to minimise evaluation and exploration expenditures in 2022 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2022 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $42.2 million and $39.1 million in 2022 and 2021, respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

3. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

	2022				2021			
Quarter Ended	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.06**	0.17	0.04	–	0.01	0.11	0.08	0.40
Average realized selling price *(per tonne)*	**$ 65.82**	$ 71.01	$ 92.87	$ –	$ 69.73	$ 64.25	$ 52.11	$ 47.88
Standard semi-soft coking coal/premium thermal coal								
Coal sales *(millions of tonnes)*	**0.01**	0.03	0.04	–	0.01	0.06	0.03	0.23
Average realized selling price *(per tonne)*	**$ 64.69**	$ 43.34	$ 30.41	$ –	$ 34.84	$ 33.56	$ 36.71	$ 35.17
Processed coal								
Coal sales *(millions of tonnes)*	**0.40**	0.35	0.01	–	–	–	–	0.01
Average realized selling price *(per tonne)*	**$ 65.94**	$ 64.57	$ 79.02	$ –	$ –	$ –	$ –	$ 49.62
Total								
Coal sales *(millions of tonnes)*	**0.47**	0.55	0.09	–	0.02	0.17	0.11	0.64
Average realized selling price *(per tonne)*	**$ 65.90**	$ 65.37	$ 66.55	$ –	$ 55.44	$ 53.52	$ 47.93	$ 43.46
Raw coal production *(millions of tonnes)*	**0.57**	0.12	–	–	0.06	0.26	–	1.04
Cost of sales of product sold *(per tonne)*	**$ 41.81**	$ 58.25	$ 56.32		$ 76.95	$ 40.39	$ 41.38	$ 28.67
Direct cash costs of product sold *(per tonne)* (i)	**$ 25.65**	$ 41.44	$ 33.10		$ 17.47	$ 17.50	$ 16.39	$ 18.15
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.86**	$ 1.47	$ 1.20	*(iii)*	$ 1.23	$ 1.62	$ 4.26	$ 1.04
Total cash costs of product sold *(per tonne)* (i)	**$ 27.51**	$ 42.91	$ 34.30		$ 18.70	$ 19.12	$ 20.65	$ 19.19
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**2.68**	0.91	–	–	0.31	0.59	–	5.04
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**4.67**	7.33	–	–	5.61	2.23	–	4.83
Lost time injury frequency rate (ii)	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(i) A non-IFRS financial measure, refer to Section 4. Cash costs of product sold exclude idled mine asset cash costs.

(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Operational Data

The Company ended the fourth quarter of 2022 without a lost time injury.

The Company experienced an increase in the average selling price of coal from $55.4 per tonne in the fourth quarter of 2021 to $65.9 per tonne in the fourth quarter of 2022, as a result of improved market conditions in China. The product mix for the fourth quarter of 2022 consisted of approximately 13% premium semi-soft coking coal, 1% standard semi-soft coking coal/premium thermal coal and 86% of processed coal compared to approximately 59% premium semi-soft coking coal and 41% standard semi-soft coking coal/premium thermal coal in the fourth quarter of 2021.

The Company sold 0.5 million tonnes for the fourth quarter of 2022, compared to less than 0.1 million tonnes for the fourth quarter of 2021.

The Company's unit cost of sales of product sold decreased from $77.0 per tonne in the fourth quarter of 2021 to $41.8 per tonne in the fourth quarter of 2022. The decrease was mainly driven by the economies of scale due to increased sales as well as the decrease in the effective royalty rate.

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	2022				2021			
Quarter Ended	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue [i]	**$ 30,487**	$ 36,807	$ 5,790	$ –	$ 848	$ 9,295	$ 5,191	$ 28,064
Cost of sales [i]	**(19,652)**	(32,036)	(5,069)	(1,005)	(1,539)	(6,866)	(4,552)	(18,347)
Gross profit/(loss) excluding idled mine asset costs	**10,891**	4,982	940	(561)	(51)	3,269	1,565	10,228
Gross profit/(loss) including idled mine asset costs	**10,835**	4,771	721	(1,005)	(691)	2,429	639	9,717
Other operating income/(expenses), net	**(1,066)**	546	3,778	2,058	(1,078)	100	(113)	(335)
Administration expenses	**(2,111)**	(1,830)	(1,772)	(1,206)	(1,336)	(1,467)	(1,484)	(1,781)
Evaluation and exploration expenses	**(26)**	(31)	(66)	(24)	(75)	(36)	(47)	(65)
Profit/(loss) from operations	**7,632**	3,456	2,661	(177)	(3,180)	1,026	(1,005)	7,536
Finance costs	**(11,190)**	(10,800)	(10,247)	(10,036)	(9,702)	(11,457)	(8,870)	(14,637)
Finance income	**1,589**	69	1,160	13	3,178	2,040	2,494	21,001
Share of earnings/(loss) of a joint venture	**143**	237	(109)	(152)	(137)	(261)	(35)	274
Current income tax credit/(expenses)	**(2,751)**	(979)	(518)	(420)	(1,579)	(78)	139	(1,120)
Net profit/(loss)	**(4,577)**	(8,017)	(7,053)	(10,772)	(11,420)	(8,730)	(7,277)	13,054
Basic earnings/(loss) per share	**$ (0.02)**	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.04)	$ (0.03)	$ (0.03)	$ 0.05
Diluted earnings/(loss) per share	**$ (0.02)**	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.04)	$ (0.03)	$ (0.03)	$ 0.02

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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results

The Company recorded a $7.6 million profit from operations in the fourth quarter of 2022 compared to a $3.2 million loss from operations in the fourth quarter of 2021. The financial results for the fourth quarter of 2022 were impacted by (i) the higher selling price achieved by the Company; and (ii) increased sales experienced by the Company following the reopening of the Ceke Port of Entry during the second quarter of 2022.

Revenue was $30.5 million in the fourth quarter of 2022 compared to $0.8 million in the fourth quarter of 2021. The Company's effective royalty rate for the fourth quarter of 2022, based on the Company's average realised selling price of $65.9 per tonne, was 18.9% or $12.5 per tonne, compared to 49.4% or $27.4 per tonne in the fourth quarter of 2021 (based on the average realised selling price of $55.4 per tonne).

Cost of sales was $19.7 million in the fourth quarter of 2022 compared to $1.5 million in the fourth quarter of 2021. The increase in cost of sales in the fourth quarter of 2021 was mainly due to the effect of increased sales volume.

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

	Three months ended December 31,	
$ in thousands	2022	2021
Operating expenses	**$ 12,929**	$ 374
Share-based compensation expense	**7**	15
Depreciation and depletion	**794**	91
Royalties	**5,866**	419
Cost of sales from mine operations	**19,596**	899
Cost of sales related to idled mine assets	**56**	640
Cost of sales	**$ 19,652**	$ 1,539

Cost of sales related to idled mine assets in the fourth quarter of 2022 included $0.1 million related to depreciation expenses for idled equipment (fourth quarter of 2021: $0.6 million).

Other operating expenses was $1.1 million in the fourth quarter of 2022 (fourth quarter of 2021: $1.1 million). A foreign exchange gain of $0.5 million and impairment on materials and supplies inventories of $1.5 million were recorded in the fourth quarter of 2022. (fourth quarter of 2021: foreign exchange loss of $0.1 million and impairment on materials and supplies inventories of $2.4 million).

	Three months ended December 31,	
$ in thousands	2022	2021
Management fee	**$ 380**	$ 35
Reversal of provision for doubtful trade and other receivables	**(166)**	(13)
Foreign exchange loss/(gain), net	**(545)**	141
Gain on disposal of items of property, plant and equipment, net	**–**	(29)
Impairment on materials and supplies inventories	**1,520**	2,435
Rental income from short term leases	**(85)**	(587)
Discount on settlement of trade payables	**(64)**	(383)
Written off of other payables	**–**	(521)
Gain on contract offsetting arrangement	**(119)**	–
Impairment of prepaid expenses	**145**	–
Other operating expenses, net	**$ 1,066**	$ 1,078

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results continued

Administration expenses increased from $1.3 million in the fourth quarter of 2021 to $2.1 million in the fourth quarter of 2022, primarily due to increase in salaries and benefits incurred during the quarter following the resumption of mining operations in the third quarter of the year.

	Three months ended December 31,	
$ in thousands	2022	2021
Corporate administration	**$ 366**	$ 176
Legal and professional fees	**295**	246
Salaries and benefits	**1,315**	765
Share-based compensation expense	**30**	18
Depreciation	**105**	131
Administration expenses	**$ 2,111**	$ 1,336

The Company continued to minimise evaluation and exploration expenditures in the fourth quarter of 2022 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2022 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $11.2 million in the fourth quarter of 2022 compared to $9.7 million in the fourth quarter of 2021, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

4. Non-IFRS Financial Measures

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

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

Cash Costs

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

4. Non-IFRS Financial Measures continued

Cash Costs continued

The following table provides a reconciliation of the cash costs of product sold disclosed for the three months and year ended December 31, 2022 and December 31, 2021. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

$ in thousands, except per tonne information	Three months ended December 31, 2022	Three months ended December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 19,652**	$ 1,539	**$ 57,762**	$ 31,304
Less royalties	**(5,866)**	(419)	**(14,196)**	(8,125)
Less non-cash expenses [(i)]	**(801)**	(106)	**(2,522)**	(2,086)
Less non-cash idled mine asset costs	**(56)**	(640)	**(930)**	(2,917)
Total cash costs	**12,929**	374	**40,114**	18,176
Less idled mine asset cash costs	**–**	–	**–**	–
Total cash costs excluding idled mine asset cash costs	**12,929**	374	**40,114**	18,176
Coal sales *(millions of tonnes)*	**0.47**	0.02	**1.11**	0.94
Total cash costs of product sold *(per tonne)*	**$ 27.51**	$ 18.70	**$ 36.14**	$ 19.34

$ in thousands, except per tonne information	Three months ended December 31, 2022	Three months ended December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 25.65**	$ 17.47	**$ 34.52**	$ 17.81
Mine administration cash costs of product sold *(per tonne)*	**1.86**	1.23	**1.62**	1.53
Total cash costs of product sold *(per tonne)*	**$ 27.51**	$ 18.70	**$ 36.14**	$ 19.34

(i) Non-cash expenses are comprised of depreciation and depletion and share-based compensation expenses.

The cash cost of product sold per tonne was $36.1 for 2022, which has increased from $19.3 per tonne for 2021. The reasons for the increase were primarily related to (i) change in product mix and processed coal having a relatively higher unit cost of product sold as compared to the Company's other coal products; and (ii) higher logistic costs incurred by the Company in response to the re-opening of the Ceke Port of Entry for coal export in May 2022.

4. Non-IFRS Financial Measures continued

Idle Mine Asset Costs

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

The following table provides a reconciliation of the gross profit/(loss) disclosed for the three months and year ended December 31, 2022 and December 31, 2021.

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2022	2021	2022	2021
Idled mine asset costs				
Gross profit/(loss) excluding idled mine asset costs	**$ 10,891**	$ (51)	**$ 16,252**	$ 15,011
Less non-cash idled mine asset costs	**(56)**	(640)	**(930)**	(2,917)
Gross profit/(loss) including idled mine asset costs	**$ 10,835**	$ (691)	**$ 15,322**	$ 12,094

5. Properties

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

Operating Mine

Ovoot Tolgoi Mine

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

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

5. Properties continued

Operating Mine continued

Resources

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

Reserves

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

Mining Operations

Mining Method

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

Mining Equipment

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

Workforce

As at December 31, 2022, SGS employed 311 employees in Mongolia. Of the 311 employees, 32 are employed in the Ulaanbaatar office and 279 at the Ovoot Tolgoi Mine site. Of the 311 employees based in Mongolia, 310 (99%) are Mongolian nationals and of those, 128 (41%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

Exploration Program

The Company continued to minimise evaluation and exploration expenditures during 2022 in order to preserve the Company's financial resources. The 2023 exploration program will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining licenses.

6. Liquidity And Capital Resources

Liquidity and Capital Management

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

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

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

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

As at December 31, 2022, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $6.3 million (such amount is included in the trade and other payables).

Revolving Credit Facility

On March 2, 2023, an indirect wholly-owned subsidiary of the Company (the "Borrower") entered into an unsecured revolving credit facility (the "Credit Facility") with a related party of JDZF, the Company's largest shareholder, which makes available to the Company up to a maximum principal sum of RMB90 million with a maturity date of three months after the agreement was signed. The Company has obtained the requisite acceptance from the TSX for the Credit Facility in accordance with the requirements of the TSX Company Manual, subject to certain standard conditions.

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.

6. Liquidity And Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2023 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company incurred a net loss attributable to equity holders of the Company of $30.4 million for 2022 (compared to a net loss attributable to equity holders of the Company of $14.4 million for 2021), and had a deficiency in assets of $142.5 million as at December 31, 2022 as compared to a deficiency in assets of $90.5 million as at December 31, 2021 while the working capital deficiency (excess current liabilities over current assets) reached $184.7 million as at December 31, 2022 compared to a working capital deficiency of $42.5 million as at December 31, 2021.

Included in the working capital deficiency as at December 31, 2022 are significant obligations, represented by trade and other payables of $59.7 million, which includes $22.5 million in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at March 31, 2023. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

As disclosed in the section "Impact of the COVID-19 pandemic" below, the Chinese-Mongolian border was re-opened for coal export on a trial basis on May 25, 2022 but there can be no guarantee that the Company will be able to continue exporting coal to China, or the Chinese-Mongolian 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 has been proactively adjusting its sales strategy and exploring opportunities to expand its sales. In early 2023, China fully reopened its borders and relaxed the export restrictions associated with COVID-19. The Company anticipates that its revenue, liquidity and profitability will improve following the coal exports volume resuming to normal levels.

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

6. Liquidity And Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2022. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into the 2023 March Deferral Agreement with JDZF on March 24, 2023 for a deferral of (i) semi-annual cash interest payments of $7.9 million payable to JDZF on May 19, 2023 under the Convertible Debenture; (ii) the cash interest, management fees, and related deferral fees of approximately $8.7 million 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 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 which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020, in each case until August 31, 2024. 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; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Company; and (d) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $73.0 million during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company, Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2022 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

6. Liquidity And Capital Resources continued

Liquidity and Capital Management continued

Impact of the COVID-19 Pandemic

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022.

