SOUTHGOBI RESOURCES LTD.
南戈壁資源有限公司*

(A company continued under the laws of British Columbia, Canada with limited liability)
(Hong Kong Stock Code: 1878)
(TSX Venture Exchange Stock Code: SGQ)

SOUTHGOBI ANNOUNCES UNAUDITED FIRST QUARTER 2023 FINANCIAL AND OPERATING RESULTS

SouthGobi Resources Ltd. (the "**Company**" or "**SouthGobi**") today announces its unaudited financial and operating results for the three months ended March 31, 2023.

Please see the attached announcement for more details. The information included in the attached announcement is available on the SEDAR website at www.sedar.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

By order of the Board
SouthGobi Resources Ltd.
Mao Sun
Lead Director

Vancouver, May 19, 2023
Hong Kong, May 19, 2023

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

* *For identification purpose only*

May 19, 2023

SOUTHGOBI ANNOUNCES FIRST QUARTER 2023 FINANCIAL AND OPERATING RESULTS

HONG KONG – SouthGobi Resources Ltd. **(Hong Kong Stock Exchange ("HKEX"): 1878, TSX Venture Exchange ("TSX-V"): SGQ)** (the "Company" or "SouthGobi") today announces its financial and operating results for the three months ended March 31, 2023. All figures are in U.S. dollars ("USD") unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company's significant events and highlights for the three months ended March 31, 2023 and the subsequent period to May 19, 2023 are as follows:

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

  The Company recorded sales volume of 0.6 million tonnes for the first quarter of 2023. The Company also recorded an average realised selling price of $104.1 per tonne in the first quarter as a result of an improved market conditions in China, expansion of its sales network and diversification of its customer base.

- ***Financial Results*** – The Company recorded a $27.9 million profit from operations in the first quarter of 2023 compared to a $0.2 million loss from operations in the first quarter of 2022. The financial results were impacted by increased sales volume experienced by the Company and improvement of average realised selling price during the quarter.

- ***Convertible Debenture*** – On March 24, 2023, the Company and JD Zhixing Fund L.P. (the "JDZF") entered into an agreement (the "2023 March Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash interest payment of approximately $7.9 million (the "2023 May Cash Interest") which will be due and payable on May 19, 2023 under the Convertible Debenture; (ii) the cash interest, management fees, and related deferral fees of approximately $8.7 million (the "2022 May Deferred Amounts") which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated May 13, 2022; (iii) the cash and payment-in-kind interest ("PIK Interest"), and related deferral fees of approximately $13.5 million (the “2021 July Deferred Amounts”) which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated July 30, 2021; and (iv) the cash and PIK Interest, management fees, and related deferral fees of approximately $110.4 million (the “2020 November Deferred Amounts”, and together with the 2023 May Cash Interest, the 2022 May Deferred Amounts and the 2021 July Deferred Amounts, the “2023 March Deferred Amounts”) which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020.

The effectiveness of the 2023 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2023 March Deferral Agreement are subject to the approvals from the TSX and the disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the Rules Governing the Listing of Securities on the HKEX (the “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 third quarter of 2023, to seek disinterested shareholder approval of the 2023 March Deferral Agreement.

- ***New Listing on the TSX Venture Exchange and Primary Listing on the HKEX*** – On April 17, 2023, the Company announced (i) the change of its secondary listing status to primary listing on the Main Board of the HKEX became effective; and (ii) the listing of the Company's common shares for trading on the TSX-V was effective as of the opening of trade on April 17, 2023 in Canada. The Company's trading symbol on the HKEX and the TSX-V will remain as "1878" and "SGQ", respectively.

- ***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 "Lender"), 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.

As at March 31, 2023, the Company did not draw down any principal under the Credit Facility.

- ***Changes in Management***

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

  Mr. Dong Wang: Mr. Wang was removed as Chief Executive Officer and redesignated from an executive Director to a non-executive Director on May 15, 2023.

  Mr. Ruibin Xu: Mr. Xu was appointed as Chief Executive Officer on May 15, 2023.

  Mr. Zaixiang Wen: Mr. Wen was appointed as a non-executive Director on May 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.

See section "Liquidity and Capital Resources" of this press release for details.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

		Three months ended March 31, 2023		2022
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*		**0.33**		–
Average realised selling price *(per tonne)*	**$**	**124.72**	$	–
Standard semi-soft coking coal/premium thermal coal				
Coal sales *(millions of tonnes)*		**0.01**		–
Average realised selling price *(per tonne)*	**$**	**73.52**	$	–
Processed coal				
Coal sales *(millions of tonnes)*		**0.26**		–
Average realised selling price *(per tonne)*	**$**	**78.19**	$	–
Total				
Coal sales *(millions of tonnes)*		**0.60**		–
Average realised selling price *(per tonne)*	**$**	**104.11**	$	–
Raw coal production *(millions of tonnes)*		**0.56**		–
Cost of sales of product sold *(per tonne)*	**$**	**51.59**		*(iii)*
Direct cash costs of product sold *(per tonne)* [(i)]	**$**	**28.95**		*(iii)*
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$**	**1.48**		*(iii)*
Total cash costs of product sold *(per tonne)* [(i)]	**$**	**30.43**		*(iii)*
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*		**2.83**		–
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*		**5.07**		–
Lost time injury frequency rate [(ii)]		**0.00**		0.00

[(i)] *A Non-International Financial Reporting Standards ("non-IFRS") financial measure. Refer to "Non-IFRS Financial Measures" section. 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.*

Overview of Operational Data

The Company ended the first quarter of 2023 without a lost time injury.

The Company recorded an average realised selling price of $104.1 per tonne in the first quarter of 2023 as a result of an improved market conditions in China, expansion of its sales network and diversification of its customer base. The product mix for the first quarter of 2023 consisted of approximately 55% of premium semi-soft coking coal, 2% of standard semi-soft coking coal/premium thermal coal and 43% of processed coal.

The Company's unit cost of sales of product sold was $51.6 per tonne for the first quarter of 2023.

Summary of Financial Results

		Three months ended March 31,		
$ in thousands, except per share information		**2023**		2022
Revenue *(i)*	**$**	**61,780**	$	–
Cost of sales *(i)*		**(30,954)**		(1,005)
Gross profit/(loss) excluding idled mine asset costs *(ii)*		**30,861**		(561)
Gross profit/(loss)		**30,826**		(1,005)
Other operating income/(expenses), net		**(764)**		2,058
Administration expenses		**(2,056)**		(1,206)
Evaluation and exploration expenses		**(64)**		(24)
Profit/(loss) from operations		**27,942**		(177)
Finance costs		**(11,914)**		(10,036)
Finance income		**85**		13
Share of earnings/(loss) of joint ventures		**502**		(152)
Current income tax expenses		**(8,760)**		(420)
Net profit/(loss) attributable to equity holders of the Company		**7,855**		(10,772)
Basic and diluted earnings/(loss) per share	**$**	**0.03**	$	(0.04)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.

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

Overview of Financial Results

The Company recorded a $27.9 million profit from operations in the first quarter of 2023 compared to a $0.2 million loss from operations in the first quarter of 2022. The financial results were impacted by increased sales volume experienced by the Company, improvement of the product mix and improvement of average realised selling price during the quarter.

Revenue was $61.8 million in the first quarter of 2023. The Company's effective royalty rate based on the Company's average realised selling price of $104.1 per tonne, was 18.6% or $19.4 per tonne.

Cost of sales was $31.0 million in the first quarter of 2023 compared to $1.0 million in the first quarter of 2022. The increase in cost of sales was mainly due to the increased sales during the quarter. Cost of sales consists of operating expenses, share-based compensation expense/recovery, 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 "Non-IFRS Financial Measures" of this press release for further analysis) during the quarter.

	Three months ended March 31,	
$ in thousands	**2023**	2022
Operating expenses	**$ 18,257**	$ 499
Share-based compensation expense/(recovery)	**(1)**	11
Depreciation and depletion	**1,177**	51
Royalties	**11,486**	–
Cost of sales from mine operations	**30,919**	561
Cost of sales related to idled mine assets	**35**	444
Cost of sales	**$ 30,954**	$ 1,005

Operating expenses in cost of sales were $18.3 million in the first quarter of 2023 compared to $0.5 million in the first quarter of 2022. The overall increase in operating expenses was primarily due to the increased sales volume experienced in the first quarter of 2023.

Cost of sales related to idled mine assets in the first quarter of 2023 included $0.1 million related to depreciation expenses for idled equipment (first quarter of 2022: $0.4 million).

Other operating expenses were $0.8 million in the first quarter of 2023 (first quarter of 2022: other operating income of $2.1 million). The change was mainly due to increased management fee and penalty on late settlement of trade payables of $0.5m in the first quarter of 2023, while a written off of other payables of $1.2 million was recorded in the first quarter of 2022.