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.

Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company has gradually resumed mining operations beginning on July 15, 2022.

The Company has been proactively adjusting its sales strategy and exploring opportunities to expand its sales. 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 Chinese-Mongolian border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future.

Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CA$11.88).

On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement which became effective on that day, pursuant to which CIC agreed to grant the Company a deferral of the 2021 Deferred Amounts payable to CIC on November 19, 2021 under the Convertible Debenture.

6. Liquidity And Capital Resources continued

Liquidity and Capital Management continued

Convertible Debenture continued

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

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

- As consideration for the deferral of the 2021 Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2021 Deferred Amounts payable under the Convertible Debenture, commencing on November 19, 2021.

On May 13, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $7.9 million payable to CIC on May 19, 2022 (the "Deferred Amounts"); and (ii) the management fee which payable to CIC on February 14, 2022 and August 14, 2022 (the "Deferred Management Fee") under the Amended and Restated Cooperation Agreement (collectively, the "2022 Deferred Amounts") under the Convertible Debenture.

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

- Payment of the 2022 Deferred Amounts will be deferred until August 31, 2023.

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

- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.

- If at any time before the 2022 Deferred Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.

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

Following the completion of the CIC Sale Transaction on August 30, 2022, the respective rights and obligations of CIC under (i) the Convertible Debenture and related security documents; (ii) the Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company, were assigned to JDZF.

6. Liquidity And Capital Resources continued

Liquidity and Capital Management continued

Convertible Debenture continued

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

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

- Payment of the 2022 November Deferred Interest and the 2022 November Deferred Management Fees will be deferred until November 19, 2023.
- As consideration for the deferral of the 2022 November Deferred Interest, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the 2022 November Deferred Interest payable under the Convertible Debenture, commencing on November 19, 2022.
- As consideration for the deferral of the 2022 November Deferred Management Fees, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of the 2022 Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 November Deferred Management Fees would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- If at any time before the 2022 November Deferred Interest and the 2022 November Deferred Management Fees and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.
- The Company agreed to comply with all of its obligations under the prior deferral agreements assigned to JDZF.
- The Company and JDZF agreed that nothing in the 2022 November Deferral Agreement prejudices JDZF's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

On March 24, 2023, the Company and JDZF entered into the 2023 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash interest payment of approximately $7.9 million 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 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 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 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 listing rules.

6. Liquidity And Capital Resources continued

Liquidity and Capital Management continued

Convertible Debenture continued

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

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

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

- The 2023 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 March Deferred Amounts or related deferral fees. Instead, the 2023 March Deferral Agreement requires the Company to use its best efforts to pay the 2023 March Deferred Amounts and related deferral fees due and payable under the 2023 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 March Deferral Agreement and ending as of 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.

In November 2022, the Company issued 20,947,603 Common Shares to JDZF in accordance with the terms of the Convertible Debenture at an issuance price of CA$0.185 per Common Share as settlement of $2.9 million in outstanding PIK Interest owing by the Company to JDZF under the Convertible Debenture and related deferral agreements.

6. Liquidity And Capital Resources continued

Cash Flow Highlights

$ in thousands	Year ended December 31, 2022	2021
Net cash flows from/(used in) operating activities	**$ 26,137**	$ (4,329)
Cash used in investing activities	**(13,037)**	(8,637)
Cash used in financing activities	**(1,427)**	(6,010)
Effect of foreign exchange rate changes on cash	**(3,141)**	(422)
Increase/(decrease) in cash for the year	**8,532**	(19,398)
Cash balance, beginning of year	**723**	20,121
Cash balance, end of year	**$ 9,255**	$ 723

Cash generated from Operating Activities

The Company generated $26.1 million of cash in operating activities in 2022 compared to an outflow of $4.3 million in 2021. The increase is primarily due to the increase in revenue generated.

Cash used in Investing Activities

The Company used $13.0 million of cash during 2022 in investing activities compared to $8.6 million during 2021. In 2022, expenditures on property, plant and equipment totaled $11.9 million (2021: $10.5 million).

Cash used in Financing Activities

Cash used in financing activities was $1.4 million in 2022 (2021: $6.0 million), which was principally attributable to the interest payment of convertible debenture of $1.0 million (2021: $3.0 million).

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at December 31, 2022, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2022				
Capital expenditure commitments	**$ –**	**$ –**	**$ –**	**$ –**
Operating expenditure commitments	**2,154**	**39**	**210**	**2,403**
Commitments	**$ 2,154**	**$ 39**	**$ 210**	**$ 2,403**

6. Liquidity And Capital Resources continued

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2022. The impairment indicator was the fact that the Company suffered loss for the year.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2022. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $119.3 million as at December 31, 2022.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 19% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $10.6/(10.5) million;
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(12.9)/13.8 million;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(5.8)/5.9 million; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(31.2)/27.9 million.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2022. A decline of 18% (2021:15%) in the long-term price estimates, an increase of more than 26% (2021: 19%) in the post-tax discount rate, an increase of 33% (2021: 27%) in the cash mining cost estimates or an increase of 95% (2021: 62%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

6. Liquidity And Capital Resources continued

Financial Instruments

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

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

	As at December 31,	
$ in thousands	2022	2021
Financial assets		
Cash	**$ 9,255**	$ 723
Restricted cash	**725**	1,259
Trade and other receivables	**1,199**	141
Total financial assets	**$ 11,179**	$ 2,123

	As at December 31,	
$ in thousands	2022	2021
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives	**$ 69**	$ 53
Other financial liabilities		
Trade and other payables	**59,730**	67,327
Interest-bearing borrowings	**–**	53
Lease liabilities	**502**	881
Convertible debenture – debt host and interest payable	**224,584**	191,573
Total financial liabilities	**$ 284,885**	$ 259,887

7. Regulatory Issues and Contingencies

Class Action Lawsuit

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

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

7. Regulatory Issues and Contingencies continued

Class Action Lawsuit continued

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

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

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

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 determined that a provision for this matter as at December 31, 2022 and 2021 was not required.

Toll Wash Plant Agreement with Ejin Jinda

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

Under the agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18.5 million will be required to be paid. Accordingly, the Company has determined that a provision for this matter as at December 31, 2022 and 2021 was not required.

Special Needs Territory in Umnugobi

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

7. Regulatory Issues and Contingencies continued

Special Needs Territory in Umnugobi continued

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

On July 24, 2021, SGS was notified by the Implementing Agency of Mongolian Government that the license area covered by two mining licenses (MV-016869 and MV-020451) are no longer overlapping with the SNT. The Company will continue to work with the Mongolian authorities regarding the license area covered by the mining license (MV-020436).

Importing F-Grade Coal into China

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

8. Environment

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

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

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

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

8. Environment continued

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

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

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

9. Emolument Policy

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

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

The Company has also adopted an equity incentive plan to incentivise directors and eligible employees. Details of the plan are set out in note 25 of the Company's consolidated financial statements for the year ended December 31, 2022.

10. Outstanding Share Data

The Company is authorised to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at March 31, 2023, approximately 295.2 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 5.0 million unissued Common Shares with exercise prices CA$0.13 and HK$1.41. There are no preferred shares outstanding.

As at March 31, 2023, to the best of the Company's knowledge:

- JDZF holds a total of approximately 85.7 million Common Shares representing approximately 29.0% of the issued and outstanding Common Shares;
- Land Grand holds a total of approximately 46.4 million Common Shares representing approximately 15.7% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited ("Voyage Wisdom") holds a total of approximately 25.8 million Common Shares representing approximately 8.7% of the issued and outstanding Common Shares.

11. Disclosure Controls And Procedures And Internal Controls Over Financial Reporting ("ICFR")

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

Management, including the CEO and CFO of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2022, the CEO and CFO of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

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

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2022.

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

12. Critical Accounting Estimates And Judgments

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

A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2022.

The following new IASB standards were adopted by the Company on January 1, 2022. Refer to Note 2.3 of the Company's consolidated financial statement of the year ended December 31, 2022 for details.

Annual Improvements Framework	Annual Improvements to IFRSs 2018-2020
Amendments to IFRS 3	Business Combination
Amendments to IAS 16	Property, Plant and Equipment
Amendments to IAS 37	Contingent Liabilities and Contingent Assets
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 2021
AG 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations

Refer to Note 3.23 of the Company's consolidated financial statements of the year ended December 31, 2022 for information regarding the accounting judgments and estimates.

13. Recent Accounting Pronouncements

The standards that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended December 31, 2022, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IAS 8	Definition of accounting estimates[1]
IAS 12	Deferred tax related to assets and liabilities arising from a single transaction[1]
Amendments to IAS 1	Presentation of Financial Statements and Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IFRS 16	Lease liabilities in a Sale and Leaseback[2]
Amendments to IFRS 17	Insurance Contracts and Initial Application of IFRS 17 and IFRS 9 – Comparative Information[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Int 5 (Revised)	Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment On Demand Clause[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2024.

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

14. Risk Factors

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

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

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

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

- the Company has a working capital deficiency (excess current liabilities over current assets) of $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 this MD&A under the heading entitled "Liquidity and Capital Resources – *Liquidity and Capital Management – Going Concern Considerations*";

- the Company has other current liabilities which require settlement in the short-term, including the $22.5 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.

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

14. Risk Factors continued

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

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

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

- An insolvency filing by or against the Company will cause an event of default under the JDZF Convertible Debenture;
- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;
- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganisation plan and meet future obligations;
- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganisation that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and
- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

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

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

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

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

14. Risk Factors continued

Risks Relating to the Common Shares

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

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

Future stock market conditions may change.

There are risks involved with any equity investment. The market price of the Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the 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 realise on the estimates for the Ovoot Tolgoi deposit. It is not unusual in the mining industry for mining operations to experience unexpected problems during commercial production, resulting in delays and requiring more capital than anticipated. Actual costs and economic returns may differ materially from the Company's estimates. Risks associated with the operation of mines include, but are not limited to, the following:

- Unusual or unexpected geological formations;
- Unstable ground conditions that could result in cave-ins or landslides;
- Floods;
- Power outages;
- Restrictions or interruptions in supply of key materials;
- Restrictions or interruptions to coal exports into China;
- Labour disruptions or shortages;
- Social unrest in adjacent areas;
- Equipment failure;
- Fires and explosions;

14. Risk Factors continued

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

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

- Changes to applicable law; and
- Inability to obtain suitable or adequate machinery, equipment, or labour.

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

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

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

Should any liability arise for which is it not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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

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

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

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

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

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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 Organisation 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.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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

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

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance if it meets legal requirements.
Under the 2006 Minerals Law, the State Great Khural of Mongolia (the "Parliament of Mongolia") has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is empowered to participate on an equity basis with the 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".

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the 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 authorised Government body, with the licence holder agreeing to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government.

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

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

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

Risks relating to the Company's business and industry

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

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

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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

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

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

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

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

The Company expects that a majority if not all of the coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasising the utilisation of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations. 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*".

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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 8.7% of the issued and outstanding Common Shares.

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

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.

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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:

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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. continued

- 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.

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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

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

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

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

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:

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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

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

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

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

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

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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

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

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

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

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

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

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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

The Company has been selling its coal products since 2008. The Company had 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 authorisation to be obtained by entities responsible for the import of coal into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorisations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

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

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.

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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 unauthorised override of controls. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause the Company to fail to meet its future reporting obligations.

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

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

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

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

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

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

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

Foreign currency fluctuations could affect expenses and any future earnings.

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

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

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

15. Outlook

The 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 for the year ended December 31, 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 Chinese-Mongolian border, will result in export volumes continuing to increase in 2023.

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

In 2023, the Company expects to continue to ramp up its mining operations and capacity to capitalise 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 maximise revenue, broaden its customer base and sales network, improve logistics, optimise its operational cost structure and, most importantly, operate in a safe and socially responsible manner.

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

- **Enhance product mix** – The Company will focus on improving the product mix by: (i) improving mining operations; (ii) 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 maximise profit while maintaining sustainable long-term business relationships with customers.

- **Increase production and optimise cost structure** – The Company will aim to increase coal production volume to take advantage of economies of scale. The Company will also focus to reduce its production costs and optimise its cost structure through engaging sizable third-party contract mining companies to enhance its operation efficiency, strengthening procurement management, ongoing training and productivity enhancement.

- **Operate in a safe and socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance and operate in a corporate socially responsible manner.

15. Outlook continued

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

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

- **A large reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of more than 90 million tonnes.

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

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

March 31, 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

The Board has established a Health, Environment, Safety and Social Responsibility Committee (the "HESS Committee"), which operates under a charter approved by the Board. The primary objective of the HESS Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company. The HESS Committee also reviews any incidents that occur and provides guidance on how to prevent any recurrences. During the course of 2022, the HESS Committee met three (3) times.

Annually, the HESS Committee reviews the Company's environmental, social and governance report (the "ESG Report") and provides guidelines and recommendations to the Company's management relating to the findings in the ESG Report. During the Financial Year, the HESS Committee reviewed its charter in light of current best practices.

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

Safety continues to be one of the Company's top priorities, we provide a positive working environment and maintain strong safety guidelines and systems for our employees to minimize lost time injuries. The Company continues to be fully committed to operating in a safe and socially responsible manner in order to maintain a low lost time injury frequency rate since its incorporation. The Company ended 2022 and 2021 without a lost time injury. We are proud of our track record of low incident frequency rates and we will strive to uphold our safety record going forward. We will continue to provide continuous training for our staff to enhance morale and improve efficiency.

Disclosures relating to any material ESG issues identified have been included in this ESG Report pursuant to the requirements of Appendix 27 of the Listing Rules of The Hong Kong Stock Exchange. This ESG Report mainly covers the policies, initiatives and performance of the Company's business and operations in relation to these issues, for the year ended December 31, 2022:

A. Environmental

A1: Emissions

The Company is required and willing to comply with the Environmental Protection Law of Mongolia for its mining activities. It includes specific regulations and guidelines on the protection of the land and soil, water and air within the areas it operates. In particular, the Law on Air of Mongolia has specifically identified the standards that the Company must reach and maintain.