$ in thousands	Three months ended March 31, **2023**	2022
Management fee	**$ 772**	$ 24
Provision/(reversal of provision) for doubtful trade and other receivables	**83**	(305)
Foreign exchange gain, net	**(433)**	(481)
Gain on disposal of items of property, plant and equipment, net	**–**	(33)
Reversal of impairment on materials and supplies inventories	**(85)**	–
Rental income from short term leases	**(27)**	(14)
Written off of other payables	**–**	(1,249)
Penalty on late settlement of trade payables	**454**	–
Other operating expenses/(income), net	**$ 764**	$ (2,058)

Administration expenses were $2.1 million in the first quarter of 2023 as compared to $1.2 million in the first quarter of 2022, as follows:

$ in thousands	Three months ended March 31, **2023**	2022
Corporate administration	**$ 457**	$ 170
Legal and professional fees	**389**	261
Salaries and benefits	**1,089**	627
Share-based compensation expense/(recovery)	**(2)**	37
Depreciation	**123**	111
Administration expenses	**$ 2,056**	$ 1,206

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

Finance costs were $11.9 million and $10.0 million in the first quarter of 2023 and 2022 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

Summary of Quarterly Operational Data

Quarter Ended	**2023** **31-Mar**	2022 31-Dec	30-Sep	30-Jun	31-Mar	2021 31-Dec	30-Sep	30-Jun
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.33**	0.06	0.17	0.04	–	0.01	0.11	0.08
Average realised selling price *(per tonne)*	**$ 124.72**	$ 65.82	$ 71.01	$ 92.87	$ –	$ 69.73	$ 64.25	$ 52.11
Standard semi-soft coking coal/premium thermal coal								
Coal sales *(millions of tonnes)*	**0.01**	0.01	0.03	0.04	–	0.01	0.06	0.03
Average realised selling price *(per tonne)*	**$ 73.52**	$ 64.69	$ 43.34	$ 30.41	$ –	$ 34.84	$ 33.56	$ 36.71
Processed coal								
Coal sales *(millions of tonnes)*	**0.26**	0.40	0.35	0.01	–	–	–	–
Average realised selling price *(per tonne)*	**$ 78.19**	$ 65.94	$ 64.57	$ 79.02	$ –	$ –	$ –	$ –
Total								
Coal sales *(millions of tonnes)*	**0.60**	0.47	0.55	0.09	–	0.02	0.17	0.11
Average realised selling price *(per tonne)*	**$ 104.11**	$ 65.90	$ 65.37	$ 66.55	$ –	$ 55.44	$ 53.52	$ 47.93
Raw coal production *(millions of tonnes)*	**0.56**	0.57	0.12	–	–	0.06	0.26	–
Cost of sales of product sold *(per tonne)*	**$ 51.59**	$ 41.81	$ 58.25	$ 56.32	*(iii)*	$ 76.95	$ 40.39	$ 41.38
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 28.95**	$ 25.65	$ 41.44	$ 33.10		$ 17.47	$ 17.50	$ 16.39
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 1.48**	$ 1.86	$ 1.47	$ 1.20		$ 1.23	$ 1.62	$ 4.26
Total cash costs of product sold *(per tonne)* [(i)]	**$ 30.43**	$ 27.51	$ 42.91	$ 34.30		$ 18.70	$ 19.12	$ 20.65
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**2.83**	2.68	0.91	–	–	0.31	0.59	–
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**5.07**	4.67	7.33	–	–	5.61	2.23	–
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 "Non-IFRS Financial Measures". 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.*

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	**2023**	2022				2021		
Quarter Ended	**31-Mar**	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Financial Results								
Revenue [(i)]	**$ 61,780**	$ 30,487	$ 36,807	$ 5,790	$ –	$ 848	$ 9,295	$ 5,191
Cost of sales [(i)]	**(30,954)**	(19,652)	(32,036)	(5,069)	(1,005)	(1,539)	(6,866)	(4,552)
Gross profit/(loss) excluding idled mine asset costs	**30,861**	10,891	4,982	940	(561)	(51)	3,269	1,565
Gross profit/(loss) including idled mine asset costs	**30,826**	10,835	4,771	721	(1,005)	(691)	2,429	639
Other operating income/(expenses), net	**(764)**	(1,066)	546	3,778	2,058	(1,078)	100	(113)
Administration expenses	**(2,056)**	(2,111)	(1,830)	(1,772)	(1,206)	(1,336)	(1,467)	(1,484)
Evaluation and exploration expenses	**(64)**	(26)	(31)	(66)	(24)	(75)	(36)	(47)
Profit/(loss) from operations	**27,942**	7,632	3,456	2,661	(177)	(3,180)	1,026	(1,005)
Finance costs	**(11,914)**	(11,190)	(10,800)	(10,247)	(10,036)	(9,702)	(11,457)	(8,870)
Finance income	**85**	1,589	69	1,160	13	3,178	2,040	2,494
Share of earnings/(loss) of joint ventures	**502**	143	237	(109)	(152)	(137)	(261)	(35)
Current income tax credit/(expenses)	**(8,760)**	(2,751)	(979)	(518)	(420)	(1,579)	(78)	139
Net profit/(loss)	**7,855**	(4,577)	(8,017)	(7,053)	(10,772)	(11,420)	(8,730)	(7,277)
Basic earnings/(loss) per share	**$ 0.03**	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.04)	$ (0.03)	$ (0.03)
Diluted earnings/(loss) per share	**$ 0.03**	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.04)	$ (0.03)	$ (0.03)