Within the framework of such relevant environmental laws and regulations, the Company aspires to demonstrate environmental leadership by keeping its environmental impact at a minimum through rehabilitation, biological offsetting, regular monitoring of pollutant emissions and taking relevant responsive measures and protecting the environment with the participation of locals in the area in which it operates.

In 2014, a weather station was constructed at the mine site in order to gather site specific data every 10 minutes, including data for gas emissions.

In 2022, the emissions of sulphur dioxide, nitrogen dioxide, respirable and fine suspended particles released through the mining process were within Mongolian air quality standard MNS 4585:2016. The results were derived from the Company's environmental monitoring program where samples from selected areas were taken and passed to authorized laboratory for testing.

The results shown below illustrate that the Company's average results of the measured parameters were below the standard requirement for both 2021 and 2022.

	Measured parameters	Unit	Standard requirement	2021 average result	2022 average result
1	Dust content (PM2.5)	mg/m^3	0.5	0.02	**0.14**
2	Sulphur Dioxide	mg/m^3	0.45	0.0105	**0.0164**
3	Nitrogen Dioxide	mg/m^3	0.085	0.026	**0.026**

Moreover, the Company has implemented a variety of environmental friendly waste management programs and is focused on recycling and reduction of wastes. In 2022, the Ovoot Tolgoi mine site generated 81 (2021: 71) tonnes of waste, including waste oil, used tires, car batteries and cartridges, and 88% (2021: 71%) of such materials were recycled and donated to local residents and various contract companies for reuse.

A2: Use of resources

The Board, together with its HESS Committee, supports Management's decision in respect of energy conservation and environmental protection. The Company established a top-down management approach and assessment mechanism for energy conservation and environmental protection at three (3) levels: head office, subsidiaries (branches) and plant (mine site, wash plant), in order to delegate responsibility, effectively communicate to each level, and connect incentives and constraints on all division.

– Energy consumption (electricity, gas, oil)

The details of energy consumption at the mine site were as follows:

			2021		**2022**	
	Measured parameters	Unit	Total consumption	Per tonne produced	**Total consumption**	**Per tonne produced**
1	Electricity	kWh	1,245,511	0.6	**1,350,538**	**1.9**
2	Gas (propane, oxygen, acetylene, argon, nitrogen)	Gallon/3000 psi	42	47.9 (per million tonnes)	**56**	**80.2 (per million tonnes)**
3	Oil (Gear oil, Hydraulic oil, Engine oil)	tonnes	42	30.2 (per million tonnes)	**62**	**88.1 (per million tonnes)**

– Water consumption

In 2022, the Ovoot Tolgoi mine site consumed 14,574m^3 (2021: 17,414m^3) of water for domestic use. In addition, 20,901m^3 (2021: 58,714m^3) of water, acquired from a nearby pit and water pond, was used for dust compression. In 2022, the coal wash plant at the Ovoot Tolgoi mine site was not in operation and in 2021 the coal wash plant consumed 69,512m^3 of water for the coal washing process. Water consumption decreased in 2022 as the Company's major mining operations (including coal mining) were temporarily suspended from November 2021 to July 2022 for the purpose of mitigating the financial impact of the border closures as a result of the COVID-19 pandemic and preserving the Company's working capital. We continue to strive to minimize the water consumption used in dust compression by reducing the source pollution and emission during the mining process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

– **Energy use efficiency initiatives**
The Company utilizes the following measures to promote energy saving:

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

Sourcing water, water efficiency initiatives
The Company has implemented various measures to preserve water usage, especially at the mine site. Various meetings have been held with our employees and local residents to promote the importance of, and ways to preserve and conserve water and the efficient use of water. We have placed rubbish bins at different water sources near the mine site to prevent littering, which directly affects the quality of water sources. Moreover, we constantly clean the water source points to ensure the water quality supplied to Ovoot Tolgoi and the nearby community.

A3: The Environment and Natural Resources

The Company adheres to the notion of producing green coal and building ecological mining sites. Great emphasis has been placed on soil and water conservation, land rehabilitation and greening, ecological projects and other efforts to safeguard and improve the local eco-environment and advance the ecological progress.

The Company established an annual environmental monitoring programme to monitor soil quality, underground water, reclamation and rehabilitation.

The Ovoot Tolgoi mining license area does not have large scale soil contamination by heavy metals often associated with mining operations. Samplings were obtained in 20 different locations and the results were all within the government standard requirement under MNS 5850:2008. The overall results for 2021 and 2022 are as follows:

For 2021:

Heavy metals	Unit	Chromium	Lead	Cadmium	Nickel	Zinc
Average	Mg/kg	7	8	0	25.7	57.8
Maximum	Mg/kg	13.5	15.6	0	71.3	82.7
Minimum	Mg/kg	0.3	5	0	18.2	25.4
MNS 5850:2008	Mg/kg	150	100	3	150	300

For 2022:

Heavy metals	Unit	Chromium	Lead	Cadmium	Nickel	Zinc
Average	Mg/kg	47.5	21.8	0	14.6	58.4
Maximum	Mg/kg	62.1	30.1	0	19.2	74.8
Minimum	Mg/kg	36.5	10.1	0	8	41.4
MNS 5850:2008	Mg/kg	150	100	3	150	300

In 2022, the Company also tested nine (9) water points to monitor underground water quality. Underground water has been analyzed by 14 parameters, mine ground leaking water has been analyzed by seven (7) parameters and the results were all up to standard.

Mining, rehabilitation and greening at Ovoot Tolgoi are conducted in a synchronized manner. Timely rehabilitation and greening has been carried out in accordance with the procedure of topsoil stripping, layering up, mining, back-filling, covering the topsoil and restoring vegetation, which enables a full-scale greening and restores the ecology to its pre-mining conditions. Commencing in 2008, the Company has carried out biological reclamation of a 56.2 hectare area and planted over 10,500 trees and shrubs to reduce greenhouse gas emissions. The Company organizes tree planting activities at Ovoot Tolgoi twice a year during the spring and the fall.

The Company is required by the Government of Mongolia to develop an environmental protection plan each year. The plan for 2023 has been approved by the Ministry of Environment and Green Development of Mongolia. 17 measures were planned to minimize the impact on the environment, including but not limited to air, soil, underground water, plants and animals.

B. Social

B1: Employment

The Company upholds an equal and non-discriminative employment policy to provide equal employment opportunities for all candidates, regardless of race, gender, religion belief and cultural background. Taking into account the various experience and training requirements of different positions, the Company actively provides job opportunities for women and ensures equal pay for equal work for male and female employees. As of December 31, 2022, the Company had a workforce of 360 employees, including 48 female employees, representing 13% of the workforce. In 2022, the Company recruited 162 new employees.

The Company believes that a diverse Board will enhance the decision making of the Board by utilizing the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of services, and other distinguishing qualities of the members of the Board. In support of this belief, the Board adopted a Board Diversity Policy in March 2014. In March 2022, the Board amended the Board Diversity Policy to incorporate changes put forward by the Hong Kong Stock Exchange. The Company is of the view that Board appointments should be based on merit, and is committed to selecting the most suitable candidate to join the Board. At the same time, the Company recognizes that diversity is important to ensure that the profiles of Board members provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship.

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

To retain competitive employees, the Company has in place a remuneration and welfare mechanism that are internally fair and externally competitive. The Company has implemented the appropriate policies and programs to encourage and incentivize employees to develop and realize their personal values.

Employees are entitled to paid leave, maternity leave, paternity leave and other statutory leave in accordance with the law in various jurisdictions. The Company also provides paid sick leave and personal leave, granting, on average, 15 days of annual paid leave for employees in 2022.

B2: Health and Safety

The health and safety of the Company's employees is a top priority and the Company constantly improves the occupational safety and health management system in order to reduce risks and create a safe working environment. The Company requires all employees to strictly comply with the health and safety policies.

The Company's safety management system is designed on the principles of continual improvement and adopts the "Plan, Do, Check and Review" methodology. The structure of the safety management system generally follows the layout of international standards such as MNS OHSAS 18001:2012 and AS/NZS 4801.

The system has 13 elements which are inter-related, and each of those have a specific objective which enables employees to identify and manage various potential health and safety threats. Each element includes measures which help employees meet the requirements of the respective objective. Some of the elements refer to fixed procedures that must be followed, and defined in safe work procedures. The health and safety performance standards also address specific risk areas, and the precautions and guidelines set by the health and safety performance standards are mandatory for all employees.

The Company ended 2022 and 2021 without a lost time injury.

B3: Personal Development and Training

The Company has conducted various training activities and has in place ongoing mechanisms for employees to enhance their skills and capabilities in order to provide a career development path for employees and to improve the efficiency of the Company.

In particular, there are various training programs in relation to health and safety at the mine site. We ensure all personnel involved in any operation or activities at the mine site are informed of the risks and controls associated with their position and that they are capable of performing those tasks. All new employees, contractors and visitors to the mine site must undertake the relevant induction training, which includes reference to the significant health and safety risks identified at the managed mine site.

The health and safety training includes two (2) major aspects: competency-based training, and awareness training. Competency-based training provides training on risk analysis, operational controls, work place monitoring, management of change and incident management. Awareness training includes significant health and safety risks and activities, accountabilities of specific health and safety roles and responsibilities, and emergency response procedures.

During 2022, safety training was provided for 1,954 employees of the Company and its contractors (2021: 125) which includes new employee training, refresher training, contractor new employee training, contractor refresher training, visitor induction and trainings. A total of 28,149 training hours were provided in 2022 (2021: 1,733 hours). The safety training conducted in 2022 was significantly higher than 2021 due to the temporary suspension of the Company's coal mining operations in the second and fourth quarter of 2021, and approximately half of the Company's workforce was placed on furlough during that period.

B4: Labour standards

The Company strictly prohibits the use of child and forced labour in all operations, and is committed to creating a work environment which respects human rights.

In strict compliance with laws and regulations regarding labour and human rights, the Company takes such measures as instituting and enhancing collective contract system, signing labour contracts with each employee, improving remuneration and welfare mechanism and strengthening occupational health management to protect employees' legitimate rights and interests. In case of any violation, the Company will carry out investigation and impose necessary action on the employing unit and demand rectification within a specified period. No breach of any standards, rules or regulations on child labour and forced labour has ever occurred.

B5: Supply Chain Management

The Company is continuously improving its supply chain management, by ensuring the stable supply of production materials and services, as well as managing the suppliers to ensure they are aligned with the Company's core values to uphold the environmental and social standards.

The Company regards the social value and social influence (especially the fulfilment of social responsibility) as important aspects in supplier assessment and enhanced admission management. According to specific admission requirements, the Company not only demands that a supplier presents certification of quality, environment and occupational health and safety regimes, but that the supplier's product and its production meets national environmental protection standards and regulations and has passed external expert assessment.

According to the Company's procurement guidelines, the agreements with suppliers include the Company's requirement and standards in terms of environment and safety concerns. The tools and equipment by the contractors are all inspected and evaluated to be in safe condition and confirm with the Company health and safety standards and site procedures.

B6: Product Responsibility

The Company's main coal products primarily consist of premium semi-soft coking coal, standard semi-soft coking coal, standard thermal coal, and washed coal. We strive to ensure steady supply of quality coal products to customers.

In 2022, the Company produced 0.7 million tonnes of coal and sold 1.1 million tonnes of coal to customers. During production, a total of 3.6 million m^3 overburden was stripped, and the stripping ratio was 5.1 m^3 per tonne. The Company actively promotes clean coal products. In general, our coal products' average ash content ranged from 7% to 28%, calorific value ranged from 5,500 to 7,000 kcal/kg, the sulphur content below 1.2%, G index ranged from 58 to 75, and volatile matter around 32.5%.

The coal wash plant at the Ovoot Tolgoi mine site commenced operations in October 2018. The plant washes run-of-mine coals with high ash content. The washed coal is sold as semi-soft coking coal. In 2022, 0.5 million tonnes of washed coal were sold. The washed coal has an average ash content of around 16.2%, an average calorific value of 6,300 kcal/kg, an average sulphur content of 0.9%, G index of around 40, and volatile matter of 39%. The Company will continue to enhance the product value by increasing the volume of coal being washed. The contract for the coal wash plant operator concluded in September 2021 and the wash plan operation has been suspended since that time. We are considering alternative technologies to enhance-coal quality for the Chinese market with improved margins.

B7: Anti-corruption

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

In 2012, the Company 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 guidance notes and standards that form part of the Company's overall Code of Conduct Standards. Included in the Code of Conduct Standards are the following policies and standards: the Anti-Corruption Standard and the Conflicts of Interest Standard, "The Way We Work", the Corporate Disclosure, Confidentiality and Securities Trading Policy, and Guidelines for Investigation into Allegations of Serious Wrongdoing and a whistle-blower program.

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

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

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

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

B8: Corporate Social Responsibility

SouthGobi proactively cares for the needs of its local community by creating job opportunities, supporting the necessities of the community, especially for small businesses and primary education, and is committed to the long term development of Mongolia.

The Company encourages the employment of staff from the local community based on the principal of harmonious development. The Company's Ovoot Tolgoi mine has created job opportunities in the Umnugobi Aimag (South Gobi province). As at December 31, 2022, the Company employed 311 employees in Mongolia, of which 310 (99%) are Mongolian nationals, and of those, 128 (41%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon soums (soum = village).

The Company also supports and participates in the economic construction of the surrounding regions and development in Mongolia. Consequently, the Company enjoys a good relationship with local enterprises and government by supporting the local communities. For instance, the Company is committed to purchasing goods and materials from the local community, such as obtaining employees' uniforms through domestic suppliers. The Company also continues to donate coal and livestock feed for nearby local residents during the winter months. In 2022, the Company donated 5,765 tonnes of coal to the local communities at Gurvantes, Bayandalai, Noyon and Sevrei soums and funds were donated to the Animal Protection Fund of the Gurvantes soum to purchase fodders.

In 2009, the Company implemented a scholarship program to support local students in the Gobi region, and, to-date, 240 scholarships have been granted to university students. In 2022, the Company awarded 20 scholarships to students from the Gurvantes soum region (Dalanzadgad, Bayandalai, Gurvantes, Noyon, and Sevrei). The Company also built infrastructures for the local communities, including the construction of a kindergarten in the Gurvantes soum region in 2011 and the renovation of the library at a local secondary school in 2017. In the past, we have also donated books to local schools, toys to the kindergarten classrooms, and bed linens to the Gurvantes hospital which were all appreciated by the communities.

In addition, each year our Mongolian subsidiary SouthGobi Sands LLC ("SGS") hosts and sponsors sporting events and festivals for the local schools, and also co-organizes the English assessment exam, Olympiad. However, these events and exam were postponed in 2022 due to COVID-19.

In 2019, SGS entered into a tri-party cooperation agreement with the nearby soums and aimag (town) which is aimed at funding sustainable infrastructure projects for the communities. Following the commencement of the cooperation agreement, several renovation projects were completed in 2019. However, further projects were suspended or postponed due to COVID-19. The Company will continue to participate in these various infrastructure projects in order to contribute and give back to our communities.

In 2022, as part of SGS ongoing involvement in local development, the Company commenced construction of four apartment buildings which will provide housing for 52 households in the center of Gurvantes soum region.

The input and support that the Company and SGS have contributed to the communities over the years has been acknowledged and recognized, and the Company was honoured to receive various awards in the past years including "Top 100 Companies in Mongolia", "Best Employer of 2018", "Best Occupational Hygiene and Safety Excellence", "Best Corporate Social Responsibility Enterprise of Umnugobi Province", "Best Social Fee Paying Employer" awards and more. The Company is proud and appreciative of all the recognition received over the years and will continue to contribute to the communities in every aspect it can.

During 2022, the Company made US$140,217 in charitable donations, including cash donations to various communities and coal donations to various soums of the Umnugobi Province. SouthGobi will continue to contribute and work to make a positive impact on the long term sustainable growth of our surrounding communities.


BUCYRUS

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

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To the Shareholders of SouthGobi Resources Ltd.

Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 136 to 194 which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standard Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group's incurred a net loss attributable to equity holders of the Company of US$30.4 million for the year ended December 31, 2022, and as of that date, had a deficiency in assets of US$142.5 million while the working capital deficiency reached US$184.7 million. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Impairment of property, plant and equipment

(Refer to note 3.23(b) and 16 to the consolidation financial statements)

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

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

How the matter was addressed in our audit

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

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

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

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

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

Other Information

Management is responsible for the other information. The other information comprises all of the information included in the 2022 annual report of the Company (the "annual report") other than the consolidated financial statements and our auditor's report thereon. We obtained Management's Discussion and Analysis of Financial Condition and Results of Operations prior to the date of this auditor's report. The remaining other information, including Message from the CEO, Board of Directors and Senior Management, Directors' Report, Corporate Governance Report, Environmental, Social and Governance Report, Corporate Information and the other sections (if any) to be included in the annual report, is expected to be made available to us after that date.

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

BDO Limited

Certified Public Accountants
Lee Alfred
Practising Certificate Number P04960

Hong Kong, March 31, 2023

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of U.S. dollars, except for share and per share amounts)

	Notes	Year ended December 31, 2022	2021
Revenue	4	$ **73,084**	$ 43,398
Cost of sales	7	**(57,762)**	(31,304)
Gross profit		**15,322**	12,094
Other operating income/(expenses), net	8	**5,316**	(1,426)
Administration expenses	9	**(6,919)**	(6,068)
Evaluation and exploration expenses		**(147)**	(223)
Profit from operations		**13,572**	4,377
Finance costs	10	**(42,219)**	(39,118)
Finance income	10	**2,777**	23,165
Share of earnings/(loss) of joint ventures	17	**119**	(159)
Loss before tax		**(25,751)**	(11,735)
Current income tax expenses	11	**(4,668)**	(2,638)
Net loss attributable to equity holders of the Company		**(30,419)**	(14,373)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operation		**(24,744)**	(197)
Net comprehensive loss attributable to equity holders of the Company		$ **(55,163)**	$ (14,570)
Basic and diluted loss per share	12	$ **(0.11)**	$ (0.05)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

	Notes	As at December 31, 2022	2021
Assets			
Current assets			
Cash and cash equivalents		**$ 9,255**	$ 723
Restricted cash		**725**	1,259
Trade and other receivables	13	**1,199**	141
Inventories	14	**34,830**	51,606
Prepaid expenses	15	**1,486**	1,571
Total current assets		**47,495**	55,300
Non-current assets			
Property, plant and equipment	16	**119,346**	135,145
Investments in joint ventures	17	**14,518**	15,668
Total non-current assets		**133,864**	150,813
Total assets		**$ 181,359**	$ 206,113
Equity and liabilities			
Current liabilities			
Trade and other payables	18	**$ 59,730**	$ 67,327
Deferred revenue	19	**30,282**	26,477
Interest-bearing borrowing	20	**–**	53
Lease liabilities	21	**298**	296
Income tax payable		**1,066**	3,682
Convertible debenture	22	**140,784**	–
Total current liabilities		**232,160**	97,835
Non-current liabilities			
Lease liabilities	21	**204**	585
Convertible debenture	22	**83,869**	191,626
Decommissioning liability	23	**7,650**	6,517
Total non-current liabilities		**91,723**	198,728
Total liabilities		**323,883**	296,563
Equity			
Common shares	24	**1,101,764**	1,098,835
Share option reserve	26	**53,018**	52,858
Capital reserve	26	**396**	396
Exchange fluctuation reserve	24	**(55,212)**	(30,468)
Accumulated deficit	24	**(1,242,490)**	(1,212,071)
Total deficiency in assets		**(142,524)**	(90,450)
Total equity and liabilities		**$ 181,359**	$ 206,113
Net current liabilities		**$ (184,665)**	$ (42,535)
Total assets less current liabilities		**$ (50,801)**	$ 108,278

Corporate information and going concern (Note 1), commitments for expenditure (Note 31) and contingencies (Note 32)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD:

"Mao Sun" *"Dong Wang"*

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars and shares in thousands)

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2021	272,703	$ 1,098,634	$ 52,702	$ 396	$ (30,271)	$ (1,197,698)	$ (76,237)
Net loss for the year	–	–	–	–	–	(14,373)	(14,373)
Exchange differences on translation of foreign operations	–	–	–	–	(197)	–	(197)
Total comprehensive loss attributable to equity holders of the Company	–	–	–	–	(197)	(14,373)	(14,570)
Shares issued for:							
Exercise of stock options	1,368	190	(47)	–	–	–	143
Employee share purchase plan	45	11	–	–	–	–	11
Share-based compensation charged to operations	–	–	203	–	–	–	203
Balances, December 31, 2021	274,116	$ 1,098,835	$ 52,858	$ 396	$ (30,468)	$ (1,212,071)	$ (90,450)
Balances, January 1, 2022	**274,116**	**$ 1,098,835**	**$ 52,858**	**$ 396**	**$ (30,468)**	**$ (1,212,071)**	**$ (90,450)**
Net loss for the year	**–**	**–**	**–**	**–**	**–**	**(30,419)**	**(30,419)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(24,744)**	**–**	**(24,744)**
Total comprehensive loss attributable to equity holders of the Company	**–**	**–**	**–**	**–**	**(24,744)**	**(30,419)**	**(55,163)**
Shares issued for:							
Interest settlement on convertible debenture	**20,948**	**2,900**	**–**	**–**	**–**	**–**	**2,900**
Exercise of stock options	**24**	**3**	**(1)**	**–**	**–**	**–**	**2**
Employee share purchase plan	**139**	**26**	**–**	**–**	**–**	**–**	**26**
Share-based compensation charged to operations	**–**	**–**	**161**	**–**	**–**	**–**	**161**
Balances, December 31, 2022	**295,227**	**$ 1,101,764**	**$ 53,018**	**$ 396**	**$ (55,212)**	**$ (1,242,490)**	**$ (142,524)**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2022	2021
Operating activities			
Loss before tax		$ **(25,751)**	$ (11,735)
Adjustments for:			
Depreciation and depletion	6	**3,843**	5,611
Share-based compensation	6	**161**	203
Interest expense on convertible debenture	10	**39,645**	36,301
Interest expense on borrowings	10	**5**	61
Interest elements on leased assets	10	**82**	93
Accretion of decommissioning liability	10	**531**	510
Fair value loss/(gain) on embedded derivatives in convertible debenture	10	**16**	(100)
Interest income	10	**(43)**	(79)
Share of (earnings)/loss of joint ventures	17	**(119)**	159
Gain on disposal of items of property, plant and equipment, net	6	**(195)**	(299)
(Reversal of provision)/provision for doubtful trade and other receivables	6	**(784)**	191
Impairment on materials and supplies inventories	6	**1,510**	2,411
Impairment of prepaid expenses	6	**145**	–
Discount on settlement of trade payables	6	**(191)**	(891)
Written off of other payables	6	**(3,287)**	(691)
Gain on contract offsetting arrangement	6	**(786)**	–
Penalty on late settlement of trade payables	6	**1,860**	–
Gain on extinguishment of convertible debenture	10	**–**	(20,970)
Gain on modification of convertible debenture	10	**(2,734)**	(2,016)
Operating cash flows before changes in working capital items		**13,908**	8,759
Net change in working capital items	30.2	**15,170**	(11,993)
Cash generated from/(used in) operating activities		**29,078**	(3,234)
Interest paid		**(5)**	(26)
Income tax paid		**(2,936)**	(1,069)
Net cash flows from/(used in) operating activities		**26,137**	(4,329)
Investing activities			
Expenditures on property, plant and equipment		**(11,878)**	(10,455)
Proceeds from disposal of property, plant and equipment		**195**	1,337
Interest received	10	**43**	79
Investments in joint ventures		**(1,990)**	–
Dividend from a joint venture	17	**593**	402
Net cash flows used in investing activities		**(13,037)**	(8,637)
Financing activities			
Interest payment of convertible debenture	22	**(1,000)**	(3,000)
Repayment of interest-bearing loan		**(53)**	(2,800)
Proceeds from interest-bearing loan		**–**	53
Proceeds from exercise of share options		**2**	143
Capital elements of lease rental paid		**(320)**	(324)
Interest elements of lease rentals paid		**(82)**	(93)
Proceed from issued shares for employee share purchase plan		**26**	11
Net cash flows used in financing activities		**(1,427)**	(6,010)
Effect of foreign exchange rate changes, net		**(3,141)**	(422)
Increase/(decrease) in cash and cash equivalents		**8,532**	(19,398)
Cash and cash equivalents, beginning of year		**723**	20,121
Cash and cash equivalents, end of year		$ **9,255**	$ 723

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Toronto Stock Exchange ("TSX") (Symbol: SGQ) and Hong Kong Stock Exchange ("HKEX") (Symbol: 1878) as of the date hereof. The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. Pursuant to the announcement of the Company dated August 31, 2022, Land Breeze II S.à.r.l., a wholly-owned subsidiary of China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") completed the sales ("CIC Sale Transaction") of its interests in the Company, including its 64,767 common shares of the Company and the $250,000 convertible debenture dated November 19, 2009 (the "Convertible Debenture") to JD Zhixing Fund L.P. (the "Buyer" or "JDZF") on August 30, 2022. Pursuant to the announcement of the Company dated November 29, 2022, Novel Sunrise Investments Ltd. ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Asset Management Co., Limited, completed the sale of all of its interests in the Company (the "Sale Transaction"), including its 46,359 common shares of the Company, to Land Grand International Holding Limited ("Land Grand") on November 28, 2022. At December 31, 2022, to the Company's best knowledge, JDZF has become the Company's largest shareholder, and owned approximately 29.0% of the outstanding common shares of the Company. Land Grand and Voyage Wisdom Limited owned approximately 15.7% and 8.7% of the outstanding common shares of the Company, respectively.

The Company owns the following coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine ("Ovoot Tolgoi Mine"), the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Chinese-Mongolian border. The Company owns a 100% interest in these coal projects.

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

Impact of the Covid-19 pandemic

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022.

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.

Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company decided to gradually resume mining operations beginning on July 15, 2022.

The Company has been proactively adjusting its sales strategy 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 Chinese-Mongolian border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future.

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2023 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company incurred a net loss attributable to equity holders of the Company of $30,419 for 2022 (compared to a net loss attributable to equity holders of the Company of $14,373 for 2021), and had a deficiency in assets of $142,524 as at December 31, 2022 as compared to a deficiency in assets of $90,450 as at December 31, 2021 while the working capital deficiency (excess current liabilities over current assets) reached $184,665 as at December 31, 2022 as compared to a working capital deficiency of $42,535 as at December 31, 2021.

Included in the working capital deficiency as at December 31, 2022 are significant obligations, represented by trade and other payables of $59,730, which includes $22,542 in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling certain trade and other payables owed to suppliers and creditors may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in these consolidated financial statements, no such lawsuits or proceedings were pending as at March 31, 2023.

The Chinese-Mongolian border was re-opened for coal export on a trial basis on May 25, 2022 but there can be no guarantee that the Company will be able to continue exporting coal to China, or the Chinese-Mongolian 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 has been proactively adjusting its sales strategy and exploring opportunities to expand its sales. In early 2023, China fully reopened its borders and relaxed the export restrictions associated with COVID-19. The Company anticipates that its revenue, liquidity and profitability will improve following the coal exports volume resuming to normal levels.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2022. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into the 2023 March Deferral Agreement with JDZF on March 24, 2023 for a deferral of (i) semi-annual cash interest payments of $7,934 (the "2023 May Cash Interest") which will be due and payable to JDZF on May 19, 2023 under the Convertible Debenture; (ii) the cash interest, management fees, and related deferral fees of approximately $8,716 (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 $13,460 (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 $110,406 (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, in each case until August 31, 2024. 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; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Company; and (d) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $73,000 during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company, Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2022 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

As at December 31, 2022 and December 31, 2021, the Company was not subject to any externally imposed capital requirements.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2.2 Basis of presentation

The consolidated financial statements of the Company for the year ended December 31, 2022 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on March 31, 2023.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 28.

2.3 Adoption of new and revised standards and interpretations

The following new IFRS standards and interpretations were adopted by the Company on January 1, 2022.