[(i)] *Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.*

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

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

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

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

As at March 31, 2023, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $6.3 million (such amount is included in the trade and other payables).

Revolving Credit Facility

On March 2, 2023, the Borrower entered into a Credit Facility with the Lender, which makes available to the Company to borrow 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 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 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 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.

As at March 31, 2023, the Company did not draw down any principal under the Credit Facility.

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least March 31, 2024 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $137.3 million as at March 31, 2023 as compared to a deficiency in assets of $142.5 million as at December 31, 2022 while the working capital deficiency (excess current liabilities over current assets) reached $186.7 million as at March 31, 2023 compared to a working capital deficiency of $184.7 million as at December 31, 2022.

Included in the working capital deficiency as at March 31, 2023 are significant obligations, represented by trade and other payables of $67.3 million, which includes $24.1 million in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this press release, no such lawsuits or proceedings were pending as at May 19, 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.

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

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from March 31, 2023. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into the 2023 March Deferral Agreement with JDZF on March 24, 2023 for 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) the 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, in each case until August 31, 2024. The Company expects to convene a special meeting in the third 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 March 31, 2023 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

As at March 31, 2023 and December 31, 2022, the Company was not subject to any externally imposed capital requirements.

Convertible Debenture

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

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

Deferral Agreements

On May 13, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $7.9 million payable to CIC on May 19, 2022 (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 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.

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 2023 March Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020.

The effectiveness of the 2023 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2023 March Deferral Agreement are subject to the approvals from the TSX and the disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the 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.

- 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 third quarter of 2023, to seek disinterested shareholder approval of the 2023 March Deferral Agreement.

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at March 31, 2023. The impairment indicator was the potential closure of border crossings in the future. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognised during the three months ended March 31, 2023.

REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

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

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

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

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

To date, the counsel for the plaintiff and defendant have completed: (i) all document production; (ii) oral examinations for discovery; and (iii) counsel for the plaintiff has served their expert reports on liability and damages. Counsel for the plaintiff and defendant have agreed on the case management judge, who has ordered an undertaking motion to commence on October 23, 2023. Following the determination of the motion and any subsequent order to re-attend examinations, counsel for the defendant will serve responding expert reports on liability and damages approximately one month following any re-examinations/further examinations are completed. Counsel for the plaintiff and defendant have requested a further case conference to set a new trial date following the undertakings motion and serving of expert reports. The Company has urged a trial as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at March 31, 2023 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 March 31, 2023 was not required.

Special Needs Territory in Umnugobi

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

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

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

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.

OUTLOOK

In late 2022, the Company resumed its major mining operations, including coal mining, and the volume of coal production has gradually increased which lead to a subsequent increase of coal export volume into China, and resulted in significant improvements in the Company's cash flow for the first quarter of 2023. 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 volume 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, expand its customer base and sales network, improve logistics, optimise its operational cost structure and, most importantly, operate in a safe and socially responsible manner.

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

- **Enhance product mix** – The Company will focus on improving the product mix by: (i) improving mining operations; (ii) utilising the Company's wet 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.

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.

NON-IFRS FINANCIAL MEASURES

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.