Annual Improvements Framework	Annual Improvements to IFRSs 2018-2020
Amendments to IFRS 3	Business Combination
Amendments to IAS 16	Property, Plant and Equipment
Amendments to IAS 37	Contingent Liabilities and Contingent Assets
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 2021
AG 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations

There have been no new IFRSs or IFRIC interpretations that have a material impact on the Company's results and financial position for the year ended December 31, 2022. The Company has not early applied any new or amended IFRSs that is not yet effective for the year ended December 31, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

2. BASIS OF PREPARATION continued

2.4 Standard issued but not yet effective

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

IAS 8	Definition of accounting estimates[1]
IAS 12	Deferred tax related to assets and liabilities arising from a single transaction[1]
Amendments to IAS 1	Presentation of Financial Statements and Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IFRS 16	Lease liabilities in a Sale and Leaseback[2]
Amendments to IFRS 17	Insurance Contracts and Initial Application of IFRS 17 and IFRS 9 – Comparative Information[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Int 5 (Revised)	Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment On Demand Clause[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2024.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 29).

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

3.2 Foreign currencies

The consolidated financial statements are presented in the U.S. dollar, which is the functional currency of SouthGobi Resources Ltd. Each entity in the Company has its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the U.S. dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. dollar rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

At the end of the reporting period, the assets and liabilities of an entity with the functional currency in a foreign currency are translated into the U.S. dollar at the exchange rates prevailing at the end of the reporting period and the profit or loss is translated into the U.S. dollar at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3.3 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3.4 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realisable value. Production cost is determined by the weighted average cost method and includes direct and indirect labor, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realisable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realisable value, less allowances for obsolescence. Replacement cost is used as the best available measure of net realisable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.5 Leases

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Company has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (refer to below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Company applies the revaluation model, the Company measures the right-of-use assets applying a cost model. Under the cost model, the Company measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the Company's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Company measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.6 Property, plant and equipment

Property, plant and equipment includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. Property, plant and equipment is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalised borrowing costs.

Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalised on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.7), certain production stripping costs (Note 3.8) and decommissioning liabilities related to the reclamation of the Company's mineral properties (Note 3.10).

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

Mobile equipment	5 to 7 years
Other operating equipment	1 to 10 years
Buildings and roads	5 to 20 years
Construction in progress	not depreciated
Mineral properties	unit-of-production basis based on proven and probable reserves

Upon disposal, reclassification to assets held for sale or when no future economic benefits are expected to arise from the continued use of an asset the original cost and related accumulated depreciation is removed from property, plant and equipment. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has technically feasibility and commercially viability.

Production phase

Upon a mine development being ready for its intended use it enters the production phase and depletion of the mineral property is recorded on a unit-of-production basis, using the estimated resources that are expected to be mined in the mine plan as the depletion base. Management's determination of when an asset is ready for its intended use is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached; and
- the commissioning of major operating equipment and infrastructure is completed.

3.8 Development and production stripping costs

Once a property is determined to have reached technical feasibility and commercial viability, the Company's subsequent exploration and evaluation and development expenses are capitalised as mineral property costs within property, plant and equipment.

Production stripping activity assets are recognised when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If not all of the criteria are met, the stripping activity costs are included in the cost of inventory produced during the period incurred.

3.9 Leasing

The Company as a lessor

The Company has leased out its warehouse and containers to suppliers and subcontractors. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.10 Decommissioning, restoration and similar liabilities

The Company recognises provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortised as an expense over the estimated useful life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate and the amount or timing of the underlying cash flows required to settle the obligation. The discount rate used is a credit adjusted risk free rate.

3.11 Joint arrangements

The Company classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved in the joint arrangement. Joint arrangements that are classified as joint operations require the venturers to recognise the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. Joint arrangements that are classified as a joint venture are accounted for using the equity method of accounting.

3.12 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Equity-settled transactions

The cost of equity-settled transactions with employees are measured by reference to the fair value at the date on which the awards are granted.

The cost of equity-settled transactions are recognised, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.13 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings/(loss) per share is calculated by adjusting the profit or loss attributable to equity holders of the Company divided by the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company's dilutive share equivalents include stock options and convertible debt.

3.14 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.14 Taxation continued

Deferred income tax continued

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.15 Financial instruments

(a) Financial assets

All financial assets are initially recorded at fair value and categorised upon inception into one of the following categories: those to be measured subsequently at fair value either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL"), and those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity investments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as other operating expenses in the consolidated statements of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Financial instruments continued

(a) Financial assets continued

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(b) Financial liabilities

Financial liabilities are categorised, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable costs.

Financial liabilities categorised as financial liabilities measured at amortised cost are initially recognised at fair value less directly attributable transaction costs. After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities categorised as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. For liabilities designated at FVTPL, changes due to credit risk are recognised in other comprehensive income.

3.16 Impairment of financial assets

The Company's trade and other receivables are subject to IFRS 9's expected credit loss ("ECL") model.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. The Company's definition of a default scenario is if receivables from a customer are over six months past due, or if there is reasonable and supportable evidence that a customer will no longer be able to settle its receivables with the Company.

3.17 Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.18 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods.

3.19 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.20 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.20 Revenue recognition continued

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sales of mining coal

Income from sales of mining coal is recognised at a point in time when the goods are delivered to customers and title has passed.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Deferred revenue

Deferred revenue represents the Company's obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

3.21 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Related party transactions

(a) A person or a close member of that person's family is related to the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions apply:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

(a) Going concern assumption

The directors of the Company have prepared the consolidated financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 1 to the consolidated financial statements, the Company has the capability to continue as a going concern.

(b) Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognised in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2022. The impairment indicator was the fact that the Company suffered loss for the year.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2022. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $119,346 as at December 31, 2022.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 19% based on an analysis of the market, country and asset specific factors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Significant accounting judgments and estimates continued

(b) Review of carrying value of assets and impairment charges continued

Ovoot Tolgoi Mine cash generating unit continued

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $10,600/(10,500);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(12,900)/13,800;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(5,800)/5,900; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(31,200)/27,900.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2022. A decline of 18% (2021: 15%) in the long-term price estimates, an increase of more than 26% (2021: 19%) in the post-tax discount rate, an increase of 33% (2021: 27%) in the cash mining cost estimates or an increase of 95% (2021: 62%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

(c) Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $22,599 (2021: $23,841) as at December 31, 2022.

(d) Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortisation charges.

(e) Estimated recoverable reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognised in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Significant accounting judgments and estimates continued

(f) Long term F-grade coal inventory

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company intends to realise the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities. As at December 31, 2022, none of the F-grade coal products was classified as non-current (December 31, 2021: $nil).

(g) Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognised in profit or loss.

3.24 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists, the Company considers all relevant facts and circumstances, including:

- the size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- substantive potential voting rights held by the Company and other parties who hold voting rights;
- other contractual arrangements; and
- historic patterns in voting attendance.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

4. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board of Directors has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the years ended December 31, 2022 and 2021.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the years ended December 31, 2022 and 2021.

Information about major customers

During the years ended December 31, 2022 and 2021, the Coal Division had 51 and 22 active customers, respectively. 1 and 3 customers with respective revenues contributed over 10% of the total revenue during the years ended December 31, 2022 and 2021, with the largest customer accounting for 14% of revenues (2021: 35%), the second largest customer accounting for 9% of revenues (2021: 17%) and the third largest customer accounting for 8% of revenues (2021: 10%).

The operations of the Company are primarily located in Mongolia, Hong Kong and China.

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the year ended December 31, 2022	**$ –**	**$ –**	**$ 73,084**	**$ 73,084**
For the year ended December 31, 2021	–	–	43,398	43,398
Non-current assets				
As at December 31, 2022	**$ 133,345**	**$ 337**	**$ 182**	**$ 133,864**
As at December 31, 2021	150,136	430	247	150,813

(i) The revenue information above is based on the locations of the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

5. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal. The Company recognises all revenue from the trading of coal at a point in time when the customer obtains control of the goods or services.

6. EXPENSES BY NATURE

The Company's loss before tax is arrived at after charging/(crediting):

	Year ended December 31,	
	2022	**2021**
Depreciation	**$ 3,843**	$ 5,611
Auditors' remuneration	**462**	465
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 5,554**	$ 5,404
Equity-settled share option expense (Note 25)	**161**	203
Pension scheme contributions	**528**	401
	$ 6,243	$ 6,008
Lease payments under operating leases	**$ 159**	$ 147
Foreign exchange loss/(gain), net	**(4,639)**	325
Impairment on materials and supplies inventories (Note 14)	**1,510**	2,411
Royalties (Note 7)	**14,196**	8,125
Management fee (Note 29)	**1,201**	967
Provision/(reversal of provision) for doubtful trade and other receivables (Note 13)	**(784)**	191
Impairment of prepaid expenses (Note 15)	**145**	–
Gain on disposal of items of property, plant and equipment, net (Note 8)	**(195)**	(299)
Gain on contract offsetting arrangement (Note 8)	**(786)**	–
Penalty on late settlement of trade payables (Note 8)	**1,860**	–
Rental income from short term leases (Note 8)	**(150)**	(587)
Discount on settlement of trade payables (Note 8)	**(191)**	(891)
Written off of other payables (Note 8)	**(3,287)**	(691)
Mine operating costs and others	**39,925**	17,239
Total operating expenses	**$ 59,512**	$ 39,021

7. COST OF SALES

The Company's cost of sales consists of the following amounts:

	Year ended December 31,	
	2022	**2021**
Operating expenses	**$ 40,114**	$ 18,176
Share-based compensation expense (Note 25)	**36**	52
Depreciation and depletion	**2,486**	2,034
Royalties	**14,196**	8,125
Cost of sales from mine operations	**56,832**	28,387
Cost of sales related to idled mine assets [(i)]	**930**	2,917
Cost of sales	**$ 57,762**	$ 31,304

(i) Cost of sales related to idled mine assets for the year ended December 31, 2022 includes $930 of depreciation expense (2021: includes $2,917 of depreciation expense). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the year ended December 31, 2022 totaled $39,129 (2021: $17,000).

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

8. OTHER OPERATING EXPENSES/(INCOME)

The Company's other operating expenses/(income) consist of the following amounts:

	Year ended December 31, 2022	2021
Management fee (Note 29)	**$ 1,201**	$ 967
Provision/(Reversal of provision) for doubtful trade and other receivables (Note 13)	**(784)**	191
Foreign exchange loss/(gain), net	**(4,639)**	325
Gain on disposal of items of property, plant and equipment, net	**(195)**	(299)
Impairment on materials and supplies inventories (Note 14)	**1,510**	2,411
Impairment of prepaid expenses (Note 15)	**145**	–
Rental income from short term leases	**(150)**	(587)
Discount on settlement of trade payables	**(191)**	(891)
Written off of other payables [(i)]	**(3,287)**	(691)
Gain on contract offsetting arrangement	**(786)**	–
Penalty on late settlement of trade payables	**1,860**	–
Other operating expenses/(income), net	**$ (5,316)**	$ 1,426

(i) The Company has written off of a significant vendor payable of $3,287 (2021: $691) for which the contractual claim limitation period is expired as of the end of the reporting period pursuant to the relevant laws and regulations.

9. ADMINISTRATION EXPENSES

The Company's administration expenses consist of the following amounts:

	Year ended December 31, 2022	2021
Corporate administration	**$ 1,146**	$ 1,312
Legal and professional fees	**1,830**	1,098
Salaries and benefits	**3,391**	2,847
Share-based compensation expense (Note 25)	**125**	151
Depreciation	**427**	660
Administration expenses	**$ 6,919**	$ 6,068

10. FINANCE COSTS AND INCOME

The Company's finance costs consist of the following amounts:

	Year ended December 31, 2022	2021
Interest expense on convertible debenture (Note 22.4)	**$ 39,645**	$ 36,301
Fair value loss on embedded derivatives in convertible debenture (Note 22.4)	**16**	–
Value added tax on interest from intercompany loan	**1,940**	2,153
Interest expense on borrowing	**5**	61
Interest elements on leased assets	**82**	93
Accretion of decommissioning liability (Note 23)	**531**	510
Finance costs	**$ 42,219**	$ 39,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

10. FINANCE COSTS AND INCOME continued

The Company's finance income consists of the following amounts:

	Year ended December 31, 2022	Year ended December 31, 2021
Fair value gain on embedded derivatives in convertible debenture (Note 22.4)	**$ –**	$ 100
Gain on extinguishment of convertible debenture (Note 22.4)	**–**	20,970
Gain on modification of convertible debenture (Note 22.4)	**2,734**	2,016
Interest income	**43**	79
Finance income	**$ 2,777**	$ 23,165

11. TAXES

11.1 Income tax recognised in profit or loss

The Canadian statutory tax rate was 27% (2021: 27%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Loss before tax	**$ (25,751)**	$ (11,735)
Statutory tax rate	**27%**	27%
Income tax recovery based on combined Canadian federal and provincial statutory rates	**(6,953)**	(3,168)
Lower effective tax rate in foreign jurisdictions	**1,945**	440
Tax effect of tax losses and temporary differences not recognised	**11,042**	13,421
Withholding tax on intercompany interest	**1,940**	2,153
Profit/(loss) attributable to joint venture	**30**	(40)
Income not subject to tax	**(5,820)**	(10,891)
Non-deductible expenses	**2,484**	723
Income tax expenses	**$ 4,668**	$ 2,638

11.2 Unrecognised deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognised consist of the following amounts:

	As at December 31, 2022	As at December 31, 2021
Non-capital losses	**$ 176,186**	$ 165,730
Capital losses	**30,049**	30,049
Foreign exchange and others	**426,171**	446,762
Total unrecognised amounts	**$ 632,406**	$ 642,541

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

11. TAXES continued

11.3 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

	As at December 31, 2022	
	U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	**$ 173,178**	2040 – 2042
China	**3,008**	2027
	$ 176,186	
Capital losses		
Canada	**$ 30,049**	Indefinite

	As at December 31, 2021	
	U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	$ 161,113	2039 – 2041
China	4,617	2026
	$ 165,730	
Capital losses		
Canada	$ 30,049	Indefinite

12. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	Year ended December 31,	
	2022	2021
Net loss	**$ (30,419)**	$ (14,373)
Weighted average number of shares	**276,575**	273,380
Basic and diluted loss per share	**$ (0.11)**	$ (0.05)

Potentially dilutive items not included in the calculation of diluted loss per share for the year ended December 31, 2022 include the underlying shares comprised in the convertible debenture (Note 22) and stock options (Note 25) that were anti-dilutive.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

13. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at December 31, 2022	2021
Trade receivables	**$ –**	$ –
Other receivables	**1,199**	141
Total trade and other receivables	**$ 1,199**	$ 141

The aging of the Company's trade and other receivables, based on invoice date and net of provisions, is as follows:

	As at December 31, 2022	2021
Less than 1 month	**$ 1,104**	$ 112
1 to 3 months	**47**	6
3 to 6 months	**48**	23
Over 6 months	**–**	–
Total trade and other receivables	**$ 1,199**	$ 141

Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

The Company has determined that the loss allowance on its trade and other receivables was $22,599 (December 31, 2021: $23,841) as at December 31, 2022, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at December 31, 2022 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2022	**$ 23,841**
Decrease in loss allowance recognised in profit or loss during the year (Note 8)	**(784)**
Exchange realignment	**(458)**
Loss allowance as at December 31, 2022	**$ 22,599**
Opening loss allowance as at January 1, 2021	$ 23,055
Increase in loss allowance recognised in profit or loss during the year (Note 8)	191
Exchange realignment	595
Loss allowance as at December 31, 2021	$ 23,841

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

14. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31, 2022	2021
Coal stockpiles	**$ 26,857**	$ 40,270
Materials and supplies	**7,973**	11,336
Total inventories	**$ 34,830**	$ 51,606

Other operating expenses for the year ended December 31, 2022 includes an impairment loss of $1,510 related to the Company's materials and supplies inventories (2021: $2,411).