SUMMARISED COMPREHENSIVE INCOME INFORMATION

(Expressed in thousands of USD, except for share and per share amounts)

	Three months ended March 31, 2023	2022
Revenue	**$ 61,780**	$ –
Cost of sales	**(30,954)**	(1,005)
Gross profit/(loss)	**30,826**	(1,005)
Other operating income/(expenses), net	**(764)**	2,058
Administration expenses	**(2,056)**	(1,206)
Evaluation and exploration expenses	**(64)**	(24)
Profit/(loss) from operations	**27,942**	(177)
Finance costs	**(11,914)**	(10,036)
Finance income	**85**	13
Share of earnings/(loss) of joint ventures	**502**	(152)
Profit/(loss) before tax	**16,615**	(10,352)
Current income tax expenses	**(8,760)**	(420)
Net profit/(loss) attributable to equity holders of the Company	**7,855**	(10,772)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Exchange difference on translation of foreign operation	**(2,677)**	(4,732)
Net comprehensive income/(loss) attributable to equity holders of the Company	**$ 5,178**	$ (15,504)
Basic and diluted earnings/(loss) per share	**$ 0.03**	$ (0.04)

SUMMARISED FINANCIAL POSITION INFORMATION
(Expressed in thousands of USD)

	As at March 31, 2023	As at December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	**$ 39,406**	$ 9,255
Restricted cash	**728**	725
Trade and other receivables	**4,905**	1,199
Inventories	**41,344**	34,830
Prepaid expenses	**3,069**	1,486
Total current assets	**89,452**	47,495
Non-current assets		
Property, plant and equipment	**122,001**	119,346
Investments in joint ventures	**14,195**	14,518
Total non-current assets	**136,196**	133,864
Total assets	**$ 225,648**	$ 181,359
Equity and liabilities		
Current liabilities		
Trade and other payables	**$ 67,335**	$ 59,730
Deferred revenue	**48,004**	30,282
Lease liabilities	**437**	298
Income tax payable	**2,751**	1,066
Convertible debenture	**157,634**	140,784
Total current liabilities	**276,161**	232,160

SUMMARISED FINANCIAL POSITION INFORMATION (CONTINUED)

(Expressed in thousands of USD)

	As at	
	March 31, 2023	December 31, 2022
Non-current liabilities		
Lease liabilities	**370**	204
Convertible debenture	**78,296**	83,869
Decommissioning liability	**8,170**	7,650
Total non-current liabilities	**86,836**	91,723
Total liabilities	**362,997**	323,883
Equity		
Common shares	**1,101,764**	1,101,764
Share option reserve	**53,015**	53,018
Capital reserve	**396**	396
Exchange fluctuation reserve	**(57,889)**	(55,212)
Accumulated deficit	**(1,234,635)**	(1,242,490)
Total deficiency in assets	**(137,349)**	(142,524)
Total equity and liabilities	**$225,648**	$181,359
Net current liabilities	**$ (186,709)**	$ (184,665)
Total assets less current liabilities	**$ (50,513)**	$ (50,801)

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements for the Company for the three months ended March 31, 2023, which are unaudited and have not been reviewed by the Company's independent auditor, but have been reviewed by the audit committee of the Company.

The Company's results for the quarter ended March 31, 2023, are contained in the unaudited condensed consolidated interim financial statements and MD&A, available on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com.

ABOUT SOUTHGOBI

SouthGobi, listed on the Hong Kong Stock Exchange and the TSX Venture Exchange owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining licenses of its other metallurgical and thermal coal deposits in South Gobi Region of Mongolia. SouthGobi produces and sells coal to customers in China.

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Except for statements of fact relating to 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 press release 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 JDZF Convertible Debenture, the 2020 November Deferral Agreement, the Amended and Restated Cooperation Agreement, the 2021 July Deferral Agreement, the 2022 May Deferral Agreement, the 2022 November Deferral Agreement, the 2023 March Deferral Agreement and the Credit Facility, 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;

- 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 Regulatory Issues and Contingencies of this press release under the heading entitled "*Class Action Lawsuit*");

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

- the agreement with Ejin Jinda and the payments thereunder (as described under section Regulatory Issues and Contingencies of this press release under the heading entitled "*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 Company's outlook and objectives for 2023 and beyond (as more particularly described under Outlook of this press release); and

- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this press release, 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 demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject for further closure; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk of the Company or its subsidiaries default under its existing debt obligations, including the Convertible Debenture, the 2020 November Deferral Agreement, the Amended and Restated Cooperation Agreement, the 2021 July Deferral Agreement, the 2022 May Deferral Agreement, the 2022 November Deferral Agreement and the 2023 March Deferral Agreement and the Credit Facility; 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 Regulatory Issues and Contingencies of this press release under the heading entitled "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. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

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

The English text of this press release shall prevail over the Chinese text in case of inconsistencies.