15. PREPAID EXPENSES

The Company's prepaid expenses consist of the following amounts:

	As at December 31, 2022	2021
Vendor prepayments	**$ 705**	$ 628
Other prepaid expenses	**781**	943
Total prepaid expenses	**$ 1,486**	$ 1,571

For the year ended December 31, 2022, the Company recorded an impairment of $145 on the vendor prepayments (2021: $nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

16. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2022	$ 269,536	$ 23,836	$ 68,551	$ 1,510	$ 219,389	$ 982	$ 583,804
Additions	538	803	31	–	10,080	426	11,878
Disposals	(22,076)	(1,037)	–	–	–	–	(23,113)
Exchange realignment	(44,237)	(1,992)	(5,223)	(242)	(23,304)	(68)	(75,066)
As at December 31, 2022	$ 203,761	$ 21,610	$ 63,359	$ 1,268	$ 206,165	$ 1,340	$ 497,503
Accumulated depreciation and impairment charges							
As at January 1, 2022	$ (261,607)	$ (22,827)	$ (57,588)	$ (776)	$ (105,861)	$ –	$ (448,659)
Depreciation for the year	(1,270)	(462)	(1,444)	(307)	(1,217)	–	(4,700)
Eliminated on disposals	22,076	1,037	–	–	–	–	23,113
Exchange realignment	40,595	1,920	4,118	119	5,337	–	52,089
As at December 31, 2022	$ (200,206)	$ (20,332)	$ (54,914)	$ (964)	$ (101,741)	$ –	$ (378,157)
Carrying amount							
As at January 1, 2022	$ 7,929	$ 1,009	$ 10,963	$ 734	$ 113,528	$ 982	$ 135,145
As at December 31, 2022	$ 3,555	$ 1,278	$ 8,445	$ 304	$ 104,424	$ 1,340	$ 119,346

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2021	$ 266,273	$ 25,042	$ 68,544	$ 942	$ 212,138	$ 982	$ 573,921
Additions	3,311	1,169	–	566	7,232	–	12,278
Disposals	(92)	(2,395)	–	–	–	–	(2,487)
Exchange realignment	44	20	7	2	19	–	92
As at December 31, 2021	$ 269,536	$ 23,836	$ 68,551	$ 1,510	$ 219,389	$ 982	$ 583,804
Accumulated depreciation and impairment charges							
As at January 1, 2021	$ (258,172)	$ (23,630)	$ (56,062)	$ (151)	$ (104,481)	$ –	$ (442,496)
Depreciation for the year	(3,495)	(542)	(1,523)	(624)	(1,374)	–	(7,558)
Eliminated on disposals	91	1,358	–	–	–	–	1,449
Exchange realignment	(31)	(13)	(3)	(1)	(6)	–	(54)
As at December 31, 2021	$ (261,607)	$ (22,827)	$ (57,588)	$ (776)	$ (105,861)	$ –	$ (448,659)
Carrying amount							
As at January 1, 2021	$ 8,101	$ 1,412	$ 12,482	$ 791	$ 107,657	$ 982	$ 131,425
As at December 31, 2021	$ 7,929	$ 1,009	$ 10,963	$ 734	$ 113,528	$ 982	$ 135,145

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

16. PROPERTY, PLANT AND EQUIPMENT continued

16.1 Non-depreciable assets

The non-depreciable assets mainly include the construction in progress. Depreciation on these assets will commence once they are ready for their intended use.

16.2 Pledge on items of property, plant and equipment

As at December 31, 2022, most of the Company's mobile equipment and other operating equipment with carrying value of $2,347 (December 31, 2021: $2,863) were pledged as security of convertible debenture.

16.3 Right-of-use assets

The right-of-use assets relate to the buildings as at December 31, 2022 and 2021.

16.4 Impairment charges

No impairment nor reversal of impairment was made during the year ended December 31, 2022 (2021: nil).

17. INVESTMENTS IN JOINT VENTURES

The Company's investment consists of the following amounts:

	As at December 31, 2022	2021
Non-current investments in joint ventures		
Investment in RDCC LLC	**$ 12,528**	$ 15,668
Investment in Nariinsukhait Railway LLC	**80**	–
Investment in Shiveekhuren Terminal LLC	**1,910**	–
Total investments	**$ 14,518**	$ 15,668

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Chinese-Mongolian border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The movement of the Company's investment in RDCC LLC is as follows:

	Year ended December 31, 2022	2021
Balance, beginning of year	**$ 15,668**	$ 16,134
Dividend received	**(593)**	(402)
Share of earnings/(loss) of a joint venture	**119**	(159)
Share of other comprehensive income/(loss) of a joint venture (i)	**(2,666)**	95
Balance, end of year	**$ 12,528**	$ 15,668

(i) The share of other comprehensive loss of a joint venture of $2,666 (2021: income of $95) is included exchange fluctuation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

17. INVESTMENTS IN JOINT VENTURES continued

Summarised financial statement information of RDCC LLC, which is a material joint venture, is as follows (presented on a 100% basis of RDCC LLC in which the Company has a 40% investment):

	As at December 31,	
	2022	2021
Current assets	$ 674	$ 1,023
Non-current assets	20,846	26,387
Total assets	$ 21,520	$ 27,410
Current liabilities	$ 1,707	$ 1,954
Total liabilities	$ 1,707	$ 1,954

	Year ended December 31,	
	2022	2021
Revenue	$ 2,478	$ 2,129
Gross profit/(loss) margin	501	(172)
Other operating and finance costs	(203)	(225)
Profit/(loss) before tax	298	(397)
Net profit/(loss)	$ 298	$ (397)
Other comprehensive income/(loss)	$ -	$ (11)
Total comprehensive income/(loss)	$ 298	$ (408)

The Company has a 20% interest in Nariinsukhait Railway LLC ("Nariinsukhait"), a joint venture. Nariinsukhait has an agreement with the Mongolian Railway SOSC to construct 13 km long railway infrastructure and the operation of the railway at Shiveekhuren-Ceke port for the exclusive use of coal export to China.

The Company has a 15% interest in Shiveekhuren Terminal LLC ("Shiveekhuren"), a joint venture. Shiveekhuren is to operate the container transport terminal operation at Shiveekhuren-Ceke port and to provide the service of container transportation terminal to customers.

Summarised aggregate financial statement information of Nariinsukhait and Shiveekhuren, which are not individually material joint ventures, is as follows (presented on a 100% basis):

	Year ended December 31,	
	2022	2021
Loss before tax	$ (1)	$ –
Net loss	$ (1)	$ –
Other comprehensive income	$ -	$ –
Total comprehensive loss	$ (1)	$ –

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

18. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables, based on invoice date, is as follows:

	As at December 31,	
	2022	**2021**
Less than 1 month	**$ 14,402**	$ 17,185
1 to 3 months	**5,886**	8,332
3 to 6 months	**3,772**	6,791
Over 6 months	**35,670**	35,019
Total trade and other payables	**$ 59,730**	$ 67,327

The trade and other payables of $59,730 (2021: $67,327) included other tax payables of $22,542 (2021: $22,075).

19. DEFERRED REVENUE

At December 31, 2022, the Company had deferred revenue of $30,282, which represents cash prepayments from customers for future coal sales (2021: $26,477).

The movement of the Company's deferred revenue is as follows:

	Year ended December 31,	
	2022	**2021**
Balance, beginning of year	**$ 26,477**	$ 20,831
Revenue recognised that was included in the deferred revenue balance	**(25,242)**	(20,911)
Increase due to trade deposits received, excluding amounts recognised as revenue during the year	**30,337**	26,553
Exchange realignment	**(1,290)**	4
Balance, end of year	**$ 30,282**	$ 26,477

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognised within one year after the reporting date. The Company applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

20. INTEREST-BEARING BORROWING

During the year ended December 31, 2022, $53 was repaid to a Mongolian bank by the Company in full settlement of the outstanding principal balance of the bank loan obtained in 2021.

21. LEASE LIABILITIES

The Company leases certain of its office premises for daily operations. These leases have remaining lease terms ranging from 2 to 3 years.

At December 31, 2022, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at December 31,		Present value of minimum lease payments As at December 31,	
	2022	2021	2022	2021
Amounts payable:				
Within one year	**$ 340**	$ 379	**$ 298**	$ 296
In the second year	**175**	379	**156**	326
In the third to fifth year, inclusive	**53**	284	**48**	259
Total minimum lease payments	**$ 568**	$ 1,042	**$ 502**	$ 881
Future finance charges	**(66)**	(161)		
Total net lease payables	**$ 502**	$ 881		
Portion classified as current liabilities	**(298)**	(296)		
Non-current portion	**$ 204**	$ 585		

22. CONVERTIBLE DEBENTURE

22.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's Common Shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to December 31, 2022.

Following the completion of the CIC Sale Transaction on August 30, 2022, the respective rights and obligations of CIC under (i) the Convertible Debenture and related security documents; (ii) the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement") and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company, were assigned to JDZF.

The key commercial terms of the financing include:

- Interest – 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).

- Term – Maximum of 30 years.

- Security – First charge over the Company's assets, including shares of its material subsidiaries.

- Conversion price – The conversion price is set as the lower of CA$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CA$8.88 per share.

- Representation on the Company's Board – While the convertible debenture is outstanding, or while JDZF has a minimum 15% direct or indirect stake in the Company, JDZF has the right to nominate one director to the Company's Board of Directors. As of the date hereof, the Company currently has eight Board of Directors members of which two (Mr. Dong Wang and Ms. Chonglin Zhu) were nominated by JDZF.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

22. CONVERTIBLE DEBENTURE continued

22.1 Key commercial terms continued

- Voting restriction – JDZF has agreed that it will not have any voting rights in the Company beyond 29.9% if JDZF ever acquires ownership of such a shareholder stake.

- Pre-emption rights – While the convertible debenture is outstanding, or while JDZF has a 15% direct or indirect stake in the Company, JDZF has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

- Registration rights – JDZF has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.

- Event of default – JDZF could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX and the HKEX have occurred.

22.2 Debt host and embedded derivatives

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives – the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other financial liabilities and is measured at amortised cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss.

The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include: the floor and ceiling conversion prices, the Company's common share price, the risk-free rate of return, expected volatility of the Company's common share price, forward foreign exchange rate curves (between the CA$ and U.S. dollar) and spot foreign exchange rates.

The convertible debenture is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing convertible debenture is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original convertible debenture and a recognition of a new convertible debenture, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

22. CONVERTIBLE DEBENTURE continued

22.2 Debt host and embedded derivatives continued

The terms of exchanged or modified debt as 'substantially different' if the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original convertible debenture.

22.3 Valuation assumptions

The specific terms and assumptions used in the Company's valuation models are as follows:

	As at December 31,	
	2022	**2021**
Floor conversion price	**CA$8.88**	CA$8.88
Ceiling conversion price	**CA$11.88**	CA$11.88
Common share price	**CA$0.17**	CA$0.18
Historical volatility	**29%**	28%
Risk free rate of return	**3.95%**	2.18%
Foreign exchange spot rate (CA$ to U.S. Dollar)	**0.74**	0.79
Forward foreign exchange rate curve (CA$ to U.S. Dollar)	**0.738 to 0.808**	0.741 to 0.791

22.4 Presentation

Based on the Company's valuation as at December 31, 2022, the fair value of the embedded derivatives increased by $16 (2021: decreased by $100) compared to December 31, 2021. The increase was recorded as finance income for the year ended December 31, 2022.

For the year ended December 31, 2022, the Company recorded interest expense of $39,645 related to the convertible debenture as a finance cost (2021: $36,301). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.1%.

A gain on extinguishment of substantially modified terms of $20,970 was recognised in profit or loss for the year ended December 31, 2021 for the difference between the derecognition of original convertible debenture and recognition of the convertible debenture under 2020 November Deferral Agreement as defined in Note 22.5 discounted at the new effective interest rate.

A modification gain of $2,734 was recognised in profit or loss for the year ended December 31, 2022 (2021: $2,016) for the difference between the original contractual cash flows and modified cash flows under the 2022 May Deferral Agreement and 2022 November Deferral Agreement discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

22. CONVERTIBLE DEBENTURE continued

22.4 Presentation continued

The movements of the amounts due under the convertible debenture are as follows:

	Year ended December 31, 2022	2021
Balance, beginning of year	**$ 191,626**	$ 181,411
Interest expense on convertible debenture (Note 10)	**39,645**	36,301
Increase/(decrease) in fair value of embedded derivatives (Note 10)	**16**	(100)
Gain on extinguishment of convertible debenture (Note 10)	**–**	(20,970)
Gain on modification of convertible debenture (Note 10)	**(2,734)**	(2,016)
Interest paid	**(1,000)**	(3,000)
Shares issued for interest settlement on convertible debenture[i]	**(2,900)**	–
Balance, end of year	**$ 224,653**	$ 191,626

(i) The Company paid $2,900 of the 2022 November PIK Interest by way of issuing 20,948 shares at approximately of CA$0.185 on November 19, 2022 in accordance with the procedures set out in convertible debenture agreement on November 19, 2009.

The convertible debenture balance consists of the following amounts:

	As at December 31, 2022	2021
Current convertible debenture		
Interest payable	**$ 140,784**	$ –
	140,784	–
Non-current convertible debenture		
Debt host and interest payable	**$ 83,800**	$ 191,573
Fair value of embedded derivatives	**69**	53
	83,869	191,626
Total convertible debenture	**$ 224,653**	$ 191,626

22.5 Interest deferral and settlement

On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement which became effective on that day, pursuant to which CIC agreed to grant the Company a deferral of the 2021 Deferred Amounts payable to CIC on November 19, 2021 under the Convertible Debenture.

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

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

On May 13, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of semi-annual cash interest payments of $7,934 payable to CIC (the "Deferred Amounts") and the management fee which payable to CIC on February 14, 2022 and August 14, 2022 (the "Deferred Management Fee") under the Amended and Restated Cooperation Agreement (collectively, the "2022 Deferred Amounts") under the convertible debenture.

22. CONVERTIBLE DEBENTURE continued

22.5 Interest deferral and settlement continued

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

- Payment of the 2022 Deferred Amounts will be deferred until August 31, 2023.

- As consideration for the deferral of the Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the CIC convertible debenture, commencing on May 19, 2022.

- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.

- If at any time before the 2022 Deferred Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.

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

On November 11, 2022, the Company and JDZF entered into the 2022 November Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of $7,066 payable to JDZF on November 19, 2022; (ii) $1,100 in PIK Interest shares issuable to JDZF on November 19, 2022 under the Convertible Debenture; and (iii) the management fees payable to JDZF on November 15, 2022, February 15, 2023, May 16, 2023 and August 15, 2023 under the Amended and Restated Cooperation Agreement.

22. CONVERTIBLE DEBENTURE continued

22.5 Interest deferral and settlement continued

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

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

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

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

- If at any time before the 2022 November Deferred Interest and the 2022 November Deferred Management Fees and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

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

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

On March 24, 2023, the Company and JDZF entered into an agreement (the "2023 March Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) the 2023 May Cash Interest which will be due and payable on May 19, 2023 under the Convertible Debenture; (ii) the 2022 May Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated May 13, 2022; (iii) the 2021 July Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated July 30, 2021; and (iv) 2020 November 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 listing rules.

22. CONVERTIBLE DEBENTURE continued

22.5 Interest deferral and settlement continued

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 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.

In November 2022, the Company issued 20,948 Common Shares to JDZF in accordance with the terms of the Convertible Debenture at an issuance price of CA$0.185 per Common Share as settlement of $2,900 in outstanding PIK Interest owing by the Company to JDZF under the Convertible Debenture and related deferral agreements.

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23. DECOMMISSIONING LIABILITY

At December 31, 2022, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which as at December 31, 2022 totaled $11,422 (2021: $10,897). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 9.7% (2021: 6.5%) and discounted at 19% per annum (2021: 17% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2037.

The movements in the decommissioning liability during the years ended December 31, 2022 and 2021 were as follows:

	Year ended December 31,	
	2022	**2021**
Balance, beginning of year	**$ 6,517**	$ 6,445
Adjustments	**2,020**	(282)
Accretion	**531**	510
Exchange realignment	**(1,418)**	(156)
Balance, end of year	**$ 7,650**	$ 6,517

24. EQUITY

24.1 Share capital

The Company has authorised an unlimited number of common and preferred shares with no par value. At December 31, 2022, the Company had 295,227 common shares outstanding (2021: 274,116) and no preferred shares outstanding (2021: nil).

	As at December 31,			
	2022		**2021**	
Ordinary share issued at fully paid	**Number of shares/units**	**Share capital**	**Number of shares/units**	**Share capital**
Balance, beginning of year	**274,116**	**$ 1,098,835**	272,703	$ 1,098,634
Shares issued for interest settlement on convertible debenture	**20,948**	**2,900**	–	–
Shares issued under share options (Note 25)	**24**	**3**	1,368	190
Shares issued under employee share purchase plan (Note 25.3)	**139**	**26**	45	11
Balance, end of year	**295,227**	**$ 1,101,764**	274,116	$ 1,098,835

24.2 Exchange fluctuation reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

24. EQUITY continued

24.3 Accumulated deficit and dividends

At December 31, 2022, the Company has accumulated a deficit of $1,242,490 (2021: $1,212,071). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any dividend for the year ended December 31, 2022 (2021: nil).

25. SHARE-BASED PAYMENTS

25.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorised to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the year ended December 31, 2022, the Company did not grant any stock options to officers, employees, directors and other eligible persons. For the year ended December 31, 2021, the Company granted 3,543 stock options to officers, employees, directors and other eligible persons at an exercise prices HK$1.41 and expiry dates on June 29, 2026. The weighted average fair value of the options granted in the year ended December 31, 2022 was estimated at $0.09 (HK$0.72) per option at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2022	**2021**
Risk free interest rate	**0.87%**	0.87%
Expected life	**3.43**	3.43
Expected volatility[(i)]	**79%**	79%
Expected dividend per share	**$nil**	$nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options.

The total share-based compensation expense for the year ended December 31, 2022 was $161 (2021: $203). Share-based compensation expense of $125 (2021: $151) has been allocated to administration expenses and share-based compensation expense of $36 (2021: $52) has been allocated to cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

25. SHARE-BASED PAYMENTS continued

25.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of options	Weighted average exercise price (CA$)	Number of options	Weighted average exercise price (CA$)
Balance, beginning of year	**6,249**	**$ 0.17**	6,299	$ 0.16
Options granted	**–**	**–**	3,543	0.22
Options exercised	**(25)**	**0.13**	(1,368)	0.13
Options forfeited	**(515)**	**0.74**	(761)	0.18
Options expired	**(716)**	**0.74**	(1,464)	0.19
Balance, end of year	**4,993**	**$ 0.18**	6,249	$ 0.17

The stock options outstanding and exercisable are as follows:

	As at December 31, 2022					
	Options Outstanding			Options Exercisable		
Exercise price (CA$)	Options outstanding	Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)
$0.13	**2,076**	**$ 0.13**	**1.33**	**2,076**	**$ 0.13**	**1.33**

Exercise price (HK$)	Options outstanding	Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)
$1.41	**2,917**	**$ 1.41**	**3.50**	**1,344**	**$ 1.41**	**3.50**
Total	**4,993**		**2.59**	**3,420**		**2.18**

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

25. SHARE-BASED PAYMENTS continued

25.2 Outstanding stock options continued

	As at December 31, 2021							
	Options Outstanding				Options Exercisable			
Exercise price (CA$)	Options outstanding		Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)
$0.11 – $0.13	2,211	$	0.13	2.36	1,812	$	0.12	2.25
$0.33 – $0.39	600		0.34	0.48	600		0.34	0.48
	2,811	$	0.17	1.96	2,412	$	0.18	1.81

Exercise price (HK$)	Options outstanding		Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (HK$)	Weighted average remaining contractual life (years)
$1.41	3,438	$	1.41	4.50	–	$	–	–
Total	6,249			3.35	2,412			1.81

25.3 Employee Share Purchase Plan

Share purchase plan as part of a long term employee retention program equity incentive plan, which allows the Company's eligible employees to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the employee's contribution and at the end of each calendar quarter shares are purchased on behalf of the employee. At the end of each quarter, the Company's share will be issued. For the year ended 31 December 2022, eligible employees paid $18 and the Company contributed $8 to purchase 139 ordinary shares of the Company under the employee share purchase plan (2021: eligible employees paid $8 and the Company contributed $3 to purchase 45 ordinary shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

26. RESERVES

26.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 25.

The share option reserve transactions for the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31,	
	2022	2021
Balance, beginning of year	**$ 52,858**	$ 52,702
Exercise of stock options	**(1)**	(47)
Share-based compensation charged to operations	**161**	203
Balance, end of year	**$ 53,018**	$ 52,858

26.2 Capital reserve

Pursuant to the applicable laws and regulations of the People's Republic of China, a portion of the profits of a subsidiary has been transferred to reserve funds (i.e. capital reserve), which the Company is restricted from using.

27. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire previously issued shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At December 31, 2022, the Company's capital structure consists of convertible debenture (Note 22), lease liabilities (Note 21) and the equity of the Company (Note 24). Except for disclosed elsewhere in the consolidated financial statements, the Company is not subject to any externally imposed capital requirements. In order to maximise ongoing development efforts, the Company does not pay dividends.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

27. CAPITAL RISK MANAGEMENT continued

The net debt to equity ratio at the end of the reporting period was as follows:

	As at December 31, 2022	2021
Debt	$ 323,883	$ 296,563
Cash and cash equivalents	(9,255)	(723)
Net debt	$ 314,628	$ 295,840
Equity	$ (142,524)	$ (90,450)
Net debt to equity ratio	-221%	-327%

For the year ended December 31, 2022, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2022, the Company had cash of $9,255 (December 31, 2021: $723).

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

28.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorised as follows:

	As at December 31, 2022	2021
Financial assets		
At amortised cost		
Cash and cash equivalents	$ 9,255	$ 723
Restricted cash	725	1,259
Trade and other receivables (Note 13)	1,199	141
Total financial assets	$ 11,179	$ 2,123
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives (Note 22)	$ 69	$ 53
At amortised cost		
Trade and other payables (Note 18)	59,730	67,327
Interest-bearing borrowing (Note 20)	–	53
Lease liabilities (Note 21)	502	881
Convertible debenture – debt host (Note 22)	224,584	191,573
Total financial liabilities	$ 284,885	$ 259,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

28.2 Fair value

The fair value of financial assets and financial liabilities measured at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortised cost approximates their fair value, except as disclosed below.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 22) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2022 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The following table provides an analysis of the Company's financial instruments that are measured and disclosed subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	As at December 31, 2022			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	**$ –**	**$ –**	**$ 69**	**$ 69**
Total financial liabilities measured at fair value	**$ –**	**$ –**	**$ 69**	**$ 69**

	As at December 31, 2021			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	$ –	$ –	$ 53	$ 53
Total financial liabilities measured at fair value	$ –	$ –	$ 53	$ 53

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2022 (2021: nil).

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

28.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. dollar. The Company manages this risk by matching receipts and payments in the same currency.

The sensitivity of the Company's loss before tax due to changes in the carrying values of monetary assets and liabilities denominated in foreign currencies is as follows. A positive number indicates a decrease in loss for the year, whereas a negative number indicates an increase in comprehensive loss for the year.

	As at December 31,	
	2022	2021
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 1,188**	$ 945
–5%	**$ (1,188)**	$ (945)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3% (2021: 3%); therefore, the interest rate risk is not significant.

The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

Credit risk

The Company is exposed to credit risk associated with its cash and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 2 years before December 31, 2022 or 2021 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

28.3 Financial risk management objectives and policies continued

Credit risk continued

On that basis, the loss allowance as at December 31, 2022 and 2021 was determined as follows for trade and others receivables:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
As at December 31, 2022					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	**$ 1,104**	**$ 47**	**$ 53**	**$ 22,594**	**$ 23,798**
Loss allowance	**$ –**	**$ –**	**$ 5**	**$ 22,594**	**$ 22,599**
As at December 31, 2021					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	$ 112	$ 6	$ 26	$ 23,838	$ 23,982
Loss allowance	$ –	$ –	$ 3	$ 23,838	$ 23,841

(i) The expected credit loss rate is considered insignificant.

The Company's credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers are required to prepay deposits to the Company for future purchasing from the Company, and for those who wish to trade on credit terms are subject to credit verification procedures.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

28.3 Financial risk management objectives and policies continued

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. Based on the Company's cash flow projection covering a period of 12 months from December 31, 2022, the Company is expected to have sufficient capital resources in order to satisfy its ongoing obligations and future contractual commitments. Please refer to Note 1 for further details.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	0 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying Amount
As at December 31, 2022						
Trade and other payables	**$ 59,730**	**$ –**	**$ –**	**$ –**	**$ 59,730**	**$ 59,730**
Lease liabilities[i]	**171**	**171**	**228**	**–**	**570**	**502**
Convertible debenture – cash interest[i]	**8,000**	**151,371**	**100,000**	**220,000**	**479,371**	**215,932**
	$ 67,901	**$ 151,542**	**$ 100,228**	**$ 220,000**	**$ 539,671**	**$ 276,164**
As at December 31, 2021						
Trade and other payables	$ 67,327	$ –	$ –	$ –	$ 67,327	$ 67,327
Interest-bearing borrowing[i]	55	–	–	–	55	53
Lease liabilities[i]	190	190	663	–	1,043	881
Convertible debenture – cash interest[i]	–	–	222,021	260,000	482,021	191,626
	$ 67,572	$ 190	$ 222,684	$ 260,000	$ 550,446	$ 259,887

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the interest-bearing borrowings, lease liabilities and convertible debenture for the years ended December 31, 2022 and December 31, 2021. Refer to Note 20, Note 21 and Note 22 for the terms of the interest-bearing borrowings, lease liabilities and convertible debenture, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

29. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest As at December 31, 2022	2021
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SouthGobi Sands LLC	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	**70%**	70%
Inner Mongolia SouthGobi Trading Co., Ltd.	China	**100%**	N/A
Wuhai SouthGobi Mining Resources Co., Ltd.	China	**100%**	N/A

(i) SouthGobi Trading (Beijing) Co., Ltd. was registered as a wholly-foreign-owned enterprise under law of China.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the years ended December 31, 2022 and 2021:

- Before the completion of the sales of the interest in the Company from CIC to JDZF, the management fee shall be calculated based on 2.5% of the revenue of the Company and to be paid to CIC on a quarterly basis. Upon the completion of the sales on August 30, 2022, the respective rights and obligation under the Cooperation Agreement and related documents has been transferred to JDZF and JDZF has agreed to reduce the management fee payable by the Company under the Amended and Restated Cooperation Agreement from 2.5% to 1.5%.

During the year ended December 31, 2022, management fee of $1,201 was recorded in profit or loss (2021: $967).

As at December 31, 2022, the deferred revenue balance included an amount of $2,256 received from an affiliate of Land Grand, which was related to receipt in advance for future coal sales before they became the related parties of the Company during the year.

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

29. RELATED PARTY TRANSACTIONS continued

29.1 Related party expenses

The Company's related party expenses consist of the following amounts:

	Year ended December 31, 2022	2021
Finance costs	$ 39,645	$ 36,301
Management fee	1,201	967
Related party expenses	**$ 40,846**	$ 37,268

29.2 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31, 2022	2021
Salaries, fees and other benefits	$ 1,411	$ 1,244
Share-based compensation	–	170
Total remuneration	**$ 1,411**	$ 1,414

30. SUPPLEMENTAL CASH FLOW INFORMATION

30.1 Non-cash financing and investing activities

The Company's non-cash investing and financing transactions are as follows:

	Year ended December 31, 2022	2021
Depreciation and amortisation capitalised in mineral properties	$ 2,044	$ 2,528
Increase/(decrease) in decommissioning liability (Note 23)	2,020	(282)

30.2 Net change in working capital items

The net change in the Company's working capital items is as follows:

	Year ended December 31, 2022	2021
Decrease/(increase) in inventories	$ 15,055	$ (11,137)
Decrease/(increase) in trade and other receivables	(989)	1,062
Decrease in prepaid expenses	88	117
Decrease in trade and other payables	(2,667)	(7,677)
Increase in deferred revenue	3,683	5,642
Net change in working capital items	**$ 15,170**	$ (11,993)

Depreciation and depletion capitalised in inventories for the year ended December 31, 2022 totaled $1,139 (2021: $706).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

30. SUPPLEMENTAL CASH FLOW INFORMATION continued

30.3 Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings	Lease liabilities	Convertible debenture	Total
At January 1, 2021	$ 2,826	$ 626	$ 181,411	$ 184,863
Changes from financing cash flow:				
Interest payments	–	–	(3,000)	(3,000)
Repayment of interest-bearing loan	(2,800)	–	–	(2,800)
Proceeds from bank loan	53	–	–	53
Capital element of lease rentals paid	–	(324)	–	(324)
Interest element of lease rentals paid	–	(93)	–	(93)
Total changes from financing cash flows	(2,747)	(417)	(3,000)	(6,164)
Other charges:				
Interest expenses	–	93	36,301	36,394
Changes in fair value of embedded derivatives	–	–	(100)	(100)
Gain on modification of convertible debenture	–	–	(2,016)	(2,016)
Gain on extinguishment of convertible debenture	–	–	(20,970)	(20,970)
Increase in finance lease payable	–	579	–	579
	–	672	13,215	13,887
Exchange adjustments	(26)	–	–	(26)
At December 31, 2021 and January 1, 2022	**$ 53**	**$ 881**	**$ 191,626**	**$ 192,560**
Changes from financing cash flow:				
Interest payments	**–**	**–**	**(1,000)**	**(1,000)**
Repayment of interest-bearing loan	**(53)**	**–**	**–**	**(53)**
Capital element of lease rentals paid	**–**	**(320)**	**–**	**(320)**
Interest element of lease rentals paid	**–**	**(82)**	**–**	**(82)**
Total changes from financing cash flows	**(53)**	**(402)**	**(1,000)**	**(1,455)**
Other charges:				
Interest expenses	**–**	**82**	**39,645**	**39,727**
Changes in fair value of embedded derivatives	**–**	**–**	**16**	**16**
Gain on modification of convertible debenture	**–**	**–**	**(2,734)**	**(2,734)**
Shares issued for interest settlement on convertible debenture	**–**	**–**	**(2,900)**	**(2,900)**
	–	**82**	**34,027**	**34,109**
Exchange adjustments	**–**	**(59)**	**–**	**(59)**
At December 31, 2022	**$ –**	**$ 502**	**$ 224,653**	**$ 225,155**

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

31. COMMITMENTS FOR EXPENDITURE

The Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2022				
Capital expenditure commitments	**$ –**	**$ –**	**$ –**	**$ –**
Operating expenditure commitments	**2,154**	**39**	**210**	**2,403**
Commitments	**$ 2,154**	**$ 39**	**$ 210**	**$ 2,403**
As at December 31, 2021				
Capital expenditure commitments	$ –	$ –	$ –	$ –
Operating expenditure commitments	1,642	47	277	1,966
Commitments	$ 1,642	$ 47	$ 277	$ 1,966

32. CONTINGENCIES

32.1 Class Action Lawsuit

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

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

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

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

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

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(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

32. CONTINGENCIES continued

32.1 Class Action Lawsuit continued

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 determined that a provision for this matter as at December 31, 2022 and 2021 was not required.

32.2 Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd., to toll-wash coal from the Ovoot Tolgoi Mine. The agreement had a duration of five years from commencement of the contract and provided for an annual 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 washing facility to commence on October 1, 2011, the additional fees payable by the Company under the washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter at December 31, 2022 and 2021 is not required.

32.3 Tax legislation

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The 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 and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

32. CONTINGENCIES continued

32.3 Tax legislation continued

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The 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.

As of December 31, 2022 and December 31, 2021, management has assessed that recognition of a provision for uncertain tax position is not necessary.

33. EVENTS AFTER THE REPORTING PERIOD

Revolving Credit Facility

On March 2, 2023, an indirect wholly-owned subsidiary of the Company (the "Borrower") entered into an unsecured revolving credit facility (the "Credit Facility") with a related party of JDZF, the Company's largest shareholder, which makes available to the Company up to a maximum principal sum of RMB90 million with a maturity date of three months after the agreement was signed. The Company has obtained the requisite acceptance from the TSX for the Credit Facility in accordance with the requirements of the TSX Company Manual, subject to certain standard conditions.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares and options in thousands, unless otherwise indicated)

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company prepared on a stand-alone basis is presented below:

	As at December 31, 2022	2021
Assets		
Current assets		
Cash and cash equivalents	**$ 154**	$ 42
Other receivables	**4**	7
Prepaid expenses	**75**	94
Total current assets	**233**	143
Total assets	**$ 233**	$ 143
Equity and liabilities		
Current liabilities		
Other payables	**$ 11,695**	$ 14,225
Current portion of convertible debenture	**140,784**	–
Total current liabilities	**152,479**	14,225
Non-current liabilities		
Convertible debenture	**83,869**	191,626
Total non-current liabilities	**83,869**	191,626
Total liabilities	**236,348**	205,851
Equity		
Common shares	**1,101,764**	1,098,835
Share option reserve	**53,018**	52,858
Accumulated deficit	**(1,390,897)**	(1,357,401)
Total deficiency in assets	**(236,115)**	(205,708)
Total equity and liabilities	**$ 233**	$ 143

APPROVED BY THE BOARD:

"Mao Sun"

Director

"Dong Wang"

Director

35. RESERVE AND DEFICIT OF THE COMPANY

The reserve and deficit of the Company prepared on a stand-alone basis is presented below:

	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2021	$ 52,702	$ (1,335,767)	$ (1,283,065)
Net loss for the year	–	(21,634)	(21,634)
Share-based compensation charged to operations	156	–	156
Balances, December 31, 2021	$ 52,858	$ (1,357,401)	$ (1,304,543)
Balances, January 1, 2022	**$ 52,858**	**$ (1,357,401)**	**$ (1,304,543)**
Net loss for the year	**–**	**(33,496)**	**(33,496)**
Exercise of stock options	**(1)**	**–**	**(1)**
Share-based compensation charged to operations	**161**	**–**	**161**
Balances, December 31, 2022	**$ 53,018**	**$ (1,390,897)**	**$ (1,337,879)**

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the HKEX and not shown elsewhere in this report is as follows:

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

The Company's directors' emoluments consist of the following amounts:

	Year ended December 31, 2022	2021
Directors' fees	**$ 276**	$ 260
Other emoluments for executive and non-executive directors		
Salaries and other benefits	**758**	323
Share-based compensation	**–**	88
Directors' emoluments	**$ 1,034**	$ 671

Year ended December 31, 2022

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Dong Wang (i)	$ –	$ 281	$ –	$ 281
Chonglin Zhu (i)	–	177	–	177
Dalanguerban (ii)	–	300	–	300
	$ –	$ 758	$ –	$ 758
Non-executive directors				
Jianmin Bao (ii)	$ –	$ –	$ –	$ –
Zhiwei Chen (ii)	–	–	–	–
Zhu Gao (i)	–	–	–	–
Yingbin Ian He	91	–	–	91
Ka Lee Ku (ii)	–	–	–	–
Gang Li (i)	–	–	–	–
Ben Niu (ii)	–	–	–	–
Jin Lan Quan	78	–	–	78
Chen Shen (iii)	–	–	–	–
Mao Sun	107	–	–	107
	$ 276	$ –	$ –	$ 276
Directors' emoluments	$ 276	$ 758	$ –	$ 1,034

(i) Appointed to the Board of Directors during the year ended December 31, 2022.

(ii) Resigned from the Board of Directors during the year ended December 31, 2022.

(iii) Re-designated to an executive Director with effect from February 17, 2023.

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS continued

Year ended December 31, 2021

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Dalanguerban (i)	$ –	$ 323	$ 42	$ 365
	$ –	$ 323	$ 42	$ 365
Non-executive directors				
Jianmin Bao (i)	$ –	$ –	$ –	$ –
Zhiwei Chen (i)	–	–	–	–
Yingbin Ian He	84	–	14	98
Ka Lee Ku (i)	–	–	–	–
Ben Niu (i)	–	–	–	–
Jin Lan Quan	74	–	14	88
Mao Sun	102	–	18	120
	$ 260	$ –	$ 46	$ 306
Directors' emoluments	$ 260	$ 323	$ 88	$ 671

(i) Resigned from the Board of Directors during the year ended December 31, 2022.

Five highest paid individuals

The five highest paid individuals included two directors of the Company for the year ended December 31, 2022 (2021: one director). The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2022	2021
Salaries and other benefits	**$ 1,143**	$ 1,102
Share-based compensation	**–**	124
Total emoluments	**$ 1,143**	$ 1,226

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31, 2022	2021
HK$ 1,000,001 to HK$ 1,500,000	**2**	1
HK$ 1,500,001 to HK$ 2,000,000	**1**	2
HK$ 2,000,001 to HK$ 2,500,000	**2**	1
HK$ 2,500,001 to HK$ 3,000,000	**–**	1
	5	5

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

A2. FIVE-YEAR SUMMARY

The following table contains a five-year summary of the Company's results, assets and liabilities:

	Year ended December 31,				
	2022	2021	2020	2019	2018
Revenue	**$ 73,084**	$ 43,398	$ 85,951	$ 129,712	$ 103,804
Gross profit	**15,322**	12,094	27,294	45,312	23,969
Net comprehensive loss attributable to equity holders of the Company	**$ (55,163)**	$ (14,570)	$ (27,132)	$ (928)	$ (54,145)
Basic and diluted earnings/(loss) per share	**$ (0.11)**	$ (0.05)	$ (0.07)	$ 0.02	$ (0.15)

	As at December 31,				
	2022	2021	2020	2019	2018
Total assets	**$ 181,359**	$ 206,113	$ 214,632	$ 228,427	$ 227,606
Less: total liabilities	**(323,883)**	(296,563)	(290,869)	(277,645)	(275,746)
Total deficiency in assets	**$ (142,524)**	$ (90,450)	$ (76,237)	$ (49,218)	$ (48,140)

A3. CASH

The Company's cash is denominated in the following currencies:

	As at December 31,	
	2022	2021
U.S. Dollars	**$ 101**	$ 63
Chinese Renminbi	**8,158**	511
Mongolian Tugriks	**655**	37
Canadian Dollars	**123**	23
Hong Kong Dollars	**218**	89
Cash	**$ 9,255**	$ 723

CORPORATE INFORMATION

Directors

Executive Directors:

Mr. Dong Wang *(Chief Executive Officer)*
Ms. Chonglin Zhu *(Senior Vice President of Finance)*
Mr. Chen Shen *(Head of Legal Department)*

Non-Executive Directors:

Mr. Zhu Gao
Mr. Gang Li

Independent Non-Executive Directors:

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

Audit Committee

Mr. Mao Sun *(Chair)*
Mr. Yingbin Ian He
Ms. Jin Lan Quan

Nominating and Corporate Governance Committee

Mr. Yingbin Ian He *(Chair)*
Ms. Jin Lan Quan
Mr. Mao Sun

Compensation and Benefits Committee

Ms. Jin Lan Quan *(Chair)*
Mr. Yingbin Ian He
Mr. Mao Sun

Health, Environment, Safety and Social Responsibility Committee

Mr. Dong Wang *(Chair)*
Mr. Yingbin Ian He
Mr. Munkhbat Chuluun
(Vice President of Public Relations)

Operations Committee

Mr. Yingbin Ian He *(Chair)*
Mr. Dong Wang

Joint Company Secretaries

Ms. Allison Snetsinger and Ms. Shuk Wan So

Records and Registered Office

20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8

Principal Place of Business in Hong Kong

Units 1208-10, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong

Principal Place of Business in Mongolia

8th Floor, Monnis Building, Orgil Stadium 22, Great Mongolian State Street, 15th Khoroo, Khan-Uul District, Ulaanbaatar, Mongolia, 17011

Principal Bankers

Canada:

BMO Bank of Montreal

Hong Kong:

Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar

TSX Trust Company
Suite 2700-650 West Georgia Street, Vancouver, British Columbia, Canada V6B 4N9

Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Independent Auditor

BDO Limited

Website address

SouthGobi.com